



2007
ANNUAL
REPORT

Mifflinburg Bancorp, Inc.



Board of Directors, *Standing L. to R.:* Jeffrey J. Kapsar, D. Roger Shuck, W. Gale Reish, John D. Griffith, Thomas E. Boop *Sitting L. to R.:* Robert C. Musser, Wayne A. Bromfield, Robert K. Lynch, Robert E. Valentine

OFFICERS AND EMPLOYEES — MIFFLINBURG BANCORP, INC.

2007 OFFICERS

Wayne A. Bromfield, *Chairman of the Board*
Thomas E. Boop, *Vice Chairman of the Board*
Jeffrey J. Kapsar, *President and CEO*
Robert K. Lynch, *Secretary*
Thomas C. Graver, Jr., CPA, *Vice President, Chief Financial Officer and Treasurer*
Thomas L. Eberhart, *Senior Vice President and Assistant Secretary*
Andrea L. Long, *Assistant Vice President and Assistant Secretary*

DIRECTORS EMERITUS

Helen P. Strunk, *Chairman Emeritus*
David W. Diehl, *Director Emeritus*

BOARD OF DIRECTORS

Wayne A. Bromfield
Thomas E. Boop
John D. Griffith
Jeffrey J. Kapsar
Robert K. Lynch
Robert C. Musser
W. Gale Reish
D. Roger Shuck
Robert E. Valentine

MIFFLINBURG BANK AND TRUST COMPANY

ADMINISTRATIVE SERVICES

Jeffrey J. Kapsar, *President and Chief Executive Officer*
Jeffrey P. Reber, *Executive Vice President*
Thomas L. Eberhart, *Senior Vice President and Chief Operating Officer*
Thomas C. Graver, Jr., CPA, *Vice President and Chief Financial Officer*
Garry R. Benfer, *Senior Vice President of Loan Administration*
Judy A. Dietz, *Vice President of Regional Branch Banking*
Andrea L. Long, *Assistant Vice President of Human Resources*
Thomas E. Beck, CPA, *Assistant Vice President of Internal Audit and Compliance*
Linda A. Sprenkel, *Training and Marketing Coordinator*

BOARD OF DIRECTORS

Thomas E. Boop
Wayne A. Bromfield
John D. Griffith
Jeffrey J. Kapsar
Robert K. Lynch
Robert C. Musser
W. Gale Reish
D. Roger Shuck
Robert E. Valentine

AUDIT

Britt E. Marten

COMMUNITY OFFICE MANAGERS

Cynthia L. Foust
Wendy M. Lund
Mandi L. Ruhl
Kim H. Ranck
Asst. Community Office Manager

CUSTOMER SERVICE

REPRESENTATIVES

Casey L. Aukerman
Anita M. Bottiger
Donna L. Duke
Fay A. Fausnaught

LOAN OFFICERS

Clifford E. Valentine
Vice President-Commercial Services
James A. Smith, *Security Officer*
William K. Greis
Kris A. Ruhl
Colleen M. Walter

FACILITIES/COURIER SERVICES

Terrence D. Gerlinski, *Facilities Mgr.*
William A. Fluke, Sr.
Lisa M. Culp
Michael E. Kreisher

FINANCE

Leanne S. Belletti, *Controller*
Lisa D. Hess

LOAN OPERATIONS

Rebecca A. Bingaman
Loan Operations Manager
Carmen Harpster
Donald W. Hepburn, Jr.
Jeanette L. Leshner
Michael E. Rogan
Selena C.T. Shellenberger
Lisa M. Sprenkle
Sandra L. Strickler
Joyce L. Tjaden

OPERATIONS

Lisa M. Hassinger
Electronic Banking Manager
Jerry A. Boyer, Jr., *Network Admin.*
Lori L. Betz
Susan M. Boop
Janet M. Fry
Kimberley A. Wagner

TELEPHONE SERVICE

REPRESENTATIVES

Esther M. Dorman
Heather C. Lowery
Kelly L. Reiff

TELLERS

Karen L. Kurtz, *Head Teller*
Andrew M. Augustine
Lynette K. Bechtol
Jennifer L. Bingaman
Stephanie V. Burnett
Blake Elsasser
Brenda L. Fye
Julia A. Greenland
Betsy J. Guffey
Cheryl L. Kahl
Nicole C. Kertis
Cynthia L. Klose
Janet M. Laubach
Mary R. Lewis
Beverly A. Merrick
Janet M. Mueller
Susan O. Pieters
Judy E. Rishel
Linda S. Rishel
Sherry L. Ross
Sarah B. Sholley
Terri S. Struble
Linda L. Vonada
Patricia A. Walter
Danette L. Zellers

TRUST/INVESTMENT SERVICES

Vicki L. Bailey, *Financial Consultant*
Patti J. Zimmerman, *Trust Officer*
Laurie J. Mast, *Assistant Trust Officer*

LETTER FROM THE PRESIDENT

Dear Shareholders:

I am pleased to report your company's achievements over this past year. Our financial performance continued to remain strong in 2007. We knew it would be a challenging year with an inverted yield curve and growing competition both locally and abroad through increasing technological advances. In reviewing our report please note that we recognized approximately a \$2 million non-recurring gain in 2006 due to the sale of our Richfield branch office.

Net income for the year was \$3,008,000 with Earnings Per Share of \$3.00 compared to \$3,402,000 and \$3.36 in 2006. Our total assets increased from \$258 million in 2006 to \$264 million in 2007, giving us a Return on Average Assets of 1.17% for the year. We improved our Net Interest Margin to 3.33% in 2007 from 3.14% in 2006 partially through loan growth of 5.05%, bringing our Loan to Deposit ratio to 79.2% versus 78.4% in 2006. Additionally we implemented early adoption of SFAS 159, Fair Value Option for Financial Assets and Liabilities, and SFAS 157, Fair Value Measurement. As a result of this early adoption, \$11 million in available-for-sale securities with the greatest interest rate risk and \$3.9 million in FHLB debt with above-average interest rates were classified as trading and marked to market. The effect of these transactions was a \$145,000 reduction in capital. Subsequently, \$4.7 million of trading securities were sold with the proceeds paying off the FHLB borrowings.

In 2007 we continued to focus on reducing non-interest expenses. Total other expenses declined by \$700,000 to \$5.9 million this year. This decline was primarily due to the reduction in overhead expenses of the Richfield branch office and the change to a more competitive data processing center.

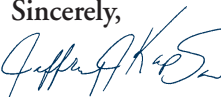
In the spring of 2007 we opened a branch office in Selinsgrove. We continue to look for growth and expansion opportunities in this new market area. We also installed cash dispensing units in the Country Cupboard and Zelda's Café in Lewisburg. We are in the process of opening our newest branch location adjacent to the post office in New Berlin to better serve our current customers in that market area and to attract new customers as well.

We are constantly striving to provide better service and convenience to all of our customers. In 2007 we began offering remote capture and upgraded our lock box operation for our corporate clients. We also upgraded our internet banking site and we have recently launched our redesigned website. This site will operate as an electronic branch where customers can eventually apply for loans, open deposit accounts and perform balance transfers conveniently from their own computers.

It is important for you to know that the national sub-prime mortgage crisis has not affected this institution. Our delinquency rate remains stronger than state and national peers. Credit quality is a high priority of management and the Board of Directors, therefore, we have always maintained strong underwriting standards on all of our loans.

Our plan for 2008 is to continue our course of stable growth in areas that will compliment our current customer base and provide greater accessibility to their financial needs. We will take advantage of new technology improving convenience and efficiencies for consumers and employees. As always, we will continue to support the needs of the communities in which we serve.



Sincerely,

Jeffrey J. Kapsar
President & CEO

OUR VISION

To Be Your Community's Trusted Financial Resource.

OUR MISSION STATEMENT

We provide innovative solutions tailored to meet every customer's financial needs with dedicated employees who share in our company's success.

OUR VALUES

Recognize and Respect the needs of others

Working together as one team

Commitment to our mission

Honesty, Integrity and Trust

Pride in ourselves and the organization

NOTICE OF ANNUAL SHAREHOLDERS MEETING OF MIFFLINBURG BANCORP, INC.

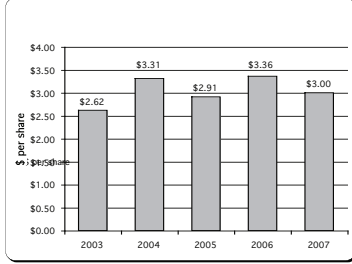
The Annual Shareholders Meeting of Mifflinburg Bancorp, Inc., is scheduled for
10 a.m., Wednesday, April 23, 2008
in the Retail Banking & Lending Center,
250 East Chestnut Street, Mifflinburg, Pennsylvania.

THE BUSINESS OF MIFFLINBURG BANCORP, INC.

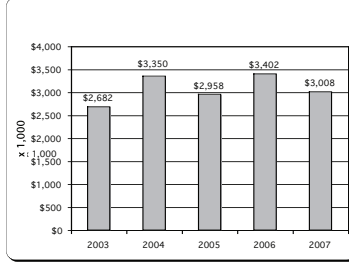
Mifflinburg Bancorp, Inc. is a bank holding company organized under the Pennsylvania Business Corporation Laws on February 3, 1986. The assets are primarily those of its wholly-owned subsidiary, Mifflinburg Bank and Trust Company, established in 1872.

Mifflinburg Bank and Trust Company is a full-service commercial bank servicing customers from four locations, namely: 250 East Chestnut Street, Mifflinburg, Pennsylvania; Fairground Road, Lewisburg, Pennsylvania; Rte. 45, Millheim, Pennsylvania and Susquehanna Trail, Selinsgrove, Pennsylvania. Including the stated locations, we have six full-service STAR Automated Teller Machines and five cash dispenser machines in Union, Snyder, and Centre Counties as well as many Point-of-Sale Merchant Locations.

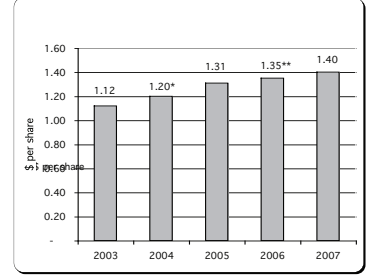
EARNINGS PER SHARE



NET INCOME



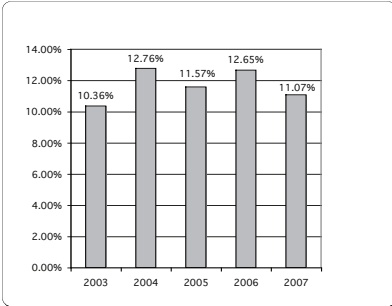
DIVIDEND PAYOUT HISTORY



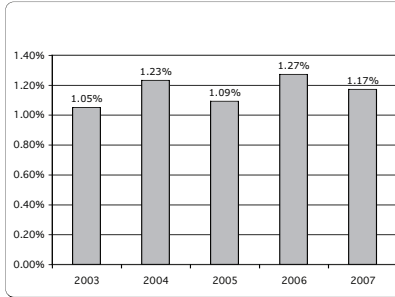
* Excludes Special dividend of \$3.00 In 2004.

** Excludes Special dividend of \$1.50 In 2006.

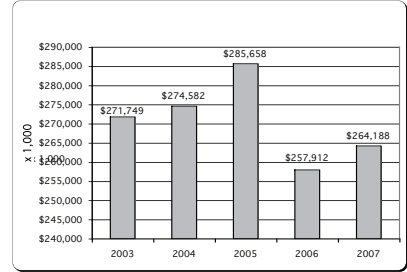
RETURN ON AVERAGE EQUITY



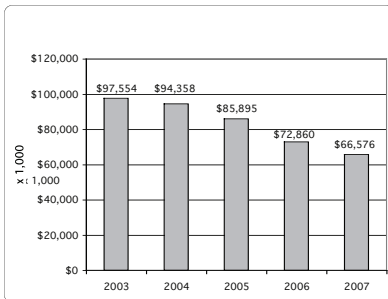
RETURN ON AVERAGE ASSETS



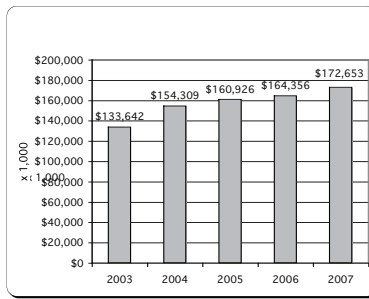
TOTAL ASSETS



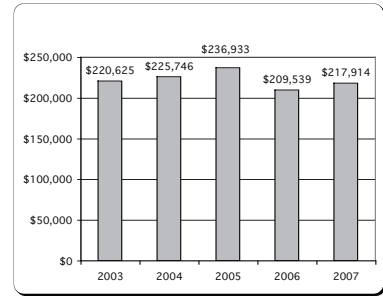
TOTAL SECURITIES



TOTAL LOANS



TOTAL DEPOSITS





INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Mifflinburg Bancorp, Inc.
Mifflinburg, Pennsylvania

We have audited the accompanying consolidated balance sheets of Mifflinburg Bancorp, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mifflinburg Bancorp, Inc. and subsidiary as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, Mifflinburg Bancorp, Inc. adopted the provisions of SFAS No. 157, *Fair Value Measurements*, and SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities – Including an Amendment of FASB Statement No. 115*, on January 1, 2007.

Beard Miller Company LLP

Beard Miller Company LLP
Harrisburg, Pennsylvania
March 12, 2008

Mifflinburg Bancorp, Inc. & Subsidiary
CONSOLIDATED BALANCE SHEETS

December 31,
(dollars in thousands except share data)

Assets	2007	2006
Cash and due from banks	\$ 4,409	\$ 6,185
Interest-bearing demand deposits	503	292
Federal funds sold	3,389	2,469
Total cash and cash equivalents	8,301	8,946
Interest-bearing time deposits	992	100
Trading securities	4,258	-
Securities available for sale	66,576	72,860
Investments in restricted stock, at cost	1,149	1,374
Loans	172,653	164,356
Allowance for loan losses	(1,678)	(1,587)
Net loans	170,975	162,769
Premises and equipment, net	3,468	3,587
Accrued interest receivable	1,126	1,154
Foreclosed real estate	61	-
Cash surrender value of life insurance	6,497	6,259
Deferred income taxes	296	354
Other assets	489	509
Total assets	\$ 264,188	\$ 257,912
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	\$ 22,963	\$ 21,342
Interest-bearing	194,951	188,197
Total deposits	217,914	209,539
Short-term borrowings	129	112
Federal Home Loan Bank advances	15,542	19,158
Accrued interest payable	751	891
Other liabilities	2,105	2,008
Total liabilities	236,441	231,708
Stockholders' Equity		
Common stock, par value \$1.00; authorized 2,160,000 shares; issued 1,080,000 shares	1,080	1,080
Capital surplus	2,671	2,671
Retained earnings	26,307	24,936
Accumulated other comprehensive income	614	365
Treasury stock at cost: 2007: 78,150 shares/2006: 76,460 shares	(2,925)	(2,848)
Total stockholders' equity	27,747	26,204
Total liabilities and stockholders' equity	\$ 264,188	\$ 257,912

See accompanying notes to consolidated financial statements.

Mifflinburg Bancorp, Inc. & Subsidiary
CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31,
(in thousands except per share data)

	2007		2006
Interest and dividend income:			
Interest and fees on loans	\$ 11,466	\$	10,990
Interest-bearing deposits in banks	40		19
Federal funds sold	189		273
Securities:			
Taxable	1,882		2,003
Exempt from federal income tax	1,207		1,285
Dividends	118		137
Total interest and dividend income	14,902		14,707
Interest expense:			
Deposits	6,081		5,899
Federal Home Loan Bank advances	718		858
Other borrowings	53		41
Total interest expense	6,852		6,798
Net interest income	8,050		7,909
Provision for loan losses	140		345
Net interest income after provision for loan losses	7,910		7,564
Other income:			
Service charges on deposit accounts	711		759
Gain on sale of loans	99		97
Trust department income	158		90
Commissions from investment product sales	57		-
Trading gains	43		-
Net securities gains (losses)	123		(419)
Gain on sale of foreclosed property	-		43
Net gain on sale of branch	-		2,013
Earnings on cash surrender value of life insurance	279		270
Other	330		314
Total other income	1,800		3,167
Other expense:			
Salaries and employee benefits	3,571		3,881
Net occupancy and equipment expense	603		562
Amortization of intangible assets	-		82
Data processing fees	249		340
State shares tax	284		283
Other	1,175		1,434
Total other expense	5,882		6,582
Income before income taxes	3,828		4,149
Income taxes	820		747
Net income	\$ 3,008	\$	3,402
Earnings per share	\$ 3.00	\$	3.36

See accompanying notes to consolidated financial statements.

Mifflinburg Bancorp, Inc. & Subsidiary
**CONSOLIDATED STATEMENTS
OF CHANGES IN STOCKHOLDERS' EQUITY**

Year Ended December 31, 2007 and 2006
(dollars in thousands except per share data)

	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance - December 31, 2005	\$1,080	\$2,663	\$24,400	\$(211)	\$(2,326)	\$25,606
Comprehensive income:						
Net income			3,402			3,402
Change in unrealized gains (losses) on securities, net of reclassification adjustments and taxes				576		576
Total comprehensive income						3,978
Purchase of 12,455 shares of treasury stock					(558)	(558)
Sale of 997 shares of treasury stock		8			36	44
Cash dividends declared (\$2.85 per share)			(2,866)			(2,866)
Balance - December 31, 2006	\$1,080	\$2,671	\$24,936	\$365	\$(2,848)	\$26,204
Cumulative effect of early adoption of SFAS 159, net of tax benefit			(234)	89		(145)
Comprehensive income:						
Net income			3,008			3,008
Change in unrealized gains on securities, net of reclassification adjustments and taxes				160		160
Total comprehensive income						3,168
Purchase of 1,690 shares of treasury stock					(77)	(77)
Cash dividends declared (\$1.40 per share)			(1,403)			(1,403)
Balance - December 31, 2007	\$1,080	\$2,671	\$26,307	\$614	\$(2,925)	\$27,747

See accompanying notes to consolidated financial statements.

Mifflinburg Bancorp, Inc. & Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,
(in thousands)

	2007	2006
Operating activities:		
Net Income	\$ 3,008	\$ 3,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	246	243
Amortization of intangible assets	-	82
Net (accretion) amortization of discounts and premiums on securities	(125)	280
Deferred income taxes	50	(36)
Provision for loan losses	140	345
Change in accrued interest receivable	28	(4)
Change in accrued interest payable	(140)	(62)
Net realized gain on sale of foreclosed real estate	-	(43)
Increase in cash surrender value of life insurance	(238)	(218)
Net securities (gains) losses	(123)	419
Trading gains	(43)	-
Trading securities:		
Proceeds from maturities and calls	1,273	-
Proceeds from sales	5,497	-
Realized gain on sale of branch	-	(2,013)
Origination of loans held for sale	(759)	(425)
Proceeds from loans sold	858	522
Gain on sale of loans	(99)	(97)
Other, net	(90)	677
Net cash provided by operating activities	9,483	3,072
Investing activities:		
Securities available-for-sale:		
Purchases	(17,098)	(24,566)
Proceeds from maturities and calls	11,647	17,561
Proceeds from sales	1,228	20,227
Net increase in loans	(8,407)	(7,875)
Proceeds from sale of foreclosed real estate	-	802
Proceeds from sale of premises and equipment	-	139
Net purchase of interest-bearing time deposits	(892)	-
Net decrease in restricted stock	225	13
Net cash paid in sale of branch	-	(13,958)
Purchases of premises and equipment	(127)	(207)
Net cash used in investing activities	(13,424)	(7,864)
Financing activities:		
Net increase (decrease) in deposits	8,375	(7,121)
Proceeds from Federal Home Loan Bank advances	3,042	2,084
Repayment of Federal Home Loan Bank advances	(6,658)	(3,507)
Net change in short-term borrowings	17	(7)
Purchase of treasury stock	(77)	(558)
Sale of treasury stock	-	44
Dividends paid on common stock	(1,403)	(2,866)
Net cash provided by (used in) financing activities	3,296	(11,931)
Net change in cash and cash equivalents	(645)	(16,723)
Cash and cash equivalents at beginning of year	8,946	25,669
Cash and cash equivalents at end of year	\$ 8,301	\$ 8,946
Supplemental disclosures:		
Interest paid	\$ 6,992	\$ 6,860
Income taxes paid	\$ 755	\$ 905
Transfer of loans to foreclosed real estate	\$ 61	\$ -

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES _____

Mifflinburg Bancorp, Inc. (the Company) is a Pennsylvania corporation organized as the holding company of Mifflinburg Bank and Trust Company (the Bank). The Bank is a state chartered commercial bank located in Mifflinburg, Pennsylvania, whose principal sources of revenues are derived from its commercial, mortgage, residential real estate, and consumer loan financing as well as a variety of deposit services provided to customers serviced by its four offices. Milestone Insurance Services, LLC (Milestone) was formed in 2003 and is a wholly owned subsidiary of the Bank. Milestone is licensed to sell title insurance. The Company is supervised by the Board of Governors of the Federal Reserve System while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking. A summary of significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows.

Basis of Presentation

The accounting policies followed by the Company and the Bank and the methods of applying these policies conform with accounting principles generally accepted in the United States of America and with general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and require disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly 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 and the evaluation of other than temporary impairment of securities available for sale.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and the Bank, its wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated. The entire business of the Company is managed as one operating segment.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company defines cash equivalents as cash and due from banks, interest-bearing demand deposits and federal funds sold. Federal funds are generally sold for one day periods.

Trading Securities

Securities classified as trading consist of assets held in tax exempt municipal bonds and collateralized mortgage obligations and are stated at fair value. Unrealized changes in fair value are reported in earnings. Interest and dividends are included in interest income.

Securities

Debt securities and equity securities classified as available for sale are carried at fair value with unrealized gains and losses net of the related tax effects reflected as a separate component of stockholders' equity. Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors.

Premium amortization and discount accretion are recorded using the interest method over each security's expected life. Declines in the fair value of available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)* _____

losses, management considers independent price quotations, projected target prices of investment analysts within the short term and the financial condition of the issuer. Realized gains and losses on sales of securities represent differences between net proceeds and carrying amounts determined by the average cost method for equity securities and the specific identification method for all other securities.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, the Bank is required to maintain an investment in FHLB restricted stock based on mortgage loans, advances and other criteria. As no active market exists for this stock, it is carried at cost. All FHLB stock is pledged as collateral for FHLB advances.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at unpaid principal balance net of unamortized deferred loan fees and costs and the allowance for loan losses. Interest on loans is computed on the unpaid principal balance. The accrual of interest income on loans is discontinued when, in the opinion of management, there exists doubt as to the ability to collect such interest. This generally occurs when a loan becomes 90 days delinquent as to principal or interest unless the loan is well collateralized and in the process of collection.

When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Loans are returned to an accrual status when payments become current and other factors indicate that the Bank believes the loan will be fully collectible. The Company recognizes nonrefundable loan origination fees and certain direct loan origination costs over the life of the related loans as an adjustment of loan yield using the interest method. The amortization of net loan fees or costs is discontinued for nonaccrual loans.

Loan impairment is evaluated individually for significant loans. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts when due according to the contractual terms of the loan agreement.

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. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is generally recorded as payments are collected based on management's judgment as to the collectibility of principal.

Allowance for Loan Losses

The allowance for loan losses represents the amount which management estimates is adequate to provide for inherent losses in the loan portfolio. All loans deemed to be uncollectible are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. Further, for any loans that are classified as impaired, if necessary, a specific allowance is established and will be based upon either a dis-

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)* _____

counted cash flow analysis or the discounted realizable collateral value of the property. The general component is based upon a segmentation of loans into pools with similar characteristics. The identified loans within these pools are then allocated to the remaining unclassified loan portfolio. The unallocated component is the least material and is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component reflects the margin of imprecision inherent in the underlying assumptions used in estimating the specific and general losses in the loan portfolio.

Foreclosed Real Estate

Foreclosed real estate consists of real estate acquired in settlement of foreclosed loans and is recorded at fair value less estimated costs to sell. Valuation allowances are established when the carrying amount exceeds the fair value less estimated costs to sell. Costs related to the acquisition and holding of foreclosed real estate are charged to operations when incurred. The fair value of real estate acquired through foreclosure is generally determined by reference to an outside appraisal.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Repairs and maintenance expenditures are expensed as incurred. The costs of major additions and improvements are capitalized. When premises or equipment are retired or sold, the remaining cost and accumulated depreciation are removed from the accounts and any gain or loss is credited or charged to income. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets.

Cash Surrender Value of Life Insurance

Cash surrender value of life insurance is carried at its net cash surrender value as determined by the insurance companies. The value represents the amount of premiums invested and earnings thereon. Premiums for purchases of life insurance with a cash surrender value are capitalized. Earnings on the cash surrender value of life insurance are included in other income while expenses are recorded as a component of other expenses in the Consolidated Statements of Income.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)* _____

Advertising Expenses

Advertising costs are expensed as incurred and totaled \$119,000 in 2007 and \$119,000 in 2006.

Income Taxes

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance, when in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted through the provision for income taxes for the effects of changes in tax laws and rates on the date of enactment.

Earnings Per Share

The Company does not have any common stock equivalents and therefore is required to present only basic earnings per share, which represents net income divided by the weighted average shares outstanding during the period. The weighted average shares outstanding during 2007 and 2006 were 1,002,523 and 1,012,398, respectively.

Treasury Stock

The acquisition of treasury stock is recorded under the cost method. The subsequent disposition or sale of the treasury stock is recorded using the average cost method.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded on the balance sheet as they are funded.

Comprehensive Income

Comprehensive income is reflected in the Consolidated Statements of Changes in Stockholders' Equity and includes net income and unrealized gains or losses on investment securities classified as available for sale.

Trust Assets

Assets held by the Bank in a fiduciary or agency capacity for its customers are not included in the consolidated financial statements since such items are not assets of the Company. Trust income is recorded on a cash basis, which is not materially different from the accrual basis.

Reclassifications

Certain amounts in the 2006 Consolidated Financial Statements have been reclassified to conform to the 2007 presentation. Such reclassifications had no impact on net income.

Mifflinburg Bancorp, Inc. & Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) TRADING ASSETS AND LIABILITIES

On January 1, 2007 the Company early adopted FAS No. 159, The Fair Value Option for Financial Assets and Liabilities, including an Amendment of FASB Statement No. 115, and FAS No. 157, Fair Value Measurement. As a result of this early adoption, \$11.0 million of available for sale securities with significant interest rate risk characteristics were marked-to-market and classified as trading. In addition \$3.9 million of FHLB debt with significantly above market rates were also classified as trading and marked-to-market. Subsequently \$4.7 million of trading securities were sold and the proceeds were used to pay off FHLB borrowings classified as trading. The initial adoption of FAS No. 159 resulted in a decrease in Stockholders' equity of \$145,000, which was net of a tax benefit of \$74,000.

The following table sets forth the effect of adopting FAS No. 159 on individual line items in the Consolidated Balance Sheet at January 1, 2007.

(in thousands)	Before Application of FAS No. 159	Adjustments	After Application of FAS No. 159
Trading securities	\$ -	11,040	\$ 11,040
Available for sale securities	72,860	(11,040)	61,820
Net deferred tax asset	354	74	428
Total Assets	257,912	74	257,986
FHLB borrowings	19,158	219	19,377
Accumulated other comprehensive income	365	89	454
Retained earnings	24,936	(234)	24,702
Total stockholders' equity	26,204	(145)	26,059
Total liabilities and stockholders' equity	\$ 257,912	74	\$ 257,986

Trading securities at fair value, consist of the following at December 31, 2007 (in thousands):

Tax exempt municipal bonds	\$ 1,634
Collateralized mortgage obligations	2,624
Total	\$ 4,258

Trading securities gains of approximately \$15,000 are included in 2007 earnings related to securities still held at December 31, 2007. Trading security losses of approximately \$35,000 are included in 2007 earnings related to securities still held at December 31, 2007. Realized gains and losses on sales of trading securities were \$2,000 and \$9,000 in 2007, respectively.

Mifflinburg Bancorp, Inc. & Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) SECURITIES AVAILABLE FOR SALE

The amortized cost and fair value of securities available for sale are as follows at December 31, (in thousands):

	2007				2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government agencies	\$ 5,708	\$ 49	\$ -	\$ 5,757	\$ 11,003	\$ 16	\$ (20)	\$ 10,999
Taxable state and municipal	1,055	-	(31)	1,024	1,070	-	(22)	1,048
Tax exempt state and municipal	25,073	538	(118)	25,493	29,117	627	(187)	29,557
Mortgage-backed securities	32,331	341	(25)	32,647	29,458	40	(185)	29,313
Corporate securities	-	-	-	-	300	-	-	300
Total debt securities	64,167	928	(174)	64,921	70,948	683	(414)	71,217
Equity securities	1,477	262	(84)	1,655	1,359	298	(14)	1,643
Total	\$ 65,644	\$ 1,190	\$ (258)	\$ 66,576	\$ 72,307	\$ 981	\$ (428)	\$ 72,860

The amortized cost and estimated fair value of debt securities available for sale at December 31, 2007, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair value
Due in one year or less	\$ 6,128	\$ 6,149
Due after one year through five years	14,451	14,916
Due after five years through ten years	6,754	6,785
Due after ten years	4,503	4,424
	31,836	32,274
Mortgage-backed securities	32,331	32,647
Total	\$ 64,167	\$ 64,921

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

2007	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Description of Securities						
Taxable state and municipal	\$ 484	\$ 16	\$ 540	\$ 15	\$ 1,024	\$ 31
Tax-exempt state and municipal	1,968	21	5,094	97	7,062	118
Mortgage backed securities	2,446	22	857	3	3,303	25
Subtotal, debt securities	4,898	59	6,491	115	11,389	174
Equity securities	602	55	61	29	663	84
Total temporarily Impaired securities	\$ 5,500	\$ 114	\$ 6,552	\$ 144	\$ 12,052	\$ 258
2006	Less than 12 months		12 months or more		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ 7,918	\$ 10	\$ 2,241	\$ 10	\$ 10,159	\$ 20
Taxable state and municipal	554	4	494	18	1,048	22
Tax-exempt state and municipal	507	5	8,221	182	8,728	187
Mortgage backed securities	12,135	86	10,862	99	22,997	185
Subtotal, debt securities	21,114	105	21,818	309	42,932	414
Equity securities	298	13	36	1	334	14
Total temporarily Impaired securities	\$ 21,412	\$ 118	\$ 21,854	\$ 310	\$ 43,266	\$ 428

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) SECURITIES AVAILABLE FOR SALE *(cont'd)*

At December 31, 2007, the \$114,000 unrealized loss (less than 12 months) was attributed to 33 different securities. The \$144,000 unrealized loss (12 months or more) was attributed to 21 different securities. None of the unrealized losses is significant. Management believes that the unrealized losses on debt securities were the result of fluctuations in market interest rates subsequent to purchase. Management has the intent and ability to hold investments until the earlier of maturity or market price recovery, accordingly no debt securities are deemed to be other-than-temporarily impaired.

The Company's equity securities with unrealized losses are comprised of common stock in varying industries. Sixty-five percent of the total unrealized loss is in eight stocks. The Company has established different parameters for evaluating equity securities other than temporary impairment. These parameters include, but are not limited to, the length of time in an unrealized loss position and the amount of the unrealized loss. At December 31, 2007 no equity securities are deemed to be other-than-temporarily impaired.

Below is a summary of gross gains and gross losses realized on the sale of securities available for sale (in thousands). For the year ended December 31, 2006, gross security losses in the amount of \$547,000 were recognized in order to restructure the portfolio due to the current interest rate environment.

For the year ended	2007	2006
Gross gains	\$ 205	\$ 128
Gross losses	\$ (82)	\$ (547)

Securities with a carrying value of \$35,678,000 and \$31,773,000 at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes as required by law.

(4) LOANS

Major categories of loans are summarized as follows as of December 31, (in thousands):

	2007	2006
Loans secured by real estate:		
Construction and land development	\$ 1,684	\$ 1,156
Farmland	22,146	20,576
Home equity lines of credit	1,705	1,830
Residential	62,338	59,542
Commercial	47,845	48,504
Agricultural	814	788
Commercial	20,209	18,673
Consumer	12,010	9,385
State and municipal	4,059	4,092
Total	172,810	164,546
Less: net deferred loan fees	(157)	(190)
Total loans net of net deferred loan fees	172,653	164,356
Less: allowance for loan losses	(1,678)	(1,587)
Net loans	\$ 170,975	\$ 162,769

The Bank had no impaired loans at December 31, 2007 and 2006.

Mifflinburg Bancorp, Inc. & Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) LOANS *(cont'd)*

Nonaccrual loans at December 31, 2007 and 2006 totaled \$413,000 and \$418,000, respectively. Interest foregone on nonaccrual loans was approximately \$2,000 and \$3,000 during 2007 and 2006, respectively.

At December 31, 2007 and 2006, there were \$50,000 and \$-0-, respectively, of loans that were past due 90 days or more and still accruing interest.

In the normal course of business, loans are extended to directors, executive officers, and their associates. In management's opinion, all of these loans are on substantially the same terms and conditions as loans to other individuals and businesses of comparable creditworthiness.

A summary of loan activity for those directors, executive officers, and their associates is as follows (in thousands):

Dec. 31, 2006	New Loans	Repayments	Dec. 31, 2007
\$4,095	\$224	\$98	\$4,221

The Bank grants commercial, residential, and personal loans to customers primarily in Union County, Pennsylvania. Although the Bank has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent on the economic conditions within this region. Additionally, approximately 13% of the Bank's loans at December 31, 2007 and 2006 are to individuals in the agricultural business.

The Bank has entered into an agreement to sell residential mortgages to the Federal Home Loan Bank of Pittsburgh. The maximum to be sold under the agreement is \$50 million, and \$38.6 million has been sold under this agreement as of December 31, 2007.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were \$25,741,000 and \$27,505,000 at December 31, 2007 and 2006 respectively.

The balance of capitalized servicing rights included in other assets at December 31, 2007 and 2006 was \$75,000 and \$78,000 respectively.

The balance of capitalized credit enhancement fees included in other assets at December 31, 2007 and 2006 was \$41,000 and \$44,000 respectively.

(5) ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses for the years ended December 31, are as follows (in thousands):

	2007	2006
Balance, January 1	\$ 1,587	\$ 1,355
Provision for loan losses	140	345
Recoveries	40	39
Loans charged off	(89)	(152)
Balance, December 31	\$ 1,678	\$ 1,587

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31, (in thousands):

	2007	2006	Estimated useful life
Land	\$ 291	\$ 280	
Buildings	3,959	3,959	25-39 years
Furniture and fixtures	2,248	2,132	3-7 years
Automobiles	97	97	5 years
	6,595	6,468	
Less accumulated depreciation	3,127	2,881	
Total	\$ 3,468	\$ 3,587	

(7) LEASE

The Bank leases a facility under a noncancellable operating lease which commenced in 2007 and expires in 2009. The minimum annual rental commitments under this lease at December 31, 2007 (in thousands) are as follows:

2008	\$11
2009	1
Total	\$12

The total rental expense for this operating lease in 2007 amounted to \$10,000.

(8) DEPOSITS

Time deposits include certificates of deposit in denominations of \$100,000 or more. Such deposits aggregated \$25,613,000 and \$24,191,000 at December 31, 2007 and 2006, respectively.

A summary of the maturity of time deposits as of December 31, 2007 is as follows (in thousands):

2008	\$	66,395
2009		18,550
2010		4,134
2011		1,540
2012		1,485
Total	\$	92,104

(9) SHORT-TERM BORROWINGS

Short-term borrowings consist of a treasury, tax, and loan account in the amounts of \$129,000 and \$112,000 as of December 31, 2007 and 2006, respectively. The interest rates on these borrowings were 4.02% and 4.15% as of December 31, 2007 and 2006, respectively.

(10) FEDERAL HOME LOAN BANK ADVANCES

The Bank maintains a borrowing agreement with the FHLB of Pittsburgh with an available funding capacity of approximately \$75 million as of December 31, 2007. This agreement is subject to annual renewal, incurs no service charges, and is secured by a blanket security agreement on outstanding residential mortgage loans.

The FHLB advances are collateralized by the security agreement and FHLB capital stock. The FHLB's adjustable-rate advances adjust quarterly at .13% above three-month LIBOR.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(10) FEDERAL HOME LOAN BANK ADVANCES *(cont'd)*

Federal Home Loan Bank advances consist of separate loans with the Federal Home Loan Bank of Pittsburgh as of December 31 as follows (in thousands):

	2007		2006	
	Amount	Rate	Amount	Rate
FHLB fixed-rate advances maturing:				
2007	\$ -	- %	\$ 3,500	4.22 %
2008	3,542	4.21	4,542	4.80
2009	4,583	4.31	3,692	4.94
2010	2,535	3.87	1,535	3.25
2011	1,250	3.88	1,250	3.88
2012	1,000	3.50	1,000	3.50
2013	1,500	3.70	1,500	3.70
2014	-	-	1,000	7.14
2015	1,000	4.70	1,000	4.70
FHLB first time homebuyers program:				
2014-2017	132	5.00-5.50	139	5.00-5.50
Total	\$ 15,542		\$ 19,158	

(11) INCOME TAXES

The provision for income taxes consists of the following (in thousands):

For the year ended December 31,

	2007	2006
Current	\$ 770	\$ 783
Deferred	50	(36)
Total provision	\$ 820	\$ 747

Income taxes (benefit) of \$42,000 and (\$142,000) were recognized on net securities gains (losses) in 2007 and 2006, respectively.

The tax effects of deductible and taxable temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, are as follows (in thousands):

	2007	2006
Deferred tax assets:		
Allowance for loan losses	\$ 486	\$ 454
Deferred compensation	479	401
Net unrealized losses on trading securities	7	-
Total	972	855
Deferred tax liabilities:		
Net unrealized gains on securities	317	188
Premises and equipment	159	145
Deferred loan origination fees, net	118	114
Other	82	54
Total	676	501
Net deferred tax asset	\$ 296	\$ 354

Mifflinburg Bancorp, Inc. & Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) INCOME TAXES *(cont'd)*

A reconciliation between the expected statutory income tax rate of 34% and the effective income tax rate on income before income taxes is as follows (dollars in thousands):

	2007			2006		
	Amount	Percentage		Amount	Percentage	
Provision at statutory rate	\$ 1,302	34.0 %		\$ 1,411	34.0 %	
Tax-exempt interest	(527)	(13.8) %		(547)	(13.2) %	
Nondeductible interest expense	63	1.6 %		62	1.5 %	
Net increase in cash surrender value of life insurance	(81)	(2.1) %		(74)	(1.8) %	
Other, net	63	1.7 %		(105)	(2.5) %	
Applicable income taxes and effective rates	\$ 820	21.4 %		\$ 747	18.0 %	

(12) COMPREHENSIVE INCOME

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income are components of comprehensive income.

The only comprehensive income item that the Company presently has is unrealized gains (losses) on securities available for sale. The federal income taxes allocated to the unrealized gains (losses) are presented in the table below. The reclassification adjustments included in comprehensive income are also presented (in thousands).

	Year ended December 31,	
	2007	2006
Unrealized holding gains arising during the year	\$ 367	\$ 453
Reclassification adjustment for (gains) losses included in net income	(123)	419
Net unrealized gains	244	872
Tax expense	(84)	(296)
Net of tax amount	\$ 160	\$ 576

(13) EMPLOYEE BENEFITS PLANS

Section 401(k) Plan

The Bank sponsors a contributory defined contribution Section 401(k) plan covering substantially all employees who have completed one year of service and have attained age twenty-one. The plan permits employees to make pre-tax contributions which are matched by the Bank up to four percent of the employee's compensation. The Bank's contributions were \$77,000 and \$73,000 in 2007 and 2006, respectively. Contributions made by the Bank vest ratably beginning after the third year of service and are fully vested after an employee completes six years of service.

Money Purchase Plan

The Bank sponsors a defined contribution, non-contributory money purchase plan covering substantially all employees who have completed one year of service and have attained age twenty-one. Employees are partially vested after three years of service and fully vested after seven years of service. Employer contributions are based upon total wages as defined and amounted to \$140,000 and \$148,000 in 2007 and 2006, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(13) EMPLOYEE BENEFITS PLANS *(cont'd)*

Deferred Directors' Compensation

The Bank maintains deferred compensation plans with directors through which the payments of the directors' fees are deferred. The future liability of these agreements, which is payable in ten annual installments, was financed through the purchase of life insurance contracts which required a one-time premium of \$1,570,000.

The present value of the future liability of the plans at December 31, 2007 and 2006, was \$775,000 and \$663,000, respectively. The related expenses amounted to \$70,000 and \$53,000 for the years ended 2007 and 2006, respectively.

Supplemental Plan

The Company maintains an arrangement for supplemental compensation (the "Supplemental Plan") for certain of its executive officers and directors (the "Executives"). The Supplemental Plan provides that the Bank and the Executives share in the rights to the death benefits of bank owned split-dollar life insurance policies (the "BOLI Policies") and provides for additional compensation to the Executives, equal to any income tax consequences related to the Supplemental Plan until retirement. The amount of the BOLI Policies has been calculated so that the projected increases in their cash surrender value will substantially offset the Bank's expense related to the Supplemental Plan. The Supplemental Plan is designed to provide certain Executives, upon attaining age 65, with projected annual distributions.

The amount of the benefit obligation is increased or decreased each year by an amount equal to the annual BOLI Policies' earnings less the Bank's cost of funds. In addition, the BOLI Policies are intended to provide the directors with \$100,000 of supplemental life insurance and the executive officers with supplemental life insurance equal to three times salary. Neither the insurance company nor Mifflinburg Bancorp, Inc. has guaranteed any minimum cash value under the Supplemental Plan. The expense recognized by the Bank under the plan was \$34,000 and \$216,000 for the years ended 2007 and 2006, respectively. This expense was offset by an increase in the cash surrender value of the BOLI Policies of \$121,000 and \$111,000 for the years ended 2007 and 2006, respectively.

The liability of the Supplemental Plan at December 31, 2007 and 2006 was \$537,000 and \$ 503,000, respectively.

(14) REGULATORY MATTERS

Cash and Due From Banks

Included in cash and due from banks are reserves of \$114,000 and \$136,000 at December 31, 2007 and 2006, respectively, required by the Federal Reserve Bank. The required reserves are computed by applying prescribed ratios to the various classes of average deposit accounts. The reserves are held in the form of cash.

Loans

Federal law prevents Mifflinburg Bancorp, Inc. from borrowing from its bank subsidiary unless the loans are secured by specified collateral. Further, such secured loans are limited in amount to ten percent of the Bank's common stock and capital surplus. There were no such loans in 2007 or 2006.

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet capital requirements can initiate certain mandatory, and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance

Mifflinburg Bancorp, Inc. & Subsidiary
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(14) REGULATORY MATTERS *(cont'd)*

sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2007 and 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events since that notification that management believes have changed the Bank's category. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based and Tier I leverage ratios as set forth below.

The following table reflects the Bank's capital ratios at December 31.

	2007		2006	
Total Capital (to Risk Weighted Assets)				
	(Dollars in Thousands)			
Actual	\$27,231	14.72%	\$25,884	14.56%
For capital adequacy purposes	14,801	8.00%	14,219	8.00%
To be well capitalized	18,501	10.00%	17,774	10.00%
Tier I Capital (to Risk Weighted Assets)				
Actual	\$25,553	13.81%	\$24,297	13.67%
For capital adequacy purposes	7,401	4.00%	7,110	4.00%
To be well capitalized	11,101	6.00%	10,664	6.00%
Tier I Capital (to Average Assets)				
Actual	\$25,553	9.74%	\$24,297	9.39%
For capital adequacy purposes	10,497	4.00%	10,348	4.00%
To be well capitalized	13,122	5.00%	12,934	5.00%

Dividends

Banking regulations limit the amount of dividends that may be paid by the Bank to the Company. Retained earnings against which dividends may be paid without prior regulatory approval amounted to approximately \$12.4 million at December 31, 2007, subject to the minimum capital ratio requirements noted above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(15) COMMITMENTS AND STANDBY LETTERS OF CREDIT

In the normal course of business, the Bank makes various commitments which are not reflected in the accompanying financial statements. The Bank offers such products to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve to varying degrees elements of credit, interest rate, or liquidity risk in excess of the amount recognized in the consolidated balance sheet.

The Bank's maximum exposure to credit loss from nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank on extension of credit is based on management's credit assessment of the counterparty.

Financial instruments whose contract amounts represent credit risk at December 31, are as follows (in thousands):

	Contract Amount	
	2007	2006
Commitments to extend credit	\$37,027	\$ 33,630
Standby letters of credit	1,750	2,021

Commitments to extend credit are legally binding agreements to lend to customers as long as there are no violations of the agreements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of fees. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future liquidity requirements.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The current amount of the liability as of December 31, 2007 and 2006 for guarantees under standby letters of credit is not material.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values at December 31 of the Company's financial instruments are as follows (in thousands):

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 8,301	\$ 8,301	\$ 8,946	\$ 8,946
Interest-bearing time deposits	992	992	100	100
Trading securities	4,258	4,258	-	-
Securities available for sale	66,576	66,576	72,860	72,860
Investments in restricted stock	1,149	1,149	1,374	1,374
Net loans	170,975	169,722	162,769	157,621
Accrued interest receivable	1,126	1,126	1,154	1,154
Mortgage servicing rights	75	75	78	78
Financial liabilities:				
Deposits	\$ 217,914	\$218,466	\$ 209,539	\$ 209,728
Short-term borrowings	129	129	112	112
FHLB advances	15,542	15,874	19,158	18,925
Accrued interest payable	751	751	891	891
Off-balance sheet financial instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

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

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

On January 1, 2007, the Company adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 applies to all financial instruments that are measured on a fair value basis. As defined by SFAS No. 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. The following fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 : Quoted market prices in active markets for identical assets or liabilities.

Level 2 : Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 : Unobservable inputs that are not corroborated by market data.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS *(cont'd)*

Fair Value Measurement as of December 31, 2007:

(in thousands)	Level 1	Level 2	Level 3	Total
Trading securities	\$ -	\$ 4,258	-	\$ 4,258
Available for sale securities	1,655	64,921	-	66,576
Total assets at fair value	\$ 1,655	\$ 69,179	-	\$ 70,834

Change in Fair Value of Trading Assets and Liabilities:

(in thousands)	Beginning Balance as of January 1, 2007	Total Gains/ (Losses) (Realized and Unrealized)	Amortization (Accretion)	Sales and Settlements	Ending Balance as of December 31, 2007
Trading securities	\$ 11,040	\$ 31	\$ (42)	\$ (6,771)	\$ 4,258
Trading liabilities	\$ (3,869)	\$ 12	\$ -	\$ 3,857	\$ -

Following are the significant assumptions used by the Company in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents, Interest-bearing Time Deposits, Accrued Interest Receivable and Accrued Interest Payable

The fair value is equal to the current carrying amount.

Securities

The fair value of securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

Investments in Restricted Stocks

The carrying value of restricted stock approximates its fair value due to redemption provisions.

Loans, Deposits and Borrowed Funds

The fair value of loans is estimated by discounting the future cash flows at current market rates, which consider the credit risk inherent in the underlying loans. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year end. Fair values for time deposits and Federal Home Loan Bank advances are estimated using a discounted cash flow calculation that applies contractual payments in the existing portfolio to current market rates being offered for deposits and notes of similar remaining maturities. Short-term borrowings are valued at their carrying amount due to their adjustable rate.

Mortgage Servicing Rights

The fair value of mortgage servicing rights is based on observable market prices when available or the present value of expected future cash flows when not available. Assumptions such as loan default rates, costs to service and prepayment speeds significantly impact the estimate of expected future cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(16) FAIR VALUE OF FINANCIAL INSTRUMENTS *(cont'd)* _____

Commitments to Extend Credit and Letters of Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying amount is represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value is determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, and is not material.



Andy Long reviews retirement benefits with Jim Smith.



Jim Smith says farewell to customers and enters retirement after 46 years at Mifflinburg Bank & Trust.



Donna Duke prepares Martha Hockenberry for her responsibilities as CSR of the New Berlin Office.



Judy Dietz and Kim Ranck discuss sales strategies for attaining 2008 branch goals.

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