Baker Stephen W
Form 4
February 11, 2011

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Baker Stephen W

(Last) (First) (Middle)

5400 WESTHEIMER COURT

(Street)

HOUSTON, TX 77056

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Spectra Energy Corp. [SE]

3. Date of Earliest Transaction (Month/Day/Year)
02/11/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice President and Treasurer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/11/2011		M		616	A	$ 25.9015	4,775	D (1)	
Common Stock	02/11/2011		S		616	D	$ 25.9015	4,159	D (1)	
Common Stock								2,176	I (2)	By Spouse
Common Stock								2,660	I (3)	By Spouse
Common Stock								7,319	I (3)	By Trustee

Common Stock	179	I (4)	By Trustee
Common Stock	3,128	I (5)	By Trustee

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. D Se (I
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Employee Stock Option (Right to Buy)	$ 23.64	02/11/2011		M			616	02/16/2001	02/16/2011	Common Stock	616	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Baker Stephen W 5400 WESTHEIMER COURT HOUSTON, TX 77056			Vice President and Treasurer	

Signatures

/s/ Beverly J. Fite, attorney-in-fact for Stephen W. Baker	02/11/2011
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Total includes 167 shares in RRSP (Canadian Retirement Savings Plan)
- **(2)** Shares held in RRSP (Canadian Retirement Savings Plan)
- **(3)** Shares in EPSP (Canadian Employee Savings Plan)
- **(4)** Shares in RESP (Canadian Education Plan for Children)
- **(5)** Ancillary defined benefit plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Amount

%

average rate

Amount

%

Non-interest bearing deposits

-

$
104,269

24.1
%
-

$
98,559

22.8
%
Interest bearing demand deposits

0.15
%

221,412

51.3
%
0.15
%

201,919

46.7
%
Time deposits

1.87
%

106,325

24.6
%
2.63
%

131,981

30.5
%

0.54
%
$
432,006

100.0
%
0.87
%
$
432,459

100.0
%

F-26

Notes to Consolidated Financial Statements (continued)

9. Deposits (continued)

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

(Dollar amounts in thousands)	Amount	%	
2014	$ 34,420	32.4	%
2015	18,702	17.6	%
2016	15,806	14.9	%
2017	8,139	7.6	%
2018	16,662	15.7	%
Thereafter	12,596	11.8	%
	$ 106,325	100.0	%

The Corporation had a total of $43.4 million and $51.5 million in time deposits of $100,000 or more at December 31, 2013 and 2012, respectively. Scheduled maturities of time deposits of $100,000 or more at December 31, 2013 are as follows:

(Dollar amounts in thousands)	Amount
Less than three months	$ 1,988
Over three months to six months	3,102
Over six months to twelve months	8,637
Over twelve months	29,638
	$ 43,365

10. Borrowed Funds

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

(Dollar amounts in thousands)	2013				2012			
	Balance	Average Balance	Average Rate		Balance	Average Balance	Average Rate	
Due within 12 months	$ 24,150	$ 9,381	0.60	%	$ -	$ 27	0.46	%
Due beyond 12 months but within 5 years	20,000	20,000	4.01	%	20,000	20,000	4.59	%
	$ 44,150	$ 29,381			$ 20,000	$ 20,027		

F-27

Notes to Consolidated Financial Statements (continued)

10. Borrowed Funds (continued)

Short-term borrowed funds at December 31, 2013 consisted of $22.0 million in FHLB overnight advances with a rate of 0.25% and $2.2 million outstanding on a line of credit with a correspondent bank at 4.25%.

Long-term borrowed funds at December 31, 2013 and 2012 consisted of four $5.0 million FHLB term advances totaling $20.0 million. The term advances mature in October and November 2017. All borrowings from the FHLB are secured by a blanket lien of qualified collateral. Qualified collateral at December 31, 2013 totaled $254.0 million.

During the fourth quarter of 2012, the Corporation exchanged and modified $15.0 million of the $20.0 million in outstanding FHLB advances. Two of the modified advances had ten year terms with initial fixed rates of 4.98% and 4.83%, respectively, for the first two years after which the rates may have been adjusted at the option of the FHLB to the then three month LIBOR rate plus 24 basis points. The other modified advance had a ten year term with an initial fixed rate of 4.68% for the first two years after which the rate may have been adjusted at the option of the FHLB to the then three month LIBOR rate plus 24 basis points, but only if the three month LIBOR rate exceeded 6.0%.
The three $5.0 million advances discussed above were exchanged for three $5.0 million five year fixed rate advances each with a rate of 0.93% and a term of five years. Prepayment penalties associated with the three modified advances totaled $2.3 million and were cash-settled with the FHLB at the time of modification. The Corporation is amortizing this prepayment penalty over the life of the new advances.

The remaining $5.0 million advance has a term of ten years with an initial fixed rate of 4.09% for the first three years after which the rate may be adjusted at the option of the FHLB to the then three month LIBOR rate plus 13 basis points.

Before modification, the four advances totaling $20.0 million had a weighted average rate of 4.65%. After modification and including prepayment penalty amortization, the four advances have a weighted average rate of 4.01%.

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

(Dollar amounts in thousands)	Amount	
2014	$	24,150
2015		-
2016		-
2017		20,000
2018		-
Thereafter		-
	$	44,150

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 of $42.0 million and irrevocable standby letters of credit issued to secure certain deposit accounts of $20.0 million, at December 31, 2013 was $120.7 million. In addition, the Corporation has $2.8 million of funds available on a line of credit through another correspondent bank.

Notes to Consolidated Financial Statements (continued)

11. Regulatory Matters

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, 2013, $1.0 million of undistributed earnings of the Bank was available for distribution of dividends without prior regulatory approval.

Loans or advances from the Bank to the Corporation are limited to 10% 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 $3.3 million. The Corporation has a $2.2 million commercial line of credit available at the Bank for the primary purpose of purchasing qualified equity investments. At December 31, 2013, the Corporation had an outstanding balance on this line of $1.4 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 its 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.

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).

Notes to Consolidated Financial Statements (continued)

11. Regulatory Matters (continued)

As of December 31, 2013, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well 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 the Bank's regulatory capital as of the dates presented:

(Dollar amounts in thousands)	December 31, 2013				December 31, 2012			
	Consolidated		Bank		Consolidated		Bank	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets:								
Actual	$ 47,711	15.10 %	$ 48,222	15.34 %	$ 50,035	16.62 %	$ 48,585	16.21 %
For capital adequacy purposes	25,269	8.00 %	25,152	8.00 %	24,083	8.00 %	23,971	8.00 %
To be well capitalized	N/A	N/A	31,440	10.00 %	N/A	N/A	29,964	10.00 %
Tier 1 capital to risk-weighted assets:								
Actual	$ 43,722	13.84 %	$ 44,273	14.08 %	$ 46,252	15.36 %	$ 44,820	14.96 %
For capital adequacy purposes	12,634	4.00 %	12,576	4.00 %	12,042	4.00 %	11,985	4.00 %
To be well capitalized	N/A	N/A	18,864	6.00 %	N/A	N/A	17,978	6.00 %
Tier 1 capital to average assets:								
Actual	$ 43,722	8.45 %	$ 44,273	8.58 %	$ 46,252	9.18 %	$ 44,820	8.92 %
For capital adequacy purposes	20,690	4.00 %	20,651	4.00 %	20,148	4.00 %	20,101	4.00 %
To be well capitalized	N/A	N/A	25,814	5.00 %	N/A	N/A	25,126	5.00 %

12. 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.

13. 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)	2013	2012
Current	$ 554	$ 1,435
Deferred	359	(501)
	$ 913	$ 934

F-30

Notes to Consolidated Financial Statements (continued)

13. 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)	2013				2012			
	Amount		% Pre-tax Income		Amount		% Pre-tax Income	
Provision at statutory tax rate	$	1,605	34.0	%	$	1,560	34.0	%
Increase (decrease) resulting from:								
Tax free interest, net of disallowance		(583)	(12.3)	%		(563)	(12.3)	%
Earnings on bank-owned life insurance		(112)	(2.4)	%		(89)	(1.9)	%
Other, net		3	0.1	%		26	0.6	%
Provision	$	913	19.4	%	$	934	20.4	%

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)	2013		2012	
Deferred tax assets:				
Allowance for loan losses	$	1,557	$	1,682
Net unrealized loss on securities		963		-
Funded status of pension plan		726		925
Deferred compensation		313		278
Stock compensation		154		139
Securities impairment		149		149
Nonaccrual loan interest income		114		154
Other		120		28
Gross deferred tax assets		4,096		3,355
Deferred tax liabilities:				
		-		-
Depreciation		670		593
Accrued pension liability		466		298
Intangible assets		281		247
Deferred loan fees		126		99
Other		79		49
Net unrealized gains on securities		-		1,219
Gross deferred tax liabilities		1,622		2,505
Net deferred tax asset	$	2,474	$	850

F-31

Notes to Consolidated Financial Statements (continued)

13. Income Taxes (continued)

In accordance with relevant accounting guidance, the Corporation determined that it was not required to establish a valuation allowance for deferred tax assets 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, tax strategies and, to a lesser extent, future taxable income. The Corporation's net deferred tax asset or liability is recorded in the consolidated financial statements as a component of other assets or other liabilities.

At December 31, 2013 and December 31, 2012, the Corporation had no 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.

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 2010.

Notes to Consolidated Financial Statements (continued)

14. 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 three years of service. Effective January 1, 2009, the plan was closed to new participants. The Corporation provided the requisite notice to plan participants on March 12, 2013 of the determination to freeze the plan (curtailment). While the freeze was not effective until April 30, 2013, management determined that participants would not satisfy, within the provisions of the plan, 2013 eligibility requirements based on minimum hours worked for 2013. Therefore, employees ceased to earn benefits as of January 1, 2013. This amendment to the plan will not affect benefits earned by the participant prior to the date of the freeze. The Corporation measures the funded status of the plan as of December 31.

Information pertaining to changes in obligations and funded status of the defined benefit pension plan for the years ended December 31 is as follows:

(Dollar amounts in thousands)	2013		2012	
Change in plan assets:				
Fair value of plan assets at beginning of year	$	5,656	$	4,892
Actual return on plan assets		570		529
Employer contribution		500		500
Benefits paid		(340)		(265)
Fair value of plan assets at end of year		6,386		5,656
Change in benefit obligation:				
Benefit obligation at beginning of year		7,989		7,010
Service cost		-		272
Interest cost		338		331
Actuarial loss		297		145
Effect of change in assumptions		(641)		496
Benefits paid		(340)		(265)
Benefit obligation at end of year		7,643		7,989
Funded status (plan assets less benefit obligation)	$	(1,257)	$	(2,333)
Amounts recognized in accumulated other comprehensive loss, net of tax, consists of:				
Accumulated net actuarial loss	$	1,466	$	1,872
Accumulated prior service benefit		(56)		(77)
Amount recognized, end of year	$	1,410	$	1,795

F-33

Notes to Consolidated Financial Statements (continued)

14. Employee Benefit Plans (continued)

The following table presents the Corporation's pension plan assets measured and recorded at estimated fair value on a recurring basis and their level within the estimated fair value hierarchy as described in Note 16:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2013:				
Cash and cash equivalents	$ 467	$ 467	$ -	$ -
Fixed income	2,751	-	2,751	-
Equity securities - domestic	2,827	2,827	-	-
Equity securities - international	342	342	-	-
	$ 6,386	$ 3,635	$ 2,751	$ -
December 31, 2012:				
Cash and cash equivalents	$ 531	$ 531	$ -	$ -
Fixed income	2,626	-	2,626	-
Equity securities - domestic	2,203	2,203	-	-
Equity securities - international	296	296	-	-
	$ 5,656	$ 3,030	$ 2,626	$ -

There were no significant transfers between Level 1 and Level 2 during 2013.

The accumulated benefit obligation for the defined benefit pension plan was $7.6 million and $8.0 million at December 31, 2013 and 2012, respectively.

The components of the periodic pension costs and other amounts recognized in other comprehensive income (loss) for the years ended December 31 are as follows:

(Dollar amounts in thousands)	2013	2012
Service cost	$ -	$ 272
Interest cost	338	331
Expected return on plan assets	(446)	(391)
Amortization of prior service cost and net loss	114	92
Net periodic pension cost	6	304
Amortization of prior service benefit and net loss	(114)	(92)
Net (gain) loss	(469)	504
Total recognized in other comprehensive loss	(583)	412
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (577)	$ 716

The estimated net loss and prior service benefit for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $67,000 as of December 31, 2013.

F-34

Notes to Consolidated Financial Statements (continued)

14. Employee Benefit Plans (continued)

Weighted-average actuarial assumptions for the years ended December 31 include the following:

	2013	2012
Discount rate for net periodic benefit cost	4.17 %	4.70 %
Discount rate for benefit obligations	4.86 %	4.17 %
Rate of increase in future compensation levels	3.50 %	3.50 %
Expected rate of return on plan assets	7.75 %	7.75 %

The Corporation's pension plan asset allocation at December 31, 2013 and 2012, target allocation for 2014, and expected long-term rate of return by asset category are as follows:

	Target Allocation	Percentage of Plan Assets at Year End		Weighted-Average Expected Long-Term Rate of Return
Asset Category	2014	2013	2012	2013
Equity Securities	40 %	46 %	41 %	5.5 %
Debt Securities	50 %	47 %	50 %	1.8 %
Other	10 %	7 %	9 %	0.5 %
	100 %	100 %	100 %	7.75 %

Investment Strategy

The intent of the pension 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 achieved through diversification. The following asset classes or investment categories are utilized to meet the Pension plan's objectives: Small company stock, International stock, Mid-cap stock, Large company stock, Diversified bond, Money Market/Stable Value and Cash. The pension plan does not prohibit any certain investments.

The Corporation expects to contribute approximately $500,000 to its pension plan in 2014.

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
2014	$ 340
2015	340
2016	339
2017	335
2018	327
2019-2023	1,896
Thereafter	4,066
Benefit Obligation	$ 7,643

F-35

Notes to Consolidated Financial Statements (continued)

14. Employee Benefit Plans (continued)

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. For the years ended 2013 and 2012, matching contributions were $176,000 and $179,000, respectively.

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, 2013 and 2012, the Corporation's SERP liability was $850,000 and $736,000, respectively. For the years ended December 31, 2013 and 2012, the Corporation recognized expense of $139,000 and $120,000, respectively, related to the SERP.

15. Stock Compensation Plans

The Corporation's 2007 Stock Incentive Plan and Trust (the Plan), which is shareholder-approved, permits the grant of restricted stock awards and 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. Compensation expense related to share-based payment transactions must be recognized in the financial statements with measurement based upon the fair value of the equity instruments issued.

During 2013 and 2012, the Corporation granted restricted stock awards of 7,900 and 9,900 shares, respectively, with a face value of $201,000 and $196,000, respectively, based on the weighted-average grant date stock prices of $25.50 and $19.79, respectively. These restricted stock awards are 100% vested on the third anniversary of the date of grant. It is the Corporation's policy to issue shares on the vesting date for restricted stock awards. There were no stock options granted during 2013 or 2012. For the year ended December 31, 2013 and 2012 the Corporation recognized $172,000 and $113,000, respectively, in stock compensation expense.

Notes to Consolidated Financial Statements (continued)

15. Stock Compensation Plans (continued)

A summary of the status of the Corporation's nonvested restricted stock awards as of December 31, 2013, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-date Fair Value
Nonvested at January 1, 2013	25,650	$ 17.30
Granted	7,900	25.50
Vested	(7,750)	16.33
Forfeited	-	-
Nonvested as of December 31, 2013	25,800	$ 20.11

A summary of option activity under the Plan as of December 31, 2013, 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 as of January 1, 2013	86,250	$ 24.79	$ -	4.9
Granted	-	-	-	-
Exercised	(1,500)	13.50	-	-
Forfeited	(5,500)	25.28	-	-
Outstanding as of December 31, 2013	79,250	$ 24.97	$ 62,204	3.8
Exercisable as of December 31, 2013	78,750	$ 25.03	$ 57,510	3.8

As of December 31, 2013, there was $353,000 of total unrecognized compensation expense related to nonvested share-based compensation arrangements granted under the Plan. That expense is expected to be recognized over the next three years.

F-37

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in a sale transaction or exit price on the date indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at year-end.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Corporation has the ability to access at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Corporation's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

An asset or liability's level is based on the lowest level of input that is significant to the fair value measurement.

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Cash and cash equivalents The carrying value of cash, due from banks and interest bearing deposits approximates fair value and are classified as Level 1.

Securities available for sale The fair value of all investment securities are based upon the assumptions market participants would use in pricing the security. If available, investment securities are determined by quoted market prices (Level 1). Level 1 includes U.S. Treasury, federal agency securities and certain equity securities. For investment securities where quoted market prices are not available, fair values are calculated based on market prices on similar securities (Level 2). Level 2 includes U.S. Government sponsored entities and agencies, mortgage-backed securities, collateralized mortgage obligations, state and political subdivision securities and corporate debt securities. For investment securities where quoted prices or market prices of similar securities are not available, fair values are calculated by using unobservable inputs (Level 3) and may include certain equity securities held by the Corporation. The Level 3 equity security valuations were supported by an analysis prepared by the Corporation which relies on inputs such as the security issuer's publicly attainable financial information, multiples derived from prices in observed transactions involving comparable businesses and other market, financial and nonfinancial factors. The fair value of Level 3 securities is determined by using the lower of cost or derived value.

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

Loans The fair value of loans receivable was estimated based on the discounted value of the future cash flows using the current rates being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification.

Impaired loans At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive a specific allowance for loan losses. For collateral dependent loans, fair value is commonly based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. As of December 31, 2013, the fair value of impaired loans consists of loan balances totaling $2.5 million, net of a valuation allowance of $181,000, compared to loan balances of $4.1 million, net of a valuation allowance of $1.4 million at December 31, 2012. Additional provision for loan losses of $21,000 and $1.4 million was recorded during the years ended December 31, 2013 and 2012, respectively, for these loans.

Other real estate owned (OREO) Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. Management's ongoing review of appraisal information may result in additional discounts or adjustments to the valuation based upon more recent market sales activity or more current appraisal information derived from properties of similar type and/or locale. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. As of December 31, 2013, OREO measured at fair value less costs to sell had a net carrying amount of $80,000, which consisted of the outstanding balance of $104,000 less write-downs of $24,000, compared to a net carrying amount of $45,000, which consisted of the outstanding balance of $50,000 less write-downs of $5,000 at December 31, 2012.

Appraisals for both collateral-dependent impaired loans and OREO are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed by the Corporation. Once received, management reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Corporation compares the actual selling price of OREO that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied.

Federal bank stock It is not practical to determine the fair value of federal bank stocks due to restrictions place on its transferability.

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

Deposits The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, checking with interest, savings and money market accounts, is equal to the amount payable on demand resulting in either a Level 1 or Level 2 classification. The fair values of time deposits are based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar maturities resulting in a Level 2 classification.

Borrowings The fair value of borrowings with the FHLB is estimated using discounted cash flows based on current incremental borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Accrued interest receivable and payable The carrying value of accrued interest receivable and payable approximates fair value. The fair value classification is consistent with the related financial instrument.

Estimates of the fair value of off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties. Also, unfunded loan commitments relate principally to variable rate commercial loans.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2013:				
U.S. Treasury and federal agency	$ 4,168	$ 4,168	$ -	$ -
U.S. government sponsored entities and agencies	22,892	-	22,892	-
U.S. agency mortgage-backed securities: residential	11,361	-	11,361	-
U.S. agency collateralized mortgage obligations: residential	39,722	-	39,722	-
State and political subdivision	36,499	-	36,499	-
Corporate debt securities	241	241	-	-
Equity securities	2,421	1,768	-	653
	$ 117,304	$ 6,177	$ 110,474	$ 653
December 31, 2012:				
U.S. Treasury and federal agency	$ 3,967	$ 3,967	$ -	$ -
U.S. government sponsored entities and agencies	28,162	-	28,162	-
U.S. agency mortgage-backed securities: residential	22,724	-	22,724	-
U.S. agency collateralized mortgage obligations: residential	22,475	-	22,475	-
State and political subdivision	36,765	-	36,765	-
Corporate debt securities	3,761	-	3,761	-

Equity securities	2,352	1,699	-	653
	$ 120,206	$ 5,666	$ 113,887	$ 653

F-40

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

The Corporation's policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period. During 2013, the Corporation had no transfers between levels. During 2012, the Corporation had no transfers between Level 1 and Level 2 and one transfer between Level 2 and Level 3. Transfers into Level 3 during 2012 reflected transfers from Level 2 of three equity securities due to reduced transparency of market prices as a result of less market activity in these instruments. There has been no change in the value of these securities since the level classification change. The following table presents changes in Level 3 assets measured on a recurring basis for the years ended December 31, 2013 and 2012:

(Dollar amounts in thousands)	2013	2012
Balance at the beginning of the period	$ 653	$ -
Total gains or losses (realized/unrealized):	-	-
Included in earnings	-	-
Included in other comprehensive income	-	-
Issuances	-	-
Transfers in and/or out of Level 3	-	653
Balance at the end of the period	$ 653	$ 653

For assets measured at fair value on a non-recurring basis, the fair value measurements by level within the fair value hierarchy are as follows:

(Dollar amounts in thousands) Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2013:				
Impaired commerical real estate loans	$ 2,340	$ -	$ -	$ 2,340
Other residential real estate owned	80	-	-	80
	$ 2,420	$ -	$ -	$ 2,420
December 31, 2012:				
Impaired commerical real estate loans	$ 2,620	$ -	$ -	$ 2,620
Other residential real estate owned	45	-	-	45
	$ 2,665	$ -	$ -	$ 2,665

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a non-recurring basis as of December 31, 2013:

(Dollar amounts in thousands)		Valuation Techniques(s)	Unobservable Input (s)	Range
Impaired commercial real estate loans	$ 2,340	Sales comparison approach/ Contractual provision of USDA loan	Adjustment for differences between comparable sales	0 %- 10%
Other residential real estate owned	80			10%

	Sales comparison approach	Adjustment for differences between comparable sales

F-41

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

Included in impaired commercial real estate loans is a $350,000 loan guaranteed by the United States Department of Agriculture (USDA). The guarantee covers 90% of the principal balance outstanding. In determining the fair value of this loan, the Corporation considered the contractual provisions of the loan and did not rely on the fair value of the underlying collateral. As such, the Corporation applied a 10% discount to the loan which represents the portion of the loan at risk. The weighted average discount on impaired commercial real estate loans as of December 31, 2013 was 1.5%.

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)

	Carrying	Fair Value Measurements Using:			
Description	Amount	Total	Level 1	Level 2	Level 3
December 31, 2013:					
Financial Assets:					
Cash and cash equivalents	$ 16,658	$ 16,658	$ 16,658	$ -	$ -
Securities available for sale	117,304	117,304	6,177	110,474	653
Loans, net	352,430	356,123	-	-	356,123
Federal bank stock	3,977	N/A	-	-	-
Accrued interest receivable	1,466	1,466	34	430	1,002
	491,835	491,551	22,869	110,904	357,778
Financial Liabilities:					
Deposits	432,006	434,552	325,983	108,569	-
FHLB advances	44,150	45,241	-	45,241	-
Accrued interest payable	292	292	5	287	-
	476,448	480,085	325,988	154,097	-
December 31, 2012:					
Financial Assets:					
Cash and cash equivalents	$ 20,424	$ 20,424	$ 20,424	$ -	$ -
Securities available for sale	120,206	120,206	5,666	113,887	653
Loans, net	333,801	340,840	-	-	340,840
Federal bank stock	2,885	N/A	-	-	-
Accrued interest receivable	1,533	1,533	23	383	1,127
	478,849	483,003	26,113	114,270	342,620
Financial Liabilities:					
Deposits	432,459	436,279	300,805	135,474	-
FHLB advances	20,000	22,613	-	22,613	-
Accrued interest payable	442	442	55	387	-
	452,901	459,334	300,860	158,474	-

This information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful.

F-42

Notes to Consolidated Financial Statements (continued)

16. Fair Values of Financial Instruments (continued)

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 balance sheets. 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)	2013		2012	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ 2,661	$ 1,402	$ 1,867	$ 5,639
Unused lines of credit	1,012	47,291	502	38,565
	$ 3,673	$ 48,693	$ 2,369	$ 44,204

Commitments to make loans are generally made for periods of 30 days or less. 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.

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 $188,000 and $189,000 at December 31, 2013 and 2012, respectively. The current amount of the liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit issued is not material.

Notes to Consolidated Financial Statements (continued)

17. 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 Balance Sheets

(Dollar amounts in thousands)	2013		2012	
Assets:				
Cash and cash equivalents	$	67	$	38
Securities available for sale		2,353		2,301
Equity in net assets of subsidiaries		45,636		50,299
Other assets		572		500
Total Assets	$	48,628	$	53,138
Liabilities and Stockholders' Equity:				
Short-term borrowed funds with affiliated subsidiary bank	$	1,375	$	1,375
Other short-term borrowed funds		2,150		-
Accrued expenses and other liabilities		31		38
Stockholders' equity		45,072		51,725
Total Liabilities and Stockholders' Equity	$	48,628	$	53,138

Condensed Statements of Income

(Dollar amounts in thousands)	2013		2012	
Income:				
Dividends from subsidiaries	$	4,872	$	1,207
Investment income		103		398
Total income		4,975		1,605
Expense:				
Interest expense		72		38
Noninterest expense		396		321
Total expense		468		359
Income before income taxes and undistributed subsidiary income		4,507		1,246
Undistributed equity in (distribution in excess of) net income of subsidiary		(779)		2,458
Net income before income taxes		3,728		3,704
Income tax expense (benefit)		(80)		50
Net income	$	3,808	$	3,654
Comprehensive income (loss)	$	(42)	$	2,800

F-44

Notes to Consolidated Financial Statements (continued)

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

Condensed Statements of Cash Flows

(Dollar amounts in thousands)	2013	2012
Operating activities:		
Net income	$ 3,808	$ 3,654
Adjustments to reconcile net income to net cash provided by operating activities:		
(Undistributed equity in) distributions in excess of net income of subsidiary	779	(2,458)
Realized gains on sales of available for sale securities, net	-	(424)
Securities impairment loss recognized in earnings	-	103
Other, net	75	161
Net cash provided by operating activities	4,662	1,036
Investing activities:		
Sales (purchases) of investment securities	-	558
Net cash provided by investing activities	-	558
Financing activities:		
Net change in borrowings	2,150	275
Redemption of preferred stock (Series B)	(5,000)	-
Proceeds from exercise of stock options, including tax benefit	47	12
Dividends paid	(1,830)	(1,930)
Net cash used in financing activities	(4,633)	(1,643)
Increase (decrease) in cash and cash equivalents	29	(49)
Cash and cash equivalents at beginning of period	38	87
Cash and cash equivalents at end of period	$ 67	$ 38

F-45

18. Other Noninterest Income and Expense

Other noninterest income includes customer bank card processing fee income of $996,000 and $955,000 for 2013 and 2012, respectively.

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

(Dollar amounts in thousands)	2013	2012
Customer bank card processing	$ 473	$ 464
Pennsylvania shares and use taxes	354	256
Telephone and data communications	314	275
Internet banking and bill pay	283	260
Travel, entertainment and conferences	283	255
Printing and supplies	232	219
Other	217	232
Subscriptions	205	175
Marketing and advertising	188	196
Contributions	176	184
Debit card loyalty program	150	264
Postage and freight	143	159
Correspondent bank and courier fees	143	149
Examinations	140	137
Collections	44	123
Total other noninterest expenses	$ 3,345	$ 3,348

19. Earnings Per Share

The factors used in the Corporation's earnings per share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the year ended December 31, 2013	2012
Earnings per common share - basic		
Net income	$ 3,808	$ 3,654
Less: Preferred stock dividends and discount accretion	420	493
Net income available to common stockholders	$ 3,388	$ 3,161
Average common shares outstanding	1,762,618	1,752,324
Basic earnings per common share	$ 1.92	$ 1.80
Earnings per common share - diluted		
Net income available to common stockholders	$ 3,388	$ 3,161
Average common shares outstanding	1,762,618	1,752,324
Add: Dilutive effects of assumed exercises of restricted stock and stock options	9,812	-
Average shares and dilutive potential common shares	1,772,430	1,752,324
Diluted earnings per common share	$ 1.91	$ 1.80
Stock options and restricted stock awards not considered in computing diluted earnings per share because they were antidilutive	67,000	86,950

F-46

Notes to Consolidated Financial Statements (continued)

20. Accumulated Other Comprehensive Income (Loss)

The following is changes in Accumulated Other Comprehensive Income (Loss) by component, net of tax for the year ending December 31, 2013:

(Dollar amounts in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Total
Accumulated Other Comprehensive Income at January 1, 2013	$ 2,365	$ (1,795)	$ 570
Other comprehensive income before reclassification	(4,011)	310	(3,701)
Amounts reclassified from accumulated other comprehensive income	(224)	75	(149)
Net current period other comprehensive income	(4,235)	385	(3,850)
Accumulated Other Comprehensive Income at December 31, 2013	$ (1,870)	$ (1,410)	$ (3,280)

The following is significant amounts reclassified out of each component of Accumulated Other Comprehensive Income (Loss) for the year ending December 31, 2013:

(Dollar amounts in thousands) Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ 340	Gain on sale of securities
	(116)	Tax effect
	224	Net of tax
Amortization of defined benefit pension items:		
Prior service costs	$ 31	Compensation and employee benefits
Actuarial gains	(145)	Compensation and employee benefits
	(114)	Total before tax
	39	Tax effect
	(75)	Net of tax
Total reclassifications for the period	$ 149	

F-47