

JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 000-13232

Juniata Valley Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania 23-2235254
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Bridge and Main Streets, Mifflintown, Pennsylvania 17059
(Address of principal executive offices) (Zip Code)

(717) 436-8211
(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 9, 2015
Common Stock (\$1.00 par value)	4,187,179 shares

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****Juniata Valley Financial Corp. and Subsidiary**

Consolidated Statements of Financial Condition

(Unaudited, in thousands, except share data)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 8,235	\$ 6,757
Interest bearing deposits with banks	97	10
Cash and cash equivalents	8,332	6,767
Securities available for sale	136,098	142,903
Restricted investment in Federal Home Loan Bank (FHLB) stock	2,823	2,726
Investment in unconsolidated subsidiary	4,502	4,369
Residential mortgage loans held for sale	125	-
Loans	307,667	294,901
Less: Allowance for loan losses	(2,361)	(2,380)
Loans, net of allowance for loan losses	305,306	292,521
Premises and equipment, net	6,395	6,533
Other real estate owned	560	232
Bank owned life insurance and annuities	15,115	14,807
Investment in low income housing partnership	3,488	3,847
Core deposit intangible	41	74
Goodwill	2,046	2,046
Mortgage servicing rights	201	193
Accrued interest receivable and other assets	3,415	3,511
Total assets	\$ 488,447	\$ 480,529
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 86,877	\$ 77,697
Interest bearing	297,547	303,187
Total deposits	384,424	380,884
Securities sold under agreements to repurchase	4,534	4,594
Short-term borrowings	19,996	15,950
Long-term debt	22,500	22,500

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Other interest bearing liabilities	1,438	1,412
Accrued interest payable and other liabilities	4,989	5,333
Total liabilities	437,881	430,673
Stockholders' Equity:		
Preferred stock, no par value:		
Authorized - 500,000 shares, none issued	-	-
Common stock, par value \$1.00 per share:		
Authorized - 20,000,000 shares		
Issued - 4,745,826 shares		
Outstanding -		
4,187,179 shares at September 30, 2015;		
4,187,441 shares at December 31, 2014	4,746	4,746
Surplus	18,445	18,409
Retained earnings	39,812	39,644
Accumulated other comprehensive loss	(1,691)	(2,197)
Cost of common stock in Treasury:		
558,647 shares at September 30, 2015;		
558,385 shares at December 31, 2014	(10,746)	(10,746)
Total stockholders' equity	50,566	49,856
Total liabilities and stockholders' equity	\$ 488,447	\$ 480,529

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary

Consolidated Statements of Income

(Unaudited, in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest income:				
Loans, including fees	\$3,630	\$3,566	\$10,725	\$10,778
Taxable securities	539	529	1,657	1,419
Tax-exempt securities	113	131	345	387
Other interest income	-	1	1	4
Total interest income	4,282	4,227	12,728	12,588
Interest expense:				
Deposits	386	583	1,280	1,812
Securities sold under agreements to repurchase	2	1	4	3
Short-term borrowings	15	3	36	5
Long-term debt	69	69	205	138
Other interest bearing liabilities	7	4	15	12
Total interest expense	479	660	1,540	1,970
Net interest income	3,803	3,567	11,188	10,618
Provision for loan losses	140	110	302	247
Net interest income after provision for loan losses	3,663	3,457	10,886	10,371
Non-interest income:				
Customer service fees	396	320	1,149	878
Debit card fee income	219	213	643	631
Earnings on bank-owned life insurance and annuities	106	108	288	299
Trust fees	105	124	270	331
Commissions from sales of non-deposit products	61	89	269	289
Income from unconsolidated subsidiary	60	54	171	148
Fees derived from loan activity	49	79	135	149
Mortgage banking income	30	54	144	139
Net gain on sales and calls of securities	18	2	2	9
Gain from life insurance proceeds	98	-	98	165
Other non-interest income	51	50	154	145
Total non-interest income	1,193	1,093	3,323	3,183
Non-interest expense:				
Employee compensation expense	1,520	1,469	4,484	4,318
Employee benefits	436	301	1,459	1,067
Occupancy	241	228	776	747
Equipment	113	114	374	344
Data processing expense	389	391	1,166	1,141
Director compensation	46	48	149	156

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Professional fees	107	103	321	301
Taxes, other than income	92	78	273	262
FDIC Insurance premiums	74	76	236	231
(Gain) loss on sales of other real estate owned	(8)	13	(13)	24
Amortization of intangibles	11	12	33	34
Amortization of investment in low-income housing partnership	120	120	359	359
Merger and acquisition expense	153	-	211	-
Other non-interest expense	408	385	1,099	1,091
Total non-interest expense	3,702	3,338	10,927	10,075
Income before income taxes	1,154	1,212	3,282	3,479
Provision for income taxes	146	154	349	355
Net income	\$1,008	\$1,058	\$2,933	\$3,124
Earnings per share				
Basic	\$0.24	\$0.25	\$0.70	\$0.74
Diluted	\$0.24	\$0.25	\$0.70	\$0.74
Cash dividends declared per share	\$0.22	\$0.22	\$0.66	\$0.66
Weighted average basic shares outstanding	4,189,350	4,189,998	4,188,631	4,193,895
Weighted average diluted shares outstanding	4,190,444	4,190,342	4,189,668	4,194,184

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary**Consolidated Statements of Comprehensive Income**

(Unaudited, in thousands)

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	\$ 1,154	\$ (146)	\$ 1,008	\$ 1,212	\$ (154)	\$ 1,058
Other comprehensive income (loss) :						
Unrealized gains (losses) on available for sale securities:						
Unrealized holding gains (losses) arising during the period	607	(205)	402	(543)	184	(359)
Unrealized holding losses from unconsolidated subsidiary	(3)	-	(3)	(4)	-	(4)
Less reclassification adjustment for gains included in net income (1) (3)	(18)	6	(12)	(2)	-	(2)
Amortization of pension net actuarial cost (2) (3)	60	(21)	39	10	(3)	7
Other comprehensive income (loss)	646	(220)	426	(539)	181	(358)
Total comprehensive income	\$ 1,800	\$ (366)	\$ 1,434	\$ 673	\$ 27	\$ 700

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	\$ 3,282	\$ (349)	\$ 2,933	\$ 3,479	\$ (355)	\$ 3,124
Other comprehensive income (loss) :						
Unrealized gains (losses) on available for sale securities:						
Unrealized holding gains (losses) arising during the period	579	(196)	383	844	(288)	556
Unrealized holding gains from unconsolidated subsidiary	6	-	6	6	-	6
Less reclassification adjustment for gains included in net income (1) (3)	(2)	1	(1)	(9)	3	(6)
Amortization of pension net actuarial cost (2) (3)	181	(63)	118	30	(10)	20

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Other comprehensive income	764	(258)	506	871	(295)	576
Total comprehensive income	\$ 4,046	\$ (607)	\$ 3,439	\$ 4,350	\$ (650)	\$ 3,700

See Notes to Consolidated Financial Statements

- (1) Amounts are included in gain on sales and calls of securities on the Consolidated Statements of Income as a separate element within total non-interest income.
- (2) Amounts are included in the computation of net periodic benefit cost and are included in employee benefits expense on the Consolidated Statements of Income as a separate element within total non-interest expense.
- (3) Income tax amounts are included in the provision for income taxes on the Consolidated Statements of Income.

Juniata Valley Financial Corp. and Subsidiary**Consolidated Statements of Stockholders' Equity**

(Unaudited, in thousands, except share data)

Nine Months Ended September 30, 2015

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2015	4,187,441	\$ 4,746	\$ 18,409	\$ 39,644	\$ (2,197)	\$(10,746)	\$ 49,856
Net income				2,933			2,933
Other comprehensive income					506		506
Cash dividends at \$0.66 per share				(2,765)			(2,765)
Stock-based compensation			42				42
Purchase of treasury stock	(3,504)					(63)	(63)
Treasury stock issued for stock option and stock purchase plans	3,242		(6)			63	57
Balance at September 30, 2015	4,187,179	\$ 4,746	\$ 18,445	\$ 39,812	\$ (1,691)	\$(10,746)	\$ 50,566

Nine Months Ended September 30, 2014

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 2014	4,196,266	\$ 4,746	\$ 18,370	\$ 39,118	\$ (1,659)	\$(10,591)	\$ 49,984
Net income				3,124			3,124
Other comprehensive income					576		576
Cash dividends at \$0.66 per share				(2,768)			(2,768)
Stock-based compensation			36				36
Purchase of treasury stock	(10,156)					(182)	(182)
Treasury stock issued for stock option and stock purchase plans	3,497		(8)			67	59
Balance at September 30, 2014	4,189,607	\$ 4,746	\$ 18,398	\$ 39,474	\$ (1,083)	\$(10,706)	\$ 50,829

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary**Consolidated Statements of Cash Flows****(Unaudited, in thousands)**

	Nine Months Ended September	
	30,	2014
	2015	2014
Operating activities:		
Net income	\$ 2,933	\$ 3,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	302	247
Depreciation	382	361
Net amortization of securities premiums	587	445
Net amortization of loan origination costs	50	4
Deferred net loan origination (fees) costs	(124)	57
Amortization of core deposit intangible	33	34
Amortization of investment in low income housing partnership	359	359
Net realized gain on calls and sales of securities	(2)	(9)
Net (gain) loss on sales of other real estate owned	(13)	24
Earnings on bank owned life insurance and annuities	(288)	(299)
Deferred income tax expense	58	96
Equity in earnings of unconsolidated subsidiary, net of dividends of \$42 and \$37	(129)	(111)
Stock-based compensation expense	42	36
Mortgage loans originated for sale	(2,616)	(2,292)
Proceeds from loans sold to others	2,627	2,415
Mortgage banking income	(144)	(139)
Gain from life insurance proceeds	(98)	(165)
Increase in accrued interest receivable and other assets	(121)	(941)
Increase (decrease) in accrued interest payable and other liabilities	(106)	16
Net cash provided by operating activities	3,732	3,262
Investing activities:		
Purchases of:		
Securities available for sale	(39,061)	(66,191)
FHLB stock	(97)	(1,113)
Premises and equipment	(244)	(284)
Bank owned life insurance and annuities	(50)	(56)
Proceeds from:		
Sales of securities available for sale	18,727	14,631
Maturities of and principal repayments on securities available for sale	27,131	27,980
Bank owned life insurance and annuities	-	5
Life insurance claim	-	615
Sale of other real estate owned	256	349
Investment in low income housing partnership	-	(335)

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Net decrease in interest bearing time deposits with banks	-		249	
Net increase in loans	(13,584)	(10,270)
Net cash used in investing activities	(6,922)	(34,420)
Financing activities:				
Net increase in deposits	3,540		6,311	
Net change in short-term borrowings and securities sold under agreements to repurchase	3,986		4,283	
Issuance of long-term debt	-		22,500	
Cash dividends	(2,765)	(2,768)
Purchase of treasury stock	57		(182)
Treasury stock issued for employee stock plans	(63)	59	
Net cash provided by financing activities	4,755		30,203	
Net increase (decrease) in cash and cash equivalents	1,565		(955)
Cash and cash equivalents at beginning of year	6,767		8,613	
Cash and cash equivalents at end of period	\$ 8,332		\$ 7,658	
Supplemental information:				
Interest paid	\$ 1,611		\$ 1,943	
Income taxes paid	100		50	
Supplemental schedule of noncash investing and financing activities:				
Transfer of loans to other real estate owned	\$ 571		\$ 368	

See Notes to Consolidated Financial Statements

JUNIATA VALLEY FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Accounting Policies

The consolidated financial statements include the accounts of Juniata Valley Financial Corp. (the “Company”) and its wholly owned subsidiary, The Juniata Valley Bank (the “Bank” or “JVB”). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (U.S. GAAP) for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015. For further information, refer to the consolidated financial statements and notes thereto included in Juniata Valley Financial Corp.’s Annual Report on Form 10-K for the year ended December 31, 2014.

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of financial condition date of September 30, 2015 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. Recent Accounting Standards Updates (ASU)

Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606)

Issued: May 2014

Summary: The amendments in this Update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

Effective Date and Transition: Public entities will apply the new standard for annual reports beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited under U.S. GAAP. In July 2015, the Financial Accounting Standards Board approved a one-year delay of the effective date of the revenue recognition standard. The deferral would require public entities to apply the new revenue standard for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein. Public entities would be permitted to elect to early adopt for annual reporting periods beginning after December 15, 2016. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

Accounting Standards Update 2014-17, Business Combinations (Topic 805): Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force)

Issued: November 2014

Summary: The ASU amends Topic 805 so that a reporting entity that is a business or nonprofit activity (an “acquiree”) has the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. The option is available for each individual change-in-control event. Control has the same meaning as a “controlling financial interest” under Topic 810, such that pushdown accounting may be applied if an acquirer obtains control through a simple majority of the outstanding voting shares of the acquiree (e.g., 51%). Similarly, a Variable Interest Entity is considered an “acquiree” of its primary beneficiary and may also elect pushdown accounting.

If the acquiree elects to apply pushdown accounting, it must do so as of the acquisition date of the change-in-control event. Further, any subsidiary of the acquiree may elect to apply pushdown accounting to its separate financial statements, regardless of whether the acquiree elects to apply pushdown accounting. Upon election, the acquiree would adjust its standalone financial statements to reflect the acquirer’s new basis in the acquired entity’s assets and liabilities, and would provide relevant disclosures under Topic 805 to enable users to evaluate the effect of pushdown accounting.

Effective Date and Transition: The ASU became effective upon issuance on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event.

Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606):

Deferral of the Effective Date

Issued: August 2015

Summary: ASU 2015-14 defers the effective date of the new revenue recognition standard by one year. As such, it now takes effect for public entities in fiscal years beginning after December 15, 2017. All other entities have an additional year. However, early adoption is permitted for any entity that chooses to adopt the new standard as of the original effective date. Public business entities will adopt the standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

Accounting Standards Update 2015-15, Interest – Imputation of Interest (Subtopic 835-30):

Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit

Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting)

Issued: August 2015

Summary: ASU 2015-15 codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets. Given the absence of authoritative guidance within Update 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The ASU became effective upon issuance. There was no material effect on the financial statements as a result.

Accounting Standards Update 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments)

Issued: September 2015

Summary: ASU 2015-16 requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, the amendments in the Update would require an entity to disclose (either on the face of the income statement or in the notes) the nature and amount of measurement-period adjustments recognized in the current period, including separately the amounts in current-period income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

Effective Date: The amendments are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted. The amendments in this Update should be applied prospectively to measurement-period adjustments that occur after the effective date of this Update. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

Accounting Standards Update 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

Issued: April 2015

Summary: ASU 2015-03 requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge (i.e., an asset) on the balance sheet. The ASU provides examples illustrating the balance sheet presentation of notes net of their related discounts and debt issuance costs. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The Company expects no material effects on its consolidated financial condition or results of operations as a result of this ASU.

3. Accumulated other Comprehensive loss

Components of accumulated other comprehensive loss, net of tax consisted of the following (in thousands):

	9/30/2015	12/31/2014
Unrealized gains on available for sale securities	682	\$ 296
Unrecognized expense for defined benefit pension	(2,373)	(2,493)
Accumulated other comprehensive loss	(1,691)	\$ (2,197)

4. Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. The following table sets forth the computation of basic and diluted earnings per share:

(Amounts, except earnings per share, in thousands)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Net income	\$ 1,008	\$ 1,058
Weighted-average common shares outstanding	4,189	4,190
Basic earnings per share	\$ 0.24	\$ 0.25
Weighted-average common shares outstanding	4,189	4,190
Common stock equivalents due to effect of stock options	1	-
Total weighted-average common shares and equivalents	4,190	4,190
Diluted earnings per share	\$ 0.24	\$ 0.25

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income	\$ 2,933	\$ 3,124
Weighted-average common shares outstanding	4,189	4,194
Basic earnings per share	\$ 0.70	\$ 0.74
Weighted-average common shares outstanding	4,189	4,194
Common stock equivalents due to effect of stock options	1	-
Total weighted-average common shares and equivalents	4,190	4,194
Diluted earnings per share	\$ 0.70	\$ 0.74

5. Securities

The Company's investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 25%), mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages (approximately 52%) and municipal bonds (approximately 22%) as of September 30, 2015. Most of the municipal bonds are general obligation bonds with maturities or pre-refunding dates within 5 years. The remaining 1% of the portfolio includes a group of equity investments in other financial institutions.

The amortized cost and fair value of securities as of September 30, 2015 and December 31, 2014, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

Securities Available for Sale	September 30, 2015		Gross Unrealized Gains	Gross Unrealized Losses
	Amortized Cost	Fair Value		
Type and maturity				
Obligations of U.S. Government agencies and corporations				
Within one year	\$2,500	\$2,515	\$ 15	\$ -
After one year but within five years	28,477	28,467	59	(69)
After five years but within ten years	3,000	3,018	18	-
	33,977	34,000	92	(69)
Obligations of state and political subdivisions				
Within one year	8,102	8,123	21	-
After one year but within five years	15,949	16,098	159	(10)
After five years but within ten years	4,794	4,848	56	(2)
After ten years	332	334	2	-
	29,177	29,403	238	(12)
Mortgage-backed securities	70,397	70,793	606	(210)
Equity securities	1,535	1,902	443	(76)
Total	\$135,086	\$136,098	\$ 1,379	\$ (367)

Securities Available for Sale	December 31, 2014		Gross Unrealized Gains	Gross Unrealized Losses
	Amortized Cost	Fair Value		
Type and maturity				
Obligations of U.S. Government agencies and corporations				
Within one year	\$4,510	\$4,566	\$ 56	\$ -
After one year but within five years	39,110	38,723	31	(418)
After five years but within ten years	6,996	6,812	1	(185)
	50,616	50,101	88	(603)
Obligations of state and political subdivisions				
Within one year	9,903	9,934	31	-
After one year but within five years	16,822	16,853	78	(47)
After five years but within ten years	8,609	8,748	143	(4)
After ten years	340	338	-	(2)
	35,674	35,873	252	(53)
Mortgage-backed securities	55,123	55,429	367	(61)
Equity securities	1,055	1,500	475	(30)
Total	\$142,468	\$142,903	\$ 1,182	\$ (747)

Certain obligations of the U.S. Government and state and political subdivisions are pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. The carrying value of the pledged assets was \$27,990,000 and \$30,770,000 at September 30, 2015 and December 31, 2014, respectively.

In addition to cash received from the scheduled maturities of securities, some investment securities available for sale are sold or called at current market values during the course of normal operations.

The following chart summarizes proceeds received from sales or calls of investment securities transactions and the resulting realized gains and losses (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Gross proceeds from sales of securities	\$ -	\$ 7,511	\$ 18,727	\$ 14,631
Securities available for sale:				
Gross realized gains from sold and called securities	\$ -	\$ 26	\$ 54	\$ 43
Gross realized losses from sold and called securities	-	(24)	(70)	(34)
Gross gains from business combinations	18	-	18	-

Accounting Standards Codification (ASC) Topic 320, *Investments – Debt and Equity Securities*, clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are taken before an assessment is made as to whether the entity will recover the cost basis of the investment. For equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses in assessing potential other-than-temporary impairment. More specifically, factors considered to determine other-than-temporary impairment status for individual equity holdings include the length of time the stock has remained in an unrealized loss position, the percentage of unrealized loss compared to the carrying cost of the stock, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent factors that would affect expectations for recovery or further decline.

In instances when a determination is made that an other-than-temporary impairment exists and the entity does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive (loss) income.

The following table shows gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2015 and December 31, 2014 (in thousands):

Unrealized Losses at September 30, 2015	Total
12 Months or More	

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	Less Than 12 Months					
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	\$4,985	\$ (14)	\$ 12,938	\$ (55)	\$ 17,923	\$ (69)
Obligations of state and political subdivisions	2,402	(10)	442	(2)	2,844	(12)
Mortgage-backed securities	23,897	(210)	-	-	23,897	(210)
Debt securities	31,284	(234)	13,380	(57)	44,664	(291)
Equity securities	512	(54)	62	(22)	574	(76)
Total temporarily impaired securities	\$31,796	\$ (288)	\$ 13,442	\$ (79)	\$ 45,238	\$ (367)

	Unrealized Losses at December 31, 2014					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	\$6,998	\$ (26)	\$ 32,515	\$ (577)	\$ 39,513	\$ (603)
Obligations of state and political subdivisions	5,592	(33)	2,426	(20)	8,018	(53)
Mortgage-backed securities	13,550	(60)	95	(1)	13,645	(61)
Debt securities	26,140	(119)	35,036	(598)	61,176	(717)
Equity securities	31	(2)	179	(28)	210	(30)
Total temporarily impaired securities	\$26,171	\$ (121)	\$ 35,215	\$ (626)	\$ 61,386	\$ (747)

At September 30, 2015, 10 U.S. Government agency and corporations securities had unrealized losses that, in the aggregate, totaled 0.2% of amortized cost. Seven of these securities have been in a continuous loss position for 12 months or more.

At September 30, 2015, 13 obligations of state and political subdivisions had unrealized losses that, in the aggregate, totaled 0.1% of amortized cost. One of these securities has been in a continuous loss position for 12 months or more.

At September 30, 2015, 9 mortgage-backed securities had an unrealized loss that totaled 0.3% of amortized cost. None of these securities has been in a continuous loss position for 12 months or more.

The mortgage-backed securities in the Company's portfolio are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantees the timely payment of principal on these investments.

The unrealized losses noted above are considered to be temporary impairments. The decline in the values of the debt securities is due only to interest rate fluctuations, rather than erosion of issuer credit quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. As the Company does not intend to sell the securities, does not believe the Company will be required to sell the securities before recovery and expects to recover the entire amortized cost basis, none of the debt securities are deemed to be other-than-temporarily impaired.

Equity securities owned by the Company consist of common stock of various financial services providers and are evaluated quarterly for evidence of other-than-temporary impairment. There were three equity securities that were in an unrealized loss position for 12 months or more as of September 30, 2015. Individually and collectively, these three equity securities have insignificant unrealized losses. All of these securities have increased in fair value in the preceding twelve months, and therefore are deemed to be temporarily impaired. Management has identified no other-than-temporary impairment as of, or for the periods ended September 30, 2015, September 30, 2014 and December 31, 2014, respectively, in the equity portfolio. Management continues to track the performance of each stock owned to determine if it is prudent to recognize any other-than-temporary impairment charges. The Company has the ability and intent to hold its equity securities until recovery of unrealized losses.

6. Loans and Related Allowance for Credit Losses

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the outstanding unpaid principal balances, net of any deferred fees or costs and the allowance for loan losses. Interest income on all loans, other than nonaccrual loans, is accrued over the term of the loans based on the amount of principal outstanding. Unearned income is amortized to income over the life of the loans, using the interest method.

The loan portfolio is segmented into commercial and consumer loans. Commercial loans are comprised of the following classes of loans: (1) commercial, financial and agricultural, (2) commercial real estate, (3) real estate construction, a portion of (4) mortgage loans and (5) obligations of states and political subdivisions. Consumer loans are comprised of a portion of (4) mortgage loans and (6) personal loans.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or reasonable doubt exists as to the full, timely collection of principal or interest. However, it is the Company's policy to continue to accrue interest on loans over 90 days past due as long as (1) they are guaranteed or well secured and (2) there is an effective means of timely collection in process. When a loan is placed on non-accrual status, all unpaid interest credited to income in the current year is reversed against current period income, 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 collectability of principal. Generally, accruals are resumed on loans only when the obligation is brought fully current with respect to interest and principal, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Company originates loans in the portfolio with the intent to hold them until maturity. At the time the Company no longer intends to hold loans to maturity based on asset/liability management practices, the Company transfers loans from its portfolio to held for sale at fair value. Any write-down recorded upon transfer is charged against the allowance for loan losses. Any write-downs recorded after the initial transfers are recorded as a charge to other non-interest expense. Gains or losses recognized upon sale are included in gains on sales of loans which is a component of non-interest income.

The Company also originates residential mortgage loans with the intent to sell. These individual loans are normally funded by the buyer immediately. The Company maintains servicing rights on these loans. Mortgage servicing rights are recognized as an asset upon the sale of a mortgage loan. A portion of the cost of the loan is allocated to the servicing right based upon relative fair value. Servicing rights are intangible assets and are carried at estimated fair value. Adjustments to fair value are recorded as non-interest income and included in gain on sales of loans in the consolidated statements of income.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses (“allowance”) represents management’s estimate of losses inherent in the loan portfolio as of the consolidated statement of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management’s estimate of losses inherent in its unfunded lending commitments and is recorded in other liabilities on the consolidated statement of financial condition, when necessary. The amount of the reserve for unfunded lending commitments is not material to the consolidated financial statements. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

For financial reporting purposes, the provision for loan losses charged to current operating income is based on management's estimates, and actual losses may vary from estimates. These estimates are reviewed and adjusted at least quarterly and are reported in earnings in the periods in which they become known.

Loans included in any class are considered for charge-off when:

principal or interest has been in default for 120 days or more and for which no payment has been received during the previous four months;

- all collateral securing the loan has been liquidated and a deficiency balance remains;
- a bankruptcy notice is received for an unsecured loan;
- a confirming loss event has occurred; or
- the loan is deemed to be uncollectible for any other reason.

The allowance for loan losses is maintained at a level considered adequate to offset probable losses on the Company's existing loans. The analysis of the allowance for loan losses relies heavily on changes in observable trends that may indicate potential credit weaknesses. Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses as of September 30, 2015 was adequate.

There are two components of the allowance: a specific component for loans that are deemed to be impaired; and a general component for contingencies.

A loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loans and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. For commercial loans secured with real estate, estimated fair values are determined

primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the current appraisal and the condition of the property. Appraised values may be discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include the estimated costs to sell the property. For commercial loans secured by non-real estate collateral, estimated fair values are determined based on the borrower's financial statements, inventory reports, aging accounts receivable, equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The Company generally does not separately identify individual consumer segment loans for impairment disclosures, unless such loans are subject to a restructuring agreement.

Loans whose terms are modified are classified as troubled debt restructurings if the Company grants borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a below-market interest rate based on the loan's risk characteristics or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for a sustained period of time after modification. Loans classified as troubled debt restructurings are designated as impaired.

The component of the allowance for contingencies relates to other loans that have been segmented into risk rated categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated quarterly or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have one or more well-defined weaknesses that jeopardize the liquidation of the debt. Substandard loans include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. Specific reserves may be established for larger, individual classified loans as a result of this evaluation, as discussed above. Remaining loans are categorized into large groups of smaller balance homogeneous loans and are collectively evaluated for impairment. This computation is generally based on historical loss experience adjusted for qualitative factors. The historical loss experience is averaged over a ten-year period for each of the portfolio segments. The ten-year timeframe was selected in order to capture activity over a wide range of economic conditions and has been consistently used by the Company for the past seven years. Qualitative risk factors are reviewed for relevancy each quarter and include:

National, regional and local economic and business conditions, as well as the condition of various market segments, including the underlying collateral for collateral dependent loans;

Nature and volume of the portfolio and terms of loans;

Experience, ability and depth of lending and credit management and staff;

- Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications;
- Existence and effect of any concentrations of credit and changes in the level of such concentrations; and
- Effect of external factors, including competition.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Commercial, Financial and Agricultural Lending

The Company originates commercial, financial and agricultural loans primarily to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include short-term loans and lines of credit to finance machinery and equipment purchases, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is shorter and does not exceed the projected useful life of such machinery and equipment. Most business lines of credit are written with a five year maturity, subject to an annual credit review.

Commercial loans are generally secured with short-term assets; however, in many cases, additional collateral, such as real estate, is provided as additional security for the loan. Loan-to-value maximum values have been established by the Company and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, collateral appraisals, etc.

In underwriting commercial loans, an analysis of the borrower's character, capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as an evaluation of conditions affecting the borrower, is performed. Analysis of the borrower's past, present and future cash flows is also an important aspect of the Company's analysis.

Concentration analysis assists in identifying industry specific risk inherent in commercial, financial and agricultural lending. Mitigants include the identification of secondary and tertiary sources of repayment and appropriate increases in oversight.

Commercial, financial and agricultural loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Commercial Real Estate Lending

The Company engages in commercial real estate lending in its primary market area and surrounding areas. The Company's commercial real estate portfolio is secured primarily by residential housing, commercial buildings, raw land and hotels. Generally, commercial real estate loans have terms that do not exceed 20 years, have loan-to-value ratios of up to 80% of the appraised value of the property and are typically secured by personal guarantees of the borrowers.

As economic conditions deteriorate, the Company reduces its exposure in real estate loans with higher risk characteristics. In underwriting these loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

Commercial real estate loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions.

Real Estate Construction Lending

The Company engages in real estate construction lending in its primary market area and surrounding areas. The Company's real estate construction lending consists of commercial and residential site development loans, as well as commercial building construction and residential housing construction loans.

The Company's commercial real estate construction loans are generally secured with the subject property, and advances are made in conformity with a pre-determined draw schedule supported by independent inspections. Terms of construction loans depend on the specifics of the project, such as estimated absorption rates, estimated time to complete, etc.

In underwriting commercial real estate construction loans, the Company performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, the reliability and predictability of the cash flow generated by the project using feasibility studies, market data, etc. Appraisals on properties securing commercial real estate loans originated by the Company are performed by independent appraisers.

Real estate construction loans generally present a higher level of risk than certain other types of loans, particularly during slow economic conditions. The difficulty of estimating total construction costs adds to the risk as well.

Mortgage Lending

The Company's real estate mortgage portfolio is comprised of consumer residential mortgages and business loans secured by one-to-four family properties. One-to-four family residential mortgage loan originations, including home equity installment and home equity lines of credit loans, are generated by the Company's marketing efforts, its present customers, walk-in customers and referrals. These loans originate primarily within the Company's market area or with customers primarily from the market area.

The Company offers fixed-rate and adjustable rate mortgage loans with terms up to a maximum of 25-years for both permanent structures and those under construction. The Company's one-to-four family residential mortgage originations are secured primarily by properties located in its primary market area and surrounding areas. The majority of the Company's residential mortgage loans originate with a loan-to-value of 80% or less. Home equity installment loans are secured by the borrower's primary residence with a maximum loan-to-value of 80% and a maximum term of 15 years. Home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of 90% and a maximum term of 20 years.

In underwriting one-to-four family residential real estate loans, the Company evaluates the borrower's ability to make monthly payments, the borrower's repayment history and the value of the property securing the loan. The ability to repay is determined by the borrower's employment history, current financial conditions, and credit background. The analysis is based primarily on the customer's ability to repay and secondarily on the collateral or security. Most properties securing real estate loans made by the Company are appraised by independent fee appraisers. The Company generally requires mortgage loan borrowers to obtain an attorney's title opinion or title insurance, and fire and property insurance (including flood insurance, if necessary) in an amount not less than the amount of the loan. The Company does not engage in sub-prime residential mortgage originations.

Residential mortgage loans and home equity loans generally present a lower level of risk than certain other types of consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position for the loan collateral.

Obligations of States and Political Subdivisions

The Company lends to local municipalities and other tax-exempt organizations. These loans are primarily tax-anticipation notes and, as such, carry little risk. Historically, the Company has never had a loss on any loan of this type.

Personal Lending

The Company offers a variety of secured and unsecured personal loans, including vehicle loans, mobile home loans and loans secured by savings deposits as well as other types of personal loans.

Personal loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting personal loans, a thorough analysis of the borrower's willingness and financial ability to repay the loan as agreed is performed. The ability to repay is determined by the borrower's employment history, current financial conditions and credit background.

Personal loans may entail greater credit risk than do residential mortgage loans, particularly in the case of personal loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted personal loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In

addition, personal loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Loan Portfolio Classification

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2015 and December 31, 2014 (in thousands):

As of September 30, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	\$24,415	\$ 2,021	\$ 2,307	\$ -	\$28,743
Real estate - commercial	82,003	16,402	2,981	1,231	102,617
Real estate - construction	16,303	3,245	3,472	262	23,282
Real estate - mortgage	124,931	5,504	3,878	1,196	135,509
Obligations of states and political subdivisions	12,460	428	-	-	12,888
Personal	4,579	49	-	-	4,628
Total	\$264,691	\$ 27,649	\$ 12,638	\$ 2,689	\$307,667

As of December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	\$17,904	\$ 5,697	\$ 137	\$ -	\$23,738
Real estate - commercial	70,369	15,297	3,037	1,297	90,000
Real estate - construction	12,934	3,486	3,957	336	20,713
Real estate - mortgage	128,898	5,611	4,280	1,887	140,676
Obligations of states and political subdivisions	15,708	22	-	-	15,730
Personal	3,987	57	-	-	4,044
Total	\$249,800	\$ 30,170	\$ 11,411	\$ 3,520	\$294,901

The Company has certain loans in its portfolio that are considered to be impaired. It is the policy of the Company to recognize income on impaired loans that have been transferred to nonaccrual status on a cash basis, only to the extent that it exceeds principal balance recovery. Until an impaired loan is placed on nonaccrual status, income is recognized on the accrual basis. Collateral analysis is performed on each impaired loan at least quarterly, and results are used to determine if a specific reserve is necessary to adjust the carrying value of each individual loan down to the estimated fair value. Generally, specific reserves are carried against impaired loans based upon estimated collateral value until a confirming loss event occurs or until termination of the credit is scheduled through liquidation of the collateral or foreclosure. Charge off will occur when a confirmed loss is identified. Professional appraisals of collateral, discounted for expected selling costs, appraisal age, economic conditions and other known factors are used to determine the charge-off amount. The following tables summarize information regarding impaired loans by portfolio class as of September 30, 2015 and December 31, 2014 (in thousands):

Impaired loans	As of September 30, 2015			As of December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 472	\$ 472	\$ -	\$ 1	\$ 1	\$ -
Real estate - commercial	2,318	2,478	-	2,264	2,357	-
Real estate - construction	262	614	-	336	664	-
Real estate - mortgage	2,513	3,885	-	3,056	4,324	-
With an allowance recorded:						
Real estate - mortgage	\$ 214	\$ 263	\$ 11	\$ 896	\$ 937	\$ 150
Total:						
Commercial, financial and agricultural	\$ 472	\$ 472	\$ -	\$ 1	\$ 1	\$ -
Real estate - commercial	2,318	2,478	-	2,264	2,357	-
Real estate - construction	262	614	-	336	664	-
Real estate - mortgage	2,727	4,148	11	3,952	5,261	150
	\$ 5,779	\$ 7,712	\$ 11	\$ 6,553	\$ 8,283	\$ 150

Impaired loans	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 236	\$ 19	\$ -	\$ 10	\$ -	\$ -
Real estate - commercial	2,326	11	4	1,700	10	-
Real estate - construction	287	-	-	169	-	-
Real estate - mortgage	2,754	4	9	3,044	13	8
Personal	-	-	-	6	-	-
With an allowance recorded:						
Real estate - commercial	\$ -	\$ -	\$ -	\$ 768	\$ -	\$ -
Real estate - construction	-	-	-	346	-	-
Real estate - mortgage	128	-	-	472	-	-
Total:						
Commercial, financial and agricultural	\$ 236	\$ 19	\$ -	\$ 10	\$ -	\$ -
Real estate - commercial	2,326	11	4	2,468	10	-
Real estate - construction	287	-	-	515	-	-
Real estate - mortgage	2,882	4	9	3,516	13	8
Personal	-	-	-	6	-	-
	\$ 5,731	\$ 34	\$ 13	\$ 6,515	\$ 23	\$ 8

Impaired loans	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 237	\$ 19	\$ -	\$ 54	\$ -	\$ 1
Real estate - commercial	2,291	34	14	2,210	33	24
Real estate - construction	299	-	-	420	-	-
Real estate - mortgage	2,785	23	22	3,157	37	64
Personal	-	-	-	6	-	-
With an allowance recorded:						
Real estate - commercial	\$ -	\$ -	\$ -	\$ 119	\$ -	\$ 11
Real estate - construction	-	-	-	823	-	-

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Real estate - mortgage	555	-		479	-	-
Total:						
Commercial, financial and agricultural	\$ 237	\$ 19	\$ -	\$ 54	\$ -	\$ 1
Real estate - commercial	2,291	34	14	2,329	33	35
Real estate - construction	299	-	-	1,243	-	-
Real estate - mortgage	3,340	23	22	3,636	37	64
Personal	-	-	-	6	-	-
	\$ 6,167	\$ 76	\$ 36	\$ 7,268	\$ 70	\$ 100

The following table presents nonaccrual loans by classes of the loan portfolio as of September 30, 2015 and December 31, 2014 (in thousands):

Nonaccrual loans:	September 30, 2015	December 31, 2014
Real estate - commercial	\$ 1,655	\$ 1,717
Real estate - construction	262	336
Real estate - mortgage	2,488	3,193
Total	\$ 4,405	\$ 5,246

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of September 30, 2015 and December 31, 2014 (in thousands):

As of September 30, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Past Due greater than 90 Days and Accruing
Commercial, financial and agricultural	\$ 1	\$ -	\$ -	\$ 1	\$ 28,742	\$ 28,743	\$ -
Real estate - commercial	115	35	1,243	1,393	101,224	102,617	-
Real estate - construction	867	-	262	1,129	22,153	23,282	-
Real estate - mortgage	483	1,968	1,844	4,295	131,214	135,509	-
Obligations of states and political subdivisions	-	-	-	-	12,888	12,888	-
Personal	1	-	-	1	4,627	4,628	-
Total	\$ 1,467	\$ 2,003	\$ 3,349	\$ 6,819	\$ 300,848	\$ 307,667	\$ -

As of December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Loans Past Due greater than 90 Days and Accruing
Commercial, financial and agricultural	\$ 2	\$ 12	\$ -	\$ 14	\$ 23,724	\$ 23,738	\$ -
Real estate - commercial	388	61	1,717	2,166	87,834	90,000	-
Real estate - construction	-	104	336	440	20,273	20,713	-

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Real estate - mortgage	498	1,326	2,968	4,792	135,884	140,676	400
Obligations of states and political subdivisions	-	-	-	-	15,730	15,730	-
Personal	17	-	-	17	4,027	4,044	-
Total	\$ 905	\$ 1,503	\$ 5,021	\$ 7,429	\$ 287,472	\$ 294,901	\$ 400

The following table summarizes information regarding troubled debt restructurings by loan portfolio class at September 30, 2015 and December 31, 2014, in thousands of dollars.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of September 30, 2015				
Accruing troubled debt restructurings:				
Real estate - mortgage	6	\$ 254	\$ 282	\$ 239
Real estate – commercial	1	148	148	143
	7	\$ 402	\$ 430	\$ 382
As of December 31, 2014				
Accruing troubled debt restructurings:				
Real estate - mortgage	6	\$ 254	\$ 282	\$ 256
Real estate - commercial	1	148	148	145
Non-accurring troubled debt restructurings:				
Real estate - mortgage	1	364	371	366
	8	\$ 766	\$ 801	\$ 767

The Company's troubled debt restructurings are also impaired loans, which may result in a specific allocation and subsequent charge-off if appropriate. As of September 30, 2015 there were no specific reserves carried for troubled debt restructurings, but one troubled debt restructured loan was foreclosed upon during the second quarter of 2015, resulting in a charge-off of \$90,000 and an addition to OREO of \$265,000. There were no other defaults of troubled debt restructurings that took place during the three or nine months ended September 30, 2015 and 2014 within 12 months of restructure. On December 31, 2014, there were no specific reserves carried for troubled debt restructured loans and no charge-offs relating to the troubled debt restructurings. The amended terms of the restructured loans vary, whereby interest rates have been reduced, principal payments have been reduced or deferred for a period of time and/or maturity dates have been extended.

There were no loans whose terms have been modified resulting in troubled debt restructurings during the three months or nine months ended September 30, 2015. The following table summarizes loans whose terms had been modified resulting in troubled debt restructurings during the three and nine months ended September 30, 2014, in thousands of dollars:

Number of Contracts	Pre-Modification Outstanding Recorded	Post-Modification Outstanding Recorded	Recorded Investment
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		Investment	Investment	
Three months ended September 30, 2014				
Accruing troubled debt restructurings:				
Real estate - mortgage	1	\$ 33	\$ 33	\$ 33
	1	\$ 33	\$ 33	\$ 33
Nine months ended September 30, 2014				
Accruing troubled debt restructurings:				
Real estate - mortgage	2	\$ 82	\$ 82	\$ 79
	2	\$ 82	\$ 82	\$ 79

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process at September 30, 2015 and December 31, 2014 totaled \$877,000 and \$384,000, respectively.

The following tables summarize the activity in the allowance for loan losses and related investments in loans receivable (in thousands):

As of, and for the periods ended, September 30, 2015

Allowance for loan losses:	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Beginning balance, July 1, 2015	\$ 232	\$ 752	\$ 158	\$ 1,134	\$ -	\$ 39	\$2,315
Charge-offs	-	-	-	(87)	-	(9)	(96)
Recoveries	-	-	-	-	-	2	2
Provisions	10	(1)	17	103	-	11	140
Ending balance, September 30, 2015	\$ 242	\$ 751	\$ 175	\$ 1,150	\$ -	\$ 43	\$2,361
Beginning balance, January 1, 2015	\$ 222	\$ 665	\$ 155	\$ 1,300	\$ -	\$ 38	\$2,380
Charge-offs	-	(66)	(24)	(225)	-	(15)	(330)
Recoveries	1	-	-	1	-	7	9
Provisions	19	152	44	74	-	13	302
Ending balance, September 30, 2015	\$ 242	\$ 751	\$ 175	\$ 1,150	\$ -	\$ 43	\$2,361

Allowance for loan losses:	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Ending balance evaluated for impairment individually	\$ -	\$ -	\$ -	\$ 11	\$ -	\$ -	\$11
Ending balance evaluated for impairment collectively	\$ 242	\$ 751	\$ 175	\$ 1,139	\$ -	\$ 43	\$2,350
Loans:							
Ending balance evaluated for impairment individually	\$ 28,743	\$ 102,617	\$ 23,282	\$ 135,509	\$ 12,888	\$ 4,628	\$307,667
Ending balance evaluated for impairment collectively	\$ 472	\$ 2,318	\$ 262	\$ 2,727	\$ -	\$ -	\$5,779
Ending balance	\$ 28,271	\$ 100,299	\$ 23,020	\$ 132,782	\$ 12,888	\$ 4,628	\$301,888

As of, and for the periods ended, September 30, 2014

Allowance for loan losses:	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Beginning balance, June 1, 2014	\$ 225	\$ 689	\$ 195	\$ 1,208	\$ -	\$ 41	\$2,358
Charge-offs	(2)	(87)	(18)	(23)	-	(5)	(135)
Recoveries	-	1	-	-	-	2	3
Provisions	9	19	(1)	80	-	3	110
Ending balance, September 30, 2014	\$ 232	\$ 622	\$ 176	\$ 1,265	\$ -	\$ 41	\$2,336
Beginning balance, January 1, 2014	\$ 253	\$ 534	\$ 212	\$ 1,246	\$ -	\$ 42	\$2,287
Charge-offs	(4)	(92)	(18)	(86)	-	(8)	(208)
Recoveries	3	5	-	-	-	2	10
Provisions	(20)	175	(18)	105	-	5	247
Ending balance, September 30, 2014	\$ 232	\$ 622	\$ 176	\$ 1,265	\$ -	\$ 41	\$2,336

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Ending balance evaluated for impairment individually	\$ 232	\$ 622	\$ 176	\$ 1,265	\$ -	\$ 41	\$ 2,336
collectively	\$ -	\$ -	\$ 48	\$ 63	\$ -	\$ -	\$ 111
	\$ 232	\$ 622	\$ 128	\$ 1,202	\$ -	\$ 41	\$ 2,225
Loans:							
Ending balance evaluated for impairment individually	\$ 24,230	\$ 87,268	\$ 19,266	\$ 140,327	\$ 11,937	\$ 4,413	\$ 287,441
collectively	\$ 14	\$ 2,402	\$ 504	\$ 3,553	\$ -	\$ 12	\$ 6,485
	\$ 24,216	\$ 84,866	\$ 18,762	\$ 136,774	\$ 11,937	\$ 4,401	\$ 280,956

As of December 31, 2014

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Ending balance evaluated for impairment individually	\$ 222	\$ 665	\$ 155	\$ 1,300	\$ -	\$ 38	\$ 2,380
collectively	\$ -	\$ -	\$ -	\$ 150	\$ -	\$ -	\$ 150
	\$ 222	\$ 665	\$ 155	\$ 1,150	\$ -	\$ 38	\$ 2,230
Loans:							
Ending balance evaluated for impairment individually	\$ 23,738	\$ 90,000	\$ 20,713	\$ 140,676	\$ 15,730	\$ 4,044	\$ 294,901
collectively	\$ 1	\$ 2,264	\$ 336	\$ 3,952	\$ -	\$ -	\$ 6,553
	\$ 23,737	\$ 87,736	\$ 20,377	\$ 136,724	\$ 15,730	\$ 4,044	\$ 288,348

7. Goodwill and core deposit intangible

On September 8, 2006, the Company completed the acquisition of a branch office in Richfield, PA. Goodwill at September 30, 2015 and December 31, 2014 was \$2,046,000. Core deposit intangible was \$41,000 net of amortization of \$409,000 at September 30, 2015 and \$74,000 net of amortization of \$375,000 at December 31, 2014. The core deposit intangible is being amortized over a ten-year period on a straight line basis. Core deposit amortization expense was \$11,000 and \$34,000 in each of the three and nine month periods ending September 30, 2015 and 2014, respectively. The goodwill is not amortized, but is measured annually for impairment or more frequently if certain events occur which might indicate goodwill has been impaired. There was no impairment of goodwill during the three and nine month periods ended September 30, 2015 or 2014.

8. Investment in Unconsolidated Subsidiary

The Company owns 39.16% of the outstanding common stock of Liverpool Community Bank (LCB), Liverpool, PA. This investment is accounted for under the equity method of accounting and is being carried at \$4,502,000 as of September 30, 2015. The Company increases its investment in LCB for its share of earnings and decreases its investment by any dividends received from LCB. The investment is evaluated quarterly for impairment. A loss in value of the investment which is determined to be other than a temporary decline would be recognized as a loss in the period in which such determination is made. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of LCB to sustain an earnings capacity that would justify the current carrying value of the investment. There was no impairment of goodwill during the three or nine month periods ended September 30, 2015 and 2014.

9. Fair Value Measurement

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. Additional guidance is provided on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes guidance on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed, and significant adjustments to the related prices may be necessary to estimate fair value in accordance with fair value measurement and disclosure guidance.

This guidance clarifies that, when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

Fair value measurement and disclosure guidance requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to

valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Debt securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurement from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. Equity securities classified as available for sale are reported at fair value using Level 1 inputs.

Impaired Loans. Certain impaired loans are reported on a non-recurring basis at the fair value of the underlying collateral since repayment is expected solely from the collateral. Fair value is generally determined based upon

independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate Owned. Certain assets included in other real estate owned are carried at fair value as a result of impairment and accordingly are presented as measured on a non-recurring basis. Values are estimated using Level 3 inputs, based on appraisals that consider the sales prices of property in the proximate vicinity.

Mortgage Servicing Rights. The fair value of servicing assets is based on the present value of estimated future cash flows on pools of mortgages stratified by rate and maturity date and are considered Level 3 inputs.

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2015 and December 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands). There were no transfers of assets between fair value Level 1 and Level 2 during the nine months ended September 30, 2015 or 2014.

	September 30, 2015	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Measured at fair value on a recurring basis:				
Debt securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$ 34,000	\$ -	\$ 34,000	\$ -
Obligations of state and political subdivisions	29,626	-	29,626	-
Mortgage-backed securities	70,793	-	70,793	-
Equity securities available-for-sale	1,902	1,902	-	-
Measured at fair value on a non-recurring basis:				
Impaired loans	2,678	-	-	2,678
Mortgage servicing rights	201	-	-	201
	December 31, 2014	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Measured at fair value on a recurring basis:				
Debt securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$ 50,101	\$ -	\$ 50,101	\$ -
Obligations of state and political subdivisions	35,873	-	35,873	-
Mortgage-backed securities	55,429	-	55,429	-
Equity securities available-for-sale	1,500	1,500	-	-
Measured at fair value on a non-recurring basis:				
Impaired loans	3,370	-	-	3,370
Mortgage servicing rights	193	-	-	193

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs have been used to determine fair value:

September 30, 2015	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 2,678	Appraisal of collateral (1)	Appraisal and liquidation adjustments (2)	7% - 20%	15.5 %
Mortgage servicing rights	201	Multiple of annual servicing fee	Estimated pre-payment speed, based on rate and term	300% - 400%	364 %
December 31, 2014	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 3,370	Appraisal of collateral (1)	Appraisal and liquidation adjustments (2)	7% - 15%	11.2 %
Mortgage servicing rights	193	Multiple of annual servicing fee	Estimated pre-payment speed, based on rate and term	300% - 400%	360 %

(1) Fair value is generally determined through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable.

Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and (2) estimated liquidation expenses. The range of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

Fair Value of Financial Instruments

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in sales transactions on the dates 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 consolidated 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 from the amounts reported at each quarter end.

The information presented below should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is provided only for a limited portion of the Company'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

Company's disclosures and those of other companies may not be meaningful.

The following describes the estimated fair value of the Company's financial instruments as well as the significant methods and assumptions not previously disclosed used to determine these estimated fair values.

Carrying values approximate fair value for cash and due from banks, interest-bearing demand deposits with banks, restricted stock in the Federal Home Loan Bank, loans held for sale, interest receivable, mortgage servicing rights, non-interest bearing deposits, securities sold under agreements to repurchase, short-term borrowings and interest payable. Other than cash and due from banks, which are considered Level 1 inputs, and mortgage servicing rights, which are Level 3 inputs, these instruments are Level 2 inputs.

Interest bearing time deposits with banks - The estimated fair value is determined by discounting the contractual future cash flows, using the rates currently offered for deposits of similar remaining maturities.

Loans – For variable-rate loans that reprice frequently and which entail no significant changes in credit risk, carrying values approximated fair value. Substantially all commercial loans and real estate mortgages are variable rate loans. The fair value of other loans (i.e. consumer loans and fixed-rate real estate mortgages) is estimated by calculating the present value of the cash flow difference between the current rate and the market rate, for the average maturity, discounted quarterly at the market rate.

Fixed rate time deposits - The estimated fair value is determined by discounting the contractual future cash flows, using the rates currently offered for deposits of similar remaining maturities.

Long term debt and other interest bearing liabilities – The fair value is estimated using discounted cash flow analysis, based on incremental borrowing rates for similar types of arrangements.

Commitments to extend credit and letters of credit – The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms and present credit-worthiness of the counterparties. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

Financial Instruments

(in thousands)

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	\$8,235	\$8,235	\$6,757	\$6,757
Interest bearing deposits with banks	97	97	10	10
Securities	136,098	136,098	142,903	142,903
Restricted investment in FHLB stock	2,823	2,823	2,726	2,726
Loans held for sale	125	125	-	-
Loans, net of allowance for loan losses	305,306	301,588	292,521	294,083
Mortgage servicing rights	201	201	193	193
Accrued interest receivable	1,431	1,431	1,491	1,491
Financial liabilities:				
Non-interest bearing deposits	86,877	86,877	77,697	77,697
Interest bearing deposits	297,547	299,690	303,187	305,635
Securities sold under agreements to repurchase	4,534	4,534	4,594	4,594
Short-term borrowings	19,996	19,996	15,950	15,950
Long-term debt	22,500	22,598	22,500	22,464
Other interest bearing liabilities	1,438	1,443	1,412	1,416

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Accrued interest payable	230	230	301	301
Off-balance sheet financial instruments:				
Commitments to extend credit	-	-	-	-
Letters of credit	-	-	-	-

The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments not previously disclosed as of September 30, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates fair value (in thousands).

September 30, 2015	Carrying Amount	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets or Liabilities	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Financial instruments - Assets					
Loans, net of allowance for loan losses	\$ 305,306	\$ 301,588	\$ -	\$ -	\$ 301,588
Financial instruments - Liabilities					
Interest bearing deposits	297,547	299,690	-	299,690	-
Long-term debt	22,500	22,598	-	22,598	-
Other interest bearing liabilities	1,438	1,443	-	1,443	-

December 31, 2014	Carrying Amount	Fair Value	(Level 1) Quoted Prices in Active Markets for Identical Assets or Liabilities	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
Financial instruments - Assets					
Loans, net of allowance for loan losses	292,521	294,083	-	-	294,083
Financial instruments - Liabilities					
Interest bearing deposits	303,187	305,635	-	305,635	-
Long-term debt	22,500	22,464	-	22,464	-
Other interest bearing liabilities	1,412	1,416	-	1,416	-

10. Defined Benefit Retirement Plan

The Company sponsors a defined benefit retirement Plan (the "Plan") which covers substantially all of its employees employed prior to December 31, 2007. As of January 1, 2008, the Plan was amended to close the Plan to new entrants. All active participants as of December 31, 2007 became 100% vested in their accrued benefit and, as long as they remained eligible, continued to accrue benefits until December 31, 2012. The benefits are based on years of service and the employee's compensation. Effective December 31, 2012, the Plan was amended (frozen) to cease future service accruals after that date. The Company's funding policy is to contribute annually no more than the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide for benefits attributed to service through December 31, 2012. The Company has made no contributions in the first nine months of 2015 and does not expect to contribute to the Plan in the remainder of 2015. Pension expense included the following components for the three and nine month periods ended September 30, 2015 and 2014:

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Components of net periodic pension cost (income)				
Interest cost	\$ 112	\$ 106	\$ 337	\$ 319
Expected return on plan assets	(148)	(129)	(444)	(388)
Recognized net actuarial loss	61	10	182	30
Net periodic pension cost (income)	25	(13)	75	(39)
Amortization of net actuarial loss recognized in other comprehensive income	\$ (61)	\$ (10)	\$ (182)	\$ (30)
Total recognized in net periodic pension cost and other comprehensive income	\$ (36)	\$ (23)	\$ (107)	\$ (69)

11. Commitments, Contingent Liabilities and Guarantees

In the ordinary course of business, the Company makes commitments to extend credit to its customers through letters of credit, loan commitments and lines of credit. At September 30, 2015, the Company had \$42,968,000 outstanding in loan commitments and other unused lines of credit extended to its customers as compared to \$45,021,000 at December 31, 2014.

The Company does not issue any guarantees that would require liability recognition or disclosure, other than its letters of credit. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, financial and performance letters of credit have expiration dates within one year of issuance, while commercial letters of credit have longer term commitments. The credit risk involved in issuing letters of credit is essentially the same as the risks that are involved in extending loan facilities to customers. The Company generally holds collateral and/or personal guarantees supporting these commitments. The Company had outstanding \$1,941,000 and \$1,703,000 of financial and performance letters of credit commitments as of September 30, 2015 and December 31, 2014, respectively. Commercial letters of credit as of September 30, 2015 totaled \$10,900,000. As of December 31, 2014, there were no commercial letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2015 for payments under letters of credit issued was not material. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk.

Additionally, the Company has committed to fund and sell qualifying residential mortgage loans to the Federal Home Loan Bank of Pittsburgh in the total amount of \$15,000,000. As of September 30, 2015, \$7,960,000 remains to be delivered on that commitment, of which \$125,000 has been committed to borrowers.

12. Agreement and Plan of Merger

On June 26, 2015, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with FNBPA Bancorp, Inc. ("FNBPA") pursuant to which the Company will acquire all of the shares of FNBPA Bancorp in a stock and cash transaction. Under the Merger Agreement, FNBPA Bancorp shareholders may elect to receive, in exchange for each share of FNBPA Bancorp common stock they own, either cash of \$50.34 or 2.7813 shares of Juniata Valley Financial Corp. ("JUVF") common stock, subject to election and allocation procedures designed to result in the aggregate cash merger consideration representing between 15% and 25% of the total merger consideration issued in the transaction. The transaction is valued at approximately \$13.2 million.

The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, FNBPA will merge with and into the Company, with the Company continuing as the surviving entity (the “Merger”). Immediately following the consummation of the Merger, First National Bank of Port Allegany, a national banking association and wholly-owned subsidiary of FNBPA, will merge with and into JVB, with JVB continuing as the surviving entity. The Merger Agreement was approved by the Board of Directors of each of the Company and FNBPA. FNBPA shareholders may seek appraisal rights as dissenting shareholders under Pennsylvania law.

The merger is subject to customary closing conditions enumerated in the merger agreement, including receipt of regulatory approvals and the approval of both the Company’s and FNBPA’s shareholders. It is anticipated that the transaction will close by the end of 2015.

13. Subsequent Events

In October 2015, the Board of Directors declared a dividend of \$0.22 per share to shareholders of record on November 13, 2015, payable on December 1, 2015.

On November 4, 2015 the shareholders of FNBPA voted in favor of the proposed merger and on November 5, 2015, the Company's shareholders also voted in favor of the proposed merger. Completion of the merger is subject to the approval of various regulatory agencies, all of which have been received, as well as customary closing conditions. The merger is now expected to be completed by November 30, 2015.

Item 2.

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

Forward Looking Statements:

The information contained in this Quarterly Report on Form 10-Q contains forward looking statements (as such term is defined in the Securities Exchange Act of 1934 and the regulations thereunder) including statements which are not historical facts or address trends or management's intentions, plans, beliefs, expectations or opinions. Such forward looking statements are subject to risks and uncertainties and may be affected by various factors which may cause actual results to differ materially from those in the forward looking statements including, without limitation:

- the effect of market interest rates, particularly a continuing period of low market interest rates, and relative balances of rate-sensitive assets to rate-sensitive liabilities, on net interest margin and net interest income; the effect of competition on rates of deposit and loan growth and net interest margin;
- the impact of adverse changes in the economy and real estate markets, including protracted periods of low-growth and sluggish loan demand;
- increases in non-performing assets, which may result in increases in the allowance for credit losses, loan charge-offs and elevated collection and carrying costs related to such non-performing assets;
- other income growth, including the impact of regulatory changes which have reduced debit card interchange revenue;
- investment securities gains and losses, including other than temporary declines in the value of securities which may result in charges to earnings;
- the level of other expenses, including salaries and employee benefit expenses;
- the increasing time and expense associated with regulatory compliance and risk management;

the uncertainty and lack of clear regulatory guidance associated with the delay in implementing many of the regulations mandated by the Dodd Frank Act;
capital and liquidity strategies, including the expected impact of the capital and liquidity requirements proposed by the Basel III standards;
non-recurring expenses related to the merger with FNBPA and incurred as a result of integrating operations could affect the results of operations in the period in which such charges are recorded;
If the merger is not completed, the Company will have incurred substantial expenses without realizing the expected benefits of the merger; and

All anticipated benefits of the merger may not be realized.

The Company undertakes no obligation to publicly update or revise forward looking information, whether as a result of new or updated information, future events or otherwise. For a more complete discussion of certain risks, uncertainties and other factors affecting the Company, refer to the Company's Risk Factors, contained in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and Item 1A of Part II of this Quarterly Report on Form 10-Q, a copy of which may be obtained from the Company upon request and without charge (except for the exhibits thereto).

Critical Accounting Policies:

Disclosure of the Company's significant accounting policies is included in the notes to the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Some of these policies require significant judgments, estimates, and assumptions to be made by management, most particularly in connection with determining the provision for loan losses and the appropriate level of the allowance for loan losses, as well as management's evaluation of the investment portfolio for other-than-temporary impairment. There have been no changes in critical accounting policies since December 31, 2014.

General:

The following discussion relates to the consolidated financial condition of the Company as of September 30, 2015, as compared to December 31, 2014, and the consolidated results of operations for the three and nine months ended September 30, 2015, compared to the same periods in 2014. This discussion should be read in conjunction with the interim consolidated financial statements and related notes included herein.

Overview:

Juniata Valley Financial Corp. is a Pennsylvania corporation organized in 1983 to be the holding company of The Juniata Valley Bank. The Bank is a state-chartered bank headquartered in Mifflintown, Pennsylvania. Juniata Valley Financial Corp. and its subsidiary bank derive substantially all of their income from banking and bank-related services, including interest earned on residential real estate, commercial mortgage, commercial and consumer loans, interest earned on investment securities and fee income from deposit services and other financial services to its customers through 12 locations in central Pennsylvania. Juniata Valley Financial Corp. also owns 39.16% of Liverpool Community Bank (LCB), located in Liverpool, Pennsylvania. The Company accounts for LCB as an unconsolidated subsidiary using the equity method of accounting.

Financial Condition:

Total assets as of September 30, 2015, were \$488.4 million, an increase of 1.6% compared to December 31, 2014. Comparing the balances at September 30, 2015 and December 31, 2014, deposits increased by \$3.5 million, with non-interest bearing deposits increasing by \$9.2 million and interest-bearing deposits decreasing by \$5.6 million. The Company's investment portfolio decreased by \$6.8 million and borrowings increased by \$4.0 million.

The table below shows changes in deposit volumes by type of deposit (in thousands of dollars) between December 31, 2014 and September 30, 2015.

	September 30, 2015	December 31, 2014	Change \$	%
Deposits:				
Demand, non-interest bearing	\$ 86,877	\$ 77,697	\$9,180	11.8 %
Interest bearing demand and money market	97,811	95,675	2,136	2.2
Savings	74,543	67,430	7,113	10.5
Time deposits, \$100,000 and more	24,636	27,705	(3,069)	(11.1)
Other time deposits	100,557	112,377	(11,820)	(10.5)
Total deposits	\$ 384,424	\$ 380,884	\$3,540	0.9 %

Overall, loans increased \$12.8 million, or 4.3%, between December 31, 2014 and September 30, 2015, as shown in the table below (in thousands of dollars), primarily due to increases in commercial lending, partially offset by reductions in residential real estate loans and loans to states and political subdivisions..

	September 30, 2015	December 31, 2014	Change \$	%
Loans:				
Commercial, financial and agricultural	\$ 28,743	\$ 23,738	\$5,005	21.1 %
Real estate - commercial	102,617	90,000	12,617	14.0
Real estate - construction	23,282	20,713	2,569	12.4
Real estate - mortgage	135,509	140,676	(5,167)	(3.7)
Obligations of states and political subdivisions	12,888	15,730	(2,842)	(18.1)
Personal	4,628	4,044	584	14.4
Total loans	\$ 307,667	\$ 294,901	\$12,766	4.3 %

A summary of the activity in the allowance for loan losses for each of the nine-month periods ended September 30, 2015 and 2014 (in thousands) is presented below.

	Periods Ended September 30,	
	2015	2014
Balance of allowance - January 1	\$ 2,380	\$ 2,287
Loans charged off	(330)	(208)
Recoveries of loans previously charged off	9	10
Net charge-offs	(321)	(198)
Provision for loan losses	302	247
Balance of allowance - end of period	\$ 2,361	\$ 2,336
Ratio of net charge-offs during period to average loans outstanding	0.11 %	0.07 %

As of September 30, 2015, 47 loans, with aggregate outstanding balances of \$5,779,000, were individually evaluated for impairment. A collateral analysis was performed on each of these 47 loans in order to establish a portion of the reserve needed to carry impaired loans at fair value. As a result, two loans were determined to have insufficient collateral, and specific reserves, totaling \$11,000, were established for the impaired loans.

Management believes that the specific reserves carried are adequate to cover potential future losses related to these relationships. There are no other material loans classified as loss, doubtful, substandard, or special mention which management expects to significantly impact future operating results, liquidity or capital resources.

Following is a summary of the Bank's non-performing loans on September 30, 2015 as compared to December 31, 2014.

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(Dollar amounts in thousands)

	As of and for the nine months ended September 30, 2015	As of and for the year ended December 31, 2014		
Non-performing loans				
Non-accrual loans	\$ 4,405	\$ 4,880		
Accruing loans past due 90 days or more	-	400		
Restructured nonaccrual loans in default	-	366		
Total	\$ 4,405	\$ 5,646		
Average loans outstanding	\$ 296,895	\$ 281,608		
Ratio of non-performing loans to average loans outstanding	1.48	% 2.00	%	%

During the second quarter of 2014, the Company initiated a leverage strategy and issued long-term debt in the amount of \$22,500,000, with maturities ranging from two years to five years, at fixed rates ranging from 0.63% to 2.0%. The funds were used to purchase investment securities with similar projected average lives.

Stockholders' equity increased from December 31, 2014 to September 30, 2015 by \$710,000, or 1.4%. The Company's net income exceeded dividends paid by \$168,000. The adjustment to accumulated other comprehensive loss to record the amortization of the net actuarial loss of the Company's defined benefit retirement plan increased the Company's equity by \$118,000. The change in market value of securities available for sale increased shareholders' equity by \$388,000 when comparing September 30, 2015 to December 31, 2014. The Company's employees invested \$57,000 pursuant to the Employee Stock Purchase Plan and were issued a total of 3,242 shares of stock during the second quarter of 2015, and stock based compensation expense recorded pursuant to the Company's Stock Option Plan added \$42,000 during the nine month period.

Subsequent to September 30, 2015, the following events took place:

On October 20, 2015, the Board of Directors declared a cash dividend of \$0.22 per share to shareholders of record on November 13, 2015, payable on December 1, 2015.

On November 4, 2015 the shareholders of FNBPA voted in favor of the proposed merger and on November 5, 2015, the Company's shareholders also voted in favor of the proposed merger. Completion of the merger is subject to the approval of various regulatory agencies, all of which have been received, as well as customary closing conditions. The merger is now expected to be completed by November 30, 2015.

Comparison of the Three Months Ended September 30, 2015 and 2014

Operations Overview:

Net income for the third quarter of 2015 was \$1,008,000, a decrease of \$50,000, or 4.7%, when compared to the third quarter of 2014. The decrease was due primarily to increases in employee compensation and employee benefits along with merger and acquisition costs, in the third quarter of 2015 as compared to the same period in 2014; these factors offset increases in net interest income and non-interest income. The increase in non-interest income in the third quarter of 2015 was due to life insurance proceeds in the third quarter of 2015 and an increase in customer service fees, offset by a reduction in fees derived from mortgage banking income and fees derived from other loan activity. Basic and diluted earnings per share were \$0.24 in the third quarter of 2015 compared to \$0.25 in the third quarter of 2014. Presented below are selected key ratios for the two periods:

	Three Months Ended September 30,			
	2015		2014	
Return on average assets (annualized)	0.84	%	0.89	%
Return on average equity (annualized)	8.03	%	8.30	%
Average equity to average assets	10.41	%	10.69	%
Non-interest income, excluding securities gains, as a percentage of average assets (annualized)	0.97	%	0.92	%
Non-interest expense as a percentage of average assets (annualized)	3.07	%	2.80	%

Excluding tax-effected merger and acquisition costs of \$145,000 incurred during the third quarter ending September 30, 2015, annualized return on average assets and annualized return on average equity were 0.96% and 9.18%, respectively.

The discussion that follows further explains changes in the components of net income when comparing the third quarter of 2015 with the third quarter of 2014.

Net Interest Income:

Net interest income was \$3,803,000 for the third quarter of 2015, as compared to \$3,567,000 in the same quarter in 2014. Average earning assets increased by 1.5%, and the net interest margin, on a fully tax equivalent basis, increased by 18 basis points.

Average loan balances increased by \$20.2 million, or 7.1%, and interest on loans increased \$64,000 in the third quarter of 2015 as compared to the same period in 2014. The increase in average loans outstanding increased interest income by \$227,000 but was partially offset by a decrease of 25 basis points in the average weighted yield that reduced interest income by approximately \$163,000.

Interest earned on investment securities decreased \$8,000 in the third quarter of 2015 as compared to the third quarter of 2014. Yield increases added \$52,000, while average balance reductions reduced interest income by \$60,000. The overall pre-tax yield on the investment securities portfolio increased during the period by 15 basis points, with the average balance decreasing by \$13.7 million.

Total average earning assets during the third quarter of 2015 were \$441.5 million, compared to \$435.2 million during the third quarter of 2014, yielding 3.88% in both periods. Average interest-bearing liabilities decreased by \$2.1 million, while average non-interest bearing deposits increased \$7.5 million. The decrease in average interest-bearing liabilities was primarily due to a reduction in time deposits. The cost to fund interest bearing assets dropped by 17 basis points, to 0.43%, in the third quarter of 2015 compared to the third quarter of 2014.

Net interest margin on a fully tax-equivalent basis for the third quarter of 2015 was 3.59%. For the same period in 2014, the fully-tax equivalent net interest margin was 3.41%.

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)

Three Months Ended September 30, 2015			Three Months Ended September 30, 2014			Increase (Decrease) Due To (6)		
Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate	Volume	Rate	Total

ASSETS

Interest earning assets:

Taxable loans (5)	\$278,346	\$3,430	4.93 %	\$264,370	\$3,417	5.17 %	\$ 178	\$ (165)	\$ 13
Tax-exempt loans	25,556	200	3.10	19,299	149	3.06	49	2	51
Total loans	303,902	3,630	4.78	283,669	3,566	5.03	227	(163)	64
Taxable investment securities	109,495	539	1.97	116,411	529	1.82	(33)	43	10
Tax-exempt investment securities	27,989	113	1.61	34,803	131	1.51	(27)	9	(18)
Total investment securities	137,484	652	1.90	151,214	660	1.75	(60)	52	(8)
							-	-	-
Interest bearing deposits	84	0	1.89	275	1	1.44	(1)	0	(1)
Total interest earning assets	441,470	4,282	3.88	435,158	4,227	3.88	166	(111)	55

Other assets (7)	41,002			41,680					
Total assets	\$482,472			\$476,838					

LIABILITIES AND
STOCKHOLDERS'
EQUITY

Interest bearing liabilities:

Interest bearing demand deposits (2)	\$98,679	43	0.17	\$102,530	44	0.17	(2)	1	(1)
Savings deposits	74,240	19	0.10	65,092	16	0.10	2	1	3
Time deposits	125,794	324	1.02	146,254	523	1.42	(66)	(133)	(199)
Short-term and long-term borrowings and other interest bearing liabilities	44,748	93	0.82	31,710	77	0.96	28	(12)	16
Total interest bearing liabilities	343,461	479	0.55	345,586	660	0.75	(38)	(143)	(181)

Non-interest bearing liabilities:

Demand deposits	83,899			76,421					
Other	4,880			3,865					
Stockholders' equity	50,232			50,966					
Total liabilities and stockholders' equity	\$482,472			\$476,838					

Net interest income and net interest rate spread		\$3,803	3.33 %		\$3,567	3.13 %	\$ 204	\$ 32	\$ 236
Net interest margin on interest earning assets (3)			3.45 %			3.28 %			
Net interest income and net interest margin-Tax equivalent basis (4)		\$3,965	3.59 %		\$3,711	3.41 %			

Notes:

- 1) Average balances were calculated using a daily average.
- 2) Includes interest-bearing demand and money market accounts.
- 3) Net margin on interest earning assets is net interest income divided by average interest earning assets.
- 4) Interest on obligations of states and municipalities is not subject to federal income tax. In order to make the net yield comparable on a fully taxable basis, a tax equivalent adjustment is applied against the tax-exempt income utilizing a federal tax rate of 34%.
- 5) Non-accruing loans are included in the above table until they are charged off.
- 6) The change in interest due to rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.
- (7) Includes gross unrealized gains (losses) on securities available for sale.

Provision for Loan Losses:

In the third quarter of 2015, the provision for loan losses was \$140,000, as compared to a provision of \$110,000 in the third quarter of 2014. Management regularly reviews the adequacy of the loan loss reserve and makes assessments as to specific loan impairment, historical charge-off expectations, general economic conditions in the Bank's market area, specific loan quality and other factors. As of September 30, 2015, non-performing loans as a percentage of average outstanding loans was 1.48%, improved from 2.00% on December 31, 2014 and from 1.98% on September 30, 2014. Factors affecting the provision for loan losses were the increased loan balances and credit concentrations partially offset by the improvement in non-performing loans. See the earlier discussion in the Financial Condition section, explaining the information used to determine the provision.

Non-interest Income:

Non-interest income in the third quarter of 2015 was \$1,193,000, compared to \$1,093,000 in the third quarter of 2014, representing an increase of \$100,000, or 9.1%.

Most significantly impacting the comparative third quarter periods was a \$98,000 gain from life insurance recorded in the third quarter of 2015; no similar corresponding gain was recorded in the 2014 period. Because the Company carries BOLI, unexpected gains such as the one recorded for the 2015 period can occur from time to time. Also significantly impacting recurring non-interest income in the third quarter of 2015 was an increase in customer service fees of \$76,000, or 23.8%, in the third quarter of 2015 as compared to the same period in 2014. The increase was attributable to the repricing and introduction of a new checking account lineup in the third quarter of 2014, which

includes a service to depositors that provides detection, suppression and repair of a wide spectrum of identity theft issues. Another non-recurring item in the third quarter of 2014 was a lump-sum fee of \$39,000 collected on a terminated trust relationship, resulting in elevated trust fees for that period. Excluding the lump-sum termination fee, revenues from trust services increased by \$20,000, or 23.5%. Of the \$20,000 increase, \$15,000 represented estate settlement fees in 2015 that were not recorded in 2014.

Commissions from the sales of non-deposit products decreased in the third quarter of 2015 by \$28,000, or 31.5%, as sales activity decreased. Fees derived from loan activity decreased by \$30,000, or 38.0%, due primarily to a decrease in title insurance fees.

The Company originates mortgages to sell on the secondary market, while retaining the servicing rights; the Company has built a servicing portfolio of approximately \$21.5 million as of September 30, 2015. The mortgage servicing right asset, as of September 30, 2015, was \$201,000. Mortgage banking income is made up of origination and servicing fees collected from the buyer, origination points collected from the borrower and an adjustment to the fair value of the mortgage servicing rights asset. In the third quarter of 2015, mortgage banking income was \$30,000, a decrease of \$24,000, or 44.4%, from the third quarter of 2014, due to lower activity.

Less significant changes in non-interest income categories included slight changes in debit card fee income, earnings on bank-owned life insurance, income from unconsolidated subsidiary and other miscellaneous income.

Net gains of \$18,000 were realized on securities transactions in the third quarter of 2015 as compared to the third quarter of 2014 when net gains of \$2,000 were realized.

As a percentage of average assets, annualized non-interest income, exclusive of net gains on the sale of securities, was 0.97% in the third quarter of 2015 as compared to 0.92% in the third quarter of 2014. Excluding the gain from life insurance proceeds mentioned above, the ratio in the third quarter of 2015 would have been 0.89%.

Non-interest Expense:

Total non-interest expense for the third quarter of 2015 was \$3,702,000, or 10.9%, higher as compared to the third quarter of 2014. Expenses of \$153,000, related to the aforementioned definitive merger agreement were recorded in the third quarter of 2015 with no comparable expenses in the prior year period. Merger costs will also be recorded through the next three quarters as the transaction closes and operational transitions are completed. These non-recurring costs will be necessary for the completion and integration of the merger. Excluding the merger and acquisition expenses, non-interest expense for the third quarter of 2015 was \$3,549,000, an increase of 6.3% over the third quarter of 2014. Employee compensation expense increased by \$51,000, due primarily to staffing increases. Employee benefits costs increased by \$135,000, or 44.9%, due to increased medical insurance and defined benefit plan costs. With respect to "Other non-interest expense", the provision for potential losses on unfunded loan commitments in the third quarter of 2015 exceeded that in the third quarter of 2014 by \$33,000, due to the increased volume of approved but unfunded loan commitments. All remaining non-interest expense categories had minor variances when comparing the third quarter of 2015 to the third quarter of 2014; in the aggregate these expense categories were less in the 2015 third quarter than in the 2014 third quarter by \$8,000.

As a percentage of average assets, annualized non-interest expense was 3.07% in the third quarter of 2015 compared to 2.80% in the third quarter of 2014. Excluding merger and acquisition expenses, annualized non-interest expense as a percentage of average assets was 2.94%.

Provision for income taxes:

Income tax expense in the third quarter of 2015 was \$146,000 as compared to the \$154,000 recorded in the third quarter of 2014. The Company qualifies for a federal tax credit for a low-income housing project investment, and the tax provisions for each period reflect the application of the tax credit. For the third quarter of 2015, the tax credit lowered the effective tax rate from 25.1% to 12.6%. In the third quarter of 2014, the tax credit lowered the effective tax rate from 24.5% to 12.7%.

Comparison of the Nine Months Ended September 30, 2015 and 2014

Operations Overview:

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Net income for the nine months of 2015 was \$2,933,000, a decrease of \$191,000, or 6.1%, compared to the first nine months of 2014. The decrease was due primarily to increased cost of employee benefits and merger and acquisition costs in the first nine months of 2015 as compared to the same period in 2014; these factors, along with an increased provision for loan losses, offset increases in net interest income and non-interest income. Basic and diluted earnings per share were \$0.70 in the first nine months of 2015, representing a decrease of 5.4% from the \$0.74 earned in the first nine months of 2014. Annualized return on average equity for the first nine months in 2015 was 7.79%, compared to 8.23% for the same period in the prior year, a decrease of 5.3%. For the nine months ended September 30, annualized return on average assets was 0.82% in 2015, versus 0.89% in 2014. Excluding tax-effected merger and acquisition costs of \$200,000 incurred during the year-to-date period ending September 30, 2015, annualized return on average assets and annualized return on average equity were 0.87% and 8.32%, respectively. Presented below are selected key ratios for the two periods:

	Nine Months Ended September 30,			
	2015		2014	
Return on average assets (annualized)	0.82	%	0.89	%
Return on average equity (annualized)	7.79	%	8.23	%
Average equity to average assets	10.50	%	10.83	%
Non-interest income, excluding securities gains, as a percentage of average assets (annualized)	0.93	%	0.91	%
Non-interest expense as a percentage of average assets (annualized)	3.05	%	2.88	%

The discussion that follows explains changes in the components of net income when comparing the first nine months of 2015 with the first nine months of 2014.

Net Interest Income:

Net interest income was \$11,188,000 for the first nine months of 2015, as compared to \$10,618,000 in the same period in 2014, an increase of \$570,000, or 5.4%. Average earning assets increased by \$11.1 million, or 2.6%, and the net interest margin on a fully tax equivalent basis increased by 9 basis points.

On average, loans outstanding increased by \$18.4 million, or 6.6%. Interest on loans decreased \$53,000, or 0.5%, in the first nine months of 2015 as compared to the same period in 2014. An average weighted yield decrease of 34 basis points lowered interest income by approximately \$703,000, while the higher volume of loans partially offset that decrease by \$650,000.

Interest earned on investment securities increased \$196,000 in the first nine months of 2015 as compared to 2014, with average balances decreasing \$5.2 million during the period. The overall pre-tax yield on the investment securities portfolio increased during the period by 25 basis points.

Average interest-bearing liabilities increased by \$6.4 million, and average non-interest bearing deposits increased \$3.8 million. The cost of interest bearing liabilities decreased by 19 basis points as a result of the extended low general rate environment and the shift in the mix of interest bearing liabilities.

Total average earning assets during the first nine months of 2015 were \$436.9 million, compared to \$425.7 million during the first nine months of 2014, yielding 3.88% in 2015 versus 3.94% in 2014. Funding costs for earning assets were 0.47% and 0.62% for the first nine months of 2015 and 2014, respectively. Net interest margin on a fully tax-equivalent basis for the first nine months of 2015 was 3.55%. For the same period in 2014, the fully-tax equivalent net interest margin was 3.46%.

AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014			Increase (Decrease) Due To (6)		
	Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate	Volume	Rate	Total
ASSETS									
Interest earning assets:									
Taxable loans (5)	\$272,700	\$10,182	4.98 %	\$258,035	\$10,317	5.33 %	\$ 567	\$(702)	\$(135)
Tax-exempt loans	24,195	543	3.00	20,475	461	3.01	83	(1)	82
Total loans	296,895	10,725	4.82	278,510	10,778	5.16	650	(703)	(53)
Taxable investment securities	110,439	1,657	2.00	110,347	1,419	1.71	1	237	238
Tax-exempt investment securities	29,216	345	1.58	34,510	387	1.50	(62)	20	(42)
Total investment securities	139,655	2,002	1.91	144,857	1,806	1.66	(61)	257	196
							-	-	-
Interest bearing deposits	343	1	0.43	1,749	3	0.23	(3)	1	(2)
Federal funds sold	21	-	0.19	608	1	0.22	(1)	-	(1)
Total interest earning assets	436,914	12,728	3.88	425,724	12,588	3.94	585	(445)	140
Other assets (7)	41,022			41,346					
Total assets	\$477,936			\$467,070					
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Interest bearing demand deposits (2)	\$97,323	117	0.16	\$97,736	124	0.17	(1)	(6)	(7)
Savings deposits	71,927	54	0.10	65,039	48	0.10	5	1	6
Time deposits	130,925	1,109	1.13	149,667	1,640	1.47	(188)	(343)	(531)
Short-term and long term borrowings and other interest bearing liabilities	41,581	260	0.84	22,907	158	0.92	118	(16)	102
Total interest bearing liabilities	341,756	1,540	0.60	335,349	1,970	0.79	(66)	(364)	(430)
Non-interest bearing liabilities:									

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Demand deposits	80,953			77,175			
Other	5,042			3,955			
Stockholders' equity	50,185			50,591			
Total liabilities and stockholders' equity	\$477,936			\$467,070			
Net interest income and net interest rate spread		\$11,188	3.28 %		\$10,618	3.15 %	\$ 651 (81) \$ 570
Net interest margin on interest earning assets (3)			3.41 %			3.32 %	
Net interest income and net interest margin-Tax equivalent basis (4)		\$11,055	3.55 %		\$11,055	3.46 %	

Notes:

- 1) Average balances were calculated using a daily average.
- 2) Includes interest-bearing demand and money market accounts.
- 3) Net margin on interest earning assets is net interest income divided by average interest earning assets.
- 4) Interest on obligations of states and municipalities is not subject to federal income tax. In order to make the net yield comparable on a fully taxable basis, a tax equivalent adjustment is applied against the tax-exempt income utilizing a federal tax rate of 34%.
- 5) Non-accruing loans are included in the above table until they are charged off.
- 6) The change in interest due to rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.
- 7) Includes gross unrealized gains (losses) on securities available for sale.

Provision for Loan Losses:

In the first nine months of 2015, the provision for loan losses was \$302,000, as compared to a provision of \$247,000 in the first nine months of 2014. Management regularly reviews the adequacy of the loan loss reserve and makes assessments as to specific loan impairment, historical charge-off expectations, general economic conditions in the Bank's market area, specific loan quality and other factors. See the earlier discussion in the Financial Condition section, explaining the information used to determine the provision.

Non-interest Income:

Non-interest income in the first nine months of 2015 was \$3,323,000, an increase of \$140,000, or 4.4%, compared to \$3,183,000 in the first nine months of 2014. Most significantly impacting non-interest income in the first nine months of 2015 was a \$271,000, or 30.9% increase in customer service fees, attributable to the repricing and introduction of a new checking account lineup in the third quarter of 2014, which includes a service to depositors that provides detection, suppression and repair of a wide spectrum of identity theft issues. There were infrequently occurring events in both year-to-date periods that resulted in an offsetting decrease in non-interest income of \$146,000 in 2015 as compared to 2014. In the first nine months of 2014, trust fee income included the collection of one-time fees of \$79,000 from two terminated accounts. There were no corresponding fees recorded in the 2015 period. Additionally, death benefits related to bank-owned life insurance were recorded in both comparative periods and added \$98,000 to non-interest income in 2015 as compared to \$165,000 in 2014. Unexpected gains from death benefits occur from time to time.

As a percentage of average assets, annualized non-interest income, exclusive of net gains on the sale of securities, was 0.93% in the first nine months of 2015 versus 0.91% in the first nine months of 2014.

Non-interest Expense:

Total non-interest expense was \$10,927,000 for the first nine months of 2015, \$852,000, or 8.5%, higher than in the first nine months of 2014.

The increase was primarily due to increases in employee compensation and benefits and costs associated with merger and acquisition activities.

Compensation expense for the first nine months of 2015 increased by \$166,000, or 3.8%, as compared to the first nine months of 2014, due to a number of factors. Full-time equivalent employment increased as of September 30, 2015 as compared to September 30, 2014, and Company-wide annual salary adjustments occurred early in the second quarter of 2015.

Costs of employee benefits was \$1,459,000 in the first nine months of 2015 versus \$1,067,000 in the first nine months of 2014, representing an increase of \$392,000, or 36.7%. The increase was primarily due to higher medical insurance expenses of \$255,000 within the Company's self-funded plan and higher costs associated with the frozen defined benefit plan of \$114,000.

Costs associated with merger and acquisition activities, as discussed earlier, added \$211,000 of non-interest expense to the first nine months of 2015, with no corresponding expenses recorded in the same period one year ago.

As a percentage of average assets, annualized non-interest expense was 3.05% for the nine months ended September 30, 2015 as compared to 2.88% for the same nine month period in 2014. Exclusive of merger and acquisition costs, annualized non-interest expense was 2.99% of average assets.

Provision for income taxes:

Income tax expense in the first nine months of 2015 was \$349,000 as compared to the \$355,000 recorded in the first nine months of 2014. The Company qualifies for a federal tax credit for its low-income housing project investment, and the tax provisions for each period reflect the application of the tax credit. The tax credit recorded in the first nine months of 2015 and 2014 was \$431,000, offsetting \$780,000 in regular tax expense in the 2015 period and \$786,000 of regular tax expense in the 2014 period. For the first nine months of 2015, the tax credit lowered the effective tax rate from 23.8% to 10.6% as compared to the same period in 2014, in which the tax credit lowered the effective tax rate from 22.6% to 10.2%.

Liquidity:

The objective of liquidity management is to ensure that sufficient funding is available, at a reasonable cost, to meet the ongoing operational cash needs of the Company and to take advantage of income producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of the Company to maintain a high level of liquidity in all economic environments. Principal sources of asset liquidity are provided by loans and securities maturing in one year or less, and other short-term investments, such as federal funds sold and cash and due from banks. Liability liquidity, which is more difficult to measure, can be met by attracting deposits and maintaining the core deposit base. The Company is a member of the Federal Home Loan Bank of Pittsburgh for the purpose of providing short-term liquidity when other sources are unable to fill these needs. During the first nine months of 2015, overnight borrowings from the Federal Home Loan Bank averaged \$6,828,000. As of September 30, 2015, the Company had short term borrowings and long-term debt with the Federal Home Loan Bank of \$19,996,000 and \$22,500,000, respectively, and had remaining unused borrowing capacity with the Federal Home Loan Bank of \$90.2 million.

Funding derived from securities sold under agreements to repurchase (accounted for as collateralized financing transactions) is available through corporate cash management accounts for business customers. This product gives the Company the ability to pay interest on corporate checking accounts.

In view of the sources previously mentioned, management believes that the Company's liquidity is capable of providing the funds needed to meet operational cash needs.

On June 26, 2015, the Company and FNBPA, entered into a merger agreement that provides for the combination of the two companies. Under the merger agreement, FNBPA will merge with and into the Company, with the Company remaining as the surviving entity, and the separate corporate existence of FNBPA will cease. First National Bank of Port Allegany, a wholly-owned subsidiary of FNBPA, will merge with and into JVB, with JVB continuing as the surviving entity. The cash portion of the merger consideration is estimated to be between \$2,500,000 and \$3,800,000 and will be funded by available cash. For further discussion on the merger, please see the *Merger Agreement* section of the Management's Discussion and Analysis.

Off-Balance Sheet Arrangements:

The Company's consolidated financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk, credit risk, and interest rate risk. These commitments consist mainly of loans approved but not yet funded, unused lines of credit and outstanding letters of

credit. These commitments were made using the same credit standards as are used for on-balance sheet instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment terms. Letters of credit are conditional commitments issued to guarantee the financial performance obligation of a customer to a third party. Unused commitments and letters of credit at September 30, 2015 were \$42,968,000 and \$12,841,000, respectively. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Company. Management believes that any amounts actually drawn upon can be funded in the normal course of operations. Additionally, the Company has committed to fund and sell qualifying residential mortgage loans to the Federal Home Loan Bank of Pittsburgh in the total amount of \$15,000,000. As of September 30, 2015, \$7,960,000 remains to be delivered on that commitment, of which \$125,000 has been committed to borrowers. The Company has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

Interest Rate Sensitivity:

Interest rate sensitivity management is overseen by the Asset/Liability Management Committee. This process involves the development and implementation of strategies to maximize net interest margin, while minimizing the earnings risk associated with changing interest rates. Traditional gap analysis identifies the maturity and re-pricing terms of all assets and liabilities. A simulation analysis is used to assess earnings and capital at risk from movements in interest rates. See Item 3 for a description of the complete simulation process and results.

Capital Adequacy:

Bank regulatory authorities in the United States issue risk-based capital standards. These capital standards relate a banking company's capital to the risk profile of its assets and provide the basis by which all banking companies and banks are evaluated in terms of capital adequacy. Effective January 1, 2015, the risk-based capital rules were modified subject to a transition period for several aspects of the final rules, including the new minimum capital ratio requirements, the capital conservation buffer and the regulatory capital adjustments and deductions. The new framework is commonly called "BASEL III". The final rules revised federal regulatory agencies' risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the Basel III framework. The final rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more, and top-tier savings and loan holding companies ("banking organizations"). Among other things, the rules established a new common equity tier 1 (CET1) minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum tier 1 capital requirement (from 4.0% to 6.0% of risk-weighted assets), and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

Basel III requires financial institutions to maintain: (a) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%); (b) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum tier 1 capital ratio of 8.5% upon full implementation); (c) a minimum ratio of total (that is, tier 1 plus tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and (d) a minimum leverage ratio of 3.0%, calculated as the ratio of tier 1 capital balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter). In addition, the proposed rules also limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer".

According to the new rules, CET1 is comprised of common stock plus related surplus, net of treasury stock and other contra-equity components, retained earnings and accumulated other comprehensive income. However, certain banking institutions, including the Bank, were permitted to make a one-time election to opt out of the requirement to include most components of AOCI in CET1. This opt-out option was available only on March 31, 2015. The Bank elected to opt-out. At September 30, 2015, the Bank exceeded the regulatory requirements to be considered a "well capitalized" financial institution, under the new rules.

Merger Agreement:

On June 26, 2015, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with FNBPA Bancorp, Inc. (“FNBPA”) pursuant to which the Company will acquire all of the shares of FNBPA Bancorp in a stock and cash transaction. Under the Merger Agreement, FNBPA Bancorp shareholders may elect to receive, in exchange for each share of FNBPA Bancorp common stock they own, either cash of \$50.34 or 2.7813 shares of the Company’s common stock, subject to election and allocation procedures designed to result in the aggregate cash merger consideration representing between 15% and 25% of the total merger consideration issued in the transaction. The transaction is valued at approximately \$13.2 million.

The Merger Agreement provides that, upon the terms and subject to the conditions set forth therein, FNBPA will merge with and into the Company, with the Company continuing as the surviving entity (the “Merger”). Immediately following the consummation of the Merger, First National Bank of Port Allegany, a national banking association and wholly-owned subsidiary of FNBPA, will merge with and into JVB, with JVB continuing as the surviving entity. The Merger Agreement was approved by the Board of Directors of each of the Company and FNBPA. FNBPA shareholders may seek appraisal rights as dissenting shareholders under Pennsylvania law.

The merger is subject to customary closing conditions enumerated in the merger agreement, including receipt of regulatory approvals and the approval of both the Company's and FNBPA's shareholders, all of which have been received. It is anticipated that the transaction will close by the end of 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include equity market price risk, interest rate risk, foreign currency risk and commodity price risk. Due to the nature of its operations, only equity market price risk and interest rate risk are significant to the Company.

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Company. The Company's equity investments consist of common stocks of publicly traded financial institutions.

Declines and volatility in the values of financial institution stocks in the last several years have significantly reduced the likelihood of realizing significant gains in the near-term. Although the Company has realized occasional gains from this portfolio in the past, the primary objective of the portfolio is to achieve value appreciation in the long term while earning consistently attractive after-tax yields from dividends. The carrying value of the financial institutions stocks accounted for 0.3% of the Company's total assets as of September 30, 2015. Management performs an impairment analysis on the entire investment portfolio, including the financial institutions stocks, on a quarterly basis. For the nine months ended September 30, 2015, no "other-than-temporary" impairment was identified. There is no assurance that declines in market values of the common stock portfolio in the future will not result in "other-than-temporary" impairment charges, depending upon facts and circumstances present.

The equity investments in the Company's portfolio had an adjusted cost basis of approximately \$1,535,000 and a fair value of \$1,902,000 at September 30, 2015. Net unrealized gains in this portfolio were approximately \$367,000 at September 30, 2015.

In addition to its equity portfolio, the Company's investment management and trust services revenue could be impacted by fluctuations in the securities markets. A portion of the Company's trust revenue is based on the value of the underlying investment portfolios. If securities values decline, the Company's trust revenue could be negatively impacted.

Interest rate risk creates exposure in two primary areas. First, changes in rates have an impact on the Company's liquidity position and could affect its ability to meet obligations and continue to grow. Second, movements in interest rates can create fluctuations in the Company's net interest income and changes in the economic value of equity.

The primary objective of the Company's asset-liability management process is to maximize current and future net interest income within acceptable levels of interest rate risk while satisfying liquidity and capital requirements. Management recognizes that a certain amount of interest rate risk is inherent, appropriate and necessary to ensure profitability. A simulation analysis is used to assess earnings and capital at risk from movements in interest rates. The model considers three major factors: (1) volume differences; (2) repricing differences; and (3) timing in its income simulation. As of the most recent model run, data was disseminated into appropriate repricing buckets, based upon the static position at that time. The interest-earning assets and interest-bearing liabilities were assigned a multiplier to simulate how much that particular balance sheet item would re-price when interest rates change. Finally, the estimated timing effect of rate changes is applied, and the net interest income effect is determined on a static basis (as if no other factors were present). As the table below indicates, based upon rate shock simulations on a static basis, the Company's balance sheet is relatively rate-neutral as rates decline. Each 100 basis point increase results in approximately \$583,000 decline in net interest income in the static environment. This negative effect of rising rates is offset to a degree by the positive effect of imbedded options that include loans floating above their floors and likely internal deposit pricing strategies. After applying the effects of options, over a one-year period, the net effect of an immediate 100, 200, 300 and 400 basis point rate increase would change net interest income by \$(196,000), \$(362,000), \$(1,634,000) and \$(2,058,000), respectively. Rate shock modeling was done for a declining rate of 25 basis points only, as the federal funds target rate currently is between zero and 0.25%. As the table below indicates, the net effect of interest rate risk on net interest income is minimal in a rising rate environment through a 200 basis point increase. The Company's rate risk policies provide for maximum limits on net interest income that can be at risk for 100 through 400 basis point changes in interest rates.

Effect of Interest Rate Risk on Net Interest Income

(Dollars in thousands)

Change in Interest Rates (Basis Points)	Change in Net Interest Income Due to Interest Rate Risk (Static)	Change in Net Interest Income Due to Imbedded Options	Total Change in Net Interest Income
400	\$ (2,329)	\$ 271	\$ (2,058)
300	(1,747)	113	(1,634)
200	(1,164)	802	(362)
100	(583)	387	(196)
0	-	-	-
(25)	145	(47)	98

The net interest income at risk position remained within the guidelines established by the Company's asset/liability policy.

No material change has been noted in the Bank's equity value at risk. Please refer to the Annual Report on Form 10-K as of December 31, 2014 for further discussion of this topic.

Item 4. Controls and Procedures**Disclosure Controls and Procedures**

As of September 30, 2015, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined by the Securities Exchange Act of 1934 ("Exchange Act"), Rule 13a-15(e). Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely

decisions regarding required disclosure. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions, regardless of how remote.

Attached as Exhibits 31 and 32 to this quarterly report are certifications of the Chief Executive Officer and the Chief Financial Officer required by Rule 13a-14(a) and rule 15d-14(a) of the Exchange Act. This portion of the Company's quarterly report includes the information concerning the controls evaluation referred to in the certifications and should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Changes in Internal Control Over Financial Reporting

There were no significant changes in the Company's internal control over financial reporting during the fiscal quarter ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

In the opinion of management of the Company, there are no legal proceedings pending to which the Company or its subsidiary is a party or to which its property is subject, which, if determined adversely to the Company or its subsidiary, would be material in relation to the Company's or its subsidiary's financial condition. There are no proceedings pending other than ordinary routine litigation incident to the business of the Company or its subsidiary. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Company or its subsidiary by government authorities.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors that were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On March 23, 2001, the Company announced plans to buy back 100,000 (200,000 on a post-split basis) shares of its common stock. There is no expiration date to this buyback plan, but subsequent to the initial plan, the Board of Directors authorized the repurchase of 400,000 additional shares in 2005 and then authorized 200,000 additional shares in September of 2008. As of November 7, 2015, the number of shares that may yet be purchased under the program was 27,649. Transactions pursuant to the repurchase program in the three month period ended September 30, 2015 are shown in the table below:

Total Number	Average	Total Number of Shares Purchased as Part of Publicly	Maximum Number of Shares that May Yet Be
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Period	of Shares Purchased	Price Paid per Share	Announced Plans or Programs	Purchased Under the Plans or Programs (1)
July 1-31, 2015	-	\$ -	-	31,153
August 1-31, 2015	3,504	18.00	3,504	27,649
September 1-30, 2015	-	-	-	27,649
Totals	3,504		3,504	27,649

No repurchase plan or program expired during the quarter. The Company has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases.

Certain regulatory restrictions exist regarding the ability of the Bank to transfer funds to the Company in the form of cash dividends, loans or advances. At September 30, 2015, \$34,570,000 of undistributed earnings of the Bank, included in the consolidated stockholders' equity, was available for distribution to the Company as dividends without prior regulatory approval, subject to regulatory capital requirements.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. MINE SAFETY DISCLOSURES

Not applicable

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

3.1 - Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 4.1 to the Company's Form S-3 Registration Statement No. 333-129023 filed with the SEC on October 14, 2005)

3.2 – Bylaws (incorporated by reference to Exhibit 3.2 to the Company's report on Form 8-K filed with the SEC on December 21, 2007)

3.3 - Bylaw Amendment – (incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on February 28, 2012)

31.1 - Rule 13a – 14(a)/15d – 14(a) Certification of President and Chief Executive Officer

31.2 - Rule 13a – 14(a)/15d – 14(a) Certification of Chief Financial Officer

32.1 - Section 1350 Certification of President and Chief Executive Officer

32.2 - Section 1350 Certification of Chief Financial Officer

101.LAB - XBRL Taxonomy Extension Label Linkbase

101.PRE - XBRL Taxonomy Extension Presentation Linkbase

101.INS - XBRL Instance Document

101.SCH - XBRL Taxonomy Extension Schema

101.CAL - XBRL Taxonomy Extension Calculation Linkbase

101.DEF - XBRL Taxonomy Extension Definition Linkbase

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Juniata Valley Financial Corp.
(Registrant)

Date 11-09-2015 By/s/ Marcie A. Barber

Marcie A. Barber, President and Chief Executive Officer (Principal Executive Officer)

Date 11-09-2015 By/s/ JoAnn N. McMinn

JoAnn N. McMinn, Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)