

JUNIATA VALLEY FINANCIAL CORP  
Form 10-Q  
May 11, 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 March 31, 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)



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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)

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 6,889	\$ 6,757
Interest bearing deposits with banks	29	10
Cash and cash equivalents	6,918	6,767
Securities available for sale	139,159	142,903
Restricted investment in Federal Home Loan Bank (FHLB) stock	2,307	2,726
Investment in unconsolidated subsidiary	4,405	4,369
Total loans	291,489	294,901
Less: Allowance for loan losses	(2,399 )	(2,380 )
Total loans, net of allowance for loan losses	289,090	292,521
Premises and equipment, net	6,458	6,533
Other real estate owned	420	232
Bank owned life insurance and annuities	14,899	14,807
Investment in low income housing partnership	3,727	3,847
Core deposit intangible	63	74
Goodwill	2,046	2,046
Mortgage servicing rights	198	193
Accrued interest receivable and other assets	3,241	3,511
<b>Total assets</b>	<b>\$ 472,931</b>	<b>\$ 480,529</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Liabilities:</b>		
Deposits:		
Non-interest bearing	\$ 81,742	\$ 77,697
Interest bearing	300,184	303,187
Total deposits	381,926	380,884
Securities sold under agreements to repurchase	4,785	4,594
Short-term borrowings	6,950	15,950
Long-term debt	22,500	22,500
Other interest bearing liabilities	1,407	1,412
Accrued interest payable and other liabilities	4,872	5,333

<b>Total liabilities</b>	422,440	430,673
<b>Stockholders' Equity:</b>		
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 -		
4,187,441 shares at March 31, 2015;		
4,187,441 shares at December 31, 2014	4,746	4,746
Surplus	18,422	18,409
Retained earnings	39,647	39,644
Accumulated other comprehensive loss	(1,578 )	(2,197 )
Cost of common stock in Treasury:		
558,385 shares at March 31, 2015;		
558,385 shares at December 31, 2014	(10,746 )	(10,746 )
<b>Total stockholders' equity</b>	50,491	49,856
<b>Total liabilities and stockholders' equity</b>	\$ 472,931	\$ 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)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Interest income:</b>		
Loans, including fees	\$3,547	\$3,550
Taxable securities	561	355
Tax-exempt securities	118	130
Other interest income	-	1
<b>Total interest income</b>	<b>4,226</b>	<b>4,036</b>
<b>Interest expense:</b>		
Deposits	481	621
Securities sold under agreements to repurchase	1	1
Short-term borrowings	11	1
Long-term debt	68	-
Other interest bearing liabilities	4	4
<b>Total interest expense</b>	<b>565</b>	<b>627</b>
<b>Net interest income</b>	<b>3,661</b>	<b>3,409</b>
Provision for loan losses	50	20
<b>Net interest income after provision for loan losses</b>	<b>3,611</b>	<b>3,389</b>
<b>Non-interest income:</b>		
Customer service fees	364	268
Debit card fee income	205	203
Earnings on bank-owned life insurance and annuities	90	97
Trust fees	81	76
Commissions from sales of non-deposit products	90	112
Income from unconsolidated subsidiary	49	37
Fees derived from loan activity	34	38
Mortgage banking income	54	29
Net (loss) gain on sales and calls of securities	(17	) 5
Other non-interest income	50	55
<b>Total non-interest income</b>	<b>1,000</b>	<b>920</b>
<b>Non-interest expense:</b>		
Employee compensation expense	1,474	1,352
Employee benefits	550	403
Occupancy	282	282
Equipment	128	114
Data processing expense	387	380
Director compensation	49	57
Professional fees	114	99
Taxes, other than income	89	107

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FDIC Insurance premiums	87	81
Gain on sales of other real estate owned	-	(18 )
Amortization of intangibles	11	11
Amortization of investment in low-income housing partnership	120	120
Other non-interest expense	313	348
<b>Total non-interest expense</b>	<b>3,604</b>	<b>3,336</b>
<b>Income before income taxes</b>	<b>1,007</b>	<b>973</b>
Provision for income taxes	83	70
<b>Net income</b>	<b>\$924</b>	<b>\$903</b>
<b>Earnings per share</b>		
Basic	\$0.22	\$0.22
Diluted	\$0.22	\$0.22
Cash dividends declared per share	\$0.22	\$0.22
Weighted average basic shares outstanding	4,187,441	4,196,266
Weighted average diluted shares outstanding	4,188,624	4,196,614

See Notes to Consolidated Financial Statements



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

(Unaudited, in thousands)

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Before Tax Amount	Tax Effect	Net of Tax Amount	Before Tax Amount	Tax Effect	Net of Tax Amount
Net income	\$ 1,007	\$ (83 )	\$ 924	\$ 973	\$ (70 )	\$ 903
Other comprehensive income:						
Unrealized gains on available for sale securities:						
Unrealized holding gains arising during the period	852	(290 )	562	555	(188 )	367
Unrealized holding gains from unconsolidated subsidiary	6	-	6	6	-	6
Less reclassification adjustment for losses (gains) included in net income (1) (3)	17	(6 )	11	(5 )	2	(3 )
Amortization of pension net actuarial cost (2) (3)	61	(21 )	40	10	(4 )	6
Other comprehensive income	936	(317 )	619	566	(190 )	376
Total comprehensive income	\$ 1,943	\$ (400 )	\$ 1,543	\$ 1,539	\$ (260 )	\$ 1,279

See Notes to Consolidated Financial Statements

- (1) Amounts are included in gain on 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)

**Three Months Ended March 31, 2015**

	<b>Number of Shares Outstanding</b>	<b>Common Stock</b>	<b>Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
<b>Balance at January 1, 2015</b>	4,187,441	\$ 4,746	\$ 18,409	\$ 39,644	\$ (2,197 )	\$(10,746 )	\$ 49,856
Net income				924			924
Other comprehensive income					619		619
Cash dividends at \$0.22 per share				(921 )			(921 )
Stock-based compensation			13				13
<b>Balance at March 31, 2015</b>	4,187,441	\$ 4,746	\$ 18,422	\$ 39,647	\$ (1,578 )	\$(10,746 )	\$ 50,491

**Three Months Ended March 31, 2014**

	<b>Number of Shares Outstanding</b>	<b>Common Stock</b>	<b>Surplus</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Total Stockholders' Equity</b>
<b>Balance at January 1, 2014</b>	4,196,266	\$ 4,746	\$ 18,370	\$ 39,118	\$ (1,659 )	\$(10,591 )	\$ 49,984
Net income				903			903
Other comprehensive income					376		376
Cash dividends at \$0.22 per share				(923 )			(923 )
Stock-based compensation			10				10
<b>Balance at March 31, 2014</b>	4,196,266	\$ 4,746	\$ 18,380	\$ 39,098	\$ (1,283 )	\$(10,591 )	\$ 50,350

See Notes to Consolidated Financial Statements

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

	<b>Three Months Ended March</b>	
	<b>31,</b>	
	<b>2015</b>	<b>2014</b>
	\$ 924	\$ 903
<b>Operating activities:</b>		
Net income		
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	50	20
Depreciation	133	120
Net amortization of securities premiums	213	106
Net amortization of loan origination costs (fees)	12	(22)
Deferred net loan origination costs	(28)	(51)
Amortization of core deposit intangible	11	11
Amortization of investment in low income housing partnership	120	120
Net realized loss (gain) on calls and sales of securities	17	(5)
Net gain on sales of other real estate owned	-	(18)
Earnings on bank owned life insurance and annuities	(90)	(97)
Deferred income tax expense	17	26
Equity in earnings of unconsolidated subsidiary, net of dividends of \$18 and \$16	(31)	(21)
Stock-based compensation expense	13	10
Mortgage loans originated for sale	(845)	(392)
Proceeds from loans sold to others	894	421
Mortgage banking income	(54)	(29)
Increase in accrued interest receivable and other assets	(63)	(474)
Decrease in accrued interest payable and other liabilities	(395)	(206)
<b>Net cash provided by operating activities</b>	<b>898</b>	<b>422</b>
<b>Investing activities:</b>		
Purchases of:		
Securities available for sale	(18,209)	(12,681)
Premises and equipment	(58)	(36)
Bank owned life insurance and annuities	(12)	(19)
Proceeds from:		
Sales of securities available for sale	12,896	2,150
Maturities of and principal repayments on securities available for sale	9,696	12,511
Redemption of FHLB stock	419	365
Bank owned life insurance and annuities	-	2
Sale of other real estate owned	1	39
Investment in low income housing partnership	-	(333)
Net decrease in loans	3,208	1,801
<b>Net cash provided by investing activities</b>	<b>7,941</b>	<b>3,799</b>

**Financing activities:**

Net increase in deposits	1,042		12,736	
Net change in short-term borrowings and securities sold under agreements to repurchase	(8,809	)	(9,759	)
Cash dividends	(921	)	(923	)
<b>Net cash (used in) provided by financing activities</b>	<b>(8,688</b>	<b>)</b>	<b>2,054</b>	<b>)</b>
Net increase in cash and cash equivalents	151		6,275	
Cash and cash equivalents at beginning of year	6,767		8,613	
Cash and cash equivalents at end of period	\$ 6,918		\$ 14,888	
<b>Supplemental information:</b>				
Interest paid	\$ 600		\$ 649	
Income taxes paid	100		-	
<b>Supplemental schedule of noncash investing and financing activities:</b>				
Transfer of loans to other real estate owned	\$ 189		\$ 80	

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”). 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 month period ended March 31, 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 March 31, 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 April 2015, the Financial Accounting Standards Board proposed 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.

### 3. Accumulated other Comprehensive loss

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

	3/31/2015	12/31/2014
Unrealized gains on available for sale securities	875	\$ 296
Unrecognized expense for defined benefit pension	(2,453 )	(2,493 )
Accumulated other comprehensive loss	(1,578 )	\$ (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)*

	<b>Three Months Ended March 31, 2015</b>	<b>Three Months Ended March 31, 2014</b>
Net income	\$ 924	\$ 903
Weighted-average common shares outstanding	4,187	4,196
<b>Basic earnings per share</b>	<b>\$ 0.22</b>	<b>\$ 0.22</b>
Weighted-average common shares outstanding	4,187	4,196
Common stock equivalents due to effect of stock options	1	1
Total weighted-average common shares and equivalents	4,188	4,197
<b>Diluted earnings per share</b>	<b>\$ 0.22</b>	<b>\$ 0.22</b>

#### 5. Securities

The Company's investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 28%), mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages (approximately 47%) and municipal bonds (approximately 24%) as of March 31, 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 March 31, 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	March 31, 2015			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
Type and maturity				
Obligations of U.S. Government agencies and corporations				
Within one year	\$4,503	\$4,555	\$ 52	\$ -
After one year but within five years	25,483	25,431	47	(99 )
After five years but within ten years	8,991	8,909	15	(97 )
	38,977	38,895	114	(196 )
Obligations of state and political subdivisions				
Within one year	9,250	9,274	24	-
After one year but within five years	15,192	15,287	105	(10 )
After five years but within ten years	7,638	7,809	171	-
After ten years	337	338	1	-
	32,417	32,708	301	(10 )
Mortgage-backed securities	65,406	66,051	748	(103 )
Equity securities	1,055	1,505	472	(22 )
Total	\$137,855	\$139,159	\$ 1,635	\$ (331 )

Securities Available for Sale	December 31, 2014			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
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 \$25,917,000 and \$30,770,000 at March 31, 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.

Following is a summary of proceeds received from sales or calls of investment securities transactions and the resulting realized gains and losses (in thousands):

	Three Months Ended	
	March 31,	
	2015	2014
Gross proceeds from sales of securities	\$ 12,896	\$ 2,150
Securities available for sale:		
Gross realized gains from sold and called securities	\$ 41	\$ 5
Gross realized losses from sold and called securities	(58 )	-

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 March 31, 2015 and December 31, 2014 (in thousands):

Unrealized Losses at March 31, 2015					
Less Than 12		12 Months or More		Total	
Months					
Fair	Unrealized	Fair	Unrealized	Fair	Unrealized

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	Value	Losses		Value	Losses		Value	Losses
Obligations of U.S. Government agencies and corporations	\$5,970	\$ (24 )	)	\$16,317	\$ (172 )	)	\$22,287	\$ (196 )
Obligations of state and political subdivisions	1,181	(6 )	)	442	(4 )	)	1,623	(10 )
Mortgage-backed securities	14,562	(102 )	)	95	(1 )	)	14,657	(103 )
Debt securities	21,713	(132 )	)	16,854	(177 )	)	38,567	(309 )
Equity securities	5	(1 )	)	213	(21 )	)	218	(22 )
Total temporarily impaired securities	\$21,718	\$ (133 )	)	\$17,067	\$ (198 )	)	\$38,785	\$ (331 )

	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 March 31, 2015, 14 U.S. Government agency and corporations securities had unrealized losses that, in the aggregate, totaled 0.9% of amortized cost. Ten of these securities have been in a continuous loss position for 12 months or more.

At March 31, 2015, 7 obligations of state and political subdivisions had unrealized losses that, in the aggregate, totaled 0.6% of amortized cost. One of these securities have been in a continuous loss position for 12 months or more.

At March 31, 2015, 6 mortgage-backed securities had an unrealized loss that totaled 0.7% of amortized cost. One 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 five equity securities that were in an

unrealized loss position for 12 months or more as of March 31, 2015. Individually and collectively, these five 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 March 31, 2015, March 31, 2014 and December 31, 2014 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 March 31, 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 March 31, 2015 and December 31, 2014 (in thousands):

As of March 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	\$17,265	\$6,701	\$ 1,284	\$ -	\$25,250
Real estate - commercial	69,791	16,417	2,922	1,297	90,427
Real estate - construction	12,793	3,303	3,792	336	20,224
Real estate - mortgage	126,021	5,362	4,820	1,639	137,842
Obligations of states and political subdivisions	13,894	21	-	-	13,915
Personal	3,776	55	-	-	3,831
Total	\$243,540	\$31,859	\$ 12,818	\$ 3,272	\$291,489

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 March 31, 2015 and December 31, 2014 (in thousands):

Impaired loans	As of March 31, 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	\$-	\$ -	\$ -	\$ 1	\$ 1	\$ -
Real estate - commercial	2,219	2,276	-	2,264	2,357	-
Real estate - construction	1	64	-	336	664	-
Real estate - mortgage	2,782	4,068	-	3,056	4,324	-
With an allowance recorded:						
Real estate - commercial	\$202	\$ 238	\$ 40	\$-	\$ -	\$ -
Real estate - construction	335	600	24	-	-	-
Real estate - mortgage	658	712	132	896	937	150
Total:						
Commercial, financial and agricultural	\$-	\$ -	\$ -	\$ 1	\$ 1	\$ -
Real estate - commercial	2,421	2,514	40	2,264	2,357	-
Real estate - construction	336	664	24	336	664	-
Real estate - mortgage	3,440	4,780	132	3,952	5,261	150
	\$6,197	\$ 7,958	\$ 196	\$ 6,553	\$ 8,283	\$ 150



	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income
Impaired loans						
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 1	\$ -	\$ -	\$ 51	\$ -	\$ -
Real estate - commercial	2,242	11	6	1,426	11	3
Real estate - construction	169	-	-	253	-	-
Real estate - mortgage	2,919	10	7	3,462	15	15
With an allowance recorded:						
Real estate - commercial	\$ 101	\$ -	\$ -	\$ 1,119	\$ -	\$ 9
Real estate - construction	168	-	-	1,003	-	-
Real estate - mortgage	777	-	-	362	-	-
Total:						
Commercial, financial and agricultural	\$ 1	\$ -	\$ -	\$ 51	\$ -	\$ -
Real estate - commercial	2,343	11	6	2,545	11	12
Real estate - construction	337	-	-	1,256	-	-
Real estate - mortgage	3,696	10	7	3,824	15	15
	\$ 6,377	\$ 21	\$ 13	\$ 7,676	\$ 26	\$ 27

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

Nonaccrual loans:	March 31, 2015	December 31, 2014
Real estate - commercial	1,736	1,717
Real estate - construction	336	336
Real estate - mortgage	2,837	3,193
Total	\$ 4,909	\$ 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 March 31, 2015 and December 31, 2014 (in thousands):

As of March 31, 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
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							than 90 Days and Accruing
Commercial, financial and agricultural	\$ 16	\$ -	\$-	\$16	\$25,234	\$25,250	\$ -
Real estate - commercial	411	31	1,713	2,155	88,272	90,427	-
Real estate - construction	-	-	336	336	19,888	20,224	-
Real estate - mortgage	2,100	319	2,111	4,530	133,312	137,842	31
Obligations of states and political subdivisions	-	-	-	-	13,915	13,915	-
Personal	15	-	-	15	3,816	3,831	-
Total	\$ 2,542	\$ 350	\$ 4,160	\$ 7,052	\$ 284,437	\$ 291,489	\$ 31

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	-
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 March 31, 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 March 31, 2015				
Accruing troubled debt restructurings:				
Real estate - mortgage	6	254	282	250
Real estate - commercial	1	148	148	144
Non-accurring troubled debt restructurings:				
Real estate - mortgage	1	364	371	355
	8	\$ 766	\$ 801	\$ 749
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 March 31, 2015 and December 31, 2014, there was one specific reserve in the amount of \$86,000 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 ended March 31, 2015 and 2014.

One restructured loan with a balance of \$355,000 was in default as it was delinquent in excess of 90 days with respect to the terms of the restructuring as of March 31, 2015 which was placed in non-accrual status as of June 30, 2014. There have been no defaults of troubled debt restructurings that took place during the three months ended March 31, 2015 and 2014 within 12 months of restructure.

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process at March 31, 2015 and December 31, 2014 totaled \$836,000 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 period ended, March 31, 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, January 1, 2015	\$ 222	\$ 665	\$ 155	\$ 1,300	\$ -	\$ 38	\$2,380
Charge-offs	-	-	-	(32 )	-	(1 )	(33 )
Recoveries	-	-	-	-	-	2	2
Provisions	(6 )	41	19	-	-	(4 )	50
Ending balance, March 31, 2015	\$ 216	\$ 706	\$ 174	\$ 1,268	\$ -	\$ 35	\$2,399

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	\$ 216	\$ 706	\$ 174	\$ 1,268	\$ -	\$ 35	\$2,399
evaluated for impairment individually	\$ -	\$ 40	\$ 24	\$ 132	\$ -	\$ -	\$196
collectively	\$ 216	\$ 666	\$ 150	\$ 1,136	\$ -	\$ 35	\$2,203
Loans:							
Ending balance	\$ 25,250	\$ 90,427	\$ 20,224	\$ 137,842	\$ 13,915	\$ 3,831	\$291,489
evaluated for impairment individually	\$ -	\$ 2,421	\$ 336	\$ 3,440	\$ -	\$ -	\$6,197
collectively	\$ 25,250	\$ 88,006	\$ 19,888	\$ 134,402	\$ 13,915	\$ 3,831	\$285,292

As of, and for the period ended, March 31, 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
	\$ 253	\$ 534	\$ 212	\$ 1,246	\$ -	\$ 42	\$2,287



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Beginning Balance, January 1,  
2014

Charge-offs	(1 )	-	-	(5 )	-	(3 )	(9 )
Recoveries	2	-	-	-	-	-	2
Provisions	(4 )	81	(40 )	(18 )	-	1	20
Ending balance, March 31, 2014	\$ 250	\$ 615	\$ 172	\$ 1,223	\$ -	\$ 40	\$2,300

	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	\$ 250	\$ 615	\$ 172	\$ 1,223	\$ -	\$ 40	\$ 2,300
evaluated for impairment individually	\$ -	\$ 87	\$ 64	\$ 46	\$ -	\$ -	\$ 197
collectively	\$ 250	\$ 528	\$ 108	\$ 1,177	\$ -	\$ 40	\$ 2,103
Loans:							
Ending balance	\$ 25,777	\$ 77,824	\$ 16,599	\$ 138,327	\$ 13,378	\$ 4,078	\$ 275,983
evaluated for impairment individually	\$ 7	\$ 2,834	\$ 529	\$ 3,928	\$ -	\$ -	\$ 7,298
collectively	\$ 25,770	\$ 74,990	\$ 16,070	\$ 134,399	\$ 13,378	\$ 4,078	\$ 268,685

As of December 31, 2014

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	\$ 222	\$ 665	\$ 155	\$ 1,300	\$ -	\$ 38	\$ 2,380
evaluated for impairment individually	\$ -	\$ -	\$ -	\$ 150	\$ -	\$ -	\$ 150
collectively	\$ 222	\$ 665	\$ 155	\$ 1,150	\$ -	\$ 38	\$ 2,230
Loans:							
Ending balance	\$ 23,738	\$ 90,000	\$ 20,713	\$ 140,676	\$ 15,730	\$ 4,044	\$ 294,901
evaluated for impairment individually	\$ 1	\$ 2,264	\$ 336	\$ 3,952	\$ -	\$ -	\$ 6,553
collectively	\$ 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 March 31, 2015 and December 31, 2014 was \$2,046,000. Core deposit intangible was \$63,000 net of amortization of \$386,000 at March 31, 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 intangible amortization expense of \$11,000 was recorded in each of the three months ended March 31, 2015 and 2014. 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 either of the three month periods ended March 31, 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 \$4,405,000 as of March 31, 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 either of the three month periods ended March 31, 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 March 31, 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 three months ended March 31, 2015 or 2014.

	March 31, 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	\$ 38,895	\$ -	\$ 38,895	\$ -
Obligations of state and political subdivisions	32,708	-	32,708	-
Mortgage-backed securities	66,051	-	66,051	-
Equity securities available-for-sale	1,505	1,505	-	-
Measured at fair value on a non-recurring basis:				
Impaired loans	3,021	-	-	3,021
Mortgage servicing rights	198	-	-	198

	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	-

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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:

March 31, 2015	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$ 3,021	Appraisal of collateral (1)	Appraisal and liquidation adjustments (2)	(7)% - (15)%	(12.2 )%
Mortgage servicing rights	198	Multiple of annual servicing fee	Estimated pre-payment speed, based on rate and term	300% - 400%	362 %
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)

	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	\$6,889	\$6,889	\$6,757	\$6,757
Interest bearing deposits with banks	29	29	10	10
Securities	139,159	139,159	142,903	142,903
Restricted investment in FHLB stock	2,307	2,307	2,726	2,726
Loans, net of allowance for loan losses	289,090	286,810	292,521	294,083
Mortgage servicing rights	198	198	193	193
Accrued interest receivable	1,433	1,433	1,491	1,491
Financial liabilities:				
Non-interest bearing deposits	81,742	81,742	77,697	77,697
Interest bearing deposits	300,184	302,353	303,187	305,635
Securities sold under agreements to repurchase	4,785	4,785	4,594	4,594
Short-term borrowings	6,950	6,950	15,950	15,950
Long-term debt	22,500	22,533	22,500	22,464
Other interest bearing liabilities	1,407	1,410	1,412	1,416
Accrued interest payable	266	266	301	301

Off-balance sheet financial instruments:

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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 March 31, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates fair value (in thousands).

March 31, 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	\$289,090	\$286,810	\$ -	\$ -	\$286,810
Financial instruments - Liabilities					
Interest bearing deposits	300,184	302,353	-	302,353	-
Long-term debt	22,500	22,533	-	22,533	-
Other interest bearing liabilities	1,407	1,410	-	1,410	-

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 three 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 month periods ended March 31, 2015 and 2014:

*(Dollars in thousands)*

Components of net periodic pension cost (income)	Three Months Ended	
	March 31, 2015	2014

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Interest cost	\$ 112	\$ 106
Expected return on plan assets	(148 )	(129 )
Recognized net actuarial loss	61	10
Net periodic pension cost (income)	25	(13 )
Amortization of net actuarial loss recognized in other comprehensive income	\$ (61 )	\$ (10 )
Total recognized in net periodic pension cost and other comprehensive income	\$ (36 )	\$ (23 )

## **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 March 31, 2015, the Company had \$42,627,000 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 \$1,470,000 and \$1,703,000 of financial and performance letters of credit commitments as of March 31, 2015 and December 31, 2014, respectively. Commercial letters of credit as of March 31, 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 March 31, 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 March 31, 2015, \$9,605,000 remains to be delivered on that commitment, of which none has been committed to borrowers.

## **12. Subsequent Event**

In April 2015, the Board of Directors declared a dividend of \$0.22 per share to shareholders of record on May 15, 2015, payable on June 1, 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; and
- capital and liquidity strategies, including the expected impact of the capital and liquidity requirements proposed by the Basel III standards.

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 March 31, 2015, as compared to December 31, 2014, and the consolidated results of operations for the three months ended March 31, 2015, compared to the same period 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 March 31, 2015, were \$472.9 million, a decrease of 1.6% compared to December 31, 2014. Comparing the balances at March 31, 2015 and December 31, 2014, deposits increased by \$1.0 million, with non-interest bearing deposits increasing by \$4.0 million and interest-bearing deposits decreasing by \$3.0 million. The Company's investment portfolio decreased by \$3.7 million and borrowings decreased by \$9.0 million.

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

	<b>March 31, 2015</b>	<b>December 31, 2014</b>	<b>Change</b>	
			<b>\$</b>	<b>%</b>
Deposits:				
Demand, non-interest bearing	\$ 81,742	\$ 77,697	\$4,045	5.2 %
Interest bearing demand and money market	94,830	95,675	(845 )	(0.9)
Savings	71,753	67,430	4,323	6.4
Time deposits, \$100,000 and more	25,171	27,705	(2,534)	(9.1)
Other time deposits	108,430	112,377	(3,947)	(3.5)
Total deposits	\$ 381,926	\$ 380,884	\$1,042	0.3 %

Overall, total loans decreased \$3.4 million, or 1.2%, between December 31, 2014 and March 31, 2015, as shown in the table below (in thousands of dollars), primarily due to decreases in real estate mortgage loans and loans to obligations of states and political subdivisions.

	<b>March 31, 2015</b>	<b>December 31, 2014</b>	<b>Change \$</b>	<b>%</b>
Loans:				
Commercial, financial and agricultural	\$ 25,250	\$ 23,738	\$ 1,512	6.4 %
Real estate - commercial	90,427	90,000	427	0.5
Real estate - construction	20,224	20,713	(489 )	(2.4 )
Real estate - mortgage	137,842	140,676	(2,834)	(2.0 )
Obligations of states and political subdivisions	13,915	15,730	(1,815)	(11.5)
Personal	3,831	4,044	(213 )	(5.3 )
Total loans	\$ 291,489	\$ 294,901	\$ (3,412)	(1.2 )%

A summary of the activity in the allowance for loan losses for each of the three-month periods ended March 31, 2015 and 2014 (in thousands) is presented below.

	Periods Ended March 31,	
	2015	2014
Balance of allowance - January 1	\$ 2,380	\$ 2,287
Loans charged off	(33 )	(9 )
Recoveries of loans previously charged off	2	2
Net charge-offs	(31 )	(7 )
Provision for loan losses	50	20
Balance of allowance - end of period	\$ 2,399	\$ 2,300
Ratio of net charge-offs during period to average loans outstanding	0.01 %	0.00 %

During the first three months of 2015, the Company recorded charge-offs of \$33,000, slightly offset by \$2,000 in recoveries.

As of March 31, 2015, 49 loans, with aggregate outstanding balances of \$6,197,000, were individually evaluated for impairment. A collateral analysis was performed on each of these 49 loans in order to establish a portion of the reserve needed to carry impaired loans at fair value. As a result, six loans were determined to have insufficient collateral, and specific reserves, totaling \$196,000, were established for the six 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 March 31, 2015 as compared to December 31, 2014.

*(Dollar amounts in thousands)*

	As of and for the three months ended March 31, 2015	As of and for the year ended December 31, 2014
Non-performing loans		
Non-accrual loans	\$ 4,554	\$ 4,880
Accruing loans past due 90 days or more	31	400
Restructured nonaccrual loans in default	355	366
Total	\$ 4,940	\$ 5,646
Average loans outstanding	\$ 292,971	\$ 281,608

Ratio of non-performing loans to average loans outstanding	1.69	%	2.00	%
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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 March 31, 2015 by \$635,000, or 1.3%. The market value of securities available for sale was higher on March 31, 2015 compared to December 31, 2014, resulting in an increase of \$579,000, net of taxes. Additionally, there was an adjustment to accumulated other comprehensive income of \$40,000 to record the amortization of the net actuarial loss of the Company's defined benefit retirement plan. The Company's net income exceeded dividends paid by \$3,000.

Subsequent to March 31, 2015, the following event took place:

On April 21, 2015, the Board of Directors declared a cash dividend of \$0.22 per share to shareholders of record on May 15, 2015, payable on June 1, 2015.

### Comparison of the Three Months Ended March 31, 2015 and 2014

#### Operations Overview:

Net income for the first quarter of 2015 was \$924,000, an increase of \$21,000, or 2.3%, when compared to the first quarter of 2014. The increase was due primarily to higher net interest income and non-interest income recorded in the first quarter of 2015 as compared to the same period in 2014, partially offset by higher provision for loan losses and non-interest expense recorded during the 2015 period. Basic and diluted earnings per share were \$0.22 in both the first quarters of 2015 and 2014. Presented below are selected key ratios for the two periods:

	Three Months Ended March 31			
	2015		2014	
Return on average assets (annualized)	0.78	%	0.81	%
Return on average equity (annualized)	7.36	%	7.17	%
Average equity to average assets	10.54	%	11.28	%
Non-interest income, excluding securities gains, as a percentage of average assets (annualized)	0.85	%	0.82	%
Non-interest expense as a percentage of average assets (annualized)	3.03	%	2.99	%

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

#### Net Interest Income:

Net interest income was \$3,661,000 for the first quarter of 2015, as compared to \$3,409,000 in the same quarter in 2014. Average earning assets increased by 7.4%, and the net interest margin, on a fully tax equivalent basis, decreased by 2 basis points.

Although average loan balances increased by \$17.6 million, or 6.4%, interest on loans decreased \$3,000 in the first quarter of 2015 as compared to the same period in 2014. A decrease of 33 basis points in the average weighted yield on loans reducing interest income by approximately \$220,000 offset an increase in average loans outstanding, which increased interest income by \$217,000.

Interest earned on investment securities increased \$194,000 in the first quarter of 2015 as compared to the first quarter of 2014, with average balances increasing \$14.0 million during the period. Of the \$194,000 increase, \$55,000 was due to the increase in average balances, while \$139,000 was due to yield increases. The overall pre-tax yield on the investment securities portfolio increased during the period by 40 basis points.

Total average earning assets during the first quarter of 2015 were \$435.4 million, compared to \$405.4 million during the first quarter of 2014, yielding 3.89% in 2015 versus 4.00% in 2014. Average interest-bearing liabilities increased by \$26.4 million, and average non-interest bearing deposits increased by \$2.4 million. The increase in average interest-bearing liabilities was the result of adding long-term debt during the second quarter of 2014. The cost to fund interest bearing liabilities dropped by 14 basis points, to 0.67%, in the first quarter of 2015 compared to the first quarter of 2014.

Net interest margin on a fully tax-equivalent basis for the first quarter of 2015 was 3.50%. For the same period in 2014, the fully-tax equivalent net interest margin was 3.52%.

**AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS**

(Dollars in thousands)

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014			Increase (Decrease) Due To (6)		
	Average		Yield/	Average		Yield/	Increase (Decrease)		
	Balance (1)	Interest	Rate	Balance (1)	Interest	Rate	Volume	Rate	Total
<b>ASSETS</b>									
Interest earning assets:									
Taxable loans (5)	\$269,050	\$3,379	5.03 %	\$253,522	\$3,392	5.37 %	\$202	\$(215)	\$(13 )
Tax-exempt loans	23,921	168	2.85	21,808	158	2.95	15	(5 )	10
Total loans	292,971	3,547	4.85	275,330	3,550	5.18	217	(220)	(3 )
							-	-	-
Taxable investment securities	111,554	561	2.01	93,141	355	1.52	72	134	206
Tax-exempt investment securities	30,631	118	1.54	35,033	130	1.48	(17 )	5	(12 )
Total investment securities	142,185	679	1.91	128,174	485	1.51	55	139	194
							-	-	-
Interest bearing deposits	162	-	0.06	1,593	1	0.23	(1 )	-	(1 )
Federal funds sold	63	-	0.02	306	-	0.20	-	-	-
Total interest earning assets	435,381	4,226	3.89	405,403	4,036	4.00	271	(81 )	190
Other assets (7)	40,870			41,057					
Total assets	\$476,251			\$446,460					
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest bearing liabilities:									
Interest bearing demand deposits (2)	\$93,781	34	0.15	\$91,471	36	0.16	-	(2 )	(2 )
Savings deposits	69,204	17	0.10	63,156	16	0.10	1	-	1
Time deposits	137,388	430	1.27	153,149	569	1.51	(55 )	(84 )	(139)
Other, including short-term borrowings, long-term debt and other interest bearing liabilities	42,110	84	0.80	8,292	6	0.29	68	10	78
Total interest bearing liabilities	342,483	565	0.67	316,068	627	0.81	14	(76 )	(62 )
Non-interest bearing liabilities:									
Demand deposits	78,507			76,130					
Other	5,061			3,885					
Stockholders' equity	50,200			50,377					
Total liabilities and stockholders' equity	\$476,251			\$446,460					



Net interest income and net interest rate spread	\$ 3,661	3.22 %	\$ 3,409	3.19 %	\$ 257	\$(5 )	\$ 252
Net interest margin on interest earning assets (3)		3.36 %		3.37 %			
Net interest income and net interest margin-Tax equivalent basis (4)	\$ 3,808	3.50 %	\$ 3,558	3.52 %			

## 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 quarter of 2015, the provision for loan losses was \$50,000, as compared to a provision of \$20,000 in the first 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 March 31, 2015, non-performing loans as a percentage of average outstanding loans was 1.69%, improved from 2.00% on December 31, 2014 and from 2.36% on March 31, 2014. The improvement in non-performing loans has had a positive effect on the adequacy of the allowance for loan losses, but was offset by provisioning for increased loan balances and concentrations. 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 \$1,000,000, compared to \$920,000 in the first quarter of 2014, representing an increase of \$80,000, or 8.7%.

Most significantly impacting non-interest income in the first quarter of 2015 was an increase in customer service fees of \$96,000, or 35.8%, in the first quarter of 2015 as compared to the same period in 2014. The increase was attributable to the introduction in the third quarter of 2014, of a new service to depositors that provides detection, suppression and repair of a wide spectrum of identity theft issues.

The Company originates mortgages to sell on the secondary market, while retaining the servicing rights; the Company has built a servicing portfolio of approximately \$21.1 million as of March 31, 2015. The mortgage servicing right asset, as of March 31, 2015, was \$198,000. 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 first quarter of 2015, mortgage banking income was \$54,000, an increase of 25,000, or 86.2%, from the first quarter of 2014, when origination activity was lower.

Fee income from trust services increased by \$5,000, or 6.6%, and income from the unconsolidated subsidiary increased \$12,000, or 32.4% in the first quarter of 2015 compared to the first quarter of 2014.

Offsetting the increases in customer service fees, mortgage banking income, trust fees and unconsolidated subsidiary income were slight declines in earnings on bank-owned life insurance, commissions on sales of non-deposit products and fees derived from loan activity.

Net losses of \$17,000 were realized on the sale of securities in the first quarter of 2015 as compared to the first quarter of 2014 when net gains of \$5,000 were realized.

As a percentage of average assets, annualized non-interest income, exclusive of net gains on the sale of securities, was 0.85% in the first quarter of 2015 as compared to 0.82% in the first quarter of 2014.

Non-interest Expense:

Total non-interest expense for the first quarter of 2015 was \$268,000, or 8.0% higher in the first quarter of 2015 as compared to the first quarter of 2014. Employee compensation expense increased by \$122,000 due primarily to

staffing increases. Employee benefits costs has a corresponding increase as a result of the increased staffing, but also due to increased cost for the frozen defined benefit plan as well as medical insurance. The increase in employee benefit cost was \$147,000, or 36.4%.

As a percentage of average assets, annualized non-interest expense was 3.03% in the first quarter of 2015 compared to 2.99% in the first quarter of 2014.

Provision for income taxes:

Income tax expense in the first quarter of 2015 was \$83,000 as compared to the \$70,000 recorded in the first 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 first quarter of 2015, the tax credit lowered the effective tax rate from 22.5% to 8.3%. In the first quarter of 2014, when earnings from tax exempt sources were lower and the tax credit for the period was higher, the effective tax rate was lowered from 22.0% to 7.2%.

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 three months of 2015, overnight borrowings from the Federal Home Loan Bank averaged \$7,208,000. As of March 31, 2015, the Company had long-term debt with the Federal Home Loan Bank of \$22,500,000, and had remaining unused borrowing capacity with the Federal Home Loan Bank of \$101.6 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.

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 March 31, 2015 were \$42,627,000 and \$12,370,000, 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 March 31, 2015, \$9,605,000 remains to be delivered on that commitment, of which none 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 have been 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 March 31, 2015, the Bank exceeded the regulatory requirements to be considered a "well capitalized" financial institution, under the new rules.

**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 March 31, 2015. Management performs an impairment analysis on the entire investment portfolio, including the financial institutions stocks, on a quarterly basis. For the three months ended March 31, 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 \$1,055,000 and a fair value of \$1,505,000 at March 31, 2015. Net unrealized gains in this portfolio were approximately \$450,000 at March 31, 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 \$527,000 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 \$(143,000), \$(260,000), \$(1,485,000) and \$(1,856,000), 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. Juniata'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	Change in Net Interest Income Due to	Total Change in Net Interest Income
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	Rate Risk (Static)		Imbedded Options		
400	\$ (2,105	)	\$ 249	\$ (1,856	)
300	(1,579	)	94	(1,485	)
200	(1,053	)	793	(260	)
100	(527	)	384	(143	)
0	-		-	-	
(25	) 131		(57	) 74	

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 March 31, 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 March 31, 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. There were no transactions pursuant to the repurchase program in the three month period ended March 31, 2015. As of May 8, 2015, the number of shares that may yet be purchased under the program was 33,319. 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 March 31, 2015, \$34,536,000 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

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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

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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 05-11-2015 By /s/ Marcie A.  
Barber

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

Date 05-11-2015 By /s/ JoAnn N. McMinn  
JoAnn N. McMinn, Chief  
Financial Officer (Principal  
Accounting Officer and  
Principal Financial Officer)