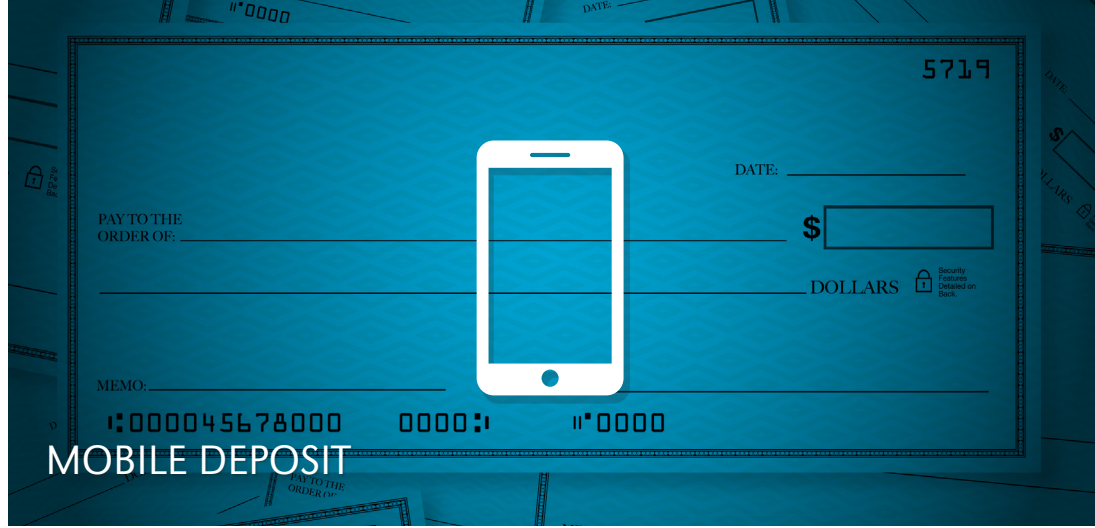




eSTATEMENTS



MOBILE DEPOSIT

JUVF  
Juniata  
Valley Financial  
Corp.



LOANS



MOBILE BANKING



ID LOCK

ANNUAL REPORT | 2014

# BANKING ON THE FUTURE

“ PROGRESS AND CHANGE GO HAND-IN-HAND AT THE JUNIATA VALLEY BANK. IN THESE EVER-CHANGING TIMES, THE ADVANCEMENTS MADE AT JVB ARE IN PREPARATION FOR NEW CUSTOMER DEMAND. ”



As the pace of day-to-day life continues to accelerate, and “to-do” lists become longer, The Juniata Valley Bank is rapidly evolving to meet the needs of its active consumer and business clientele.

We understand not everyone can or does bank on the same schedule. In order to facilitate a more convenient banking experience, JVB has extended hours and methods of access to accommodate a greater variety of schedules and priorities.

Many of our ATMs now accept checks and cash without the need for a deposit envelope. Our Mobile Banking Services include the ability to make deposits, transfer funds between accounts, and even send money wirelessly to other financial institutions or people using a smart phone or tablet. These products and services were introduced to save customers valuable time and to accommodate their unique schedules.

Coincident with the exponentially growing use of electronic payments and record retention is the growing fear of confidential information breaches. With the introduction of idLOCK, our customers not only can conduct their banking under the security of this comprehensive service, but they also can rest assured that non-banking personal information is also under its watch, helping to detect, suppress and repair

a wide spectrum of identity theft, including medical fraud or error. This extraordinary account enhancement delivers *Peace of Mind* with your banking relationship.

In the coming year, JVB will transform its customer service platform with the introduction of a Customer Resource Center, a centralized call and cyber-center, allowing customers to have virtually instant assistance with consumer loans, applications and chat services. Coupled with the continued superlative service at our 12 branch locations, JVB clients will enjoy better service than ever before.

In addition to our consumer-based customers, the business banking community will also benefit from expanded mobile and remote services with less time devoted to “a quick stop at the bank” and more time spent improving and expanding their own businesses.

The Juniata Valley Bank has always been committed to transforming the methods in which our existing clientele can access their financial information, and 2015 will be no different. At the same time, we will be continuing to expand our customer base into other regions with the same commitment to meet the changing needs of the banking industry and the increased needs of our customers.

# LETTER FROM THE PRESIDENT

**TRANSFORMATION** is defined as *“the thorough or dramatic change in form or appearance.”* While the names and faces of those who serve our clients remain the same, the channels through which we deliver financial services are dramatically changing. Juniata Valley Financial Corp., committed to enhancing shareholder value, is likewise committed to meeting the changing needs of its valued customers.

## PRODUCTS AND SERVICES

Cognizant of our customers’ changing needs and preferences, we transformed our products and delivery systems to add convenience across the franchise. Deposit automation was introduced at targeted locations to expand access to traditional banking transactional services. Our Consumer Mobile service array was enhanced to enable remote deposit through smart phones and tablets. Accessibility to electronic statements for all account types remained a focus to facilitate accounting records and to preserve the environment. Consumer Mobile, POP Money, and Funds Transfer combine to provide total access and total service around the clock.

## idLOCK

Mindful of society’s increasing vulnerability to identity theft and financial fraud, we transformed our consumer demand account offering to position idLOCK at the core of our value-added services providing our customers peace of mind through detection, suppression and reparation services. Our idLOCK enhancement enables all participating customers to embrace the time-saving, life-changing benefits technology provides without fear.



“ COGNIZANT OF OUR CUSTOMERS’  
CHANGING NEEDS AND PREFERENCES,  
WE TRANSFORMED OUR PRODUCTS AND  
DELIVERY SYSTEMS TO ADD CONVENIENCE  
ACROSS THE FRANCHISE. ”

JUVF's financial performance continues to validate our team efforts to anticipate and meet our market's needs. Assets grew 7.07% from year end 2013. As a result of strategic focus on growth markets and business sectors, loans grew over \$17 million, or 6.2%, the largest annual growth in loans in ten years. Return on average equity increased 3.0% from the previous year. Credit quality continued to improve as levels of non-performing loans have declined in each of the last three years, and at December 31, 2014, were 53% of the 2011 level. Strong capital ratios continue to support rich dividend distribution to our shareholders.

## AND 2015 PROMISES MORE.....

### NEW CUSTOMER RESOURCE CENTER

In the coming year, The Juniata Valley Bank will transform its service delivery through an all new centralized call and cyber-center. In addition to friendly personnel at 12 branch locations, customers will enjoy immediate assistance with consumer loans and deposit support inquiries by phone, on-line application and on-line chat. The expansion of our electronic outreach is expected to drive consumer lending volume through improved work flow models and more attractive pricing options. And in the community offices, we will integrate branch automation to expedite transactional service.

### BUSINESS CUSTOMER FOCUS

Products and services geared to our market's small business clients will continue to evolve and mature in 2015. Business mobile remote will provide additional service to the productive business owner. Lending relationship managers will continue their delivery of on-site support and service and will offer solutions for the overall financial well-being of our clients, thus transforming their roles and increasing the value they bring to our customers.

We anticipate greater penetration into Pennsylvania's Centre region this year, through focused marketing and calling efforts and an expanded array of consumer and business loan products.

The Juniata Valley Bank continues to be a financially sound, shareholder-focused Community Bank. As we dramatically change our delivery systems, our product line and our bankers to meet the changing needs of new customers and markets, we look forward to a dynamic change in the growth opportunities for Juniata Valley Financial Corp.

Join us in our transformation...

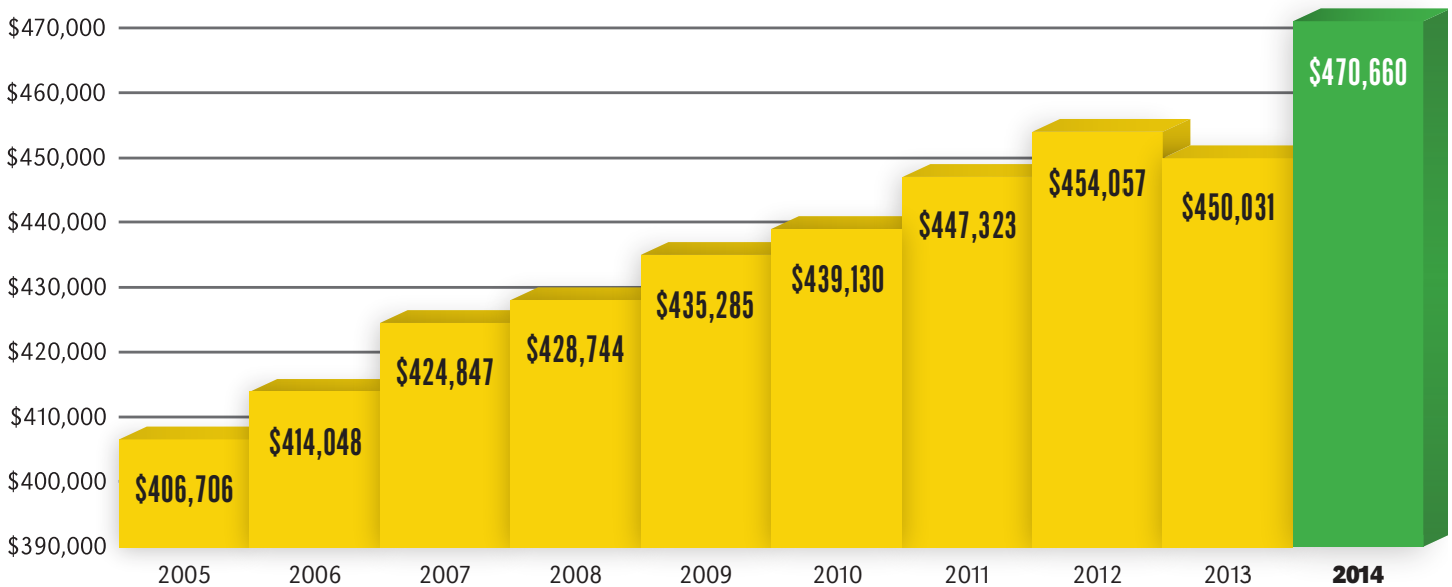


Marcie A. Barber | President and CEO



## AVERAGE ASSETS FOR THE YEAR

(In Thousands)



# JUVF Juniata Valley Financial Corp.

## 2014 Annual Report

### Table of Contents

Message from the President .....	Inside Front Cover
Five-Year Financial Summary – Selected Financial Data .....	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations .....	3-37
Report on Management’s Assessment of Internal Control over Financial Reporting .....	38
Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control over Financial Reporting.....	39
Reports of Independent Registered Public Accounting Firms on Consolidated Financial Statements.....	40-41
Financial Statements	
Consolidated Statements of Financial Condition .....	42
Consolidated Statements of Income .....	43
Consolidated Statements of Comprehensive Income .....	44
Consolidated Statements of Stockholders’ Equity.....	45
Consolidated Statements of Cash Flows.....	46
Notes to Consolidated Financial Statements .....	47-89
Common Stock Market Prices and Dividends .....	90
Corporate Information .....	90-91
Corporate Officers, Directors and Advisory Boards .....	92
Officers of the Juniata Valley Bank .....	Inside Back Cover



The Juniata Valley Bank, as an independent community bank, will endeavor to identify customers’ financial needs and exceed their expectations in delivering quality products and services at a fair price to assure shareholders an above average return and employees competitive salaries and benefits. The business of the bank will be conducted with integrity and responsiveness to the communities served.

# Juniata Valley Financial Corp. and Subsidiary

## Five-Year Financial Summary – Selected Financial Data

(In thousands of dollars, except share and per share data)

<b>BALANCE SHEET INFORMATION</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
at December 31					
Assets	\$ 480,529	\$ 448,782	\$ 448,869	\$ 447,433	\$ 435,753
Deposits	380,884	379,645	386,751	386,665	376,790
Loans, net of allowance for loan losses	292,521	275,511	274,219	286,750	295,278
Investments	145,629	128,262	124,911	114,077	83,356
Goodwill	2,046	2,046	2,046	2,046	2,046
Short-term borrowings	20,544	13,797	5,436	3,500	3,314
Long-term debt	22,500	—	—	—	—
Stockholders' equity	49,856	49,984	50,297	49,720	49,976
Number of shares outstanding	4,187,441	4,196,266	4,218,361	4,228,218	4,257,765
 Average for the year					
Assets	470,660	450,031	454,057	447,323	439,130
Stockholders' equity	50,704	49,571	49,766	50,355	50,654
Weighted average shares outstanding	4,192,761	4,210,336	4,231,404	4,241,286	4,297,443
 <b>INCOME STATEMENT INFORMATION</b>					
Years Ended December 31					
Total interest income	\$ 16,932	\$ 16,734	\$ 18,170	\$ 20,033	\$ 21,574
Total interest expense	<u>2,598</u>	<u>2,900</u>	<u>3,648</u>	<u>4,591</u>	<u>5,502</u>
Net interest income	14,334	13,834	14,522	15,442	16,072
Provision for loan losses	357	415	1,411	364	741
Other income	4,334	4,233	4,592	3,946	3,855
Other expenses	<u>13,570</u>	<u>13,146</u>	<u>13,077</u>	<u>12,802</u>	<u>12,641</u>
Income before income taxes	4,741	4,506	4,626	6,222	6,545
Federal income tax expense	<u>525</u>	<u>505</u>	<u>978</u>	<u>1,542</u>	<u>1,630</u>
Net income	<u>\$ 4,216</u>	<u>\$ 4,001</u>	<u>\$ 3,648</u>	<u>\$ 4,680</u>	<u>\$ 4,915</u>
 <b>PER SHARE DATA</b>					
Earnings per share - basic	\$ 1.01	\$ 0.95	\$ 0.86	\$ 1.10	\$ 1.14
Earnings per share - diluted	1.01	0.95	0.86	1.10	1.14
Cash dividends	0.88	0.88	0.88	0.86	0.82
Book value	11.91	11.91	11.92	11.76	11.74
 <b>FINANCIAL RATIOS</b>					
Return on average assets	0.90%	0.89%	0.80%	1.05%	1.12%
Return on average equity	8.31	8.07	7.33	9.29	9.70
Dividend payout	87.52	92.65	102.08	77.95	71.72
Average equity to average assets	10.77	11.02	10.96	11.26	11.54
Loans to deposits (year end)	76.80	72.57	70.90	74.16	78.37

# Juniata Valley Financial Corp. and Subsidiary

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

### FORWARD LOOKING STATEMENTS

The information contained in this Annual Report 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 as to 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 impact of adverse changes in the economy and real estate markets, including protracted periods of low-growth and sluggish loan demand; 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; 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 modified by the Basel III standards. Certain of these risks, uncertainties and other factors are discussed in this Annual Report or in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, a copy of which may be obtained from the Company upon request and without charge (except for the exhibits thereto).

### OVERVIEW

This discussion concerns Juniata Valley Financial Corp. ("Company" or "Juniata") and its wholly owned subsidiary, The Juniata Valley Bank ("Bank"). The overview is intended to provide a context for the following Management's Discussion and Analysis of Financial Condition and Results of Operations. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements, including the notes thereto, included in this annual report. We have attempted to identify the most important matters on which our management focuses in evaluating our financial condition and operating performance and the short-term and long-term opportunities, challenges and risks (including material trends and uncertainties) which we face. We also discuss the actions we are taking to address these opportunities, challenges and risks. The Overview is not intended as a summary of, or a substitute for review of, Management's Discussion and Analysis of Financial Condition and Results of Operations.

### Nature of Operations

Juniata is a bank holding company that delivers financial services within its market, primarily central Pennsylvania. The Company owns one bank, the Bank, which provides retail and commercial banking services through 12 offices in Juniata, Mifflin, Perry, Huntingdon and Centre counties. Additionally, Juniata owns 39.16% of Liverpool Community Bank ("LCB"), carried as an unconsolidated subsidiary and accounted for under the equity method of accounting.

The Bank provides a full range of consumer and commercial services. Consumer services include Internet, mobile and telephone banking, an automated teller machine network, personal checking accounts, interest checking accounts, savings accounts, insured money market accounts, debit cards, certificates of deposit, club accounts, secured and unsecured installment loans, construction and mortgage loans, safe deposit facilities, credit lines with overdraft checking protection, individual retirement accounts, health savings accounts, on-line bill payment and other on-line and mobile services. Commercial banking services include small and high-volume business checking accounts, on-line account management services, ACH origination, payroll direct deposit, commercial lines and letters of credit, commercial term and demand loans and repurchase agreements. The Bank also provides a variety of trust, asset management and estate services. The Bank offers annuities, mutual funds, stock and bond brokerage services and long-term care insurance products through an arrangement with a broker-dealer and insurance brokers. Management believes the Company has a relatively stable deposit base with no major seasonal depositor or group of depositors. Most of the Company's commercial customers are small and mid-sized businesses in central Pennsylvania.

# Juniata Valley Financial Corp. and Subsidiary

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

### Economic and Industry-Wide Factors Relevant to Juniata

As a financial services organization, Juniata's core business is most influenced by the movement of interest rates. Lending and investing is done daily, using funding from deposits and borrowings, resulting in net interest income, the most significant portion of operating results. Through the use of asset/liability management tools, the Company continually evaluates the effects that possible changes in interest rates could have on operating results and balance sheet growth. Using this information, along with analysis of competitive factors, management designs and prices its products and services.

General economic conditions are relevant to Juniata's business. In addition, economic factors impact customers' needs for financing, thus affecting loan growth. Additionally, changes in the economy can directly impact the credit strength of existing and potential borrowers.

### Focus of Management

The management of Juniata believes that it is important to know who and what we are in order to be successful. We must be aligned in our efforts to achieve goals. We've identified the four characteristics that define the Company and the personnel that support it. We are **Committed, Capable, Caring and Connected**. Management seeks to be the preeminent financial institution in its market area and measures its success by five key elements.

### Shareholder Satisfaction

Above all else, management is **committed** to maximizing the value of our shareholders' investment, through both stock value appreciation and dividend returns. Remaining **connected** to our communities will allow us to identify the financial needs of our market and to deliver those products and services **capably**. In doing so, we will profitably grow the balance sheet and enhance core earnings, while maintaining capital and liquidity levels well exceeding all regulatory guidelines.

### Customer Relationships

We are **committed** to maximizing customer satisfaction. We are sensitive to the expanding array of financial services and financial service providers available to our customers, both locally and globally. We are **committed** to fostering a complete customer relationship by helping clients identify their current and future financial needs and offering practical and affordable solutions to both. As our customers' lifestyles change, the channels through which we deliver our services must change as well. One element of the Company's strategic plan is to provide **connection** through every means available, wherever we are needed, whether through a stand-alone branch, in-store boutique, ATM or via on-line and mobile banking anywhere internet or cell phone signals can be received.

### Balance Sheet Growth

We are **capable** of profitable balance sheet growth. Rapid growth should not be a substitute for careful fiscal and strategic management. It is our goal to continue quality growth despite intense competition by paying **careful** attention to the needs of our customers. We will continue to maintain high credit standards, knowing that lending under the right circumstances is the proper way to maintain soundness and profitability. We believe we consistently pay fair market rates on all deposits, and have invested wisely and conservatively in compliance with self-imposed standards, minimizing risk of asset impairment. We aspire to increase our market share within the current communities that we serve, and to expand in contiguous areas through acquisition and investment. As part of our strategic plan for growth, we continue to actively seek opportunities for acquisitions of branches or stakes in other financial institutions, similar to those that have occurred in prior years.



# Juniata Valley Financial Corp. and Subsidiary

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

### Operating Results

We are **capable** of producing profitability ratios that exceed those of many of our peers. Recognizing that net interest margins have narrowed for banks in general and that they may not return to the ranges experienced in the past, we also focus on the importance of providing fee-generating services in which customers find value. Offering a broad array of services prevents us from becoming too reliant on one form of revenue. It has also been our philosophy to spend conservatively and to implement operating efficiencies where possible to keep non-interest expense from escalating in areas that can be controlled. In 2014, we continued to make advances in technological resources, placing data and information in the hands of our customers and employees, **committed** to optimizing the customer experience.

### Connection to the Community

We are active corporate citizens of the communities we serve. Although the world of banking has transitioned to global availability through electronics, we believe that our community banking philosophy is still valid. Despite technological advances, banking is still a personal business, particularly in the rural areas we serve. We believe that our customers shop for services and value a relationship with an institution involved in the same community, with the same interests in its prosperity. We have a foundation and a history in each of the communities we serve. Management takes an active role in local business and industry development organizations to help attract and retain commerce in our market area. We provide businesses, large and small, with financial tools and financing needed to grow and prosper. We have always been **committed** to responsible lending practices. We invest locally by including local municipal bonds in our investment portfolio and participating in funding for such projects as low income and elderly housing. We support charitable programs that benefit the local communities, not only with monetary contributions, but also through the personal involvement of our caring employees.

## Juniata's Opportunities

### Soundness and stability

Our financial condition is strong. We enjoy strong capital and liquidity ratios that significantly exceed regulatory guidelines. Our business model includes a plan for growth without sacrificing profitability or integrity. We believe an opportunity exists for banks such as ours to offer the trusted, personal service of a locally managed institution that has roots in the community reaching back more than 140 years.

### Expansion of customer base

Our strategic focus is based on leveraging our collective knowledge of the Company's primary and contiguous markets to identify lending or fee-based opportunities consistent with our risk parameters and profitability targets. We continue to develop our sales team through mentoring and by making employee education paramount. We continually seek and implement back-room efficiencies. We recognize changes taking place in a world where convenience and mobility are priorities for consumers and businesses when choosing a financial institution with whom to do business. We offer full-featured secure mobile banking that now includes remote check deposit for use on home computers and all mobile devices for consumers. For businesses, we provide options for cash management and remote deposit. In 2014, we further expanded our marketing and advertising channels to increase awareness of our Bank's services. We launched a new consumer checking account lineup that includes identity protection services for families. We believe this product to be a true value-added service, with features that go far beyond traditional banking services, and sets us apart from other financial institutions in our market area.

### Delivery system enhancements

We seek to continually enhance our customer delivery system, both through technology and physical facilities. We actively seek opportunities to expand our branch network through acquisitions. We believe that it is imperative that our customers have convenient and easy access to personal financial services that complement their particular lifestyle, whether it is through electronic or personal delivery. It is with this goal in mind that we announced our entrance into the mobile banking arena in 2011 and followed up with an on-line mortgage application product beginning in 2012. In 2013, remote deposit capabilities were enhanced for our business clients. In 2014, our ATMs were all upgraded to state-of-the-art machines, designed to appeal to both traditional customers and those that prefer electronic efficiencies. In addition to offering on-line and mobile services, our sales staff has also become more mobile, reaching out to clients and potential clients through on-site visits, connecting more closely with the business and personal financial needs of our customer base. Also in 2014, consumer mobile deposit capabilities were introduced to our mobile app users. In 2015, we are planning a complete website re-design, formulated to increase ease of navigation and provide for on-line loan applications. In 2015 we will also be launching our Customer Resource Center. Through the Center, our customers will receive personal service by highly trained staff for all their financial needs. Through this Group, lending decisions for all personal loans will be made effectively and efficiently with streamlined functionality.

# Juniata Valley Financial Corp. and Subsidiary

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

### Juniata's Challenges

#### Net interest margin compression

Low market interest rates have pressured the net interest margin for most banks, including Juniata's, in recent years. Interest-earning assets, such as loans and investments, have been originated, acquired or repriced at lower rates, reducing the average rate earned on those assets. While the average rate paid on interest-bearing liabilities, such as deposits and borrowings, has also declined, the decline has not always occurred at the same pace as the decline in the average rate earned on interest-earning assets, resulting in a narrowing of the net interest margin. We believe that this will continue to occur until general market rates rise.

#### Competition

Each year, competition becomes more intense and global in nature. To meet this challenge, we attempt to stay in close contact with our customers, monitoring their satisfaction with our services through surveys, personal visits and networking in the communities we serve. We strive to meet or exceed our customers' expectations and deliver consistent high-quality service. We believe that our customers have become acutely aware of the value of local service, and we strive to maintain their confidence.

#### Rate environment

We intend to continue making what we believe to be rational pricing decisions for loans, deposits and non-deposit products. This strategy can be difficult to maintain, as many of our peers appear to continue pricing for growth, rather than long-term profitability and stability. We believe that a strategy of "growth for the sake of growth" results in lower profitability, and such actions by large groups of banks have had an adverse impact on the entire financial services industry. We intend to maintain our core pricing principles, which we believe protect and preserve our future as a sound community financial services provider, proven by results.

#### Regulated Company

The Company is subject to banking regulation, as well as regulation by the Securities and Exchange Commission ("SEC") and, as such, must comply with many laws, including the USA Patriot Act, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the Dodd-Frank Wall Street Reform and Consumer Protection Act. Management has established a Disclosure Committee for Financial Reporting, an internal group at Juniata that seeks to ensure that current and potential investors in the Company receive full and complete information concerning our financial condition. Juniata has incurred direct and indirect costs associated with compliance with the SEC's filing and reporting requirements imposed on public companies by the Sarbanes-Oxley Act, as well as adherence to new and existing banking regulations and stronger corporate governance requirements. Regulatory burdens continue to increase as evidenced by the provisions in the Dodd-Frank Act that impact the Company in the areas of corporate governance, capital requirements and restrictions on fees that may be charged to consumers.

### APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared based upon the application of accounting principles generally accepted in the United States of America ("GAAP"), the most significant of which are described in Note 2 to our consolidated financial statements – Summary of Significant Accounting Policies. Certain of these policies, particularly with respect to allowance for loan losses and the investment portfolio, require numerous estimates and economic assumptions, based upon information available as of the date of the consolidated financial statements. As such, over time, they may prove inaccurate or vary and may significantly affect the Company's reported results and financial position in future periods.

The accounting policy for establishing the allowance for loan losses relies to a greater extent on the use of estimates than other areas and, as such, has a greater possibility of producing results that could be different from those currently reported. Changes in underlying factors, assumptions or estimates in the allowance for loan losses could have a material impact on the Company's future financial condition and results of operations. The section of this Annual Report to Shareholders entitled "Allowance for Loan Losses" provides management's analysis of the Company's allowance for loan losses and related provision expense. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses in the loan portfolio. Management's determination of the adequacy of the allowance for loan losses is based upon an evaluation of individual credits in the loan portfolio, historical loan loss experience, current economic conditions and other relevant factors. This determination is inherently subjective, as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

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.

# Juniata Valley Financial Corp. and Subsidiary

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

Considerations used by management to determine other-than-temporary impairment status of individual holdings within the investment securities portfolio are based partially upon estimations of fair value and potential for recovery. As market conditions and perception can unpredictably affect the value of individual investments in the future, these determinations could have a material impact on the Company's future financial condition and results of operations.

### RESULTS OF OPERATIONS

#### 2014

#### Financial Performance Overview

Net income for Juniata in 2014 was \$4,216,000, representing a 5.4% increase as compared to net income for 2013. Earnings per share on a fully diluted basis increased by 6.3%, from \$0.95 in 2013 to \$1.01 in 2014. The net interest margin, on a fully tax-equivalent basis, decreased from 3.53% in 2013 to 3.48% in 2014. The ratio of non-interest income (excluding gains on sales of securities) to average assets decreased by 2 basis points, while the ratio of non-interest expense to average assets decreased by 4 basis points to 2.88%. Five-year historical ratios are presented below.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Return on average assets	0.90%	0.89%	0.80%	1.05%	1.12%
Return on average equity	8.31	8.07	7.33	9.29	9.70
Yield on earning assets	3.94	4.09	4.39	4.91	5.42
Cost to fund earning assets	0.60	0.71	0.88	1.13	1.38
Net interest margin (fully tax equivalent)	3.48	3.53	3.68	3.97	4.24
Non-interest income (excluding gains on sales or calls of securities and securities impairment charges) to average assets	0.92	0.94	1.01	0.88	0.88
Non-interest expense to average assets	2.88	2.92	2.88	2.86	2.98
Net non-interest expense to average assets	1.96	1.98	1.87	1.98	2.10

As demonstrated above, there were improvements in both the Return on Average Asset and Return on Average Equity ratios in 2014 as compared to 2013, in spite of continued narrowing of the net interest margin. Much of the increase in 2014 can be attributed to increased net interest income, in spite of a lower net interest margin. The sustained low interest rate environment has resulted in generally lower margins for many banking organizations.

## Juniata Valley Financial Corp. and Subsidiary

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

Juniata strives to attain consistently high earnings levels each year by protecting the core (repeatable) earnings base through conservative growth strategies that minimize stockholder and balance-sheet risk, while serving its rural Pennsylvania customer base. This approach has helped achieve solid performances year after year. The Company considers the return on assets ("ROA") ratio to be a key indicator of its success and constantly scrutinizes the broad categories of the income statement that impact this profitability indicator. Summarized below are the components of net income (in thousands of dollars) and the contribution of each to ROA for 2014 and 2013.

	2014		2013	
		% of Average Assets		% of Average Assets
Net interest income	\$14,334	3.05%	\$ 13,834	3.07%
Provision for loan losses	(357)	(0.08)	(415)	(0.09)
Customer service fees	1,278	0.27	1,290	0.29
Debit card fee income	847	0.18	822	0.18
BOLI	391	0.08	416	0.09
Trust fees	438	0.09	355	0.08
Commissions from sales of non-deposit products	352	0.07	375	0.08
Income from unconsolidated subsidiary	236	0.05	237	0.05
Security gains (losses)	9	0.00	(2)	(0.00)
Mortgage banking income	214	0.05	338	0.08
Other noninterest income	569	0.12	402	0.09
Total noninterest income	<u>4,334</u>	<u>0.92</u>	<u>4,233</u>	<u>0.94</u>
Employee expense	(7,320)	(1.56)	(7,028)	(1.56)
Occupancy and equipment	(1,463)	(0.31)	(1,433)	(0.32)
Data processing expense	(1,545)	(0.33)	(1,450)	(0.32)
Director compensation	(205)	(0.04)	(223)	(0.05)
Professional fees	(396)	(0.08)	(388)	(0.09)
Taxes, other than income	(340)	(0.07)	(483)	(0.11)
FDIC insurance premiums	(310)	(0.07)	(331)	(0.07)
(Loss) gain on sales of other real estate owned	(22)	(0.00)	39	0.01
Intangible amortization	(45)	(0.01)	(45)	(0.01)
Amortization of investment in partnership	(479)	(0.10)	(448)	(0.10)
Other noninterest expense	(1,445)	(0.31)	(1,356)	(0.30)
Total noninterest expense	<u>(13,570)</u>	<u>(2.88)</u>	<u>(13,146)</u>	<u>(2.92)</u>
Income tax expense	(525)	(0.11)	(505)	(0.11)
Net income	<u>\$4,216</u>	<u>0.90%</u>	<u>\$ 4,001</u>	<u>0.89%</u>
Average assets	\$470,660		\$450,031	

#### Net Interest Income

Net interest income is the amount by which interest income on earning assets exceeds interest expense on interest bearing liabilities. Net interest income is the most significant component of revenue, comprising approximately 77% of total revenues (the total of net interest income and non-interest income, exclusive of security gains) for 2014. Interest spread measures the absolute difference between average rates earned and average rates paid. Because some interest earning assets are tax-exempt, an adjustment is made for analytical purposes to place all assets on a fully tax-equivalent basis. Net interest margin is the percentage of net return on average earning assets on a fully tax-equivalent basis and provides a measure of comparability of a financial institution's performance.

Both net interest income and net interest margin are impacted by interest rate changes, changes in the relationships between various rates and changes in the composition of the average balance sheet. Additionally, product pricing, product mix and customer preferences dictate the composition of the balance sheet and the resulting net interest income. Table 1 shows average asset and liability balances, average interest rates and interest income and expense for the years 2014, 2013 and 2012. Table 2 further shows changes attributable to the volume and rate components of net interest income.

# Juniata Valley Financial Corp. and Subsidiary

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

**Table 1**  
**AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS**  
(Dollars in thousands)

	Years Ended December 31,								
	2014			2013			2012		
	Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate	Average Balance (1)	Interest	Yield/ Rate
<b>ASSETS</b>									
Interest earning assets:									
Loans:									
Taxable (5)	\$260,613	\$13,840	5.31%	\$258,116	\$14,310	5.54%	\$263,174	\$15,439	5.87%
Tax-exempt	20,995	625	2.98	18,621	558	3.00	19,108	653	3.42
Total loans (8)	<u>281,608</u>	<u>14,465</u>	5.14	<u>276,737</u>	<u>14,868</u>	5.37	<u>282,282</u>	<u>16,092</u>	5.70
Investment securities:									
Taxable	111,649	1,950	1.75	91,972	1,267	1.38	88,482	1,311	1.48
Tax-exempt	34,203	513	1.50	37,210	583	1.57	36,429	738	2.03
Total investment securities	<u>145,852</u>	<u>2,463</u>	1.69	<u>129,182</u>	<u>1,850</u>	1.43	<u>124,911</u>	<u>2,049</u>	1.64
Interest bearing deposits	1,368	3	0.23	2,834	16	0.56	6,707	29	0.43
Federal funds sold	455	1	0.22	—	—	0.00	75	—	0.13
Total interest earning assets	<u>429,283</u>	<u>16,932</u>	3.94	<u>408,753</u>	<u>16,734</u>	4.09	<u>413,975</u>	<u>18,170</u>	4.39
Non-interest earning assets:									
Cash and due from banks	7,618			8,557			8,813		
Allowance for loan losses	(2,313)			(2,679)			(3,533)		
Premises and equipment	6,314			6,305			6,555		
Other assets (7)	29,758			29,095			28,247		
Total assets	<u>\$470,660</u>			<u>\$450,031</u>			<u>\$454,057</u>		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest bearing liabilities:									
Demand deposits (2)	\$ 97,920	163	0.17	\$ 94,338	160	0.17	\$ 96,599	209	0.22
Savings deposits	65,275	65	0.10	59,926	69	0.12	56,263	135	0.24
Time deposits	147,745	2,128	1.44	161,677	2,642	1.63	174,844	3,277	1.87
Other, including short and long-term borrowings, and other interest bearing liabilities	<u>27,589</u>	<u>242</u>	0.88	<u>8,848</u>	<u>29</u>	0.33	<u>5,330</u>	<u>27</u>	0.51
Total interest bearing liabilities	<u>338,529</u>	<u>2,598</u>	0.77	<u>324,789</u>	<u>2,900</u>	0.89	<u>333,036</u>	<u>3,648</u>	1.10
Non-interest bearing liabilities:									
Demand deposits	77,399			71,006			65,224		
Other	4,028			4,665			6,031		
Stockholders' equity	<u>50,704</u>			<u>49,571</u>			<u>49,766</u>		
Total liabilities and stockholders' equity	<u>\$470,660</u>			<u>\$450,031</u>			<u>\$454,057</u>		
Net interest income		<u>\$14,334</u>			<u>\$13,834</u>			<u>\$14,522</u>	
Net margin on interest earning assets (3)			<u>3.34%</u>			<u>3.38%</u>			<u>3.51%</u>
Net interest income and margin - Tax equivalent basis (4)		<u>\$14,920</u>	<u>3.48%</u>		<u>\$14,422</u>	<u>3.53%</u>		<u>\$15,239</u>	<u>3.68%</u>

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%.

# Juniata Valley Financial Corp. and Subsidiary

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

**Table 2**  
**RATE - VOLUME ANALYSIS OF NET INTEREST INCOME**

(Dollars in thousands)

	2014 Compared to 2013 Increase (Decrease) Due To (6)			2013 Compared to 2012 Increase (Decrease) Due To (6)		
	Volume	Rate	Total	Volume	Rate	Total
<b>ASSETS</b>						
Interest earning assets:						
Loans:						
Taxable (5)	\$ 137	\$(607)	\$(470)	\$(293)	\$ (836)	\$(1,129)
Tax-exempt	71	(4)	67	(16)	(79)	(95)
Total loans (8)	<u>208</u>	<u>(611)</u>	<u>(403)</u>	<u>(309)</u>	<u>(915)</u>	<u>(1,224)</u>
Investment securities:						
Taxable	303	380	683	50	(94)	(44)
Tax-exempt	<u>(46)</u>	<u>(24)</u>	<u>(70)</u>	<u>16</u>	<u>(171)</u>	<u>(155)</u>
Total investment securities	257	356	613	66	(265)	(199)
Interest bearing deposits	(6)	(7)	(13)	(20)	7	(13)
Federal funds sold	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest earning assets	<u>460</u>	<u>(262)</u>	<u>198</u>	<u>(263)</u>	<u>(1,173)</u>	<u>(1,436)</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest bearing liabilities:						
Demand deposits (2)	6	(3)	3	(5)	(44)	(49)
Savings deposits	6	(10)	(4)	8	(74)	(66)
Time deposits	(216)	(298)	(514)	(235)	(400)	(635)
Other, including short-term borrowings, and other interest bearing liabilities	<u>119</u>	<u>94</u>	<u>213</u>	<u>14</u>	<u>(12)</u>	<u>2</u>
Total interest bearing liabilities	<u>(85)</u>	<u>(217)</u>	<u>(302)</u>	<u>(218)</u>	<u>(530)</u>	<u>(748)</u>
Net interest income	<u>\$ 545</u>	<u>\$ (45)</u>	<u>\$ 500</u>	<u>\$ (45)</u>	<u>\$ (643)</u>	<u>\$ (688)</u>

- (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 net unrealized (losses) gains on securities available for sale: \$(38) in 2014, \$86 in 2013 and \$1,389 in 2012.
- (8) Interest income includes loan fees of \$153, \$185 and \$167, in 2014, 2013 and 2012, respectively.

## Juniata Valley Financial Corp. and Subsidiary

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

On average, total loans outstanding in 2014 increased from 2013 by 1.8%, to \$281,608,000. Average yields on loans decreased by 23 basis points in 2014 when compared to 2013. As shown in the preceding Rate – Volume Analysis of Net Interest Income Table 2, the decrease in yield reduced interest income on loans by approximately \$611,000, while the increase in volume increased interest income by \$208,000, resulting in an aggregate decrease in interest recorded on loans of \$403,000. While the prime rate has remained unchanged at 3.25% since December of 2008, most adjustable rate mortgages scheduled to reprice during 2014 that had not already reached a floor did so at rates below their previous rates, effectively decreasing the overall yield to the Bank. Additionally, in 2014, with fixed rates offered through the secondary market, it was favorable for some customers with adjustable rate loans to refinance through that program, decreasing both volume and yield in the loan portfolio. Likewise, new and refinanced portfolio loans were priced at lower rates than maturing loans during 2014, also contributing to the decrease in overall yield.

During 2014, the investment portfolio was restructured and increased. A portion of cash available from maturities, sales and repayments of investment securities, along with long-term debt, was used to invest in government sponsored agency mortgage backed securities with relatively short weighted average lives and similar risk characteristics to the former portfolio. Average balances of investment securities increased by \$16,670,000, and this volume increase accounted for a \$257,000 increase in interest income as compared to 2013. The improvement in the overall yield of the investment portfolio between 2013 and 2014 further increased net interest income by \$356,000.

In total, yield on earning assets in 2014 was 3.94% as compared to 4.09% in 2013, a decrease of 15 basis points. On a fully tax equivalent basis, yield on earning assets decreased from 4.24% in 2013 to 4.08% in 2014.

Average interest bearing liabilities increased by \$13,740,000 in 2014, as compared to 2013. Within the categories of interest bearing liabilities, deposits decreased on average by \$5,001,000, and borrowings increased by \$18,741,000 on average, in order to fund the increase in earning assets. During 2014, the most significant change in interest bearing deposits was in time deposit balances, which decreased on average by \$13,932,000, while interest-bearing demand and savings accounts increased on average by \$8,931,000. This shift continued a trend that has been occurring for several years. Management believes this trend reflects the consumers' response to historical low interest rates. In 2014, time deposits accounted for 47.5% of total interest-bearing deposits. One and two years prior, time deposits represented 51.2% and 53.4%, respectively, of all interest-bearing deposits. Changes in total interest-bearing liabilities reduced interest expense by \$85,000 in 2014 as compared to 2013, while decreases in interest rates further reduced interest expense by \$217,000. Non-interest bearing liabilities used to fund earning assets included demand deposits, which increased \$6,393,000 on average. The percentage of interest earning assets funded by non-interest bearing liabilities was approximately 21.1% in 2014 versus 20.5% in 2013. The total cost to fund earning assets (computed by dividing the total interest expense by the total average earning assets) in 2014 was 0.60%, as compared to 0.71% in 2013.

Net interest income was \$14,334,000 for 2014, an increase of \$500,000 when compared to 2013. Increases in volumes contributed \$545,000 toward the improved net interest income, partially offset by a \$45,000 reduction of net interest income due to rate changes.

#### Provision for Loan Losses

Juniata's provision for loan losses is determined as a result of an analysis of the adequacy level of the allowance for loan losses. In order to closely reflect the potential losses within the current loan portfolio based upon current information known, the Company carries no unallocated allowance. Using the process of analysis described in "Application of Critical Accounting Policies" earlier in this discussion, the Company determined that a provision of \$357,000 was appropriate for 2014, a decrease of \$58,000 when compared to 2013 when the total loan loss provision was \$415,000. The lower provision in 2014 primarily resulted from an analysis of the values of collateral securing certain impaired loans, which improved during 2014 with the reduction of impaired loans. Additionally, in 2014, the provision exceeded net charge-offs by \$93,000. Discussion included in the Loans and Allowance for Loan Losses in the section below titled "Financial Condition" explains the information and analysis used to arrive at the provision for 2014.

# Juniata Valley Financial Corp. and Subsidiary

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

### Non-interest Income

The Company remains committed to providing comprehensive services and products to meet the current and future financial needs of our customers. We believe that our responsiveness to customers' needs surpasses that of our competitors, and we measure our success by the customer acceptance of fee-based services. We continually explore avenues to enhance product offerings in areas beneficial to customers. We offer a variety of options for financing to home-buyers that includes a secondary market lending program, providing significant fee income. We continue to add new features and services for our electronic banking clientele. In 2014, we made fraud protection services available to all consumer depositors. We provide alternative investment opportunities through an arrangement with a broker dealer, and integrate the delivery of non-traditional products with our Trust and Wealth Management Division. This arrangement enables us to meet the investment needs of a varied customer base and to better identify our clients' needs for traditional trust services.

Fee-generated non-interest revenues consist of customer service fees derived from deposit accounts, trust relationships and sales of non-deposit products. In 2014, revenues from these services totaled \$2,068,000, representing an increase of \$48,000, or 2.4%, from 2013 revenues, primarily due to increases in fees earned from trust services. Total fees for trust services increased by \$83,000, or 23.4%, due primarily to fees earned from the final settlement of trust accounts. Fees from estate settlements decreased by \$7,000 in 2014 as compared to 2013, and non-estate fees increased by \$90,000. Variance in fees from estate settlements occurs because estate settlements occur sporadically and are not necessarily consistent year to year. Non-estate fees are repeatable revenues that generally increase and decrease in relation to movements in interest rates as market values of trust assets under management increase or decrease and as new relationships are established. Commissions from sales of non-deposit products decreased in 2014, by \$23,000 as a result of fewer sales.

Fees and income derived from the origination, sale and servicing of residential mortgage loans (mortgage banking income) was \$214,000 in 2014, a decrease of \$124,000, or 36.7%, compared to 2013, when refinancing activities occurred. Other non-interest-related fees derived from loan activity increased by \$37,000 when comparing 2014 to 2013. A gain of \$165,000 was recorded in 2014 as a result of a life insurance claim. No such activity occurred in 2013.

The Company owns 39.16% of the stock of Liverpool Community Bank ("LCB") and accounts for its ownership through the equity method. As such, 39.16% of the income of LCB is recorded by Juniata as non-interest income. As a result of this investment, \$236,000 was recorded as income in 2014, compared to \$237,000 in 2013. Earnings on bank-owned life insurance and annuities decreased in 2014 by \$25,000, or 6.0%, when compared to the previous year, because investment in BOLI was lower and crediting rates were reduced.

As a percentage of average assets, non-interest income (excluding securities gains and losses) was 0.92% in 2014 as compared to 0.94% in 2013.

### Non-interest Expense

Management strives to control non-interest expense where possible in order to achieve maximum operating results.

In 2014, total non-interest expense increased by \$424,000, or 3.2%, when compared to 2013. The primary driver in the change in non-interest expense was attributable to the cost of employee compensation. Compensation expense for 2014 increased by \$463,000 as compared to 2013, due to a number of factors, including an increase in full-time equivalent employment, higher commissions paid for sales of non-deposit products, and higher levels of accruals for employee incentive bonus, pursuant to the Company's Employee Annual Incentive Plan. Costs of employee benefits was \$171,000 lower in 2014 than in 2013. Offsetting the increase in payroll taxes, resulting from higher employee compensation costs, were lower medical insurance expenses within the Company's self-funded plan and lower cost of accounting for the frozen defined benefit plan. On December 31, 2012, the Company froze its defined benefit plan to future service accruals while at the same time significantly enhancing the defined contribution plan employer match for its employees.

Data processing expense increased by \$95,000 in 2014 as compared to 2013, as new electronic delivery services were initiated for the benefit of consumer and business customers. Expense for taxes, other than income taxes, declined by \$143,000 when comparing 2014 to 2013 as a result of a change in the computation of Pennsylvania Bank Shares Tax.

Amortization expense associated with the Bank's investment in a low-income housing project, which first became applicable during the second quarter of 2013, was more than offset by the recording of the benefit of the tax credit from the project in both 2014 and 2013. Amortization was \$479,000 in 2014 and \$448,000 in 2013. Amortization is scheduled to continue through 2023 at similar amounts.

Small variances in occupancy, equipment, director compensation, professional fees and FDIC insurance essentially offset each other, while sales of properties carried as other real estate owned generated net losses of \$22,000 in 2014, as compared to net gains of \$39,000 for 2013.

As a percentage of average assets, non-interest expense was 2.88% in 2014 as compared to 2.92% in 2013.



# Juniata Valley Financial Corp. and Subsidiary

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

### Income Taxes

Income tax expense for 2014 amounted to \$525,000 versus \$505,000 in 2013. Both periods included the effect of a tax credit in the amounts of \$575,000 and \$556,000, respectively. The tax credit was available to the Company as a result of an equity investment in a low income housing project. The effective tax rate in 2014 was 11.1% versus 11.2% in 2013. See Note 15 of Notes to Consolidated Financial Statements for further information on income taxes.

### Net Income

For comparative purposes, the following table sets forth earnings, in thousands of dollars, and selected earnings ratios for the past three years.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net income	\$4,216	\$4,001	\$3,648
Return on average assets	0.90%	0.89%	0.80%
Return on average equity	8.31%	8.07%	7.33%

### Outlook for 2015

Since December of 2008, the national prime rate has remained at 3.25% and the federal funds rate has remained at a historically low level. This recent period remains the longest period of unchanged rates in recent history. We expect, and are prepared for, the interest rate environment to remain relatively unchanged again throughout 2015. However, because experience also tells us that rate movement can occur quickly and significantly, we are managing our interest sensitive assets and liabilities with an understanding of the rate risk involved with rapidly rising rates. We enter 2015 with non-performing loans at the lowest level since 2010 and expect to see further reductions by year-end as problem credits are resolved. Our net interest margin remains a primary component of profitability; however, we continue to focus on opportunities for fee services, including an attempt to regain income lost to consumer regulation that lessens our ability to charge for consumer overdrafts, in order to augment revenues. We will maintain the conservative lending and investing philosophies and responsible deposit pricing that have resulted in our healthy net interest margin and solid balance sheet.

Also necessary to our success is the satisfaction level of our customers and employees. In recent years, we have introduced many new avenues of service delivery through technology, and continue to evaluate new technology. In 2014, we replaced our ATM network with new state-of-the art machines, designed with high-level functionality. In 2015, we added consumer remote deposit as a feature on our mobile banking app, enabling quick and easy deposit of checks, and will be following soon with the ability for our small business owners to do the same.

Increasing our customer base and connection with those customers is a priority. In 2014, we expanded our marketing efforts through various campaigns. We believe that it is imperative that our customers have convenient and easy access to personal financial services that complement their changing lifestyles, whether through electronic or personal delivery. Convenience and mobility remain priorities for a large segment of the population in deciding with whom one will do business, and thus we have made it our priority to provide such convenience.

In recent years, attempts to defraud consumers have continued to grow. For several years we have had mechanisms in place to detect and thwart fraud attempts against our customers before monetary loss. We believe our customers value the service. In 2014, we went beyond fraud detection on singular deposit accounts and now provide the opportunity for full ID protection for families of our depositors. This service accompanies a complete new line-up of accounts, designed to support the lifestyles and needs of our clientele. While over 80% of our consumer account holders are taking advantage of this service, we plan to market more broadly its features and benefits to further increase deposit market share.

Additionally, in 2015, our business development plan continues to expand and reward more horizontal integration, extending the opportunities for cross selling across departmental lines. We strive to be the financial services provider of choice to those within our market area.

Management is aware of the challenges facing us in the coming year. We are positioned to reward our stockholders with a good return on their investment in our Company while maintaining strong capital and liquidity levels, and we intend to remain in that position. The confidence of our stockholders and the trust of our community are vital to our ongoing success.

# Juniata Valley Financial Corp. and Subsidiary

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

### 2013 Financial Performance Overview

Net income for Juniata in 2013 was \$4,001,000, representing a 9.7% increase as compared to net income for 2012. Earnings per share on a fully diluted basis increased by 10.5%, from \$0.86 in 2012 to \$0.95 in 2013. The net interest margin, on a fully tax-equivalent basis, decreased from 3.68% in 2012 to 3.53%, in 2013. The ratio of non-interest income (excluding gains on sales of securities) to average assets decreased by 7 basis points, while the ratio of non-interest expense to average assets increased by 4 basis points to 2.92%.

Summarized below are the components of net income (in thousands of dollars) and the contribution of each to ROA for 2013 and 2012.

	2013		2012	
		% of Average Assets		% of Average Assets
Net interest income	\$13,834	3.07%	\$ 14,522	3.20%
Provision for loan losses	(415)	(0.09)	(1,411)	(0.31)
Customer service fees	1,290	0.29	1,282	0.28
Debit card fee income	822	0.18	809	0.18
BOLI	416	0.09	450	0.10
Trust fees	355	0.08	379	0.08
Commissions from sales of non-deposit products	375	0.08	353	0.08
Income from unconsolidated subsidiary	237	0.05	249	0.05
Security (losses) gains	(2)	(0.00)	2	0.00
Mortgage banking income	338	0.08	567	0.12
Other noninterest income	402	0.09	501	0.11
Total noninterest income	4,233	0.94	4,592	1.01
Employee expense	(7,028)	(1.56)	(7,286)	(1.60)
Occupancy and equipment	(1,433)	(0.32)	(1,439)	(0.32)
Data processing expense	(1,450)	(0.32)	(1,440)	(0.32)
Director compensation	(223)	(0.05)	(234)	(0.05)
Professional fees	(388)	(0.09)	(362)	(0.08)
Taxes, other than income	(483)	(0.11)	(438)	(0.10)
FDIC insurance premiums	(331)	(0.07)	(327)	(0.07)
Gain (Loss) on sales of other real estate owned	39	0.01	(34)	(0.01)
Intangible amortization	(45)	(0.01)	(45)	(0.01)
Amortization of investment in partnership	(448)	(0.10)	-	0.00
Other noninterest expense	(1,356)	(0.30)	(1,472)	(0.32)
Total noninterest expense	(13,146)	(2.92)	(13,077)	(2.88)
Income tax expense	(505)	(0.11)	(978)	(0.22)
Net income	\$4,001	0.89%	\$ 3,648	0.80%
Average assets	\$450,031		\$454,057	

# Juniata Valley Financial Corp. and Subsidiary

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

### Net Interest Income

On average, total loans outstanding in 2013 decreased from 2012 by 2.0%, to \$276,737,000. Average yields on loans decreased by 33 basis points in 2013 when compared to 2012. As shown in the preceding Rate – Volume Analysis of Net Interest Income Table 2, the decrease in yield reduced interest income on loans by approximately \$915,000, and the decrease in volume further reduced interest income by \$309,000, resulting in an aggregate decrease in interest recorded on loans of \$1,224,000. While the prime rate remained unchanged at 3.25% since December of 2008, most adjustable rate mortgages scheduled to reprice during 2013 that had not already reached a floor did so at rates below their previous rates, effectively decreasing the overall yield to the Bank. Additionally, in 2013, with fixed rates offered through the secondary market, it was favorable for some customers with adjustable rate loans to refinance through that program, decreasing both volume and yield in the loan portfolio. Likewise, new and refinanced portfolio loans were priced at lower rates during 2013, also contributing to the decrease in overall yield.

During 2013, 33% of the investment portfolio, or \$38,973,000, matured or was prepaid. All proceeds from these events and other funds available through loan repayments, totaling \$45,446,000, were reinvested in the investment portfolio in the lower rate environment, resulting in the decrease in overall yield of the investment securities by 21 basis points. Yields on the investment securities portfolio decreased to 1.43% in 2013, as compared to 1.64% in 2012. Yield declines decreased net interest income by \$265,000 when compared to 2012. Average balances of investment securities increased by \$4,271,000, and this volume increase accounted for a \$66,000 increase in interest income as compared to 2012.

In total, yield on earning assets in 2013 was 4.09% as compared to 4.39% in 2012, a decrease of 30 basis points. On a fully tax equivalent basis, yield on earning assets decreased from 4.56% in 2012 to 4.24% in 2013.

Average interest bearing liabilities decreased by \$8,247,000 in 2013, as compared to 2012. Within the categories of interest bearing liabilities, deposits decreased on average by \$11,765,000, and borrowings increased by \$3,518,000 on average. During 2013, the most significant change in interest bearing deposits was in time deposit balances, which decreased on average by \$13,167,000, while interest-bearing demand and savings accounts increased on average by \$1,402,000. This shift continued a trend that has been occurring for several years. Management believes this trend reflects the consumers' response to historical low interest rates. In 2013, time deposits accounted for 51.1% of total interest-bearing deposits. One and two years prior, time deposits represented 53.4% and 63.5%, respectively, of all interest-bearing deposits. Changes in total interest-bearing liabilities reduced interest expense by \$218,000 in 2013 as compared to 2012, while decreases in interest rates further reduced interest expense by \$530,000. Non-interest bearing liabilities used to fund earning assets included demand deposits, which increased \$5,782,000 on average. The percentage of interest earning assets funded by non-interest bearing liabilities was approximately 20.5% in 2013 versus 19.6% in 2012. The total cost to fund earning assets (computed by dividing the total interest expense by the total average earning assets) in 2013 was 0.71%, as compared to 0.88% in 2012.

Net interest income was \$13,834,000 for 2013, a decrease of \$688,000 when compared to 2012, with \$643,000 due to net rate decreases and \$45,000 attributed to net volume decreases.

### Provision for Loan Losses

Management performed an analysis following the process described in "Application of Critical Accounting Policies" earlier in this discussion, and determined that a provision of \$415,000 was appropriate for 2013, a decrease of \$996,000 when compared to 2012 when the total loan loss provision was \$1,411,000. The higher provision in 2012 was primarily the result of analysis of the values of collateral securing certain impaired loans. In 2013, net charge-offs exceeded the provision by \$994,000, due primarily to specific loss confirming events related to one loan in which a \$1,026,000 charge-off was taken in 2013, which had a specific reserve established in 2012.

# Juniata Valley Financial Corp. and Subsidiary

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

### Non-interest Income

In 2013, revenues from fee-generated services (customer service fees derived from deposit accounts, trust relationships and sales of non-deposit products) totaled \$2,020,000, representing a slight increase of \$6,000, or 0.3%, from 2012 revenues. Customer service fees derived from deposit accounts were \$8,000 higher in 2013 than in 2012. The slight increase was attributed to overdraft and non-sufficient fund charges to customers. Total fees for trust services decreased by \$24,000, or 6.3%, as fees from estate settlements decreased by \$9,000 in 2013 as compared to 2012, and non-estate fees decreased by \$15,000. Variance in fees from estate settlements occurs because estate settlements occur sporadically and are not necessarily consistent year to year. Non-estate fees are repeatable revenues that generally increase and decrease in relation to movements in interest rates as market values of trust assets under management increase or decrease and as new relationships are established. Commissions from sales of non-deposit products increased in 2013, resulting in a \$22,000 increase in related fee income.

Fees and income derived from the origination, sale and servicing of residential mortgage loans was \$338,000 in 2013, a decrease of \$229,000, or 40.4%, compared to 2012, when more refinancing activities occurred. Other non-interest-related fees derived from loan activity decreased by \$32,000 when comparing 2013 to 2012. A gain of \$53,000 was recorded in 2012 as a result of a life insurance claim. No such activity occurred in 2013.

The Company owns 39.16% of the stock of Liverpool Community Bank ("LCB") and accounts for its ownership through the equity method. As such, 39.16% of the income of LCB is recorded by Juniata as non-interest income. As a result of this investment, \$237,000 was recorded as income in 2013, compared to \$249,000 in 2012. Earnings on bank-owned life insurance and annuities decreased in 2013 by \$34,000, or 7.6%, when compared to the previous year, as crediting rates were reduced.

As a percentage of average assets, non-interest income (excluding securities gains and losses) was 0.94% in 2013 as compared to 1.01% in 2012.

### Non-interest Expense

In 2013, total non-interest expense increased by \$69,000, or 0.5%, when compared to 2012. The overall change in non-interest expense was attributable to the first year's amortization of the Company's investment in a low income housing project in 2013, offset by decreases in the cost for employee benefits expenses and costs associated with loan foreclosures (included in other non-interest expense). In 2013, amortization of the low income housing investment was \$448,000, with no such expense recorded in 2012. Amortization is scheduled to continue through 2023 at similar amounts.

On December 31, 2012, the Company froze its defined benefit plan to future service accruals while at the same time significantly enhancing the defined contribution plan employer match for its employees. The result was a reduction in expense of \$257,000, or 43.5%, in 2013 compared to 2012. Additionally, the cost of medical insurance for employees declined by \$203,000, or 23.6%, in the Company's self-funded plan. Small variances in occupancy, equipment, data processing, director compensation, professional fees and FDIC insurance resulted in a net increase of \$23,000 for 2013 in comparison to 2012. Sales of properties carried as other real estate owned generated net gains of \$39,000 for 2013, as compared to a net loss of \$34,000 during 2012. This increase was offset somewhat by a decrease in costs associated with assets in foreclosure of \$50,000, included in other non-interest expense.

As a percentage of average assets, non-interest expense was 2.92% in 2013 as compared to 2.88% in 2012. The low-income housing investment amortization increased this key ratio by 10 basis points. Excluding the new amortization, annualized non-interest expense would have been 2.82% of average assets, representing an improvement of 6 basis points.

### Income Taxes

Income tax expense for 2013 amounted to \$505,000, which included the effect of a tax credit in the amount of \$556,000, versus \$978,000 of income tax expense with no such credit in 2012. The tax credit is available to the Company as a result of an equity investment in a low income housing project. The effective tax rate in 2013 was 11.2% versus 21.1% in 2012. The reduction in the effective rate was attributed to the tax credit earned in 2013. See Note 15 of Notes to Consolidated Financial Statements for further information on income taxes.

# Juniata Valley Financial Corp. and Subsidiary

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

### FINANCIAL CONDITION

#### Balance Sheet Summary

Juniata functions as a financial intermediary and, as such, its financial condition is best analyzed in terms of changes in its uses and sources of funds, and is most meaningful when analyzed in terms of changes in daily average balances. The table below sets forth average daily balances for the last three years and the dollar change and percentage change for the past two years.

**Table 3**  
**Changes in Uses and Sources of Funds**  
(Dollars in thousands)

	2014	Increase (Decrease)		2013	Increase (Decrease)		2012
	Average Balance	Amount	%	Average Balance	Amount	%	Average Balance
<b>Funding uses:</b>							
Taxable loans	\$260,613	\$ 2,497	1.0%	\$258,116	\$(5,058)	(1.9)%	\$263,174
Tax-exempt loans	20,995	2,374	12.7	18,621	(487)	(2.5)	19,108
Taxable securities	111,649	19,677	21.4	91,972	3,490	3.9	88,482
Tax-exempt securities	34,203	(3,007)	(8.1)	37,210	781	2.1	36,429
Interest bearing deposits	1,368	(1,466)	(51.7)	2,834	(3,873)	(57.7)	6,707
Federal funds sold	455	455	—	—	(75)	(100.0)	75
Total interest earning assets	<u>429,283</u>	<u>20,530</u>	<u>5.0</u>	<u>408,753</u>	<u>(5,222)</u>	<u>(1.3)</u>	<u>413,975</u>
Investment in:							
Unconsolidated subsidiary	4,236	176	4.3	4,060	181	4.7	3,879
Low income housing	4,058	69	1.7	3,989	3,028	315.1	961
BOLI and annuities	14,757	141	1.0	14,616	410	2.9	14,206
Goodwill and intangible assets	2,145	(176)	(7.6)	2,321	65	2.9	2,256
Other non-interest earning assets	18,532	(353)	(1.9)	18,885	(2,039)	(9.7)	20,924
Unrealized gains on securities	(38)	(124)	(144.2)	86	(1,303)	(93.8)	1,389
Less: Allowance for loan losses	<u>(2,313)</u>	<u>366</u>	<u>(13.7)</u>	<u>(2,679)</u>	<u>854</u>	<u>(24.2)</u>	<u>(3,533)</u>
Total uses	<u>\$470,660</u>	<u>\$20,629</u>	<u>4.6%</u>	<u>\$450,031</u>	<u>\$(4,026)</u>	<u>(0.9)%</u>	<u>\$454,057</u>

# Juniata Valley Financial Corp. and Subsidiary

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

**Table 3 (Cont.)**  
**Changes in Uses and Sources of Funds**  
(Dollars in thousands)

	2014	Increase (Decrease)		2013	Increase (Decrease)		2012
	Average Balance	Amount	%	Average Balance	Amount	%	Average Balance
<b>Funding Sources:</b>							
Interest bearing demand deposits	\$ 97,920	\$ 3,582	3.8%	\$ 94,338	\$ (2,261)	(2.3)%	\$ 96,599
Savings deposits	65,275	5,349	8.9	59,926	3,663	6.5	56,263
Time deposits under \$100,000	118,694	(10,723)	(8.3)	129,417	(11,008)	(7.8)	140,425
Time deposits over \$100,000	29,051	(3,209)	(9.9)	32,260	(2,159)	(6.3)	34,419
Repurchase agreements	4,265	(67)	(1.5)	4,332	724	20.1	3,608
Short-term borrowings	5,003	1,804	56.4	3,199	2,737	592.4	462
Long-term debt	16,952	16,952	—	—	—	—	—
Other interest bearing liabilities	<u>1,369</u>	<u>52</u>	<u>3.9</u>	<u>1,317</u>	<u>57</u>	<u>4.5</u>	<u>1,260</u>
Total interest bearing liabilities	338,529	13,740	4.2	324,789	(8,247)	(2.5)	333,036
Demand deposits	77,399	6,393	9.0	71,006	5,782	8.9	65,224
Other liabilities	4,028	(637)	(13.7)	4,665	(1,366)	(22.6)	6,031
Shareholders' equity	<u>50,704</u>	<u>1,133</u>	<u>2.3</u>	<u>49,571</u>	<u>(195)</u>	<u>(0.4)</u>	<u>49,766</u>
Total sources	<u>\$470,660</u>	<u>\$ 20,629</u>	<u>4.6%</u>	<u>\$450,031</u>	<u>\$ (4,026)</u>	<u>(0.9)%</u>	<u>\$454,057</u>

Overall, total average assets increased by \$20,629,000, or 4.6%, for the year 2014 compared to 2013, following a decrease of \$4,026,000, or 0.9%, in 2013 over average assets in 2012. The ratio of average earning assets to total average assets was consistent at 91% in each of the last three years, while the ratio of average interest-bearing liabilities to total average assets dropped from 73% in 2012 to 72% in 2013, where it remained in 2014. Although Juniata's investment in its unconsolidated subsidiary, investment in a low income elderly housing project and its bank owned life insurance and annuities are not classified as interest-earning assets, income is derived directly from those assets. These instruments have represented 4.9% and 5.0% of total average assets in 2014 and 2013, respectively. A more detailed discussion of the Company's earning assets and interest bearing liabilities will follow in the Sections titled "Loans", "Investments", "Deposits" and "Market/Interest Rate Risk".

## Juniata Valley Financial Corp. and Subsidiary

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

#### Loans

Loans outstanding at the end of each year consisted of the following (in thousands):

	December 31,				
	2014	2013	2012	2011	2010
Commercial, financial and agricultural	\$ 23,738	\$ 26,281	\$ 19,296	\$ 19,417	\$ 19,911
Real estate - commercial	90,000	74,471	69,187	60,774	56,305
Real estate - construction	20,713	19,681	18,092	17,508	13,256
Real estate - mortgage	140,676	140,459	153,122	176,548	190,985
Obligations of states and political subdivisions	15,730	12,702	12,769	8,780	8,984
Personal	4,044	4,204	5,034	6,658	8,688
Unearned interest	—	—	—	(4)	(27)
Total	<u>\$294,901</u>	<u>\$277,798</u>	<u>\$277,500</u>	<u>\$289,681</u>	<u>\$298,102</u>

From year-end 2013 to year-end 2014, total loans outstanding increased by \$17,103,000, following an increase of \$298,000 in 2013 when compared to year-end 2012. The following table summarizes how the ending balances (in thousands) changed annually in each of the last three years.

	2014	2013	2012
Beginning balance	\$277,798	\$277,500	\$289,681
Net new loans (repayments)	17,891	2,359	(10,160)
Loans charged off	(275)	(1,431)	(1,071)
Loans transferred to other real estate owned and other adjustments to carrying value	(513)	(630)	(950)
Net change	<u>17,103</u>	<u>298</u>	<u>(12,181)</u>
Ending balance	<u>\$294,901</u>	<u>\$277,798</u>	<u>\$277,500</u>

The loan portfolio was comprised of approximately 49% consumer loans and 51% commercial loans (including construction) on December 31, 2014 as compared to 52% consumer loans and 48% commercial loans on December 31, 2013. Management believes that diversification in the loan portfolio is important and performs a loan concentration analysis on a quarterly basis. The highest loan concentration by activity type was commercial real estate loans secured by income-producing property, with debt service on this category of loans being reliant upon the cash flow generated by the property. In the aggregate, loans in this category had outstanding balances of \$37,324,000 at December 31, 2014, or 80.42% of capital. Components of this concentration group with balances considered for general reserve purposes are as follows:

	Outstanding Balance	% of Bank Capital
Operators of non-residential buildings	\$5,483,652	11.82%
Operators of apartment buildings	9,494,115	20.46%
Operators of dwellings other than apts	15,091,068	32.52%
Hotels and motels	<u>7,255,574</u>	<u>15.63%</u>
Total	<u>\$37,324,409</u>	<u>80.42%</u>

Given the reserves allocated to this sector over the past several years and the continuing softness in the market, management has assigned an additional concentration risk factor to this group of loans when analyzing the adequacy of the Allowance for Loan Losses. See Note 6 of Notes to Consolidated Financial Statements.

## Juniata Valley Financial Corp. and Subsidiary

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

During 2014, there was growth in the commercial real estate and construction lines of business, primarily as a result of participation opportunities with other banks as well as new business development. This growth was largely offset by the decrease in non-real estate commercial loans and personal loans, as the secondary market continued to offer more appealing fixed rates and longer terms to borrowers. Growth was further offset by payments and charge-downs of non-performing loans. Juniata is willing, able and continues to lend to qualifying businesses and individuals. Management also believes that the economic climate is improving and is resulting in loan growth. Our business model closely aligns lenders and community office managers' efforts to effectively develop referrals and existing customer relationships. Continued emphasis is placed on responsiveness and personal attention given to customers, which we believe differentiates the Bank from its competition. Nearly all commercial loans are either variable or adjustable rate loans, while non-mortgage consumer loans generally have fixed rates for the duration of the loan.

Juniata strives to offer fair, competitive rates and to provide optimal service in order to attract loan growth. Emphasis will continue to be placed upon attracting the entire customer relationship of our borrowers.

The loan portfolio carries the potential risk of past due, non-performing or, ultimately, charged-off loans. The Bank attempts to manage this risk through credit approval standards and aggressive monitoring and collection efforts. Where prudent, the Bank secures commercial loans with collateral consisting of real and/or tangible personal property. Management further believes that non-performing loans will continue to decline in 2015. The Company maintains a dedicated credit administration division, in response to the need for heightened credit review, both in the loan origination process and in the ongoing risk assessment process. With stringent credit standards in place, Juniata's lending strategy stresses quality growth, diversified by product. A standardized credit policy is in place throughout the Company, and the credit committee of the Board of Directors reviews and approves all loan requests for amounts that exceed management's approval levels. The Company makes credit judgments based on a customer's existing debt obligations, collateral, ability to pay and general economic trends. See Note 2 of Notes to Consolidated Financial Statements.

The allowance for loan losses has been established in order to absorb probable losses on existing loans. A quarterly provision or credit is charged to earnings to maintain the allowance at adequate levels. Charge-offs and recoveries are recorded as adjustments to the allowance. The allowance for loan losses at December 31, 2014 was 0.81% of total loans, net of unearned interest, as compared to 0.82% of total loans, net of unearned interest, at the end of 2013. The allowance increased \$93,000 when compared to December 31, 2013, as a result of net charge-offs of \$264,000 offset by the provision of \$357,000. Net charge-offs for 2014 and 2013 were 0.09% and 0.51% of average loans, respectively.

At December 31, 2014, non-performing loans (as defined in Table 4 below), as a percentage of the allowance for loan losses, were 237.2% as compared to 271.2% at December 31, 2013. Non-performing loans were 1.91% of loans as of December 31, 2014, and 2.23% of loans as of December 31, 2013. Management believes that the decreasing levels of nonperforming loans in 2013 and 2014 will continue into 2015. All the \$5,646,000 of non-performing loans at December 31, 2014 are collateralized with real estate.

**Table 4**  
**Non-Performing Loans**

	December 31,				
	2014	2013	2012	2011	2010
	(In thousands)				
Nonaccrual loans	\$4,880	\$5,952	\$8,846	\$ 7,947	\$5,964
Accruing loans past due 90 days or more	400	251	742	2,743	1,007
Restructured loans in default and non-accruing	366	-	-	-	-
Total non-performing loans	\$5,646	\$6,203	\$9,588	\$10,690	\$6,971



# Juniata Valley Financial Corp. and Subsidiary

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

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's nonaccrual and charge-off policies are the same, regardless of loan type. During 2014, gross interest income that would have been recorded if loans on nonaccrual status had been current was \$445,000, of which \$63,000 was collected and included in net income.

### Allowance for Loan Losses

The amount of allowance for loan losses is determined through a critical quantitative and qualitative analysis performed by management that includes significant assumptions and estimates. It is maintained at a level deemed sufficient to absorb probable estimated losses within the loan portfolio, and supported by detailed documentation. To assess potential credit weaknesses, it is critical to analyze observable trends that may be occurring.

Management systematically monitors the loan portfolio and the adequacy of the allowance for loan losses on a quarterly basis to provide for probable losses inherent in the portfolio. The Bank's methodology for maintaining the allowance is highly structured and contains two components: a component for loans that are deemed to be impaired and a component for contingencies.

#### Component for impaired loans:

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 analysis, 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.

# Juniata Valley Financial Corp. and Subsidiary

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

As of December 31, 2014, 51 loans, with aggregate outstanding balances of \$6,553,000, were evaluated for impairment. A collateral analysis was performed on each of these 51 loans in order to establish a portion of the reserve needed to carry impaired loans at no higher than fair value. As a result, five loans were determined to have insufficient collateral, and specific reserves were established for each of the five impaired loans, totaling \$150,000.

### Component for contingencies:

A contingency is an existing condition, or set of circumstances, involving uncertainty as to possible gain or loss to the Company that will ultimately be resolved when one or more future events occur or fail to occur. These conditions may be considered in relation to individual loans or in relation to groups of similar types of loans. If the conditions are met, a provision is made even though the particular loans that are uncollectible may not be identifiable.

The component of the allowance for contingencies relates to other loans that have been segmented into risk rated categories as follows:

- Commercial, financial and agricultural
- Real estate – commercial
- Real estate - construction
- Real estate – mortgage
- Obligations of states and political subdivisions
- Personal

Contingency allowance evaluation consists of several key elements. 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 as doubtful have all the weaknesses inherent in loans classified as 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 for the past seven years. The 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.

## Juniata Valley Financial Corp. and Subsidiary

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

A summary of activity in the allowance for loan loss for the last five years (in thousands) is shown below. The level of net charge-offs in 2014 was the lowest in the most recent three year period. The area most affected by charge-offs in each of the five years presented was real estate – mortgages, whose balances accounted for approximately 48% of the total loan portfolio at December 31, 2014. In 2014, the Company recorded net charge-offs of \$264,000. Due to charge-offs and successful resolution of other troubled debt, non-performing loans decreased by \$557,000, or 9.0%, at December 31, 2014 compared to December 31, 2013. As such, the level of allowance needed to adequately reserve for loan losses decreased. Management's analysis indicated that an adequate loan loss allowance would be \$2,380,000 at December 31, 2014.

	Years ended December 31,				
	2014	2013	2012	2011	2010
Balance of allowance - beginning of period	\$2,287	\$3,281	\$2,931	\$2,824	\$2,719
Loans charged off:					
Commercial, financial and agricultural	20	4	25	18	134
Real estate - commercial	92	-	-	37	-
Real estate - construction	18	117	193	-	-
Real estate - mortgage	125	1,281	852	205	482
Personal	20	29	1	22	38
Total charge-offs	<u>275</u>	<u>1,431</u>	<u>1,071</u>	<u>282</u>	<u>654</u>
Recoveries of loans previously charged off:					
Commercial, financial and agricultural	4	13	8	2	-
Real estate - commercial	5	-	-	-	-
Real estate - mortgage	-	-	-	10	-
Personal	2	9	2	13	18
Total recoveries	<u>11</u>	<u>22</u>	<u>10</u>	<u>25</u>	<u>18</u>
Net charge-offs	264	1,409	1,061	257	636
Provision for loan losses	357	415	1,411	364	741
Balance of allowance - end of period	<u>\$2,380</u>	<u>\$2,287</u>	<u>\$3,281</u>	<u>\$2,931</u>	<u>\$2,824</u>
Ratio of net charge-offs during period to average loans outstanding	<u>0.09%</u>	<u>0.51%</u>	<u>0.38%</u>	<u>0.09%</u>	<u>0.21%</u>

The following tables show how the allowance for loan losses is allocated among the various types of outstanding loans and the percent of loans by type to total loans.

#### Allocation of the Allowance for Loan Losses (in thousands) December 31,

	2014	2013	2012	2011	2010
Commercial, financial and agricultural	\$ 222	\$ 253	\$ 179	\$ 195	\$ 163
Real estate - commercial	665	534	463	455	442
Real estate - construction	155	212	202	442	336
Real estate - mortgage	1,300	1,246	2,387	1,771	1,810
Obligations of states and political subdivisions	-	-	-	-	-
Personal	38	42	50	68	73
	<u>\$2,380</u>	<u>\$2,287</u>	<u>\$3,281</u>	<u>\$2,931</u>	<u>\$2,824</u>

#### Percent of Loan Type to Total Loans December 31,

	2014	2013	2012	2011	2010
Commercial, financial and agricultural	8.0%	9.5%	7.0%	6.7%	6.7%
Real estate - commercial	30.5%	26.8%	24.9%	21.0%	18.9%
Real estate - construction	7.0%	7.1%	6.5%	6.0%	4.4%
Real estate - mortgage	47.8%	50.5%	55.2%	61.0%	64.1%
Obligations of state and political subdivisions	5.3%	4.6%	4.6%	3.0%	3.0%
Personal	1.4%	1.5%	1.8%	2.3%	2.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

## Juniata Valley Financial Corp. and Subsidiary

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

#### Investments

Total investments, defined to include all interest earning assets except loans (i.e. investment securities available for sale (at market value), federal funds sold, interest bearing deposits, Federal Home Loan Bank stock and other interest-earning assets), totaled \$145,639,000 on December 31, 2014, representing an increase of \$17,334,000 when compared to year-end 2013. The following table summarizes how the ending balances (in thousands) changed annually in each of the last three years.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Beginning balance	\$128,305	\$125,047	\$116,177
Purchases of investment securities	66,451	45,446	87,319
Sales, calls and maturities of investment securities	(50,533)	(38,973)	(75,816)
Adjustment in market value of AFS securities	1,573	(2,325)	(34)
Amortization/Accretion	(634)	(440)	(412)
Federal Home Loan Bank stock, net change	759	241	26
Federal funds sold, net change	-	-	-
Interest bearing deposits with others, net change	(282)	(691)	(2,213)
Net change	<u>17,334</u>	<u>3,258</u>	<u>8,870</u>
Ending Balance	<u>\$145,639</u>	<u>\$128,305</u>	<u>\$125,047</u>

On average, investments increased by \$15,659,000, or 11.9%, during 2014, following an increase of \$323,000, or 0.2%, during 2013. The increase in 2014 resulted from a restructuring of a portion of the investment securities portfolio, funded partly by issuing long-term debt.

The investment area is managed according to internally established guidelines and quality standards. Juniata segregates its investment securities portfolio into two classifications: those held to maturity and those available for sale. Juniata classifies all new marketable investment securities as available for sale, and currently holds no securities in the held to maturity or trading classifications. At December 31, 2014, the market value of the entire securities portfolio was greater than amortized cost by \$435,000 as compared to December 31, 2013, when market value was below amortized cost by \$1,138,000. The weighted average life of the investment portfolio was 2.8 years on December 31, 2014 versus 4.1 years on December 31, 2013. The weighted average maturity has remained short in order to achieve a desired level of liquidity. Table 5, "Maturity Distribution", in this Management's Discussion and Analysis of Financial Condition shows the remaining maturity or earliest possible repricing for investment securities. The following table sets forth the maturities of securities (in thousands) and the weighted average yields of such securities by contractual maturities or call dates. Yields on obligations of states and public subdivisions are presented on a tax-equivalent basis.

## Juniata Valley Financial Corp. and Subsidiary

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

Securities Type and maturity	December 31, 2014		December 31, 2013		December 31, 2012	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
<u>Obligations of U.S. Government agencies and corporations</u>						
Within one year	\$ 4,566	1.96%	\$ 4,192	0.77%	\$ 7,996	2.10%
After one year but within five years	38,723	1.28	47,578	1.26	42,796	1.19
After five years but within ten years	<u>6,812</u>	<u>1.44</u>	<u>26,508</u>	<u>1.50</u>	<u>22,025</u>	<u>1.10</u>
	50,101	1.37%	78,278	1.32%	72,817	1.26%
<u>Obligations of state and political subdivisions</u>						
Within one year	9,934	1.71%	8,314	2.36%	10,505	3.12%
After one year but within five years	16,853	2.14	26,098	1.94	29,809	2.18
After five years but within ten years	8,748	3.27	7,182	3.11	4,936	3.42
After ten years	<u>338</u>	<u>1.83</u>	<u>338</u>	<u>1.82</u>	<u>726</u>	<u>2.05</u>
	35,873	2.29%	41,932	2.23%	45,976	2.52%
<u>Mortgage-backed securities</u>						
Within one year	–	–	878	2.86%	–	–
After one year but within five years	537	2.08%	1,003	2.63	1,428	2.46%
After five years but within ten years	3,417	1.58	2,588	2.09	1,098	1.24
After ten years	<u>51,475</u>	<u>2.13</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	55,429	2.10%	4,469	2.36%	2,526	1.93%
Equity securities	<u>1,500</u>		<u>1,367</u>		<u>1,019</u>	
	<u>\$142,903</u>		<u>\$126,046</u>		<u>\$122,338</u>	

#### Bank Owned Life Insurance and Annuities

The Company periodically insures the lives of certain bank officers in order to provide split-dollar life insurance benefits to some key officers and to offset the cost of providing post-retirement benefits through non-qualified plans. Some annuities are also owned to provide cash streams that match certain post-retirement liabilities. See Note 8 of Notes to Consolidated Financial Statements. The following table summarizes how the cash surrender values (in thousands) of these instruments changed annually in each of the last three years.

	2014	2013	2012
Beginning balance	\$14,848	\$14,402	\$14,069
BOLI increase in cash surrender value	386	426	465
BOLI receipt of death benefit	(450)	–	(147)
Annuities net increase in cash surrender value	<u>23</u>	<u>20</u>	<u>15</u>
Net change	<u>(41)</u>	<u>446</u>	<u>333</u>
Ending balance	<u>\$14,807</u>	<u>\$14,848</u>	<u>\$14,402</u>

# Juniata Valley Financial Corp. and Subsidiary

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

### 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. The investment was carried at \$4,369,000 as of December 31, 2014. 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 which would justify the current carrying value of the investment. The carrying amount at December 31, 2014 represented an increase of \$197,000 when compared to December 31, 2013. In connection with this investment, two representatives of Juniata serve on the Board of Directors of LCB.

### Goodwill and Intangible Assets

In 2006, the Company acquired a branch office in Richfield, PA. Completing this purchase was in line with a strategic goal of the Company to expand its base into contiguous market areas within rural Pennsylvania. Included in the purchase price of the branch was goodwill of \$2,046,000. Additionally, core deposit intangible was acquired and had carrying values of \$75,000 and \$119,000, as of December 31, 2014 and December 31, 2013, respectively. The core deposit intangible is being amortized over a ten-year period on a straight-line basis. Goodwill is not being amortized, but is measured annually for impairment.

The Company originates and sells residential mortgage loans into the secondary market, but retains the servicing on the loans. The mortgage servicing rights are valued based on the present value of estimated future cash flows on pools of mortgages stratified by rate and maturity date. The computed value is carried as an intangible asset. As of December 31, 2014, the fair value of mortgage servicing rights was \$193,000, compared to \$167,000 on December 31, 2013.

### Deferred Taxes

The Company accounts for income taxes under the asset/liability method. Deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carry-forwards, if applicable. A valuation allowance is established against deferred tax assets when, in the judgment of management, it is more likely than not that such deferred tax assets will not become realizable. Management has determined that there was no need for a valuation allowance for deferred taxes as of December 31, 2014 and 2013. As of December 31, 2014 and 2013, the Company recorded a net deferred tax asset of \$672,000 and \$602,000, respectively, which was carried as a non-interest earning asset. Significant components of the increase of \$70,000 included:

1. A change in the funded status of the Company's defined benefit plan, increasing the deferred tax asset by \$799,000,
2. A decrease of \$535,000 in the deferred tax asset relating to unrealized losses arising in the available-for-sale securities portfolio,
3. A decrease of \$104,000 in the deferred tax asset relating to loan origination costs and prepaid expense,
4. A \$36,000 increase in the deferred tax asset relating to the allowance for loan losses.

The remainder of the difference was due to the various other changes in gross temporary tax differences. See Note 15 of Notes to Consolidated Financial Statements.

## Juniata Valley Financial Corp. and Subsidiary

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

#### Other Non-interest Earning Assets

The following table summarizes the components of the non-interest earning asset category, and how the ending balances (in thousands) changed annually in each of the last three years.

	2014	2013	2012
Beginning balance	\$23,614	\$28,893	\$24,386
Cash and due from banks	(1,813)	(5,691)	2,187
Premises and equipment, net	203	(142)	(238)
Other real estate owned	(49)	(147)	1
Investment in low income housing	(143)	194	3,403
Other receivables and prepaid expenses, including deferred tax assets	(933)	507	(846)
Net change	(2,735)	(5,279)	4,507
Ending balance	\$20,879	\$23,614	\$28,893

#### Deposits

At December 31, 2014, total deposits were \$380,884,000, an increase of \$1,239,000 from total deposits on December 31, 2013. From year-end 2012 to year-end 2013, total deposits decreased by \$7,106,000. The following table summarizes how the ending balances (in thousands) changed annually in each of the last three years.

	2014	2013	2012
Beginning balance	\$379,645	\$386,751	\$386,665
Demand deposits	3,086	3,293	6,567
Interest bearing demand deposits	5,808	(482)	(2,707)
Savings deposits	6,669	4,379	5,667
Time deposits, \$100,000 and greater	(3,290)	(2,012)	(26)
Time deposits, other	(11,034)	(12,284)	(9,415)
Net change	1,239	(7,106)	86
Ending balance	\$380,884	\$379,645	\$386,751

## Juniata Valley Financial Corp. and Subsidiary

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

The following table shows (in thousands of dollars) the comparison of average core deposits and average time deposits as a percentage of total deposits for each of the last three years.

	Changes in Deposits (Dollars in thousands)						
	2014			2013			2012
	Average Balance	Increase (Decrease)		Average Balance	Increase (Decrease)		Average Balance
	Amount	%	Amount	%	Amount	%	Balance
Core transaction deposits:							
Money market	\$ 37,374	\$ (1,546)	(4.0)%	\$ 38,920	\$ (3,073)	(7.3)%	\$ 41,993
Interest bearing demand	60,546	5,128	9.3	55,418	812	1.5	54,606
Savings	65,275	5,349	8.9	59,926	3,663	6.5	56,263
Demand	77,399	6,393	9.0	71,006	5,782	8.9	65,224
Total	<u>240,594</u>	<u>15,324</u>	<u>6.8</u>	<u>225,270</u>	<u>7,184</u>	<u>3.3</u>	<u>218,086</u>
Time deposits:							
\$100,000 and greater	29,051	(3,209)	(9.9)	32,260	(2,159)	(6.3)	34,419
Other	118,694	(10,723)	(8.3)	129,417	(11,008)	(7.8)	140,425
Total	<u>147,745</u>	<u>(13,932)</u>	<u>(8.6)</u>	<u>161,677</u>	<u>(13,167)</u>	<u>(7.5)</u>	<u>174,844</u>
Total deposits	<u>\$388,339</u>	<u>\$ 1,392</u>	<u>0.4%</u>	<u>\$386,947</u>	<u>\$ (5,983)</u>	<u>(1.5)%</u>	<u>\$392,930</u>

Average deposits increased \$1,392,000, or 0.4%, to \$388,339,000 in 2014 following a decrease in 2013 of \$5,983,000, or 1.5%, to \$386,947,000. Core transaction accounts increased by 6.8% and 3.3%, respectively, in 2014 and 2013. We believe that, over the past two years, because of the market uncertainties that accompany uncertain economic periods, investors have moved balances of available funds into safe, FDIC-insured banking institutions and particularly into liquid transaction accounts. In both 2014 and 2013 however, funds invested in time deposits have declined. Due to the sustained low-interest rate environment, we believe many investors are seeking higher yields than are available in time deposit products. We continue to provide alternatives to such investors through the sale of our wealth management (non-deposit) products and are seeing investors seeking dividend yields in the stock market as well.

The consumer continues to have a need for transaction accounts, and the Bank is continuing to focus on that need in order to build deposit relationships. Our products are geared toward low-cost convenience and ease for the customer. The Company's strategy is to aggressively seek to grow customer relationships by staying in touch with customers' changing needs and new methods of connectivity, in an effort to increase deposit (and loan) market share. Recently, the Bank has added identity protection services as an option for all consumer demand depositors. We believe this product to be a valuable and essential tool necessary to combat the upsurge in fraud and identity theft. This product is a unique benefit to our customers as there are no other banks in our immediate market that offer a similar service.

The Bank competes in the marketplace with many sources that offer products that directly compete with traditional banking products. In keeping with our desire to provide our customers with a full array of financial services, we supplement the services traditionally offered by our Trust Department by staffing our community offices with wealth management consultants that are licensed and trained to sell variable and fixed rate annuities, mutual funds, stock brokerage services and long-term care insurance. Although the sale of these products can reduce the Bank's deposit levels, these products offer solutions for our customers that traditional bank products cannot and allow us to more completely service our customer base. Fee income from the sale of non-deposit products (primarily annuities and mutual funds) was \$352,000 and \$375,000 in 2014 and 2013, respectively, representing approximately 7.4% and 8.3%, respectively, of total pre-tax income.



## Juniata Valley Financial Corp. and Subsidiary

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

#### Other Interest Bearing Liabilities

Juniata funds its needs primarily with local deposits and when necessary, relies on external funding sources for additional funding requirements. These funding sources include credit facilities at correspondent banks and the Federal Home Loan Bank of Pittsburgh. Juniata's average balances for all borrowings increased in 2014 by \$18,741,000, following an increase of \$3,518,000 in 2013 as compared to 2012. The increase in 2013 was related to the Company's use of short-term borrowings to fund loan and investment growth. The increase in 2014 was primarily due to the issuance of long-term debt to provide funding for the loan growth and the restructuring of the investment portfolio.

	Changes in Borrowings (Dollars in thousands)						
	2014	Increase (Decrease)		2013	Increase (Decrease)		2012
	Average Balance	Amount	%	Average Balance	Amount	%	Average Balance
Repurchase agreements	\$ 4,265	\$ (67)	(1.5)%	\$4,332	\$ 724	20.1%	\$3,608
Short-term borrowings	5,003	1,804	56.4	3,199	2,737	592.4	462
Long-term debt	16,952	16,952	-	-	-	-	-
Other interest bearing liabilities	1,369	52	3.9	1,317	57	4.5	1,260
	<u>\$27,589</u>	<u>\$18,741</u>	<u>211.8%</u>	<u>\$8,848</u>	<u>\$3,518</u>	<u>66.0%</u>	<u>\$5,330</u>

#### Pension Plan

Through its noncontributory pension plan, the Company provides pension benefits to substantially all of its employees that were employed as of December 31, 2007. Benefits are provided based upon an employee's years of service and compensation through December 31, 2012. Effective December 31, 2012, the defined benefit retirement plan was amended to cease future service accruals after that date (frozen). ASC Topic 715 gives guidance on the allowable pension expense that is recognized in any given year. In determining the appropriate amount of pension expense to recognize, management must make subjective assumptions relating to amounts and rates that are inherently uncertain. Please refer to Note 20 of Notes to Consolidated Financial Statements.

## Juniata Valley Financial Corp. and Subsidiary

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

#### Stockholders' Equity

Total stockholders' equity decreased by \$128,000 in 2014. The small net decrease in stockholders' equity resulted from a number of factors. The other comprehensive loss associated with the company's defined benefit plan, net of tax caused a decrease of \$1,585,000. In 2014, the status of the plan became underfunded as a result of the change in assumptions applied to the actuarial calculation of the projected benefit obligation. Previously, the plan was considered to be overfunded, but as of December 31, 2014 was considered to be underfunded. It is the Company's practice to use the most recently updated mortality tables in the assumptions, which projects significant mortality improvement to the Company's participant characteristics. Additionally, the discount rate assumption used to determine the benefit obligations dropped by 75 basis points as of December 31, 2014 compared to December 31, 2013. These factors combined to create the significant change to the funded status. Partially offsetting this change was an increase in fair values of investment securities at year-end 2014 as compared to year-end 2013, adding \$1,047,000 back to equity. Undistributed earnings added \$526,000 while stock-based transactions used \$116,000. The following table summarizes how the components of equity (in thousands) changed annually in each of the last three years.

	2014	2013	2012
Beginning balance	\$49,984	\$50,297	\$49,720
Net income	4,216	4,001	3,648
Dividends	(3,690)	(3,707)	(3,724)
Stock-based compensation	47	30	25
Repurchase of stock, net of re-issuance	(163)	(397)	(209)
Net change in unrealized security gains	1,047	(1,551)	(23)
Defined benefit retirement plan adjustments, net of tax	(1,585)	1,311	860
Net change	(128)	(313)	577
Ending balance	\$49,856	\$49,984	\$50,297

On average, stockholders' equity in 2014 was \$50,704,000, an increase of 2.3% from \$49,571,000 in 2013. The average in 2012 was \$49,766,000. At December 31, 2014, Juniata held 558,385 shares of stock in treasury at a cost of \$10,746,000 as compared to 549,560 shares in 2013 at a cost of \$10,591,000. These increases are a result of the Company's stock repurchase program (See Note 16 of Notes to Consolidated Financial Statements). Return on average equity increased to 8.31% in 2014 from 8.07% in 2013.

The Company periodically repurchases shares of its common stock under the share repurchase program approved by the Board of Directors. In September of 2008, the Board of Directors authorized the repurchase of an additional 200,000 shares of its common stock through its share repurchase program. The program will remain authorized until all approved shares are repurchased, unless terminated by the Board of Directors. Repurchases have typically been accomplished through open market transactions and have complied with all regulatory restrictions on the timing and amount of such repurchases. Shares repurchased have been added to treasury stock and accounted for at cost. These shares may be periodically reissued for stock option exercises, employee stock purchase plan purchases and to fulfill dividend reinvestment program needs. During 2014, 12,322 shares were repurchased in conjunction with the current program. Remaining shares authorized for repurchase were 31,153 as of December 31, 2014.

In each of the years 2014, 2013 and 2012, Juniata declared dividends of \$0.88 per common share. (See Note 16 of Notes to Consolidated Financial Statements regarding restrictions on dividends from the Bank to the Company.) The dividend payout ratio was 87.5% and 92.65% in 2014 and 2013, respectively. In January 2015, the Board of Directors declared a dividend of \$0.22 per share to stockholders of record on February 13, 2015, payable on March 2, 2015.

Juniata's book value per share at December 31, 2014 was \$11.91, as compared to \$11.91 and \$11.92 at December 31, 2013 and 2012, respectively. Juniata's average equity to assets ratio for 2014, 2013 and 2012 was 10.77%, 11.02% and 10.96%, respectively. Refer also to the Capital Risk section in the Asset / Liability management discussion that follows.

# Juniata Valley Financial Corp. and Subsidiary

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

### Asset / Liability Management Objectives

Management believes that optimal performance is achieved by maintaining overall risks at a low level. Therefore, the objective of asset/liability management is to control risk and produce consistent, high quality earnings independent of changing interest rates. The Company has identified five major risk areas discussed below:

- Liquidity Risk
- Capital Risk
- Market / Interest Rate Risk
- Investment Portfolio Risk
- Economic Risk

### Liquidity Risk

Through liquidity risk management, we seek to maintain our ability to readily meet commitments to fund loans, purchase assets and other securities and repay deposits and other liabilities. This area also includes the ability to manage unplanned changes in funding sources and recognize and address changes in market conditions that affect the quality of liquid assets. Juniata has developed a methodology for assessing its liquidity risk through an analysis of its primary and total liquidity sources. Three types of liquidity sources are (1) asset liquidity, (2) liability liquidity and (3) off-balance sheet liquidity.

Asset liquidity refers to assets that we are quickly able to convert into cash, consisting of cash, federal funds sold and securities. Short-term liquid assets generally consist of federal funds sold and securities maturing over the next twelve months. The quality of our short-term liquidity is very good: as federal funds are unimpaired by market risk and as bonds approach maturity, their value moves closer to par value. Liquid assets tend to reduce earnings when there is not an immediate use for such funds, since normally these assets generate income at a lower rate than loans or other longer-term investments.

Liability liquidity refers to funding obtained through deposits. The largest challenge associated with liability liquidity is cost. Juniata's ability to attract deposits depends primarily on several factors, including sales effort, competitive interest rates and other conditions that help maintain consumer confidence in the stability of the financial institution. Large certificates of deposit, public funds and brokered deposits are all acceptable means of generating and providing funding. If the cost is favorable or fits the overall cost structure of the Bank, then these sources have many benefits. They are readily available, come in large block size, have investor-defined maturities and are generally low maintenance.

Off-balance sheet liquidity is closely tied to liability liquidity. Sources of off-balance sheet liquidity include Federal Home Loan Bank borrowings, repurchase agreements and federal funds lines with correspondent banks. These sources provide immediate liquidity to the Bank. They are available to be deployed when a need arises. These instruments also come in large block sizes, have investor-defined maturities and generally require low maintenance.

"Available liquidity" encompasses all three sources of liquidity when determining liquidity adequacy. It results from the Bank's access to short-term funding sources for immediate needs and long-term funding sources when the need is determined to be permanent. Management uses both on-balance sheet liquidity and off-balance sheet liquidity to manage its liquidity position. The Company's liquidity strategy is to maintain an adequate volume of high quality liquid instruments to facilitate customer liquidity demands. Management also maintains sufficient capital, which provides access to the liability and off-balance sheet sides of the balance sheet for funding. An active knowledge of debt funding sources is important to liquidity adequacy.

Contingency funding management involves maintaining contingent sources of immediate liquidity. Management believes that it must consider an array of available sources in terms of volume, maturity, cash flows and pricing. To meet demands in the normal course of business or for contingency, secondary sources of funding such as public funds deposits, collateralized loans, sales of investment securities or sales of loan receivables are considered.

## Juniata Valley Financial Corp. and Subsidiary

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

It is the Company's policy to maintain both a primary liquidity ratio and a total liquidity ratio of at least 10% of total assets. The primary liquidity ratio equals liquid assets divided by total assets, where liquid assets equal the sum of cash and due from banks, federal funds sold, interest-bearing deposits with other banks and available for sale securities. Total liquidity is comprised of all components noted in primary liquidity plus securities classified as held-to-maturity, if any. If either of these liquidity ratios falls below 10%, it is the Company's policy to increase liquidity in a timely manner to achieve the required ratio.

It is the Company's policy to maintain available liquidity at a minimum of 10% of total assets and contingency liquidity at a minimum of 7.5% of total assets.

Juniata is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, which provides short-term liquidity and a source for long-term borrowings. The Bank uses this vehicle to satisfy temporary funding needs throughout the year. The Company had short-term borrowings of \$15,950,000 on December 31, 2014 and \$8,400,000 on December 31, 2013.

The Bank's maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh ("FHLB") is \$132,601,000 at December 31, 2014. In order to borrow additional amounts, the FHLB would require the Bank to purchase additional FHLB Stock. The FHLB is a source of both short-term and long-term funding. The Bank must maintain sufficient qualifying collateral to secure all outstanding advances.

Juniata needs to have liquid resources available to fulfill contractual obligations that require future cash payments. The table below summarizes the Company's significant contractual obligations to third parties (in thousands of dollars), by type, that are fixed and determined at December 31, 2014. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

#### Contractual Obligations

	Note Reference	Payments Due by Period				
		Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
Certificates of deposits	12	\$140,082	\$77,487	\$37,609	\$19,791	\$5,195
Short-term borrowings and security repurchase agreements	13	43,044	20,544	13,750	8,750	-
Long-term debt						
Operating lease obligations	14	344	124	178	42	-
Other long-term liabilities						
3rd party data processor contract	23	1,848	528	1,056	264	-
Supplemental retirement and deferred compensation	20	3,060	335	488	376	1,861
		\$188,378	\$99,018	\$53,081	\$29,223	\$7,056

The schedule of contractual obligations (above) excludes expected defined benefit retirement payments that will be paid from the plan assets, as referenced in Note 20 of Notes to Consolidated Financial Statements.

# Juniata Valley Financial Corp. and Subsidiary

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

### Capital Risk

The Company maintains sufficient core capital to protect depositors and stockholders and to take advantage of business opportunities while ensuring that it has resources to absorb the risks inherent in the business. Federal banking regulators have established capital adequacy requirements for banks and bank holding companies based on risk factors, which require more capital backing for assets with higher potential credit risk than assets with lower credit risk. All banks and bank holding companies are currently required to have a minimum of 4% of risk adjusted assets in Tier I capital and 8% of risk adjusted assets in Total capital (Tier I and Tier II capital). As of December 31, 2014 and 2013, Juniata's Tier I capital ratio was 16.28% and 17.13%, respectively, and its Total capital ratio was 17.12% and 17.97%, respectively. Additionally, banking organizations must maintain a minimum Tier I capital to total average asset (leverage) ratio of 3%. This 3% leverage ratio is a minimum for the top-rated banking organizations without any supervisory, financial or operational weaknesses or deficiencies. Other banking organizations are required to maintain leverage capital ratios 100 to 200 basis points above the minimum depending on their financial condition. At December 31, 2014 and 2013, Juniata's leverage ratio was 10.65% and 11.04%, respectively, with a required leverage ratio of 4% (see Note 16 of Notes to the Consolidated Financial Statements).

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, officially identified by the Basel Committee as "Basel III". In July, 2013, the Federal Reserve Board approved the final rules (the "Basel III Rules") which substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions. The new rules, which will begin phase-in starting January 1, 2015, with final phase-in completed by January 1, 2019:

- Create a new minimum Common Equity Tier I capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 capital ratio of 6.00% of risk-weighted assets;
- Continue the current minimum Total Capital Ratio at 8.00% of risk-weighted assets and the minimum Tier 1 Leverage Capital Ratio at 4.00% of average assets;
- Institute a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which, if not maintained, restricts an institution from making capital distributions and certain discretionary bonus payments;
- Revise the definition of capital such that certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities, will be excluded as a component of Tier 1 Capital for institutions of the Company's size; and
- Expand the risk-weightings categories and weights for assets and off balance sheet exposures to a much larger and more risk-sensitive number of categories, depending on the nature of the assets, and results in higher risk weights for a variety of asset categories.

Once the new capital conservation buffer rules go into effect, if the Company's bank subsidiary (The Juniata Valley Bank) fails to maintain the required minimum capital conservation buffer, the Company may be unable to obtain capital distributions from it, which could negatively impact the Company's ability to pay dividends, service debt obligations or repurchase common stock. In addition, such a failure could result in a restriction on the Company's ability to pay certain cash bonuses to executive officers, negatively impacting the Company's ability to retain key personnel.

As of December 31, 2014, the Company believes its current capital levels would meet the fully phased-in minimum capital requirements, including capital conservation buffer, as prescribed in the U.S. Basel III Capital Rules.

### Market / Interest Rate 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.

## Juniata Valley Financial Corp. and Subsidiary

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

Declines and volatility in the values of financial institution stocks 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 consistent, 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 December 31, 2014. Management performs an impairment analysis on the entire investment portfolio, including the financial institutions stocks on a quarterly basis. No "other-than-temporary" impairment was identified or recorded on stocks in 2014, 2013 or 2012; however, there is no assurance that declines in market values of the common stock portfolio in the future will not result in subsequent "other-than-temporary" impairment charges, depending upon facts and circumstances present.

The equity investments in the Corporation's portfolio had an adjusted cost basis of approximately \$1,055,000 and a fair value of \$1,500,000 at December 31, 2014, resulting in net unrealized gains in this portfolio of \$445,000 at December 31, 2014.

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 of (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 \$569,000 decline in net interest income in the static environment. This negative effect of rising rates is offset to a large 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 decrease net interest income by \$197,000, \$372,000, \$1,608,000 and \$2,013,000, 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 an increase of \$77,000 in net interest income in a declining rate environment. 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 Rate Risk (Static)	Change in Net Interest Income Due to Imbedded Options	Total Change in Net Interest Income
400	\$(2,277)	\$264	\$(2,013)
300	(1,708)	100	(1,608)
200	(1,139)	767	(372)
100	(569)	372	(197)
0	-	-	-
(25)	143	(66)	77

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

## Juniata Valley Financial Corp. and Subsidiary

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

Table 5, presented below, illustrates the maturity distribution of the Company's interest-sensitive assets and liabilities as of December 31, 2014. Earliest re-pricing opportunities for variable and adjustable rate products and scheduled maturities for fixed rate products have been placed in the appropriate column to compute the cumulative sensitivity ratio (ratio of interest-earning assets to interest-bearing liabilities). Securities with call features are treated as though the call date is the maturity date. Through one year, the cumulative sensitivity ratio is 0.64, indicating a liability-sensitive balance sheet, when measured on a static basis.

**Table 5**  
**MATURITY DISTRIBUTION**  
**AS OF DECEMBER 31, 2014**

(Dollars in thousands)

**Remaining Maturity / Earliest Possible Repricing**

	Within One Year	Over One Year But Within Five Years	Over Five Years	Total
<b>Interest Earning Assets</b>				
Interest bearing deposits	\$ 10	\$ –	\$ –	\$ 10
Investment securities:				
Debt securities - taxable	40,235	11,076	2,327	53,638
Debt securities - tax-exempt	11,180	19,669	1,487	32,336
Mortgage-backed securities	9,187	28,818	17,424	55,429
Stocks	–	–	1,500	1,500
Loans:				
Commercial, financial and agricultural	14,512	7,771	1,455	23,738
Real estate - construction	9,541	6,732	4,440	20,713
Other loans	84,523	98,743	67,184	250,450
<b>Total Interest Earning Assets</b>	<b>169,188</b>	<b>172,809</b>	<b>95,817</b>	<b>437,814</b>
<b>Interest Bearing Liabilities</b>				
Demand deposits	95,675	–	–	95,675
Savings deposits	67,430	–	–	67,430
Certificates of deposit over \$100,000	15,914	10,438	1,353	27,705
Time deposits	61,573	46,962	3,842	112,377
Securities sold under agreements to repurchase	4,594	–	–	4,594
Short-term borrowings	15,950	–	–	15,950
Long-term debt	–	22,500	–	22,500
Other interest bearing liabilities	1,412	–	–	1,412
<b>Total Interest Bearing Liabilities</b>	<b>262,548</b>	<b>79,900</b>	<b>5,195</b>	<b>347,643</b>
<b>Gap</b>	<b>\$ (93,360)</b>	<b>\$ 92,909</b>	<b>\$90,622</b>	<b>\$ 90,171</b>
<b>Cumulative Gap</b>	<b>\$ (93,360)</b>	<b>\$ (451)</b>	<b>\$90,171</b>	
Cumulative sensitivity ratio	0.64	1.00	1.26	
<b>Commercial, financial and agricultural</b>				
Loans maturing after one year with:				
Fixed interest rates		\$ 6,573	\$ 1,455	\$ 8,028
Variable interest rates		7,250	1,140	8,390
Total		<u>\$ 13,823</u>	<u>\$ 2,595</u>	<u>\$ 16,418</u>

# Juniata Valley Financial Corp. and Subsidiary

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

### Investment Portfolio Risk

Management considers its investment portfolio risk as the amount of appreciation or depreciation the investment portfolio will sustain when interest rates change. The securities portfolio will decline in value when interest rates rise and increase in value when interest rates decline. Securities with long maturities, excessive optionality (as a result of call features) and unusual indexes tend to produce the most market risk during interest rate movements. Rate shocks of minus 100 and plus 100, 200, 300 and 400 basis points were applied to the securities portfolio to determine how Tier 1 capital would be affected if the securities portfolio had to be liquidated and all gains and losses were recognized. The test revealed that, as of December 31, 2014, the risk-based capital ratio would remain adequate under these scenarios.

### Economic Risk

Economic risk is the risk that the long-term or underlying value of the Company will change if interest rates change. Economic value of equity (EVE) represents the change in the value of the balance sheet without regard to business continuity. Generally, banks are exposed to rising interest rates on an economic value of equity basis because of the inherent mismatch between longer duration assets compared to shorter duration liabilities. Rate shocks are applied to all financial assets and liabilities, using parallel and non-parallel rate shifts of 100 to 400 basis points to estimate the change in EVE under the various scenarios. As of December 31, 2014, a non-parallel 200 basis point increase shock in rates produced an estimated 6.7% decline in EVE, indicating a stable value well within Juniata's policy guidelines.

### Off-Balance Sheet Arrangements

The Company has numerous off-balance sheet loan obligations that exist in order to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unused lines of credit and letters of credit. Because many commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. These instruments involve, to varying degrees, elements of credit and interest rate risk that are not recognized in the consolidated financial statements. The Company does not expect that these commitments will have an adverse effect on its liquidity position.

Exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments as it does for on-balance sheet instruments.

The Company had outstanding loan origination commitments aggregating \$38,776,000 and \$33,532,000 at December 31, 2014 and 2013, respectively. In addition, the Company had \$6,245,000 and \$7,457,000 outstanding in unused lines of credit commitments extended to its customers at December 31, 2014 and 2013, respectively.

Letters of credit are instruments issued by the Company that guarantee payment by the Bank to the beneficiary in the event of default by the Company's customer in the non-performance of an obligation or service. Most letters of credit are extended for a one-year period. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments for which collateral is deemed necessary. The amount of the liability as of December 31, 2014 and 2013 for guarantees under letters of credit issued is not material.

The maximum undiscounted exposure related to these guarantees at December 31, 2014 was \$1,602,000, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$5,168,000.

In 2009, the Company executed an agreement to obtain technology outsourcing services through an outside service bureau, and those services began in June 2010. The agreement provides for termination fees if the Company cancels the services prior to the end of the 8-year commitment period. The termination fee would be an amount equal to one hundred percent of the estimated remaining value of the terminated services if terminated in the first contract year, ninety percent of the estimated remaining value of the terminated services if terminated in the second contract year, eighty percent and seventy percent of the remaining value of the terminated services if terminated in the third and fourth contract years, respectively, and sixty percent of the remaining value of the terminated services if terminated in contract years five through eight. Termination fees are estimated to be approximately \$1,108,000 at December 31, 2014. Since the Company does not expect to terminate these services prior to the end of the commitment period, no liability has been recorded at December 31, 2014.

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.



# **Juniata Valley Financial Corp. and Subsidiary**

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

### **Effects of Inflation**

The performance of a bank is affected more by changes in interest rates than by inflation; therefore, the effect of inflation is normally not as significant to the Company as it is to other businesses and industries. During periods of high inflation, the money supply usually increases and banks normally experience above average growth in assets, loans and deposits. A bank's operating expenses may increase during inflationary times as the price of goods and services increase.

A bank's performance is also affected during recessionary periods. In times of recession, a bank usually experiences a tightening on its earning assets and on its profits. A recession is usually an indicator of higher unemployment rates, which could mean an increase in the number of nonperforming loans because of continued layoffs and other deterioration of consumers' financial condition.

## Juniata Valley Financial Corp. and Subsidiary

### Report on Management's Assessment of Internal Control over Financial Reporting

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this Annual Report on Form 10-K. The consolidated financial statements and notes included in this annual report have been prepared in conformity with accounting principles generally accepted in the United States of America, and as such, include some amounts that are based on management's best estimates and judgments.

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting. The system of internal control over financial reporting, as it relates to the financial statements, is evaluated for effectiveness by management and tested for reliability through a program of internal audits and management testing and review. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only a reasonable assurance with respect to financial statement preparation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on our assessment, management concluded that as of December 31, 2014, the Company's internal control over financial reporting is effective and meets the criteria of the *Internal Control-Integrated Framework (2013)*.

The independent registered public accounting firm that audited the consolidated financial statements included in the annual report has issued an attestation report on the Company's internal control over financial reporting.



Marcie A. Barber, President and Chief Executive Officer



JoAnn N. McMinn, Chief Financial Officer

**Report of Independent Registered Public Accounting Firm on Effectiveness  
of Internal Control over Financial Reporting**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**



Board of Directors and Stockholders  
Juniata Valley Financial Corp.  
Mifflintown, Pennsylvania

We have audited Juniata Valley Financial Corp. and its wholly-owned subsidiary's, The Juniata Valley Bank, (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report on Management's Assessment of Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of Juniata Valley Financial Corp. and its wholly-owned subsidiary, The Juniata Valley Bank for each of the two years in the period ended December 31, 2014, and our report dated March 16, 2015 expressed an unqualified opinion.

*BDO USA, LLP*

/s/ BDO USA, LLP  
Harrisburg, Pennsylvania  
March 16, 2015

**Report of Independent Registered Public Accounting Firm  
on Consolidated Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**



Board of Directors and Stockholders  
Juniata Valley Financial Corp.  
Mifflintown, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of Juniata Valley Financial Corp., and its wholly-owned subsidiary, The Juniata Valley Bank, (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Juniata Valley Financial Corp. and its wholly-owned subsidiary, The Juniata Valley Bank at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in the *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 16, 2015, expressed an unqualified opinion.

*BDO USA, LLP*

/s/ BDO USA, LLP  
Harrisburg, Pennsylvania  
March 16, 2015

**Report of Independent Registered Public Accounting Firm  
on Consolidated Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders  
Juniata Valley Financial Corp.  
Mifflintown, Pennsylvania

We have audited the accompanying consolidated statements of income, comprehensive income, stockholders' equity, and cash flows of Juniata Valley Financial Corp. and its wholly-owned subsidiary, The Juniata Valley Bank (the "Company") for the year ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Juniata Valley Financial Corp. and its wholly-owned subsidiary, The Juniata Valley Bank, for the year ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Baker Tilly Virchow Krause, LLP  
Pittsburgh, Pennsylvania  
March 15, 2013

# Juniata Valley Financial Corp. and Subsidiary

## Consolidated Statements of Financial Condition

(in thousands, except share data)

	December 31,	
	2014	2013
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 6,757	\$ 8,570
Interest bearing deposits with banks	10	43
Cash and cash equivalents	<u>6,767</u>	<u>8,613</u>
Interest bearing time deposits with banks	–	249
Securities available for sale	142,903	126,046
Restricted investment in Federal Home Loan Bank (FHLB) stock	2,726	1,967
Investment in unconsolidated subsidiary	4,369	4,172
Total loans	294,901	277,798
Less: Allowance for loan losses	<u>(2,380)</u>	<u>(2,287)</u>
Total loans, net of allowance for loan losses	292,521	275,511
Premises and equipment, net	6,533	6,330
Other real estate owned	232	281
Bank owned life insurance and annuities	14,807	14,848
Investment in low income housing project	3,847	3,990
Core deposit intangible	74	119
Goodwill	2,046	2,046
Mortgage servicing rights	193	167
Accrued interest receivable and other assets	3,511	4,443
<b>Total assets</b>	<u><u>\$480,529</u></u>	<u><u>\$448,782</u></u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Liabilities:</b>		
Deposits:		
Non-interest bearing	\$ 77,697	\$ 74,611
Interest bearing	<u>303,187</u>	<u>305,034</u>
Total deposits	380,884	379,645
Securities sold under agreements to repurchase	4,594	5,397
Short-term borrowings	15,950	8,400
Long-term debt	22,500	–
Other interest bearing liabilities	1,412	1,356
Accrued interest payable and other liabilities	<u>5,333</u>	<u>4,000</u>
<b>Total liabilities</b>	430,673	398,798
<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 December 31, 2014;		
4,196,266 shares at December 31, 2013	4,746	4,746
Surplus	18,409	18,370
Retained earnings	39,644	39,118
Accumulated other comprehensive loss	(2,197)	(1,659)
Cost of common stock in Treasury:		
558,385 shares at December 31, 2014;		
549,560 shares at December 31, 2013	<u>(10,746)</u>	<u>(10,591)</u>
<b>Total stockholders' equity</b>	<u>49,856</u>	<u>49,984</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>\$480,529</u></u>	<u><u>\$448,782</u></u>

See Notes to Consolidated Financial Statements

**Juniata Valley Financial Corp. and Subsidiary**  
**Consolidated Statements of Income**  
(in thousands, except share and per share data)

	Years Ended December 31,		
	2014	2013	2012
<b>Interest income:</b>			
Loans, including fees	\$ 14,465	\$ 14,868	\$ 16,092
Taxable securities	1,950	1,267	1,311
Tax-exempt securities	513	583	738
Other interest income	4	16	29
<b>Total interest income</b>	<u>16,932</u>	<u>16,734</u>	<u>18,170</u>
<b>Interest expense:</b>			
Deposits	2,356	2,871	3,621
Securities sold under agreements to repurchase	4	4	4
Short-term borrowings	15	8	1
Long-term debt	207	-	-
Other interest bearing liabilities	16	17	22
<b>Total interest expense</b>	<u>2,598</u>	<u>2,900</u>	<u>3,648</u>
<b>Net interest income</b>	14,334	13,834	14,522
Provision for loan losses	<u>357</u>	<u>415</u>	<u>1,411</u>
<b>Net interest income after provision for loan losses</b>	<u>13,977</u>	<u>13,419</u>	<u>13,111</u>
<b>Non-interest income:</b>			
Customer service fees	1,278	1,290	1,282
Debit card fee income	847	822	809
Earnings on bank owned life insurance and annuities	391	416	450
Trust fees	438	355	379
Commissions from sales of non-deposit products	352	375	353
Income from unconsolidated subsidiary	236	237	249
Fees derived from loan activity	202	165	197
Mortgage banking income	214	338	567
Gain (loss) on calls of securities	9	(2)	2
Gain from life insurance proceeds	165	-	53
Other non-interest income	<u>202</u>	<u>237</u>	<u>251</u>
<b>Total non-interest income</b>	<u>4,334</u>	<u>4,233</u>	<u>4,592</u>
<b>Non-interest expense:</b>			
Employee compensation expense	5,876	5,413	5,190
Employee benefits	1,444	1,615	2,096
Occupancy	993	971	929
Equipment	470	462	510
Data processing expense	1,545	1,450	1,440
Director compensation	205	223	234
Professional fees	396	388	362
Taxes, other than income	340	483	438
FDIC Insurance premiums	310	331	327
Loss (gain) on sales of other real estate owned	22	(39)	34
Amortization of intangibles	45	45	45
Amortization of investment in low-income housing partnership	479	448	-
Other non-interest expense	<u>1,445</u>	<u>1,356</u>	<u>1,472</u>
<b>Total non-interest expense</b>	<u>13,570</u>	<u>13,146</u>	<u>13,077</u>
<b>Income before income taxes</b>	4,741	4,506	4,626
Provision for income taxes	<u>525</u>	<u>505</u>	<u>978</u>
<b>Net income</b>	<u>\$ 4,216</u>	<u>\$ 4,001</u>	<u>\$ 3,648</u>
<b>Earnings per share</b>			
Basic	\$ 1.01	\$ 0.95	\$ 0.86
Diluted	\$ 1.01	\$ 0.95	\$ 0.86
Cash dividends declared per share	\$ .88	\$ 0.88	\$ 0.88
Weighted average basic shares outstanding	4,192,761	4,210,336	4,231,404
Weighted average diluted shares outstanding	4,193,129	4,211,078	4,233,448

See Notes to Consolidated Financial Statements

**Juniata Valley Financial Corp. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
(in thousands)

	Year Ended December 31, 2014		
	Before Tax Amount	Tax Effect	Net-of-Tax Amount
Net income	\$4,741	\$(525)	\$4,216
Other comprehensive income (loss):			
Available for sale securities:			
Unrealized holding gains arising during the period	1,582	(539)	1,043
Unrealized holding gains from unconsolidated subsidiary	10	-	10
Less reclassification adjustment for gains included in net income (1) (3)	(9)	3	(6)
Unrecognized pension net loss (2) (3)	(144)	49	(95)
Unrecognized pension loss due to change in assumptions (2) (3)	(2,297)	781	(1,516)
Amortization of pension net actuarial loss (2) (3)	40	(14)	26
Other comprehensive loss	(818)	280	(538)
Total comprehensive income	\$3,923	\$(245)	\$3,678

	Year Ended December 31, 2013		
	Before Tax Amount	Tax Effect	Net-of-Tax Amount
Net income	\$4,506	\$(505)	\$4,001
Other comprehensive income (loss):			
Available for sale securities:			
Unrealized holding losses arising during the period	(2,325)	791	(1,534)
Unrealized holding losses from unconsolidated subsidiary	(18)	-	(18)
Less reclassification adjustment for losses included in net income (1) (3)	2	(1)	1
Unrecognized pension net gain (2) (3)	821	(279)	542
Unrecognized pension gain due to change in assumptions (2) (3)	962	(327)	635
Amortization of pension prior service income (2) (3)	(1)	-	(1)
Amortization of pension net actuarial loss (2) (3)	203	(68)	135
Other comprehensive loss	(356)	116	(240)
Total comprehensive income	\$4,150	\$(389)	\$3,761

	Year Ended December 31, 2012		
	Before Tax Amount	Tax Effect	Net-of-Tax Amount
Net income	\$ 4,626	\$ (978)	\$3,648
Other comprehensive income (loss):			
Available for sale securities:			
Unrealized holding losses arising during the period	(33)	11	(22)
Less reclassification adjustment for gains included in net income (1) (3)	(2)	1	(1)
Unrecognized pension net gain (2) (3)	1,633	(555)	1,078
Unrecognized pension cost due to change in assumptions (2) (3)	(681)	232	(449)
Amortization of pension prior service income (2) (3)	56	(19)	37
Amortization of pension net actuarial loss (2) (3)	296	(102)	194
Other comprehensive income	1,269	(432)	837
Total comprehensive income	\$ 5,895	\$(1,410)	\$4,485

- (1) Amounts are included in (loss) 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.

See Notes to Consolidated Financial Statements



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

(in thousands, except share and per share data)

	Years Ended December 31, 2014, 2013 and 2012						
	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
<b>Balance at January 1, 2012</b>	4,228,218	\$4,746	\$18,363	\$38,900	\$(2,256)	\$(10,033)	\$49,720
Net income				3648			3,648
Other comprehensive income					837		837
Cash dividends at \$0.88 per share				(3,724)			(3,724)
Stock-based compensation activity			25				25
Purchase of treasury stock	(19,793)					(360)	(360)
Treasury stock issued for stock option and stock purchase plans	9,936		(42)			193	151
<b>Balance at December 31, 2012</b>	4,218,361	4,746	18,346	38,824	(1,419)	(10,200)	50,297
Net income				4,001			4,001
Other comprehensive loss					(240)		(240)
Cash dividends at \$0.88 per share				(3,707)			(3,707)
Stock-based compensation activity			30				30
Purchase of treasury stock	(24,918)					(445)	(445)
Treasury stock issued for stock purchase plan	2,823		(6)			54	48
<b>Balance at December 31, 2013</b>	4,196,266	4,746	18,370	39,118	(1,659)	(10,591)	49,984
Net income				4,216			4,216
Other comprehensive loss					(538)		(538)
Cash dividends at \$0.88 per share				(3,690)			(3,690)
Stock-based compensation activity			47				47
Purchase of treasury stock	(12,322)					(222)	(222)
Treasury stock issued for stock purchase plan	3,497		(8)			67	59
<b>Balance at December 31, 2014</b>	<u>4,187,441</u>	<u>\$4,746</u>	<u>\$18,409</u>	<u>\$39,644</u>	<u>\$(2,197)</u>	<u>\$(10,746)</u>	<u>\$49,856</u>

See Notes to Consolidated Financial Statements

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

	Years Ended December 31,		
	2014	2013	2012
<b>Operating activities:</b>			
Net income	\$ 4,216	\$ 4,001	\$ 3,648
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	357	415	1,411
Depreciation	494	497	524
Net amortization of securities premiums	634	440	412
Net amortization of loan origination costs (fees)	13	25	(31)
Deferred net loan origination fees (costs)	142	15	(32)
Amortization of core deposit intangible	45	45	45
Amortization of investment in low income housing partnership	479	448	-
Net realized (gain) loss on sales and calls of securities	(9)	2	(2)
Net loss (gain) on sales of other real estate owned	22	(39)	34
Earnings on bank owned life insurance and annuities	(391)	(416)	(450)
Deferred income tax expense (benefit)	194	662	(64)
Equity in earnings of unconsolidated subsidiary, net of dividends of \$48, \$47 and \$45	(188)	(190)	(204)
Stock-based compensation expense	47	30	25
Mortgage loans originated for sale	(3,759)	(8,173)	(11,057)
Proceeds from loans sold to others	3,949	8,442	11,526
Gains on sales of loans	(214)	(338)	(567)
Gain from life insurance proceeds	(165)	-	(53)
(Increase) decrease in accrued interest receivable and other assets	(41)	930	478
Increase (decrease) in accrued interest payable and other liabilities	83	(997)	167
<b>Net cash provided by operating activities</b>	<u>5,908</u>	<u>5,799</u>	<u>5,810</u>
<b>Investing activities:</b>			
Purchases of:			
Securities available for sale	(66,451)	(45,446)	(87,319)
FHLB stock	(759)	(241)	(26)
Premises and equipment	(697)	(355)	(286)
Bank owned life insurance and annuities	(60)	(68)	(70)
Proceeds from:			
Sales of securities available for sale	14,631	-	-
Maturities of and principal repayments on securities available for sale	35,911	38,973	75,816
Bank owned life insurance and annuities	5	8	13
Life insurance claim	615	-	200
Sale of other real estate owned	396	780	988
Sale of other assets	-	18	2
Investment in low income housing partnership	(336)	(642)	(3,403)
Net decrease in interest bearing time deposits with banks	249	598	249
Net (increase) decrease in loans	(17,891)	(2,359)	10,160
<b>Net cash used in investing activities</b>	<u>(34,387)</u>	<u>(8,734)</u>	<u>(3,676)</u>
<b>Financing activities:</b>			
Net increase (decrease) in deposits	1,239	(7,106)	86
Net increase in short-term borrowings and securities sold under agreements to repurchase	6,747	8,361	1,936
Issuance of long-term debt	22,500	-	-
Cash dividends	(3,690)	(3,707)	(3,724)
Purchase of treasury stock	(222)	(445)	(360)
Treasury stock issued for employee stock plans	59	48	151
<b>Net cash provided by (used in) financing activities</b>	<u>26,633</u>	<u>(2,849)</u>	<u>(1,911)</u>
Net (decrease) increase in cash and cash equivalents	(1,846)	(5,784)	223
Cash and cash equivalents at beginning of year	8,613	14,397	14,174
Cash and cash equivalents at end of year	<u>\$ 6,767</u>	<u>\$ 8,613</u>	<u>\$ 14,397</u>
<b>Supplemental information:</b>			
Interest paid	\$ 2,584	\$ 2,967	\$ 3,715
Income taxes paid	50	695	1,135
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Transfer of loans to other real estate owned	\$ 369	\$ 594	\$ 1,023
Transfer of loans to other assets	-	18	-

See Notes to Consolidated Financial Statements

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements Years ended December 31, 2014, 2013 and 2012

### 1. NATURE OF OPERATIONS

Juniata Valley Financial Corp. (“Juniata” or the “Company”) is a bank holding company operating in central Pennsylvania, for the purpose of delivering financial services within its local market. Through its wholly-owned banking subsidiary, The Juniata Valley Bank (the “Bank”), Juniata provides retail and commercial banking and other financial services through 12 branch locations located in Juniata, Mifflin, Perry and Huntingdon Counties. Additionally, in Mifflin, Juniata and Centre Counties, the Company maintains three offices for loan production, trust services and wealth management sales. Each of the Company’s lines of business are part of the same reporting segment, whose operating results are regularly reviewed and managed by a centralized executive management group. As a result, the Company has only one reportable segment for financial reporting purposes. The Bank provides a full range of banking services, including on-line and mobile banking, an automatic teller machine network, checking accounts, identity protection products for consumers, savings accounts, money market accounts, fixed rate certificates of deposit, club accounts, secured and unsecured commercial and consumer loans, construction and mortgage loans, safe deposit facilities and credit loans with overdraft checking protection. The Bank also provides a variety of trust services. The Company has a contractual arrangement with a broker-dealer to allow the offering of annuities, mutual funds, stock and bond brokerage services and long-term care insurance to its local market. Most of the Company’s commercial customers are small and mid-sized businesses operating in the Bank’s local service area. The Bank operates under a state bank charter and is subject to regulation by the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. Juniata is subject to regulation of the Board of Governors of the Federal Reserve Bank and the Pennsylvania Department of Banking.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Juniata Valley Financial Corp. and its wholly owned subsidiary conform to accounting principles generally accepted in the United States of America (“GAAP”) and to general financial services industry practices. A summary of the more significant accounting policies applied in the preparation of the accompanying consolidated financial statements follows.

#### Principles of consolidation

The consolidated financial statements include the accounts of Juniata Valley Financial Corp. and its wholly owned subsidiary, The Juniata Valley Bank. All significant intercompany transactions and balances have been eliminated.

#### Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the determination of other-than-temporary impairment on securities.

#### Basis of presentation

Certain amounts previously reported have been reclassified to conform to the consolidated financial statement presentation for 2014. The reclassification had no effect on net income.

#### Significant group concentrations of credit risk

Most of the Company’s activities are with customers located within the Juniata Valley region. Note 5 discusses the types of securities in which the Company invests. Note 6 discusses the types of lending in which the Company engages.

As of December 31, 2014, credit exposure to operators of dwellings other than apartment buildings represented 32.5% of capital. Otherwise, there were no concentrations of credit to any particular industry equaling more than 25% of total capital. The Bank’s business activities are geographically concentrated in the counties of Juniata, Mifflin, Perry, Huntingdon, Centre, Franklin and Snyder, Pennsylvania. The Bank has a diversified loan portfolio; however, a substantial portion of its debtors’ ability to honor their obligations is dependent upon the economy in central Pennsylvania.

#### Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, interest bearing demand deposits with banks and federal funds sold. Generally, federal funds are sold for one-day periods.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### **Interest bearing time deposits with banks**

Interest-bearing time deposits with banks consist of certificates of deposits in other banks with maturities within one year.

### **Securities**

Securities classified as available for sale, which include marketable investment securities, are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of other comprehensive income (loss). Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Investment securities that management has the positive intent and ability to hold until maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions are classified as held to maturity and are stated at cost, adjusted for amortization of premium and accretion of discount computed by the interest method over their contractual lives. Interest and dividends on investment securities available for sale and held to maturity are recognized as income when earned. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the disposition of securities available for sale are based on the net proceeds and the adjusted carrying amount of the securities sold, determined on a specific identification basis. The Company had no securities classified as held to maturity at December 31, 2014 and 2013.

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.

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

### **Restricted Investment in Federal Home Loan Bank Stock**

The Bank owns restricted stock investments in the Federal Home Loan Bank. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. The stock is carried at cost.

Management evaluates the restricted stock for impairment on an annual basis. Management's determination of whether these investments are impaired is based on management's assessment of the ultimate recoverability of the cost of these investments rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the cost of these investments is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge was necessary related to the FHLB restricted stock during 2014, 2013 or 2012.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### Loans

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 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 other non-interest income.

### Loan origination fees and costs

Loan origination fees and related direct origination costs for a given loan are deferred and amortized over the life of the loan on a level-yield basis as an adjustment to interest income over the contractual life of the loan. As of December 31, 2014 and 2013, the amount of net unamortized origination fees carried as an adjustment to outstanding loan balances was \$234,000 and \$123,000, respectively.

### Allowance for credit losses

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.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 Bank'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 December 31, 2014 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 analysis, 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.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 for the past seven years. The 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 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.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 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



# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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.

### Other real estate owned

Assets acquired in settlement of mortgage loan indebtedness are recorded as other real estate owned (OREO) at fair value less estimated costs to sell, establishing a new cost basis. Costs to maintain the assets and subsequent gains and losses attributable to their disposal are included in other expense as realized. No depreciation or amortization expense is recognized. At December 31, 2014 and 2013, the carrying value of other real estate owned was \$232,000 and \$281,000, respectively.

### Goodwill and intangibles

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that also lack physical substance but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. It is the Company's policy that goodwill be tested at least annually for impairment.

### Mortgage servicing rights

The Company 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. The carrying amount of mortgage servicing rights was \$193,000 and \$167,000 at December 31, 2014 and 2013, respectively. 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 Company retains the servicing rights on certain mortgage loans sold to the FHLB and receives mortgage banking fee income based upon the principal balance outstanding. Total loans serviced for the FHLB were \$20,960,000 and \$18,688,000 at December 31, 2014 and 2013, respectively. The mortgage loans sold to the FHLB and serviced by the Company are not reflected in the consolidated statements of financial condition.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### **Premises and equipment and depreciation**

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 10 years for furniture and equipment and 25 to 50 years for buildings. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized. Amortization of leasehold improvements is computed on a straight line basis over the shorter of the assets' useful life or the related lease term.

### **Trust assets and revenues**

Assets held in a fiduciary capacity are not assets of the Bank or the Bank's Trust Department and are, therefore, not included in the consolidated financial statements. Trust revenues are recorded on the accrual basis.

### **Bank owned life insurance, annuities and split-dollar arrangements**

The cash surrender value of bank owned life insurance and annuities is carried as an asset, and changes in cash surrender value are recorded as non-interest income.

GAAP requires split-dollar life insurance arrangements to have a liability recognized related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. The accrued benefit liability was \$858,000 and \$792,000 as of December 31, 2014 and 2013, respectively. Related expenses for 2014, 2013 and 2012 were \$66,000, \$54,000 and \$29,000, respectively.

### **Investments in low-income housing partnerships**

Juniata has invested as a limited partner in a partnership that provides low-income housing in Lewistown, Pennsylvania. The carrying value of the investment in the limited partnership was \$3,847,000 at December 31, 2014 and \$3,990,000 at December 31, 2013. The partnership anticipates receiving \$575,000 annually in low-income housing tax credits over ten years, which began in 2013. Amortization of the investment using the cost method is scheduled to occur over the same period as tax credits are earned. The maximum exposure to loss is limited to the carrying value of its investment at year-end.

### **Income taxes**

The Company accounts for income taxes in accordance with income tax accounting guidance ASC Topic 740, *Income Taxes*.

Current income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

### **Advertising**

The Company follows the policy of charging costs of advertising to expense as incurred. Advertising expenses were \$169,000, \$207,000 and \$172,000 in 2014, 2013 and 2012, respectively.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### Off-balance sheet financial instruments

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

### Transfer of financial assets

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

### Stock-based compensation

The Company sponsors a stock option plan for certain key officers. Compensation expense for stock options granted is measured using the fair value of the award on the grant date and is recognized over the vesting period. The Company recognized \$47,000, \$30,000 and \$25,000 of expense for the years ended December 31, 2014, 2013 and 2012, respectively, for stock-based compensation. The stock-based compensation expense amounts were derived based on the fair value of options using the Black-Scholes option-pricing model. The following weighted average assumptions were used to value options granted in the periods indicated.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Expected life of options	7 years	7 years	7 years
Risk-free interest rate	2.14%	1.41%	1.78%
Expected volatility	21.39%	21.57%	22.12%
Expected dividend yield	4.83%	4.91%	4.86%

### Segment reporting

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail and trust operations of the Company. As such, discrete financial information is not available, and segment reporting would not be meaningful.

### Subsequent events

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of financial condition date of December 31, 2014, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 3. RECENT ACCOUNTING STANDARDS UPDATE (ASU)

**Accounting Standards Update 2014-01, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)***

**Issued:** January 2014

**Summary:** The Low Income Housing Tax Credit is a program designed to encourage investment of private capital for use in the construction and rehabilitation of low income housing, which provides certain tax benefits to investors in those projects. The amendments in this Update permit a reporting entity that invests in qualified affordable housing projects to account for the investments using a proportional amortization method if certain conditions are met. If an entity elects the proportional amortization method, it will amortize the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense. Otherwise, the entity would apply either the equity method or the cost method, as appropriate.

**Effective Date and Transition:** The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. If adopted, the amendments should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The Company is currently evaluating the impact of this Update on its consolidated financial statements.

**Accounting Standards Update 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)***

**Issued:** January 2014

**Summary:** The Update clarifies that when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement.

**Effective Date and Transition:** The Amendments in this Update are effective for public business entities for annual periods and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. If adopted, an entity can elect to adopt the amendments in this update using either a modified retrospective transition method or a prospective transition method. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### **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. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

### **Accounting Standards Update 2014-14, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)**

**Issued:** August 2014

**Summary:** The amendments in this Update address a practice issue related to the classification of certain foreclosed residential and nonresidential mortgage loans that are either fully or partially guaranteed under government programs. Specifically, creditors should reclassify loans that meet certain conditions to “other receivables” upon foreclosure, rather than reclassifying them to other real estate owned (OREO). The separate other receivable recorded upon foreclosure is to be measured based on the amount of the loan balance (principal and interest) the creditor expects to recover from the guarantor.

**Effective Date and Transition:** The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. Early adoption is permitted, if the entity has already adopted ASU 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Transition methods include a prospective method and a modified retrospective method; however, entities must apply the same transition method as elected under ASU 2014-04. The Company is evaluating the effects this Update will have on its consolidated financial condition or results of operations.

#### **4. RESTRICTIONS ON CASH AND DUE FROM BANKS**

The Bank is required to maintain cash reserve balances with the Federal Reserve Bank. The total required reserve balances were \$276,000 and \$362,000 as of December 31, 2014 and 2013, respectively.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 5. SECURITIES

The Company's investment portfolio includes primarily mortgage-backed securities issued by U.S. Government sponsored agencies and backed by residential mortgages (approximately 39%), bonds issued by U.S. Government sponsored agencies (approximately 35%) and municipalities (approximately 25%) as of December 31, 2014. 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 December 31, 2014 and 2013, 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	December 31, 2014			
	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
<u>Obligations of Government agencies and corporations</u>				
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)
	<u>50,616</u>	<u>50,101</u>	<u>88</u>	<u>(603)</u>
<u>Obligations of state and political subdivisions</u>				
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)
	<u>35,674</u>	<u>35,873</u>	<u>252</u>	<u>(53)</u>
Mortgage-backed securities	55,123	55,429	367	(61)
Equity securities	1,055	1,500	475	(30)
Total	<u>\$142,468</u>	<u>\$142,903</u>	<u>\$1,182</u>	<u>\$(747)</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

December 31, 2013				
Securities Available for Sale	Amortized	Fair	Gross	Gross
Type and maturity	Cost	Value	Unrealized	Unrealized
			Gains	Losses
Obligations of Government agencies and corporations				
Within one year	\$ 4,177	\$ 4,192	\$ 15	\$ –
After one year but within five years	48,011	47,578	203	(636)
After five years but within ten years	<u>27,615</u>	<u>26,508</u>	–	<u>(1,107)</u>
	79,803	78,278	218	(1,743)
Obligations of state and political subdivisions				
Within one year	8,260	8,314	55	(1)
After one year but within five years	26,027	26,098	133	(62)
After five years but within ten years	7,224	7,182	56	(98)
After ten years	<u>350</u>	<u>338</u>	–	<u>(12)</u>
	41,861	41,932	244	(173)
Mortgage-backed securities	4,465	4,469	7	(3)
Equity securities	<u>1,055</u>	<u>1,367</u>	<u>366</u>	<u>(54)</u>
Total	<u>\$127,184</u>	<u>\$126,046</u>	<u>\$835</u>	<u>\$(1,973)</u>

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 \$30,770,000 and \$31,921,000 at December 31, 2014 and 2013, respectively.

In addition to cash received from the scheduled maturities of securities, some investment securities available for sale are sold at current market values during the course of normal operations. Following is a summary of proceeds received from all investment securities transactions and the resulting realized gains and losses (in thousands):

	Years		
	2014	2013	2012
Gross proceeds from sales of securities	\$14,631	\$ –	\$ –
Securities available for sale:			
Gross realized gains from sold and called securities	\$ 43	\$ –	\$ 2
Gross realized losses from sold and called securities	(34)	(2)	–

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 December 31, 2014 (in thousands):

	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	<u>\$26,171</u>	<u>\$(121)</u>	<u>\$35,215</u>	<u>\$(626)</u>	<u>\$61,386</u>	<u>\$(747)</u>

December 31, 2014, 45 U.S. Government and agency securities had unrealized losses that in the aggregate did not exceed 1.5% of amortized cost. Twenty-four of these securities has been in a continuous loss position for 12 months or more.

At December 31, 2014, 37 obligations of state and political subdivision bonds had unrealized losses that in the aggregate did not exceed 1% of amortized cost. Six of these securities have been in a continuous loss position for 12 months or more.

At December 31, 2014, six mortgage-backed securities had an unrealized loss that did not exceed 1% 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), 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 ("Bank Stocks") and are evaluated quarterly for evidence of other-than-temporary impairment. There were three equity securities that were in an unrealized loss position on December 31, 2014, and have carried unrealized losses for 12 months or more. Individually, none of these three equity securities have significant unrealized losses. Of the three equity securities that have sustained unrealized losses for more than 12 months, all have increased in fair value during 2014, indicating the possibility of full recovery and therefore are deemed to be temporarily impaired. Additionally, there are three equity securities in an unrealized loss position as of December 31, 2014 that have been in that position for less than 12 months. The unrealized losses present in those securities are insignificant. Management has identified no other-than-temporary impairment as of, or for the years ended, December 31, 2014, 2013 and 2012 in the equity portfolio. Management continues to track the performance of each stock owned to determine if it is prudent to deem any further other-than-temporary impairment charges. The Company has the ability and intent to hold its equity securities until recovery of unrealized losses.



# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

The following table shows gross unrealized losses and fair value, aggregated by category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2013 (in thousands):

	Unrealized Losses at December 31, 2013					
	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	\$53,438	\$(1,664)	\$1,921	\$ (79)	\$55,359	\$(1,743)
Obligations of state and political subdivisions	11,496	(130)	4,301	(43)	15,797	(173)
Mortgage-backed securities	308	(3)	—	—	308	(3)
Debt securities	65,242	(1,797)	6,222	(122)	71,464	(1,919)
Equity securities	—	—	266	(54)	266	(54)
Total temporarily impaired securities	\$65,242	\$(1,797)	\$6,488	\$(176)	\$71,730	\$(1,973)

### 6. LOANS AND RELATED ALLOWANCE FOR LOAN LOSSES

The following table presents 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 December 31, 2014 and December 31, 2013 (in thousands):

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	<u>\$249,800</u>	<u>\$30,170</u>	<u>\$11,411</u>	<u>\$3,520</u>	<u>\$294,901</u>
As of December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial, financial and agricultural	\$ 20,388	\$ 5,658	\$ 235	\$ —	\$ 26,281
Real estate - commercial	56,867	11,706	5,620	278	74,471
Real estate - construction	15,803	292	1,754	1,832	19,681
Real estate - mortgage	130,706	3,995	4,272	1,486	140,459
Obligations of states and political subdivisions	12,674	28	—	—	12,702
Personal	4,204	—	—	—	4,204
Total	<u>\$240,642</u>	<u>\$21,679</u>	<u>\$11,881</u>	<u>\$3,596</u>	<u>\$277,798</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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. A 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, are used to determine the charge-off amount. The following tables summarize information regarding impaired loans by portfolio class as of December 31, 2014 and December 31, 2013 (in thousands):

	As of December 31, 2014			As of December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans						
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 1	\$ 1	\$ -	\$ 94	\$ 94	\$ -
Real estate - commercial	2,264	2,357	-	2,017	2,142	-
Real estate - construction	336	664	-	504	813	-
Real estate - mortgage	3,056	4,324	-	3,353	4,751	-
With an allowance recorded:						
Real estate - commercial	\$ -	\$ -	\$ -	\$ 238	\$ 238	\$ 26
Real estate - construction	-	-	-	1,478	1,502	93
Real estate - mortgage	896	937	150	365	394	45
Total:						
Commercial, financial and agricultural	\$ 1	\$ 1	\$ -	\$ 94	\$ 94	\$ -
Real estate - commercial	2,264	2,357	-	2,255	2,380	26
Real estate - construction	336	664	-	1,982	2,315	93
Real estate - mortgage	3,952	5,261	150	3,718	5,145	45
	<u>\$6,553</u>	<u>\$8,283</u>	<u>\$150</u>	<u>\$8,049</u>	<u>\$9,934</u>	<u>\$164</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

	Year Ended December 31, 2014			Year Ended December 31, 2013			Year Ended December 31, 2012		
	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Income	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	\$ 48	\$ 1	\$ 2	\$ 127	\$ -	\$ -	\$ 199	\$ 14	\$ -
Real estate - commercial	2,141	62	49	2,345	96	24	2,492	119	3
Real estate - construction	420	-	-	1,254	2	6	1,362	-	-
Real estate - mortgage	3,205	76	71	1,920	64	24	1,371	-	-
With an allowance recorded:									
Real estate - commercial	\$ 119	\$ -	\$ -	\$ 119	\$ -	\$ -	\$ -	\$ -	\$ -
Real estate - construction	739	-	-	838	-	-	674	-	15
Real estate - mortgage	631	-	5	1,253	-	7	2,503	-	-
Total:									
Commercial, financial and agricultural	\$ 48	\$ 1	\$ 2	\$ 127	\$ -	\$ -	\$ 199	\$ 14	\$ -
Real estate - commercial	2,260	62	49	2,464	96	24	2,492	119	3
Real estate - construction	1,159	-	-	2,092	2	6	2,036	-	15
Real estate - mortgage	3,836	76	76	3,173	64	31	3,874	-	-
	<u>\$7,303</u>	<u>\$139</u>	<u>\$127</u>	<u>\$7,856</u>	<u>\$162</u>	<u>\$61</u>	<u>\$8,601</u>	<u>\$133</u>	<u>\$18</u>

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2014 and December 31, 2013 (in thousands):

	December 31, 2014	December 31, 2013
Nonaccrual loans:		
Commercial, financial and agricultural	\$ -	\$ 10
Real estate - commercial	1,717	1,331
Real estate - construction	336	1,982
Real estate - mortgage	3,193	2,629
Total	<u>\$5,246</u>	<u>\$5,952</u>

Interest income not recorded based on the original contractual terms of the loans for nonaccrual loans was \$382,000, \$490,000 and \$472,000 in 2014, 2013 and 2012, respectively. The aggregate amount of demand deposits that have been reclassified as loan balances at December 31, 2014 and 2013 were \$36,000 and \$41,000, respectively.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 December 31, 2014 and December 31, 2013 (in thousands):

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	<u>\$ 905</u>	<u>\$1,503</u>	<u>\$5,021</u>	<u>\$ 7,429</u>	<u>\$287,472</u>	<u>\$294,901</u>	<u>\$400</u>

As of December 31, 2013	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	\$ 19	\$ -	\$ 10	\$ 29	\$ 26,252	\$ 26,281	\$ -
Real estate - commercial	35	1,092	947	2,074	72,397	74,471	61
Real estate - construction	239	7	1,801	2,047	17,634	19,681	-
Real estate - mortgage	1,239	2,130	2,585	5,954	134,505	140,459	251
Obligations of states and political subdivisions	-	-	-	-	12,702	12,702	-
Personal	23	1	-	24	4,180	4,204	-
Total	<u>\$1,555</u>	<u>\$3,230</u>	<u>\$5,343</u>	<u>\$10,128</u>	<u>\$267,670</u>	<u>\$277,798</u>	<u>\$312</u>

The following table summarizes information regarding troubled debt restructurings by loan portfolio class as of and for the years ended December 31, 2014 and 2013, in thousands of dollars.

	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of December 31, 2014				
Accruing troubled debt restructurings:				
Real estate - mortgage	7	\$402	\$430	\$401
Non-acruing troubled debt restructurings:				
Real estate - mortgage	<u>1</u>	<u>364</u>	<u>371</u>	<u>366</u>
	<u>8</u>	<u>\$766</u>	<u>\$801</u>	<u>\$767</u>
As of December 31, 2013				
Accruing troubled debt restructurings:				
Real estate - commercial	1	\$ 64	\$ 61	\$ 61
Real estate - mortgage	<u>6</u>	<u>706</u>	<u>714</u>	<u>714</u>
	<u>7</u>	<u>\$770</u>	<u>\$775</u>	<u>\$775</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 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.

As of December 31, 2014, one restructured loan with a balance of \$366,000 was in default as it was delinquent in excess of 90 days with respect to the terms of the restructuring and was placed in non-accrual status as of June 30, 2014. There have been no defaults of troubled debt restructurings that took place during 2014, 2013 or 2012 within 12 months of restructure. One restructured loan was delinquent in excess of 90 days with respect to the terms of the restructuring as of December 31, 2013. This loan had a balance of \$61,000 and was in the process of foreclosure.

The following table summarizes loans whose terms have been modified resulting in troubled debt restructurings during 2014 and 2013, in thousands of dollars.

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>	<u>Recorded Investment</u>
Year ended December 31, 2014				
Accruing troubled debt restructurings:				
Real estate - mortgage	<u>3</u>	<u>\$ 92</u>	<u>\$ 92</u>	<u>\$ 87</u>
	<u>3</u>	<u>\$ 92</u>	<u>\$ 92</u>	<u>\$ 87</u>
Year ended December 31, 2013				
Accruing troubled debt restructurings:				
Real estate - commercial	<u>1</u>	<u>\$ 64</u>	<u>\$ 61</u>	<u>\$ 61</u>
Real estate - mortgage	<u>6</u>	<u>706</u>	<u>714</u>	<u>714</u>
	<u>7</u>	<u>\$770</u>	<u>\$775</u>	<u>\$775</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

The following tables summarize loans and the activity in the allowance for loan losses by loan class, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of and for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	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:							
Beginning Balance, January 1, 2014	\$ 253	\$ 534	\$ 212	\$ 1,246	\$ -	\$ 42	\$ 2,287
Charge-offs	(20)	(92)	(18)	(125)	-	(20)	(275)
Recoveries	4	5	-	-	-	2	11
Provisions	(15)	218	(39)	179	-	14	357
Ending balance	<u>\$ 222</u>	<u>\$ 665</u>	<u>\$ 155</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 2,380</u>

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
As of December 31, 2014							
Allowance for loan losses:							
Ending balance evaluated for impairment	<u>\$ 222</u>	<u>\$ 665</u>	<u>\$ 155</u>	<u>\$ 1,300</u>	<u>\$ -</u>	<u>\$ 38</u>	<u>\$ 2,380</u>
individually	\$ -	\$ -	\$ -	\$ 150	\$ -	\$ -	\$ 150
collectively	\$ 222	\$ 665	\$ 155	\$ 1,150	\$ -	\$ 38	\$ 2,230
Loans:							
Ending balance evaluated for impairment	<u>\$23,738</u>	<u>\$90,000</u>	<u>\$20,713</u>	<u>\$140,676</u>	<u>\$15,730</u>	<u>\$4,044</u>	<u>\$294,901</u>
individually	\$ 1	\$ 2,264	\$ 336	\$ 3,952	\$ -	\$ -	\$ 6,553
collectively	\$23,737	\$87,736	\$20,377	\$136,724	\$15,730	\$4,044	\$288,348

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

	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:							
Beginning Balance, January 1, 2013	\$ 179	\$ 463	\$ 202	\$ 2,387	\$ -	\$ 50	\$ 3,281
Charge-offs	(4)	-	(117)	(1,281)	-	(29)	(1,431)
Recoveries	13	-	-	-	-	9	22
Provisions	65	71	127	140	-	12	415
Ending balance	<u>\$ 253</u>	<u>\$ 534</u>	<u>\$ 212</u>	<u>\$ 1,246</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 2,287</u>

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
As of December 31, 2013							
Allowance for loan losses:							
Ending balance evaluated for impairment	<u>\$ 253</u>	<u>\$ 534</u>	<u>\$ 212</u>	<u>\$ 1,246</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 2,287</u>
individually	\$ -	\$ 26	\$ 93	\$ 45	\$ -	\$ -	\$ 164
collectively	\$ 253	\$ 508	\$ 119	\$ 1,201	\$ -	\$ 42	\$ 2,123

Loans:							
Ending balance evaluated for impairment	<u>\$26,281</u>	<u>\$74,471</u>	<u>\$19,681</u>	<u>\$140,459</u>	<u>\$12,702</u>	<u>\$4,204</u>	<u>\$277,798</u>
individually	\$ 94	\$ 2,255	\$ 1,982	\$ 3,718	\$ -	\$ -	\$ 8,049
collectively	\$26,187	\$72,216	\$17,699	\$136,741	\$12,702	\$4,204	\$269,749

	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:							
Beginning Balance, January 1, 2012	\$ 195	\$ 455	\$ 442	\$ 1,771	\$ -	\$ 68	\$ 2,931
Charge-offs	(25)	-	(193)	(852)	-	(1)	(1,071)
Recoveries	8	-	-	-	-	2	10
Provisions	1	8	(47)	1,468	-	(19)	1,411
Ending balance	<u>\$ 179</u>	<u>\$ 463</u>	<u>\$ 202</u>	<u>\$ 2,387</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 3,281</u>

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
As of December 31, 2012							
Allowance for loan losses:							
Ending balance evaluated for impairment	<u>\$ 179</u>	<u>\$ 463</u>	<u>\$ 202</u>	<u>\$ 2,387</u>	<u>\$ -</u>	<u>\$ 50</u>	<u>\$ 3,281</u>
individually	\$ -	\$ -	\$ 91	\$ 1,036	\$ -	\$ -	\$ 1,127
collectively	\$ 179	\$ 463	\$ 111	\$ 1,351	\$ -	\$ 50	\$ 2,154
Loans:							
Ending balance evaluated for impairment	<u>\$19,296</u>	<u>\$69,187</u>	<u>\$18,092</u>	<u>\$153,122</u>	<u>\$12,769</u>	<u>\$5,034</u>	<u>\$277,500</u>
individually	\$ 160	\$ 2,672	\$ 2,202	\$ 2,628	\$ -	\$ -	\$ 7,662
collectively	\$19,136	\$66,515	\$15,890	\$150,494	\$12,769	\$5,034	\$269,838

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 7. PLEDGED ASSETS

The Bank must maintain sufficient qualifying collateral with the Federal Home Loan Bank (FHLB), in order to secure borrowings. Therefore, a Master Collateral Agreement has been entered into which pledges all mortgage related assets as collateral for future borrowings. Mortgage related assets could include loans or investment securities. As of December 31, 2014, the amount of loans included in qualifying collateral was \$182,935,000, for a collateral value of \$132,601,000. No investment securities are included in qualifying collateral as of December 31, 2014.

### 8. BANK OWNED LIFE INSURANCE AND ANNUITIES

The Company holds bank-owned life insurance (BOLI), deferred annuities and payout annuities with a combined cash value of \$14,807,000 and \$14,848,000 at December 31, 2014 and 2013, respectively. As annuitants retire, the deferred annuities may be converted to payout annuities to create payment streams that match certain post-retirement liabilities. The cash surrender value on the BOLI and annuities increased by \$411,000, \$446,000 and \$333,000 in 2014, 2013 and 2012, respectively, from earnings recorded as non-interest income and from premium payments, net of cash payments received. The contracts are owned by the Bank in various insurance companies. The crediting rate on the policies varies annually based on the insurance companies' investment portfolio returns in their general fund and market conditions. Changes in cash value of BOLI and annuities in 2014 and 2013 are shown below (in thousands):

	Life Insurance	Deferred Annuities	Payout Annuities	Total
Balance as of January 1, 2013	\$14,036	\$354	\$ 12	\$14,402
Earnings	372	13	1	386
Premiums on existing policies	54	14	-	68
Annuity payments received	-	-	(8)	(8)
Balance as of December 31, 2013	14,462	381	5	14,848
Earnings	339	15	-	354
Premiums on existing policies	46	14	-	60
Annuity payments received	-	-	(5)	(5)
Net proceeds from life insurance claim	(450)	-	-	(450)
Balance as of December 31, 2014	\$14,397	\$410	\$ -	\$14,807

### 9. PREMISES AND EQUIPMENT

Premises and equipment consist of the following (in thousands):

	December 31,	
	2014	2013
Land	\$ 1,066	\$ 1,066
Buildings and improvements	8,828	8,585
Furniture, computer software and equipment	4,690	4,601
	14,584	14,252
Less: accumulated depreciation	(8,051)	(7,922)
	\$ 6,533	\$ 6,330

Depreciation expense on premises and equipment charged to operations was \$494,000 in 2014, \$497,000 in 2013 and \$524,000 in 2012.



# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 10. GOODWILL AND CORE DEPOSIT INTANGIBLE

On September 8, 2006, the Company completed its acquisition of a branch office in Richfield, PA. Goodwill at December 31, 2014 and 2013 was \$2,046,000. Core deposit intangible was \$74,000 net of amortization of \$375,000 at December 31, 2014 and \$119,000 net of amortization of \$330,000 at December 31, 2013. The core deposit intangible is being amortized over a ten-year period on a straight line basis. The goodwill is not amortized, but is measured annually for impairment. Core deposit intangible amortization expense of \$45,000 was recorded in each of the years 2014, 2013 and 2012. Intangible amortization expense projected for the remaining two years beginning in 2015 is estimated to be \$45,000 in 2015 and \$29,000 for 2016.

### 11. INVESTMENT IN UNCONSOLIDATED SUBSIDIARY

On September 1, 2006, the Company invested in Liverpool Community Bank (formerly known as The First National Bank of Liverpool) ("LCB"), Liverpool, PA, by purchasing 39.16% of its outstanding common stock. This investment is accounted for under the equity method of accounting. The investment was carried at \$4,369,000 and \$4,172,000 as of December 31, 2014 and 2013, respectively. 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 which would justify the current carrying value of the investment.

### 12. DEPOSITS

Deposits consist of the following (in thousands):

	December 31,	
	2014	2013
Demand, non-interest bearing	\$ 77,697	\$ 74,611
Interest-bearing demand and money market	95,675	89,867
Savings	67,430	60,761
Time deposits, \$100,000 or more	27,705	30,995
Other time deposits	112,377	123,411
	\$380,884	\$379,645

Aggregate amount of scheduled maturities of time deposits as of December 31, 2014 include the following (in thousands):

	Time Deposits		
	\$100,000 or more	Other	Total Time Deposits
Maturing in:			
2015	\$15,914	\$ 61,573	\$ 77,487
2016	4,767	20,319	25,086
2017	2,170	10,353	12,523
2018	1,180	7,585	8,765
2019	2,321	8,705	11,026
Later	1,353	3,842	5,195
	\$27,705	\$112,377	\$140,082

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 13. BORROWINGS

Borrowings consist of the following (dollars in thousands):

	December 31, 2014		December 31, 2013		For the year 2014	
	Outstanding Balance	Rate	Outstanding Balance	Rate	Average Balance	Weighted Average Rate
Securities sold under agreements to repurchase	\$ 4,594	0.10%	\$ 5,397	0.10%	\$ 4,265	0.10%
Short-term borrowings with Federal Home Loan Bank overnight advances	9,700	0.27%	8,400	0.25%	3,385	0.30%
Mid-term repo maturing August 2015	6,250	0.39%	-	-	1,613	0.32%
Long-term debt with Federal Home Loan Bank						
Mid-term repo maturing April 2016	7,500	0.63%	-	-	5,651	0.63%
Mid-term repo maturing March 2017	6,250	1.10%	-	-	4,709	1.10%
Fixed rate loan maturing April 2018	5,000	1.60%	-	-	3,767	1.60%
Fixed rate loan maturing April 2019	<u>3,750</u>	<u>2.00%</u>	<u>-</u>	<u>-</u>	<u>2,825</u>	<u>2.00%</u>
	<u>\$43,044</u>	<u>0.76%</u>	<u>\$13,797</u>	<u>0.19%</u>	<u>\$26,215</u>	<u>0.85%</u>

The maximum balance of short-term borrowings at any month-end during 2014 was \$ 15,950,000.

The Bank has repurchase agreements with several of its depositors, under which customers' funds are invested daily into an interest bearing account. These funds are carried by the Company as short-term debt. It is the Company's policy to have repurchase agreements collateralized 100% by U.S. Government securities. As of December 31, 2014, the securities that serve as collateral for securities sold under agreements to repurchase had a fair value of \$8,021,000. The interest rate paid on these funds is variable and subject to change daily.

The Bank's maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh ("FHLB") is \$132,601,000, with a balance of \$38,450,000 outstanding as of December 31, 2014. In order to borrow additional amounts, the FHLB would require the Bank to purchase additional FHLB Stock. The FHLB is a source of both short-term and long-term funding. The Bank must maintain sufficient qualifying collateral to secure all outstanding advances. Qualifying collateral is defined by the FHLB and includes outstanding balances of the Company's real estate loans, excluding loans with certain risk mitigants, including delinquencies and loans made to insiders, borrowers with low credit scores or loans with high loan-to-value ratios.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 14. OPERATING LEASE OBLIGATIONS

The Company has entered into a number of arrangements that are classified as operating leases. The operating leases are for several branch and office locations. The majority of the branch and office location leases are renewable at the Company's option. Future minimum lease commitments are based on current rental payments. Rental expense charged to operations, including license fees for branch offices, was \$124,000, \$122,000 and \$114,000 in 2014, 2013 and 2012, respectively.

The following is a summary of future minimum rental payments for the next five years required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of December 31, 2014 (in thousands):

Years ending December 31,	
2015	\$124
2016	113
2017	65
2018	22
2019	20
2020 and beyond	<u>—</u>
Total minimum payments required	<u>\$344</u>

### 15. INCOME TAXES

The components of income tax expense for the three years ended December 31 were (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current tax (benefit) expense	\$ 331	\$(157)	\$1,042
Deferred tax expense (benefit)	<u>194</u>	<u>662</u>	<u>(64)</u>
Total tax expense	<u>\$ 525</u>	<u>\$ 505</u>	<u>\$ 978</u>

A reconciliation of the statutory income tax expense computed at 34% to the income tax expense included in the consolidated statements of income follows (dollars in thousands):

	<u>Years Ended December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Income before income taxes	\$4,741	\$4,506	\$4,626
Statutory tax rate	34.0%	34.0%	34.0%
Federal tax at statutory rate	1,612	1,532	1,573
Tax-exempt interest	(358)	(354)	(431)
Net earnings on BOLI	(93)	(108)	(148)
Gain from life insurance proceeds	(56)	—	—
Dividend from unconsolidated subsidiary	(13)	(13)	(12)
Stock-based compensation	16	10	2
Federal tax credits	(575)	(556)	—
Other permanent differences	<u>(8)</u>	<u>(6)</u>	<u>(6)</u>
Total tax expense	<u>\$ 525</u>	<u>\$ 505</u>	<u>\$ 978</u>
Effective tax rate	11.1%	11.2%	21.1%

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

Deductible temporary differences and taxable temporary differences gave rise to a net deferred tax asset for the Company as of December 31, 2014 and 2013. The components giving rise to the net deferred tax asset are detailed below (in thousands):

	December 31,	
	2014	2013
Deferred Tax Assets		
Allowance for loan losses	\$ 675	\$ 639
Deferred directors' compensation	519	541
Employee and director benefits	553	574
Qualified pension liability	457	-
Unrealized losses on securities available for sale	-	387
Unrealized loss from securities impairment	239	221
Investment in low income housing project	52	-
Other	57	109
Total deferred tax assets	2,552	2,471
Deferred Tax Liabilities		
Depreciation	(199)	(223)
Equity income from unconsolidated subsidiary	(526)	(462)
Qualified pension asset	-	(342)
Loan origination costs	(348)	(287)
Prepaid expense	(138)	(95)
Unrealized gains on securities available for sale	(148)	-
Annuity earnings	(68)	(63)
Fair value of mortgage servicing rights	(66)	(57)
Goodwill	(387)	(340)
Total deferred tax liabilities	(1,880)	(1,869)
Net deferred tax asset included in other assets	\$ 672	\$ 602

The Company has concluded that the deferred tax assets are realizable (on a more likely than not basis) through the combination of future reversals of existing taxable temporary differences, certain tax planning strategies and expected future taxable income.

It is the Company's policy to recognize interest and penalties on unrecognized tax benefits in income tax expense in the Consolidated Statements of Income. No significant income tax uncertainties were identified as a result of the Company's evaluation of its income tax position. Therefore, the Company recognized no adjustment for unrecognized income tax benefits for the years ended December 31, 2014, 2013 and 2012. The Company is no longer subject to examination by taxing authorities for years before 2011. Tax years 2011 through the present, with limited exception, remain open to examination.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 16. STOCKHOLDERS' EQUITY AND REGULATORY MATTERS

The Company is authorized to issue 500,000 shares of preferred stock with no par value. The Board has the ability to fix the voting, dividend, redemption and other rights of the preferred stock, which can be issued in one or more series. No shares of preferred stock have been issued.

The Company has a dividend reinvestment and stock purchase plan. Under this plan, additional shares of Juniata Valley Financial Corp. stock may be purchased at the prevailing market prices with reinvested dividends and voluntary cash payments, within limits. To the extent that shares are not available in the open market, the Company has reserved common stock to be issued under the plan. Any adjustment in capitalization of the Company will result in a proportionate adjustment to the reserved shares for this plan. At December 31, 2014, 141,887 shares were available for issuance under the Dividend Reinvestment Plan.

The Company periodically repurchases shares of its common stock under a share repurchase program approved by the Board of Directors. Repurchases have typically been through open market transactions and have complied with all regulatory restrictions on the timing and amount of such repurchases. Shares repurchased have been added to treasury stock and accounted for at cost. These shares may be reissued for stock option exercises, employee stock purchase plan purchases and to fulfill dividend reinvestment program needs. During 2014, 2013 and 2012, 12,322, 24,918 and 19,793 shares, respectively, were repurchased in conjunction with this program. Remaining shares authorized in the program were 31,153 as of December 31, 2014.

The Company and the Bank are subject to risk-based capital standards by which bank holding companies and banks are evaluated in terms of capital adequacy. These regulatory capital requirements are administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to each maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and Tier I capital (as defined in the regulations) to average assets (as defined in the regulations). Management believes, as of December 31, 2014 and 2013, that the Company and the Bank met all capital adequacy requirements to which they were subject.

As of December 31, 2014, the most recent notification from the regulatory banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized", the Bank must maintain minimum Total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. To the knowledge of management, there are no conditions or events since these notifications that have changed the Bank's category.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

The table below provides a comparison of the Company's and the Bank's risk-based capital ratios and leverage ratios to the minimum regulatory requirements for the periods indicated (dollars in thousands).

### Juniata Valley Financial Corp. (Consolidated)

	Actual		Minimum Requirement For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
As of December 31, 2014:				
Total Capital (to Risk-Weighted Assets)	\$52,492	17.12%	\$24,531	8.00%
Tier I Capital (to Risk-Weighted Assets)	49,912	16.28	12,265	4.00
Tier I Capital (to Average Assets)	49,912	10.65	18,741	4.00
As of December 31, 2013:				
Total Capital (to Risk-Weighted Assets)	\$51,888	17.97%	\$23,105	8.00%
Tier I Capital (to Risk-Weighted Assets)	49,461	17.13	11,553	4.00
Tier I Capital (to Average Assets)	49,461	11.04	17,915	4.00

### The Juniata Valley Bank

	Actual		Minimum Requirement For Capital Adequacy Purposes		Minimum Regulatory Requirements to be "Well Capitalized" under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Total Capital (to Risk-Weighted Assets)	\$47,145	15.59%	\$24,186	8.00%	\$30,233	10.00%
Tier I Capital (to Risk-Weighted Assets)	44,688	14.78	12,093	4.00	18,140	6.00
Tier I Capital (to Average Assets)	44,688	9.42	18,969	4.00	23,711	5.00
As of December 31, 2013:						
Total Capital (to Risk-Weighted Assets)	\$46,530	16.35%	\$22,773	8.00%	\$28,467	10.00%
Tier I Capital (to Risk-Weighted Assets)	44,185	15.52	11,387	4.00	17,080	6.00
Tier I Capital (to Average Assets)	44,185	9.97	17,723	4.00	22,154	5.00

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 December 31, 2014, \$39,644,000 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 the regulatory capital requirements above.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 17. CALCULATION OF 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:

	Years Ended December 31,		
	2014	2013	2012
	(Amounts, except earnings per share, in thousands)		
Net income	\$4,216	\$4,001	\$3,648
Weighted-average common shares outstanding	4,193	4,210	4,231
<b>Basic earnings per share</b>	<b>\$ 1.01</b>	<b>\$ 0.95</b>	<b>\$ 0.86</b>
Weighted-average common shares outstanding	4,193	4,210	4,231
Common stock equivalents due to effect of stock options	–	1	2
Total weighted-average common shares and equivalents	\$4,193	\$4,211	\$4,233
<b>Diluted earnings per share</b>	<b>\$ 1.01</b>	<b>\$ 0.95</b>	<b>\$ 0.86</b>
Anti-dilutive stock options outstanding	100	78	79

### 18. ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss, net of tax as of December 31 of each of the last three years consist of the following (in thousands):

	12/31/2014	12/31/2013	12/31/2012
Unrealized gains (losses) on available for sale securities	\$ 296	\$ (751)	\$ 800
Unrecognized expense for defined benefit pension	(2,493)	(908)	(2,219)
Accumulated other comprehensive loss	\$(2,197)	\$(1,659)	\$(1,419)

### 19. FAIR VALUE MEASUREMENTS

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.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 instruments measured at fair value, as well as the general classification of such instruments 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, 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.



# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

**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 December 31, 2014 and December 31, 2013, 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 year ended December 31, 2014.

	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
<b>Measured at fair value on a recurring basis:</b>				
Debt securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$50,101	\$ –	\$50,101	\$ –
Obligations of state and political subdivisions	35,873	–	35,873	–
Mortgage-backed securities	55,429	–	55,429	–
Equity securities available-for-sale	1,500	1,500	–	–
<b>Measured at fair value on a non-recurring basis:</b>				
Impaired loans	3,370	–	–	3,370
Mortgage servicing rights	193	–	–	193
	December 31, 2013	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Other Unobservable Inputs
<b>Measured at fair value on a recurring basis:</b>				
Debt securities available-for-sale:				
Obligations of U.S. Government agencies and corporations	\$78,278	\$ –	\$78,278	\$ –
Obligations of state and political subdivisions	41,932	–	41,932	–
Mortgage-backed securities	4,469	–	4,469	–
Equity securities available-for-sale	1,367	1,367	–	–
<b>Measured at fair value on a non-recurring basis:</b>				
Impaired loans	3,300	–	–	3,300
Other real estate owned	50	–	–	50
Mortgage servicing rights	167	–	–	167

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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:

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%

December 31, 2013	Fair Value Estimate	Valuation Technique	Unobservable Input	Range	Weighted Average
Impaired loans	\$3,300	Appraisal of collateral (1)	Appraisal and liquidation adjustments (2)	(7)% - (10)%	(9.0)%
Other real estate owned	50	Appraisal of collateral (1)	Appraisal and liquidation adjustments (2)	0%	0%
Mortgage servicing rights	167	Multiple of annual servicing fee	Estimated pre-payment speed, based on rate and term	300% - 400%	326%

- (1) Fair value is generally determined through independent appraisals of the underlying collateral that generally include various level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and 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 year 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, interest receivable, mortgage servicing rights, non-interest bearing demand 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 considered 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) are 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.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

Long-term debt and other interest bearing liabilities – The fair values are 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)

	December 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and due from banks	\$ 6,757	\$ 6,757	\$ 8,570	\$ 8,570
Interest bearing deposits with banks	10	10	43	43
Interest bearing time deposits with banks	–	–	249	250
Securities	142,903	142,903	126,046	126,046
Restricted investment in FHLB stock	2,726	2,726	1,967	1,967
Loans, net of allowance for loan losses	292,521	294,083	275,511	282,226
Mortgage servicing rights	193	193	167	167
Accrued interest receivable	1,491	1,491	1,529	1,529
Financial liabilities:				
Non-interest bearing deposits	77,697	77,697	74,611	74,611
Interest bearing deposits	303,187	305,635	305,034	308,414
Securities sold under agreements to repurchase	4,594	4,594	5,397	5,397
Short-term borrowings	15,950	15,950	8,400	8,400
Long-term debt	22,500	22,464	–	–
Other interest bearing liabilities	1,412	1,416	1,356	1,358
Accrued interest payable	301	301	287	287
Off-balance sheet financial instruments:				
Commitments to extend credit	–	–	–	–
Letters of credit	–	–	–	–

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

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 December 31, 2014 and December 31, 2013. This table excludes financial instruments for which the carrying amount approximates fair value.

	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
December 31, 2014					
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	-
December 31, 2013					
Financial instruments - Assets					
Interest bearing time deposits with banks	\$ 249	\$ 250	\$ -	\$ 250	\$ -
Loans, net of allowance for loan losses	275,511	282,226	-	-	282,226
Financial instruments - Liabilities					
Interest bearing deposits	305,034	308,414	-	308,414	-
Other interest bearing liabilities	1,356	1,358	-	1,358	-

## 20. EMPLOYEE BENEFIT PLANS

### *Stock Option Plan*

The 2000 Incentive Stock Option Plan expired in May 2010 and was replaced with the 2011 Stock Option Plan in May 2011 (collectively, the "Plans"). The 2011 Stock Option Plan has essentially the same structure as the 2000 plan. Under the provisions of the Plans, while active, options can be granted to officers and key employees of the Company. The Plans provide that the option price per share is not to be less than the fair market value of the stock on the day the option was granted, but in no event less than the par value of such stock. Options granted under the Plans are exercisable no earlier than one year after the date of grant and expire ten years after the date of the grant.

The Plans are administered by a committee of the Board of Directors, whose members are not eligible to receive options under the Plans. The Committee determines, among other things, which officers and key employees receive options, the number of shares to be subject to each option, the option price and the duration of the option. Options vest over three to five years and are exercisable at the grant price, which is at least the fair market value of the stock on the grant date. All options previously granted under the Plans are scheduled to expire through February 18, 2024. The aggregate number of shares that may be issued upon the exercise of options under the 2011 Stock Option Plan is 300,000 shares, and 213,775 shares were available for grant as of December 31, 2014. Total options outstanding at December 31, 2014 have exercise prices between \$17.22 and \$24.00, with a weighted average exercise price of \$18.13 and a weighted average remaining contractual life of 7.2 years.

As of December 31, 2014, there was \$76,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized through 2019.

No options were exercised in 2014 or 2013. Cash received from option exercises under the Plans for the year ended December 31, 2012 was \$104,000.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

A summary of the status of the Plans as of December 31, 2014, 2013 and 2012, and changes during the years ending on those dates is presented below:

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	83,930	\$ 18.50	97,792	\$19.04	90,474	\$ 18.85
Granted	33,525	17.72	21,800	17.65	19,150	18.00
Exercised	-	-	-	-	(7,207)	14.47
Forfeited	(7,639)	20.44	(35,662)	19.45	(4,625)	17.89
Outstanding at end of year	<u>109,816</u>	<u>\$ 18.13</u>	<u>83,930</u>	<u>\$18.50</u>	<u>97,792</u>	<u>\$ 19.04</u>
Options exercisable at year-end	51,396		43,079		68,361	
Weighted-average fair value of options granted during the year		\$ 1.96		\$ 1.75		\$ 1.98
Intrinsic value of options exercised during the year		\$ -		\$ -		\$24,444
Intrinsic value of options outstanding and exercisable at December 31, 2014		\$22,021				

The following table summarizes characteristics of stock options as of December 31, 2014:

Grant Date	Exercise Price	Outstanding		Exercisable
		Shares	Contractual Average Life (Years)	Shares
10/18/2005	\$24.00	1,531	0.80	1,531
10/17/2006	21.00	1,838	1.80	1,838
10/16/2007	20.05	4,425	2.80	4,425
10/21/2008	21.10	6,100	3.81	6,100
10/20/2009	17.22	9,697	4.80	9,697
9/20/2011	17.75	13,850	6.72	11,850
3/20/2012	18.00	17,050	7.22	9,900
2/19/2013	17.65	21,800	8.14	6,055
2/18/2014	17.72	33,525	9.14	-
		<u>109,816</u>		<u>51,396</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### *Defined Benefit Retirement Plan*

The Company sponsors a defined benefit retirement 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 defined benefit retirement plan was amended to cease future service accruals after that date (frozen). 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 does not expect to contribute to the defined benefit plan in 2015.

Management expects \$120,000 expense to be recorded as net periodic expense in 2015 for the defined benefit plan, which includes expected amortization out of accumulated other comprehensive loss. The following table sets forth by level, within the fair value hierarchy, debt and equity instruments included in the defined benefit retirement's plan assets at fair value as of December 31, 2014 and December 31, 2013 (in thousands). Assets included in the plan that are not valued in the hierarchy table consist of cash and cash equivalents, totaling \$527,000 and \$703,000, at December 31, 2014 and 2013, respectively.

	December 31, 2014	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Measured at fair value on a recurring basis:				
U.S. Government and agency securities	\$ 1,113	\$ -	\$ 1,113	\$ -
Corporate bonds and notes	3,147	-	3,147	-
Mutual funds				
Value funds	1,977	1,977	-	-
Blend funds	1,696	1,696	-	-
Growth funds	1,585	1,585	-	-
Common stocks	-	-	-	-
Money market funds	85	85	-	-
	<u>\$9,603</u>	<u>\$5,343</u>	<u>\$4,260</u>	<u>\$-</u>
	December 31, 2013	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Measured at fair value on a recurring basis:				
U.S. Government and agency securities	\$ 739	\$ -	\$ 739	\$ -
Corporate bonds and notes	2,987	-	2,987	-
Mutual funds				
Value funds	2,120	2,120	-	-
Blend funds	1,522	1,522	-	-
Growth funds	1,867	1,867	-	-
Common stocks	4	4	-	-
Money market funds	172	172	-	-
	<u>\$9,411</u>	<u>\$5,685</u>	<u>\$3,726</u>	<u>\$-</u>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

The measurement date for the defined benefit plan is December 31. Information pertaining to the activity in the defined benefit plan is as follows (in thousands):

	Years ended December 31,	
	2014	2013
Change in projected benefit obligation (PBO)		
PBO at beginning of year	\$ 9,108	\$10,022
Service cost	-	-
Interest cost	426	395
Change in assumptions	2,297	(962)
Actuarial loss	110	91
Benefits paid	(468)	(438)
PBO at end of year	\$11,473	\$ 9,108
Change in plan assets		
Fair value of plan assets at beginning of year	\$10,114	\$ 9,078
Actual return on plan assets, net of expenses	484	1,474
Benefits paid	(468)	(438)
Fair value of plan assets at end of year	\$10,130	\$10,114
Funded status, included in other (liabilities) assets	\$ (1,343)	\$ 1,006
Amounts recognized in accumulated comprehensive loss before income taxes consist of:		
Unrecognized actual loss	\$(3,777)	\$(1,377)
Unrecognized net transition asset	-	1
	\$(3,777)	\$(1,376)
Accumulated benefit obligation	\$11,473	\$ 9,108

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

For the year ended December 31, 2013, the mortality assumptions were derived using the IRS 2014 Static Table. For the year ended December 31, 2014, the mortality assumptions were derived using the RP-2014 White Collar Mortality Table. Incorporated into the most recent table are rates projected generationally using Scale MP-2014 to reflect mortality improvement. The impact on the benefit obligation for the mortality assumption change was an increase of \$1,079,000.

Pension expense included the following components for the years ended December 31 (in thousands):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Service cost during the year	\$ —	\$ —	\$ 222
Interest cost on projected benefit obligation	426	395	451
Expected return on plan assets	(518)	(561)	(591)
Net (amortization) accretion	—	(1)	56
Recognized net actuarial loss	<u>40</u>	<u>203</u>	<u>296</u>
 Net periodic benefit cost	 <u>(52)</u>	 <u>36</u>	 <u>434</u>
 Net loss (gain)	 2,441	 (1,782)	 (952)
Amortization of net loss	(40)	(203)	(296)
Net amortization (accretion)	—	1	(56)
Total recognized in other comprehensive loss (income)	<u>\$2,401</u>	<u>\$(1,984)</u>	<u>\$(1,304)</u>
 Total recognized in net periodic benefit cost and other comprehensive loss (income)	 \$2,349	 \$(1,948)	 \$ (870)

Assumptions used to determine benefit obligations were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate	4.00%	4.75%	4.00%
Rate of compensation increase	N/A	N/A	N/A

Assumptions used to determine the net periodic benefit cost were:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rate	4.75%	4.00%	4.40%
Expected long-term return on plan assets	5.25	6.35	7.00
Rate of compensation increase	N/A	N/A	3.00

The investment strategy and investment policy for the retirement plan is to target the plan assets to contain 50% equity and 50% fixed income securities. The asset allocation as of December 31, 2014 was approximately 43% fixed income securities, 55% equities and 2% cash equivalents.

Future expected benefit payments (in thousands):

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020-2024</u>
Estimated future benefit payments	\$466	\$472	\$476	\$526	\$530	\$2,828



# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### *Defined Contribution Plan*

The Company has a Defined Contribution Plan under which employees, through payroll deductions, are able to defer portions of their compensation. The Company makes an annual non-elective fully vested contribution equal to 3% of compensation to each eligible participant. As of December 31, 2014, a liability of \$191,000 was recorded to satisfy this obligation, and was credited to employees' accounts by January 31, 2015. This liability at December 31, 2013 totaled \$172,000 and was credited to employee accounts during 2014. Expense incurred under this plan was \$180,000, \$175,000 and \$157,000 in 2014, 2013 and 2012, respectively. Effective January 1, 2013, the Company amended the Defined Contribution Plan to include an employer matching contribution for employees that elect to defer compensation into this program. The matching contribution in 2014 and 2013 was \$147,000 and \$123,000, respectively.

### *Employee Stock Purchase Plan*

The Company has an Employee Stock Purchase Plan under which employees, through payroll deductions, are able to purchase shares of Company stock annually. The option price of the stock purchases is between 95% and 100% of the fair market value of the stock on the offering termination date as determined annually by the Board of Directors. The maximum number of shares which employees may purchase under the Plan is 250,000; however, the annual issuance of shares may not exceed 5,000 shares plus any unissued shares from prior offerings. There were 3,497 shares issued in 2014, 2,823 shares issued in 2013 and 2,729 shares issued in 2012 under this plan. At December 31, 2014, there were 184,060 shares reserved for issuance under the Employee Stock Purchase Plan.

### *Supplemental Retirement Plans*

The Company has non-qualified supplemental retirement plans for directors and key employees. At December 31, 2014 and 2013, the present value of the future liability was \$459,000 and \$533,000, respectively. For the years ended December 31, 2014, 2013 and 2012, \$39,000, \$47,000 and \$56,000, respectively, was charged to expense in connection with these plans. The Company offsets the cost of these plans through the purchase of bank-owned life insurance and annuities. See Note 8.

### *Deferred Compensation Plans*

The Company has entered into deferred compensation agreements with certain directors to provide each director an additional retirement benefit, or to provide their beneficiary a benefit, in the event of pre-retirement death. At December 31, 2014 and 2013, the present value of the future liability was \$1,528,000 and \$1,591,000, respectively. For the years ended December 31, 2014, 2013 and 2012, \$33,000, \$47,000 and \$66,000, respectively, was charged to expense in connection with these plans. The Company offsets the cost of these plans through the purchase of bank-owned life insurance. See Note 8.

### *Salary Continuation Plans*

The Company has non-qualified salary continuation plans for key employees. At December 31, 2014 and 2013, the present value of the future liability was \$1,167,000 and \$1,154,000, respectively. For the years ended December 31, 2014, 2013 and 2012, \$118,000, \$97,000 and \$132,000, respectively, was charged to expense in connection with these plans. The Company offsets the cost of these plans through the purchase of bank-owned life insurance. See Note 8.

## **21. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments may include commitments to extend credit and letters of credit. These instruments involve, to varying degrees, elements of credit risk that are not recognized in the consolidated financial statements.

Exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments and conditional obligations as it does for on-balance sheet instruments. The Company controls the credit risk of its financial instruments through credit approvals, limits and monitoring procedures; however, it does not generally require collateral for such financial instruments since there is no principal credit risk.

A summary of the Company's financial instrument commitments is as follows (in thousands):

	December 31,	
	2014	2013
Commitments to grant loans	\$38,776	\$33,532
Unfunded commitments under lines of credit	6,245	7,457
Outstanding letters of credit	1,703	1,199

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since portions of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the counter-party. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit are instruments issued by the Bank that guarantee the beneficiary payment by the Bank in the event of default by the Bank's customer in the non-performance of an obligation or service. Most letters of credit are extended for one year periods. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments for which collateral is deemed necessary. The amount of the liability as of December 31, 2014 and 2013 for guarantees under letters of credit issued is not material.

The maximum undiscounted exposure related to these guarantees at December 31, 2014 was \$1,602,000, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$5,168,000.

### **22. RELATED-PARTY TRANSACTIONS**

The Bank has granted loans to certain of its executive officers, directors and their related interests. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and, in the opinion of management, do not involve more than normal risk of collection. The aggregate dollar amount of these loans was \$1,764,000 and \$1,892,000 at December 31, 2014 and 2013, respectively. During 2014, \$229,000 of new loans were made and repayments totaled \$357,000. None of these loans were past due, in non-accrual status or restructured at December 31, 2014 or 2013.

### **23. COMMITMENTS AND CONTINGENT LIABILITIES**

In 2009, the Company executed an agreement to obtain technology outsourcing services through an outside service bureau, and those services began in June 2010. The agreement provides for termination fees if the Company cancels the services prior to the end of the 8-year commitment period. The termination fee would be an amount equal to one hundred percent of the estimated remaining value of the terminated services if terminated in the first contract year, ninety percent of the estimated remaining value of the terminated services if terminated in the second contract year, eighty percent and seventy percent of the remaining value of the terminated services if terminated in the third and fourth contract years, respectively, and sixty percent of the remaining value of the terminated services if terminated in contract years five through eight. Termination fees are estimated to be approximately \$1,108,000 at December 31, 2014. Since the Company does not expect to terminate these services prior to the end of the commitment period, no liability has been recorded at December 31, 2014.

The Company, from time to time, may be a defendant in legal proceedings relating to the conduct of its banking business. Most of such legal proceedings are a normal part of the banking business and, in management's opinion, the consolidated financial condition and results of operations of the Company would not be materially affected by the outcome of such legal proceedings.

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 December 31, 2014, \$10,451,000 remains to be delivered on that commitment, of which none has been committed to borrowers.

### **24. SUBSEQUENT EVENTS**

In January 2015, the Board of Directors declared a dividend of \$0.22 per share to shareholders of record on February 13, payable on March 2, 2015.

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 25. JUNIATA VALLEY FINANCIAL CORP. (PARENT COMPANY ONLY)

Financial information:

#### CONDENSED BALANCE SHEETS

(in thousands)

	December 31,	
	2014	2013
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 132	\$ 365
Investment in bank subsidiary	44,437	44,589
Investment in unconsolidated subsidiary	4,369	4,172
Investment securities available for sale	1,225	1,127
Other assets	96	56
<b>TOTAL ASSETS</b>	<b>\$50,259</b>	<b>\$50,309</b>
<b>LIABILITIES:</b>		
Accounts payable and other liabilities	\$ 403	\$ 325
<b>STOCKHOLDERS' EQUITY</b>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$49,856</b>	<b>\$49,984</b>
	<b>\$50,259</b>	<b>\$50,309</b>

#### CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>INCOME</b>			
Interest and dividends on investment securities available for sale	\$ 32	\$ 28	\$ 41
Dividends from bank subsidiary	3,691	4,290	2,793
Income from unconsolidated subsidiary	236	237	249
Other non-interest income	1	-	-
<b>TOTAL INCOME</b>	3,960	4,555	3,083
<b>EXPENSE:</b>			
Non-interest expense	132	140	80
<b>TOTAL EXPENSE</b>	132	140	80
<b>INCOME BEFORE INCOME TAXES AND EQUITY</b>			
IN UNDISTRIBUTED NET INCOME OF SUBSIDIARY	3,828	4,415	3,003
Income tax expense	25	23	47
	3,803	4,392	2,956
Undistributed net income (loss) of subsidiary	413	(391)	692
<b>NET INCOME</b>	<b>\$4,216</b>	<b>\$4,001</b>	<b>\$3,648</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$3,678</b>	<b>\$3,761</b>	<b>\$4,485</b>

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	\$ 4,216	\$ 4,001	\$ 3,648
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed net (income) loss of subsidiary	(413)	391	(692)
Net amortization of securities premiums	-	-	2
Equity in earnings of unconsolidated subsidiary, net of dividends of \$48, \$47 and \$45	(188)	(190)	(204)
Stock-based compensation expense	47	30	25
Increase in other assets	(87)	(72)	(13)
Increase in taxes payable	65	87	127
Decrease in accounts payable and other liabilities	(20)	(7)	(2)
Net cash provided by operating activities	3,620	4,240	2,891
Cash flows from investing activities:			
Purchases of available for sale securities	-	(252)	-
Proceeds from the maturity of available for sale investment securities	-	250	1,235
Net cash (used in) provided by investing activities	-	(2)	1,235
Cash flows from financing activities:			
Cash dividends	(3,690)	(3,707)	(3,724)
Purchase of treasury stock	(222)	(445)	(360)
Treasury stock issued for dividend reinvestment and employee stock purchase plan	59	48	151
Net cash used in financing activities	(3,853)	(4,104)	(3,933)
Net (decrease) increase in cash and cash equivalents	(233)	134	193
Cash and cash equivalents at beginning of year	365	231	38
Cash and cash equivalents at end of year	\$ 132	\$ 365	\$ 231

# Juniata Valley Financial Corp. and Subsidiary

## Notes to Consolidated Financial Statements

### 26. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2014 and 2013 follow (in thousands, except per-share data):

	2014 Quarter Ended			
	March 31	June 30	September 30	December 31
Total interest income	\$4,036	\$4,325	\$4,227	\$4,344
Total interest expense	627	683	660	628
Net interest income	3,409	3,642	3,567	3,716
Provision for loan losses	20	117	110	110
Mortgage banking income	29	56	54	75
Other income	891	1,114	1,039	1,076
Other expense	3,336	3,401	3,338	3,495
Income before income taxes	973	1,294	1,212	1,262
Income tax expense	70	131	154	170
Net income	\$ 903	\$1,163	\$1,058	\$1,092
Per-share data:				
Basic earnings	\$ .22	\$ .28	\$ .25	\$ .26
Diluted earnings	.22	.28	.25	.26
Cash dividends	.22	.22	.22	.22

	2013 Quarter Ended			
	March 31	June 30	September 30	December 31
Total interest income	\$4,144	\$4,173	\$4,224	\$4,193
Total interest expense	763	741	719	677
Net interest income	3,381	3,432	3,505	3,516
Provision for loan losses	80	86	100	149
Mortgage banking income	97	85	84	72
Other income	980	970	939	1,006
Other expense	3,035	3,330	3,349	3,432
Income before income taxes	1,343	1,071	1,079	1,013
Income tax expense	337	62	60	46
Net income	\$1,006	\$1,009	\$1,019	\$ 967
Per-share data:				
Basic earnings	\$ .24	\$ .24	\$ .24	\$ .23
Diluted earnings	.24	.24	.24	.23
Cash dividends	.22	.22	.22	.22

## Common Stock Market Prices and Dividends

The common stock of Juniata Valley Financial Corp. is quoted under the symbol “JUVF” on the over-the-counter (“OTC-QB”) Electronic Bulletin Board, a regulated electronic quotation service made available through, and governed by, the NASDAQ system. As of December 31, 2014, the number of stockholders of record of the Company’s common stock was 1,753.

The following table presents the quarterly high and low prices of the Company’s common stock and per common share cash dividends declared for each of the quarterly periods in 2014 and 2013.

Quarter Ended	2014		Dividends
	High	Low	Declared
March 31	\$19.00	\$17.30	\$0.22
June 30	18.50	17.36	0.22
September 30	19.00	17.45	0.22
December 31	19.00	17.70	0.22

Quarter Ended	2013		Dividends
	High	Low	Declared
March 31	\$18.49	\$17.00	\$0.22
June 30	18.08	17.55	0.22
September 30	18.50	17.30	0.22
December 31	17.85	16.80	0.22

As stated in “Note 16 – Stockholders’ Equity and Regulatory Matters” in the Notes to Consolidated Financial Statements, the Company is subject to various regulatory capital requirements that limit the amount of capital available for dividends. While the Company expects to continue its policy of regular dividend payments, no assurance of future dividend payments can be given. Future dividend payments will depend upon maintenance of a strong financial condition, future earnings, capital and regulatory requirements, future prospects, business conditions and other factors deemed relevant by the Board of Directors.

For further information on stock quotes, please contact any licensed broker-dealer, some of which make a market in Juniata Valley Financial Corp. stock.

## Corporate Information

### Corporate Headquarters

Juniata Valley Financial Corp.  
128 Bridge Street  
P.O. Box 66  
Mifflintown, PA 17059  
(855) 582-5101  
JVBonline.com

### Investor Information

JoAnn N. McMinn,  
Executive Vice President and Chief Financial Officer  
P.O. Box 66  
Mifflintown, PA 17059  
JoAnn.McMinn@JVBonline.com

## **Information Availability**

Information about the Company's financial performance may be found at [www.JVBonline.com](http://www.JVBonline.com), following the "Investor Information" link.

All reports filed electronically by Juniata Valley Financial Corp. with the United States Securities and Exchange Commission (SEC), including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as any amendments to those reports, are also accessible at no cost on the SEC's web site at [www.SEC.gov](http://www.SEC.gov).

Additionally, a copy of the Company's Annual Report to the SEC on Form 10-K for the year ended December 31, 2014 will be supplied without charge (except for exhibits) upon written request. Please direct all inquiries to Ms. JoAnn McMinn, as detailed above.

Pursuant to Part 350 of FDIC's Annual Disclosure Regulation, Juniata Valley Financial Corp. will make available to you upon request, financial information about The Juniata Valley Bank. Please contact:

Ms. Danyelle Pannebaker  
The Juniata Valley Bank  
P.O. Box 66  
Mifflintown, PA 17059

## **Investment Considerations**

In analyzing whether to make, or to continue, an investment in Juniata Valley Financial Corp., investors should consider, among other factors, the information contained in this Annual Report and certain investment considerations and other information more fully described in our Annual Report on Form 10-K for the year ended December 31, 2014, a copy of which can be obtained as described above.

## **Registrar and Transfer Agent**

By regular mail:  
Computershare  
P.O. Box 30170  
College Station, TX 77842-3170  
United States

By overnight delivery:  
Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845

Telephone: (800) 368-5948  
Website: [www.Computershare.com/investor](http://www.Computershare.com/investor)

Stockholders of record may access their accounts via the Internet to review account holdings and transaction history through Computershare's website: [www.Computershare.com/investor](http://www.Computershare.com/investor).

Information regarding the Company's Dividend Reinvestment and Stock Purchase Plan, including a Prospectus, may be obtained by contacting Computershare, through the means listed above.

The Company offers a dividend direct deposit option whereby shareholders of record may have their dividends deposited directly into the bank account of their choice on the dividend payment date. Please contact Computershare for further information and to register for this service.

## **Annual Meeting of Shareholders**

The Annual Meeting of Shareholders of Juniata Valley Financial Corp. will be held at 10:30 a.m., on Tuesday, May 19, 2015 at the Lewistown Country Club, 306 Country Club Road, Lewistown, Pennsylvania.

**Juniata Valley Financial Corp.  
Corporate Officers**

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Timothy I. Havice----- Chairman  
Philip E. Gingerich, Jr. ----- Vice Chairman  
Marcie A. Barber-----President and Chief Executive Officer  
JoAnn N. McMinn-----Executive Vice President, Treasurer and Chief Financial Officer  
Charles L. Hershberger----- Secretary

**Juniata Valley Financial Corp. and The Juniata Valley Bank  
Board of Directors**

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Marcie A. Barber  
President and Chief Executive Officer

Martin L. Dreibelbis  
Self-Employed, Petroleum Consultant

Philip E. Gingerich, Jr., Chairman  
President, Central Insurers Group, Inc.

Timothy I. Havice, Vice Chairman  
Owner, T.I. Havice, Developer

The Rev. Charles L. Hershberger  
Pastor, Port Royal Lutheran Church  
and President, Stonewall Equity, Inc.

Richard M. Scanlon, DMD  
Self-Employed, Dentist

Jan G. Snedeker  
Retired President, Snedeker Oil Co., Inc.

Bradley J. Wagner  
Partner-Owner and General Manager  
of Hooper Feeds

**The Juniata Valley Bank  
Advisory Board Members**

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**Mifflin County**  
George W. Anderson  
Mark S. Elsesser  
Donald R. Hartzler  
Sharon D. Havice  
Jeffrey C. Moyer  
David E. Walker  
Samuel C. Yoder

**Juniata/Perry/Huntingdon**  
Kim E. Bomberger  
R. Franklin Campbell  
Steven R. Ehrenzeller  
Gregory J. Gordon  
Robert D. Hower  
Carl F. Jaymes  
N. Jeffrey Leonard  
Dennis A. Long  
Gerald M. Lyter  
Georgiana Snyder-Leitzel



# OFFICERS

## EXECUTIVE

Marcie A. Barber . . . . . President, Chief Executive Officer  
 JoAnn N. McMinn . . . . . Executive Vice President, Chief Financial Officer  
 Danyelle M. Pannebaker . . . . . Executive Assistant

## ADMINISTRATION

Tina J. Smith . . . . . Senior Vice President, Director of Human Resources  
 Suzanne E. Booher . . . . . Vice President, Director of Marketing  
 and Facilities Management  
 Brent M. Miller . . . . . Vice President, Compliance Officer  
 Kathy D. Hutchinson . . . . . Vice President, Security Officer and Compliance Specialist  
 Sherise Y. Pelizzari . . . . . Assistant Vice President,  
 Deposit Compliance Specialist and BSA Officer

## FINANCE

Kristi J. Burdge . . . . . Assistant Vice President, Accounting Manager  
 Renee D. Williamson . . . . . Financial Information Manager

## LENDING

Corbett J. Monica . . . . . Senior Vice President, Lending Division Manager  
 William T. Campbell, Jr. . . . . Vice President, Relationship Manager  
 Jeffrey A. Herr . . . . . Vice President, Relationship Manager  
 Scott E. Nace . . . . . Vice President, Relationship Manager  
 H. Fred Wallace . . . . . Vice President, Relationship Manager  
 Jon R. Yarger . . . . . Vice President, Consumer Lending Manager  
 Betty D. Ryan . . . . . Vice President, Secondary Mortgage Market Manager  
 Pamela K. Parson . . . . . Vice President, Collections Manager  
 Christine L. Burlew . . . . . Vice President, Collections Officer  
 Lisa M. Snyder . . . . . Vice President, Credit Administration Manager  
 Matthew J. Waddell . . . . . Vice President, Portfolio Manager

## OPERATIONS

Steven T. Kramm . . . . . Senior Vice President, Operations/Technology Division Manager  
 S. Marlene Hubler . . . . . Computer Operations Manager  
 Kelly L. Yetter . . . . . Electronic and Business Banking Manager  
 Curtis M. Crouse . . . . . Network Administrator  
 Beverly M. McClellan . . . . . Data Analyst  
 Tammy L. Miller . . . . . Deposit Operations Manager  
 Dawn L. Barnes . . . . . Loan Operations Supervisor

## TRUST AND INVESTMENT SERVICES

Donald E. Shawley . . . . . Senior Vice President,  
 Trust and Investment Services Division Manager  
 Cynthia L. Williams . . . . . Vice President, Trust Officer  
 Paul M. Grego . . . . . Vice President, Trust Investment Officer  
 Malcolm R. Parks . . . . . Financial Services Officer  
 Jonathan F. King . . . . . Financial Services Representative

## BRANCH ADMINISTRATION

Patricia J. Yearick . . . . . Senior Vice President, Community Banking Division Manager

## BLAIRS MILLS OFFICE

Wayne S. McCoy . . . . . Vice President, Community Office Manager

## BURNHAM OFFICE

Leann M. Fisher . . . . . Vice President, Community Office Manager

## GARDENVIEW OFFICE | REEDSVILLE

Larry B. Cottrill, Jr. . . . . Vice President, Community Office Manager  
 Denise M. Rothrock . . . . . Assistant Office Manager

## McALISTERVILLE OFFICE

Leslie A. Miller . . . . . Vice President, Community Office Manager  
 Kelly M. Neimond . . . . . Assistant Office Manager

## MIFFLINTOWN AND MOUNTAIN VIEW OFFICES

Annette M. Price . . . . . Vice President, Community Office Manager  
 Angela D. Hockenberry . . . . . Assistant Office Manager

## MILLERSTOWN OFFICE

Thomas P. O'Connell . . . . . Vice President, Community Office Manager  
 Lisa M. Freet . . . . . Assistant Office Manager

## MONUMENT SQUARE OFFICE | LEWISTOWN

Lee Ellen Foose . . . . . Vice President, Community Office Manager  
 Stacey K. McMurtrie . . . . . Assistant Office Manager

## PORT ROYAL OFFICE

Barbara I. Seaman . . . . . Vice President, Community Office Manager

## RICHFIELD OFFICE

Brenda A. Brubaker . . . . . Vice President, Community Office Manager

## WAL-MART OFFICE | LEWISTOWN

Kristi A. Dippery . . . . . Assistant Office Manager

## WATER STREET OFFICE | LEWISTOWN

Christine L. Searer . . . . . Assistant Vice President, Community Office Manager



**JUNIATA VALLEY FINANCIAL CORP.**

218 BRIDGE STREET | MIFFLINTOWN | PA | 17059 | [WWW.JVBONLINE.COM](http://WWW.JVBONLINE.COM)