

JUNIATA VALLEY FINANCIAL CORP

Form 10-Q

November 09, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 000-13232

Juniata Valley Financial Corp.

(Exact name of registrant as specified in its charter)

Pennsylvania

23-2235254

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

Bridge and Main Streets, Mifflintown, Pennsylvania

17059

(Address of principal executive offices)

(Zip Code)

(717) 436-8211

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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| Class | Outstanding as of November 9, 2009 |
|---------------------------------|------------------------------------|
| Common Stock (\$1.00 par value) | 4,342,587 shares |

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Juniata Valley Financial Corp. and Subsidiary****Consolidated Statements of Financial Condition**

(Unaudited, Dollar amounts in thousands, except share data)

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------------------|------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 11,099 | \$ 12,264 |
| Interest bearing deposits with banks | 117 | 193 |
| Cash and cash equivalents | 11,216 | 12,457 |
| Interest bearing time deposits with banks | 1,599 | 5,325 |
| Securities available for sale | 81,678 | 64,321 |
| Restricted investment in Federal Home Loan Bank (FHLB) stock | 2,197 | 2,197 |
| Investment in unconsolidated subsidiary | 3,291 | 3,176 |
| Total loans, net of unearned interest | 310,940 | 315,132 |
| Less: Allowance for loan losses | (2,605) | (2,610) |
| Total loans, net of allowance for loan losses | 308,335 | 312,522 |
| Premises and equipment, net | 6,987 | 7,374 |
| Bank owned life insurance and annuities | 12,964 | 12,582 |
| Core deposit intangible | 310 | 344 |
| Goodwill | 2,046 | 2,046 |
| Accrued interest receivable and other assets | 5,496 | 5,740 |
| Total assets | \$ 436,119 | \$ 428,084 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Liabilities: | | |
| Deposits: | | |
| Non-interest bearing | \$ 50,207 | \$ 54,200 |
| Interest bearing | 321,826 | 302,831 |
| Total deposits | 372,033 | 357,031 |
| Securities sold under agreements to repurchase | 1,935 | 1,944 |
| Short-term borrowings | | 8,635 |
| Long-term debt | 5,000 | 5,000 |
| Other interest bearing liabilities | 1,127 | 1,096 |
| Accrued interest payable and other liabilities | 5,860 | 5,893 |
| Total liabilities | 385,955 | 379,599 |
| Stockholders Equity: | | |
| Preferred stock, no par value: | | |

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| | | |
|--|-------------------|-------------------|
| 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 | | |
| 4,342,587 shares at September 30, 2009; | | |
| 4,341,055 shares at December 31, 2008 | 4,746 | 4,746 |
| Surplus | 18,304 | 18,324 |
| Retained earnings | 36,103 | 34,758 |
| Accumulated other comprehensive loss | (947) | (1,247) |
| Cost of common stock in Treasury: | | |
| 403,239 shares at September 30, 2009; | | |
| 404,771 shares at December 31, 2008 | (8,042) | (8,096) |
| Total stockholders equity | 50,164 | 48,485 |
| Total liabilities and stockholders equity | \$ 436,119 | \$ 428,084 |

See accompanying notes to consolidated financial statements.

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

(Unaudited)

(Dollar amounts in thousands, except share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|--------------|--|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Interest income: | | | | |
| Loans, including fees | \$ 5,126 | \$ 5,559 | \$ 15,671 | \$ 16,582 |
| Taxable securities | 281 | 437 | 909 | 1,277 |
| Tax-exempt securities | 305 | 281 | 864 | 809 |
| Federal funds sold | 33 | 9 | 147 | 123 |
| Other interest income | 2 | 59 | 7 | 200 |
| Total interest income | 5,747 | 6,345 | 17,598 | 18,991 |
| Interest expense: | | | | |
| Deposits | 1,770 | 2,183 | 5,469 | 6,923 |
| Securities sold under agreements to repurchase | 1 | 22 | 2 | 66 |
| Short-term borrowings | | 5 | 1 | 6 |
| Long-term debt | 36 | 5 | 105 | 5 |
| Other interest bearing liabilities | 5 | 8 | 16 | 24 |
| Total interest expense | 1,812 | 2,223 | 5,593 | 7,024 |
| Net interest income | 3,935 | 4,122 | 12,005 | 11,967 |
| Provision for loan losses | 165 | 147 | 377 | 291 |
| Net interest income after provision for loan losses | 3,770 | 3,975 | 11,628 | 11,676 |
| Noninterest income: | | | | |
| Trust fees | 83 | 95 | 253 | 312 |
| Customer service fees | 437 | 433 | 1,235 | 1,239 |
| Earnings on bank-owned life insurance and annuities | 130 | 146 | 348 | 382 |
| Commissions from sales of non-deposit products | 66 | 158 | 324 | 541 |
| Income from unconsolidated subsidiary | 50 | 59 | 146 | 152 |
| Securities impairment charge | | | (226) | (393) |
| Gain (Loss) on sale of securities | | (8) | | 33 |
| Gain (Loss) on sales of other assets | (33) | (1) | | 52 |
| Gain from life insurance proceeds | | | | 179 |
| Prior period income from insurance sales | | | 323 | |
| Other noninterest income | 219 | 221 | 700 | 660 |
| Total noninterest income | 952 | 1,103 | 3,103 | 3,157 |
| Noninterest expense: | | | | |

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| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Employee compensation expense | 1,199 | 1,297 | 3,699 | 3,854 |
| Employee benefits | 391 | 362 | 1,246 | 1,054 |
| Occupancy | 218 | 222 | 693 | 694 |
| Equipment | 149 | 189 | 473 | 545 |
| Data processing expense | 324 | 361 | 994 | 1,032 |
| Director compensation | 100 | 113 | 318 | 340 |
| Professional fees | 90 | 112 | 301 | 281 |
| Taxes, other than income | 125 | 128 | 380 | 388 |
| FDIC Insurance premiums | 121 | 14 | 526 | 35 |
| Amortization of intangibles | 11 | 11 | 34 | 34 |
| Other noninterest expense | 276 | 289 | 846 | 827 |
| Total noninterest expense | 3,004 | 3,098 | 9,510 | 9,084 |
| Income before income taxes | 1,718 | 1,980 | 5,221 | 5,749 |
| Provision for income taxes | 430 | 529 | 1,358 | 1,499 |
| Net income | \$ 1,288 | \$ 1,451 | \$ 3,863 | \$ 4,250 |
| Earnings per share | | | | |
| Basic | \$ 0.30 | \$ 0.33 | \$ 0.89 | \$ 0.97 |
| Diluted | \$ 0.30 | \$ 0.33 | \$ 0.89 | \$ 0.97 |
| Cash dividends declared per share | \$ 0.20 | \$ 0.19 | \$ 0.58 | \$ 0.55 |
| Weighted average basic shares outstanding | 4,342,587 | 4,369,736 | 4,340,595 | 4,387,836 |
| Weighted average diluted shares outstanding | 4,346,353 | 4,377,457 | 4,344,720 | 4,395,331 |
| See accompanying notes to consolidated financial statements. | | | | |

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Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(Amounts in thousands, except share data)

Nine Months Ended September 30, 2009

| | Number of Shares Outstanding | Common Stock | Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders Equity |
|---|---------------------------------------|-----------------|-----------|----------------------|---|-------------------|---------------------------------|
| Balance at December 31, 2008 | 4,341,055 | \$ 4,746 | \$ 18,324 | \$ 34,758 | \$ (1,247) | \$ (8,096) | \$ 48,485 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 3,863 | | | 3,863 |
| Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects | | | | | 305 | | 305 |
| Defined benefit retirement plan adjustments, net of tax effects | | | | | (5) | | (5) |
| Total comprehensive income | | | | | | | 4,163 |
| Cash dividends at \$0.58 per share | | | | (2,518) | | | (2,518) |
| Stock-based compensation activity | | | 29 | | | | 29 |
| Purchase of treasury stock, at cost | (7,600) | | | | | (128) | (128) |
| Treasury stock issued for stock option and stock purchase plans | 9,132 | | (49) | | | 182 | 133 |
| Balance at September 30, 2009 | 4,342,587 | \$ 4,746 | \$ 18,304 | \$ 36,103 | \$ (947) | \$ (8,042) | \$ 50,164 |

Nine Months Ended September 30, 2008

| | Number of Shares Outstanding | Common Stock | Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders Equity |
|---|---------------------------------------|-----------------|-----------|----------------------|---|-------------------|---------------------------------|
| Balance at December 31, 2007 | 4,409,445 | \$ 4,746 | \$ 18,297 | \$ 32,755 | \$ (557) | \$ (6,669) | \$ 48,572 |

| | | | | | | | | | |
|--|-----------|----------|-----------|-----------|----|-------|------------|----|---------|
| Comprehensive income: | | | | | | | | | |
| Net income | | | | 4,250 | | | | | 4,250 |
| Change in unrealized losses on securities available for sale, net of reclassification adjustment and tax effects | | | | | | 3 | | | 3 |
| Total comprehensive income | | | | | | | | | 4,253 |
| Implementation of ASC Topic 715, Split-Dollar Life Insurance Arrangements | | | | (480) | | | | | (480) |
| Cash dividends at \$0.55 per share | | | | (2,416) | | | | | (2,416) |
| Stock-based compensation activity | | | 36 | | | | | | 36 |
| Purchase of treasury stock, at cost | (72,955) | | | | | | (1,518) | | (1,518) |
| Treasury stock issued for stock option and stock purchase plans | 4,565 | | (13) | | | | 91 | | 78 |
| Balance at September 30, 2008 | 4,341,055 | \$ 4,746 | \$ 18,320 | \$ 34,109 | \$ | (554) | \$ (8,096) | \$ | 48,525 |

See accompanying notes to consolidated financial statements.

Table of Contents**Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows**

(Unaudited)

(Amounts in thousands)

| | Nine Months Ended September 30, | |
|---|--|-----------------|
| | 2009 | 2008 |
| Operating activities: | | |
| Net income | \$ 3,863 | \$ 4,250 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 377 | 291 |
| Depreciation | 457 | 532 |
| Net (accretion) amortization of securities premiums (discounts) | 156 | 134 |
| Amortization of core deposit intangible | 34 | 34 |
| Amortization of deferred net loan costs | 35 | 15 |
| Deferral of net loan costs (fees) | (3) | 1 |
| Securities impairment charge | 226 | 393 |
| Net realized gains on sales of securities | | (33) |
| Gains on sales of other assets | | (52) |
| Earnings on bank owned life insurance and annuities | (348) | (382) |
| Gain from life insurance proceeds | | (179) |
| Deferred income tax benefit (expense) | 94 | (66) |
| Equity in earnings of unconsolidated subsidiary, net of dividends of \$34 and \$0 | (112) | (152) |
| Stock-based compensation expense | 29 | 36 |
| Decrease (increase) in accrued interest receivable and other assets | 78 | (1,682) |
| Decrease in accrued interest payable and other liabilities | (1) | (46) |
| Net cash provided by operating activities | 4,885 | 3,094 |
| Investing activities: | | |
| Purchases of: | | |
| Securities available for sale | (43,026) | (35,217) |
| FHLB stock | | (732) |
| Premises and equipment | (103) | (682) |
| Bank owned life insurance and annuities | (94) | (90) |
| Proceeds from: | | |
| Maturities of and principal repayments on securities available for sale | 25,757 | 29,733 |
| Bank owned life insurance and annuities | 52 | 55 |
| Life insurance claims | | 437 |
| Sale of fixed assets | 33 | |
| Sale of other real estate owned | 435 | 288 |
| Sale of other assets | 80 | 322 |
| Net decrease in interest-bearing time deposits | 3,726 | 200 |
| Net (increase) decrease in loans receivable | 3,169 | (19,181) |
| Net cash used in investing activities | (9,971) | (24,867) |
| Financing activities: | | |

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| | | |
|---|--------------|---------------|
| Net increase in deposits | 15,002 | 4,415 |
| Net increase (decrease) in short-term borrowings and securities sold under agreements to repurchase | (8,644) | 7,747 |
| Issuance of long-term debt | | 5,000 |
| Cash dividends | (2,518) | (2,416) |
| Purchase of treasury stock | (128) | (1,518) |
| Treasury stock issued for employee stock plans | 133 | 78 |
| Net cash provided by financing activities | 3,845 | 13,306 |
| Net decrease in cash and cash equivalents | (1,241) | (8,467) |
| Cash and cash equivalents at beginning of period | 12,457 | 20,524 |
| Cash and cash equivalents at end of period | \$ 11,216 | \$ 12,057 |
| Supplemental information: | | |
| Interest paid | \$ 5,668 | \$ 7,190 |
| Income taxes paid | \$ 910 | \$ 1,625 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Transfer of loans to other real estate owned and repossessed assets | \$ 609 | \$ |
| Transfer of fixed asset to other assets | | 45 |
| See accompanying notes to consolidated financial statements. | | |

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Juniata Valley Financial Corp. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Basis of Presentation and Accounting Policies

The financial information includes the accounts of Juniata Valley Financial Corp. (the Corporation) and its wholly owned subsidiary, The Juniata Valley Bank (the Bank). All significant intercompany accounts and transactions have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. For comparative purposes, the September 30, 2008 balances have been reclassified to conform to the 2009 presentation. Such reclassifications had no impact on net income. Operating results for the nine-month period ended September 30, 2009, are not necessarily indicative of the results for the year ended December 31, 2009. For further information, refer to the consolidated financial statements and footnotes thereto included in Juniata Valley Financial Corp. s Annual Report on Form 10-K for the year ended December 31, 2008.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2009 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through November 9, 2009, the date these consolidated financial statements were issued.

NOTE 2 Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative generally accepted accounting principles (GAAP) for nongovernmental entities. The Codification does not change GAAP. Instead, it takes the thousands of individual pronouncements the currently comprise GAAP and reorganizes them approximately 90 accounting Topics, and displays all Topics using a consistent structure. Contents in each Topic are further organized first by Subtopic, then Section and finally Paragraph. The Paragraph level is the only level that contains substantive content. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with FASB ASC, where ASC stands for Accounting Standards Codification. Changes to the ASC subsequent to June 30, 2009 are referring to as Accounting Standards Updates (ASU).

In conjunction with the issuance of SFAS 168, the FASB also issued its first Accounting Standards Update No. 2009-1, Topic 105 Generally Accepted Accounting Principles (ASU 2009-1) which includes SFAS 168 in its entirety as a transition to the ASC. ASU 2009-1 is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Corporation s financial position or results of operations but will change the referencing system for accounting standards.

In August 2009, the FASB issued ASU 2009-05, Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value. The amendments within ASU 2009-05 clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques:

A valuation technique that uses:

- a. The quoted price of the identical liability when traded as an asset.
- b. Quoted prices for similar liabilities or similar liabilities when traded as assets.

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Another valuation technique that is consistent with the principles of Topic 820.

Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability.

When estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability.

Both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

This guidance is effective for the first reporting period (including interim periods) beginning after issuance, and will not have an impact on the Corporation's financial position or results of operations.

NOTE 3 Comprehensive Income

U.S. generally accepted accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated statements of financial condition, such items, along with net income, are components of comprehensive income.

The components of comprehensive income and related tax effects are as follows (in thousands):

| | Three Months Ended September 30, 2009 | | | Three Months Ended September 30, 2008 | | |
|--|--|-----------------------------------|----------------------|--|-----------------------------------|----------------------|
| | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount |
| Net income | \$ 1,718 | \$ 430 | \$ 1,288 | \$ 1,980 | \$ 529 | \$ 1,451 |
| Other comprehensive income: | | | | | | |
| Unrealized gains on available for sale securities: | | | | | | |
| Unrealized gains arising during the period | 506 | 172 | 334 | 143 | 49 | 94 |
| Unrealized gains (losses) from unconsolidated subsidiary | (12) | | (12) | 1 | | 1 |
| Less reclassification adjustment for: losses included in net income | | | | 8 | 3 | 5 |
| Unrecognized pension net loss | (7) | (2) | (5) | | | |
| Other comprehensive income | 487 | 170 | 317 | 152 | 52 | 100 |
| Total comprehensive income | \$ 2,205 | \$ 600 | \$ 1,605 | \$ 2,132 | \$ 581 | \$ 1,551 |

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| | Nine Months Ended September 30, 2009 | | | Nine Months Ended September 30, 2008 | | |
|--|--------------------------------------|-----------------------------------|----------------------|--------------------------------------|-----------------------------------|----------------------|
| | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount | Before Tax Amount | Tax Expense or (Benefit) | Net-of-Tax Amount |
| Net income | \$ 5,221 | \$ 1,358 | \$ 3,863 | \$ 5,749 | \$ 1,499 | \$ 4,250 |
| Other comprehensive income: | | | | | | |
| Unrealized gains (losses) on available for sale securities: | | | | | | |
| Unrealized gains (losses) arising during the period | 243 | 82 | 161 | (354) | (120) | (234) |
| Unrealized losses from unconsolidated subsidiary | (5) | | (5) | | | |
| Less reclassification adjustment for: | | | | | | |
| gains included in net income | | | | (33) | (11) | (22) |
| securities impairment charge | 226 | 77 | 149 | 393 | 134 | 259 |
| Unrecognized pension net loss | (7) | (2) | (5) | | | |
| Other comprehensive income | 457 | 157 | 300 | 6 | 3 | 3 |
| Total comprehensive income | \$ 5,678 | \$ 1,515 | \$ 4,163 | \$ 5,755 | \$ 1,502 | \$ 4,253 |

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NOTE 4 Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

(Amounts, except earnings per share, in thousands)

| | Three Months Ended September 30, 2009 | Three Months Ended September 30, 2008 |
|---|--|--|
| Net income | \$ 1,288 | \$ 1,451 |
| Weighted-average common shares outstanding | 4,342 | 4,370 |
| Basic earnings per share | \$ 0.30 | \$ 0.33 |
| Weighted-average common shares outstanding | 4,342 | 4,370 |
| Common stock equivalents due to effect of stock options | 4 | 8 |
| Total weighted-average common shares and equivalents | 4,346 | 4,378 |
| Diluted earnings per share | \$ 0.30 | \$ 0.33 |
| | Nine Months Ended September 30, 2009 | Nine Months Ended September 30, 2008 |
| Net income | \$ 3,863 | \$ 4,250 |
| Weighted-average common shares outstanding | 4,341 | 4,388 |
| Basic earnings per share | \$ 0.89 | \$ 0.97 |
| Weighted-average common shares outstanding | 4,341 | 4,388 |
| Common stock equivalents due to effect of stock options | 4 | 7 |
| Total weighted-average common shares and equivalents | 4,345 | 4,395 |
| Diluted earnings per share | \$ 0.89 | \$ 0.97 |

NOTE 5 Commitments, Contingent Liabilities and Guarantees

In the ordinary course of business, the Corporation makes commitments to extend credit to its customers through letters of credit, loan commitments and lines of credit. At September 30, 2009, the Corporation had \$53,099,000 outstanding in loan commitments and other unused lines of credit extended to its customers as compared to \$47,738,000 at December 31, 2008.

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its letters of credit. Letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit have expiration dates within one year of issuance. The credit risk involved in issuing letters of credit is essentially the same as the risks that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had outstanding \$621,000 and \$639,000 of letters of credit commitments as of September 30, 2009 and December 31, 2008, respectively. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2009 for payments under letters of credit issued was not material. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk.

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The Corporation had a defined benefit retirement plan covering substantially all of its employees, prior to January 1, 2008. Effective January 1, 2008, the plan was amended to close the plan to new entrants. The benefits are based on years of service and the employees' compensation. The Corporation's funding policy is to contribute annually the maximum amount that can be deducted for federal income taxes purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. The Corporation has made no contributions in the first nine months of 2009 and does not expect to contribute to the defined benefit plan in the remainder of 2009. Pension expense included the following components for the three and nine month periods ended September 30, 2009 and 2008:

(Dollar amounts in thousands)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Components of net periodic pension cost | | | | |
| Service cost | \$ 47 | \$ 45 | \$ 141 | \$ 135 |
| Interest cost | 112 | 110 | 336 | 330 |
| Expected return on plan assets | (115) | (106) | (345) | (318) |
| Amortization of prior service cost | (1) | | (1) | |
| Additional recognized amounts | 40 | 9 | 120 | 27 |
| Net periodic pension cost | \$ 83 | \$ 58 | \$ 251 | \$ 174 |

NOTE 7 Acquisition

In 2006, the Corporation acquired a branch office in Richfield, PA. The acquisition included real estate, deposits and loans. The assets and liabilities of the acquired business were recorded on the consolidated statement of financial condition at their estimated fair values as of September 8, 2006, and their results of operations have been included in the consolidated statements of income since such date.

Included in the purchase price of the branch was goodwill and core deposit intangible of \$2,046,000 and \$449,000, respectively. The core deposit intangible is being amortized over a ten-year period on a straight line basis. During the first nine months of 2009 and 2008, amortization expense was \$34,000. Accumulated amortization of core deposit intangible through September 30, 2009 was \$139,000. The goodwill is not amortized, but is measured annually for impairment.

NOTE 8 Investment in Unconsolidated Subsidiary

The Corporation owns 39.16% of the outstanding common stock of The First National Bank of Liverpool (FNBL), Liverpool, PA. This investment is accounted for under the equity method of accounting. The investment is being carried at \$3,291,000 as of September 30, 2009. The Corporation increases its investment in FNBL for its share of earnings and decreases its investment by any dividends received from FNBL. A loss in value of the investment which is other than a temporary decline will be recognized. 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 FNBL to sustain an earnings capacity which would justify the carrying amount of the investment.

Table of Contents**NOTE 9 Securities**

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 done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor 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, this guidance changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) 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 (b) 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 income. The amortized cost and fair value of securities as of September 30, 2009 and December 31, 2008, 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 Type and maturity | Amortized Cost | September 30, 2009 | | |
|--|-------------------|--------------------|------------------------------|-------------------------------|
| | | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
| U.S. Treasury securities and obligations of U.S. Government agencies and corporations | | | | |
| Within one year | \$ 2,000 | \$ 2,008 | \$ 8 | \$ |
| After one year but within five years | 28,227 | 28,501 | 274 | |
| After five years but within ten years | 940 | 936 | | (4) |
| | 31,167 | 31,445 | 282 | (4) |
| Obligations of state and political subdivisions | | | | |
| Within one year | 10,978 | 11,050 | 72 | |
| After one year but within five years | 32,743 | 33,800 | 1,063 | (6) |
| After five years but within ten years | 1,739 | 1,852 | 113 | |
| | 45,460 | 46,702 | 1,248 | (6) |
| Corporate notes | | | | |
| After one year but within five years | 1,000 | 1,009 | 9 | |
| | 1,000 | 1,009 | 9 | |
| Mortgage-backed securities | 1,557 | 1,654 | 97 | |
| Equity securities | 984 | 868 | 58 | (174) |

| | | | | | | | | |
|-------|----|--------|----|--------|----|-------|----|-------|
| Total | \$ | 80,168 | \$ | 81,678 | \$ | 1,694 | \$ | (184) |
|-------|----|--------|----|--------|----|-------|----|-------|

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| Securities Available for Sale Type and maturity | Amortized Cost | December 31, 2008 | | |
|--|-------------------|-------------------|------------------------------|-------------------------------|
| | | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
| U.S. Treasury securities and obligations of U.S. Government agencies and corporations | | | | |
| Within one year | \$ 4,627 | \$ 4,732 | \$ 105 | \$ |
| After one year but within five years | 19,961 | 20,236 | 275 | |
| | 24,588 | 24,968 | 380 | |
| Obligations of state and political subdivisions | | | | |
| Within one year | 3,571 | 3,593 | 22 | |
| After one year but within five years | 27,622 | 28,343 | 727 | (6) |
| After five years but within ten years | 3,485 | 3,579 | 95 | (1) |
| | 34,678 | 35,515 | 844 | (7) |
| Corporate notes | | | | |
| After one year but within five years | 1,000 | 957 | | (43) |
| | 1,000 | 957 | | (43) |
| Mortgage-backed securities | 1,803 | 1,867 | 64 | |
| Equity securities | 1,210 | 1,014 | 29 | (225) |
| Total | \$ 63,279 | \$ 64,321 | \$ 1,317 | \$ (275) |

The following table shows gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2009 and December 31, 2008 (in thousands):

| | Unrealized Losses 09/30/2009 | | | | | |
|--|------------------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| | Less Than 12 Months | | 12 Months or More | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury securities and obligations of U.S. Government agencies and corporations | \$ 936 | \$ (4) | \$ | \$ | \$ 936 | \$ (4) |
| Obligations of state and political subdivisions | 879 | (6) | | | 879 | (6) |
| Debt securities | 1,815 | (10) | | | 1,815 | (10) |
| Equity securities | 18 | (7) | 578 | (167) | 596 | (174) |

| | | | | | | |
|---------------------------------------|----------|---------|--------|----------|----------|----------|
| Total temporarily impaired securities | \$ 1,833 | \$ (17) | \$ 578 | \$ (167) | \$ 2,411 | \$ (184) |
|---------------------------------------|----------|---------|--------|----------|----------|----------|

Unrealized Losses 12/31/2008

| | Less Than 12 Months | | 12 Months or More | | Total | |
|---|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of state and political subdivisions | \$ 1,016 | \$ (7) | \$ | \$ | \$ 1,016 | \$ (7) |
| Corporate and other securities | 957 | (43) | | | 957 | (43) |
| Debt securities | 1,973 | (50) | | | 1,973 | (50) |
| Equity securities | 743 | (181) | 99 | (44) | 842 | (225) |
| Total temporarily impaired securities | \$ 2,716 | \$ (231) | \$ 99 | \$ (44) | \$ 2,815 | \$ (275) |

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The unrealized losses noted above are considered to be temporary impairments. Decline in the value of our debt securities is due only to interest rate fluctuations, rather than erosion of quality. As a result, we believe that the payment of contractual cash flows, including principal repayment, is not at risk. As management has the intent and ability to hold these investments until market recovery or maturity, none of the debt securities are deemed to be other-than-temporarily impaired. There are no debt securities that have had unrealized losses for more than 12 months. Equity securities owned by the Company consist of common stock of various financial services providers (Bank Stocks) that have traditionally been high-performing stocks prior to 2008. During 2008 and into 2009, market values of most of the Bank Stocks materially declined. As part of the quarterly analysis performed to assess impairment of its investment portfolio, management has determined that some of the unrealized losses in the Bank stock portfolio are other than temporary . Considerations used to determine other-than-temporary impairment status to individual 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 news that would affect expectations for recovery or further decline. In the second quarter of 2009, a total of \$226,000 was recorded as an other-than-temporary impairment charge on two of the 17 Bank stocks held. We understand that stocks can be cyclical and will experience some down periods. Historically, bank stocks have sustained cyclical losses, followed by periods of substantial gains. When market values of the Bank stocks recover, accounting standards do not allow reversal of the other-than-temporary impairment charge until the security is sold, at which time any proceeds above the carrying value will be recognized as gains on the sale of investment securities. 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 fair value of the pledged assets amounted to \$30,041,000 and \$34,301,000 at September 30, 2009 and December 31, 2008, 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):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------|------------------------------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| Gross proceeds from sales of securities | \$ | \$ | \$ | \$ |
| Securities available for sale: | | | | |
| Gross realized gains | \$ | \$ | \$ | \$ |
| Gross realized losses | | | | |
| Gross losses from business combinations | | (8) | | (8) |
| Gross gains from business combinations | | | | 41 |

NOTE 10 Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, is effective January 1, 2008, for financial assets and financial liabilities and on January 1, 2009, for non-financial assets and non-financial liabilities. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements.

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the 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.

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

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

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is not to be 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.

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. These valuation methodologies were applied to all of the Corporation's financial assets and financial liabilities carried at fair value effective January 1, 2008.

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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 Corporation's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Corporation'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 Corporation's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale. Debt securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation 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 at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

Other Real Estate Owned. Assets included in other real estate owned are reported at fair value on a non-recurring basis. Values are estimated using Level 3 inputs, based on appraisals that consider the sales prices of similar properties in the proximate vicinity.

The following table summarizes financial assets and financial liabilities measured at fair value as of September 30, 2009 and December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value (in thousands).

| | September 30, 2009 | (Level 1) Quoted Prices in Active Markets for Identical Assets | (Level 2) Significant Other Observable Inputs | (Level 3) Significant Other Unobservable Inputs |
|--|-----------------------|--|---|---|
| Measured at fair value on a recurring basis: | | | | |
| Equity securities available-for-sale | \$ 868 | \$ 868 | \$ | \$ |
| Debt securities available-for-sale | 80,810 | | 80,810 | |
| Measured at fair value on a non-recurring basis: | | | | |
| Impaired loans | 1,622 | | | 1,622 |
| Other real estate owned | 439 | | | 439 |

December 31,
2008

Measured at fair value on a recurring basis:

| | | | | | | |
|--------------------------------------|----|--------|----|-------|----|--------|
| Equity securities available-for-sale | \$ | 1,014 | \$ | 1,014 | \$ | \$ |
| Debt securities available-for-sale | | 63,307 | | | | 63,307 |

Measured at fair value on a non-recurring basis:

Impaired loans

| | | |
|-------------------------|-----|-----|
| Other real estate owned | 305 | 305 |
|-------------------------|-----|-----|

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, this guidance was applicable to these fair value measurements beginning January 1, 2009 and were not significant at September 30, 2009.

Table of Contents*Fair Value of Financial Instruments*

ASC Topic 825, *Financial Instruments*, requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements.

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

Financial Instruments

(in thousands)

| | September 30, 2009 | | December 31, 2008 | |
|--|--------------------|------------|-------------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets: | | | | |
| Cash and due from banks | \$ 11,099 | \$ 11,099 | \$ 12,264 | \$ 12,264 |
| Interest bearing deposits with banks | 117 | 117 | 193 | 193 |
| Interest bearing time deposits with banks | 1,599 | 1,638 | 5,325 | 5,471 |
| Securities | 81,678 | 81,678 | 64,321 | 64,321 |
| Restricted investment in FHLB stock | 2,197 | 2,197 | 2,197 | 2,197 |
| Total loans, net of unearned interest | 310,940 | 323,140 | 312,522 | 323,289 |
| Accrued interest receivable | 2,497 | 2,497 | 2,315 | 2,315 |
| Financial liabilities: | | | | |
| Non-interest bearing deposits | 50,207 | 50,207 | 54,200 | 54,200 |
| Interest bearing deposits | 321,826 | 325,761 | 302,831 | 306,500 |
| Securities sold under agreements to repurchase | 1,935 | 1,935 | 1,944 | 1,944 |
| Short-term borrowings | | | 8,635 | 8,635 |
| Long-term debt | 5,000 | 5,066 | 5,000 | 5,021 |
| Other interest bearing liabilities | 1,127 | 1,127 | 1,096 | 1,096 |
| Accrued interest payable | 725 | 725 | 801 | 801 |

Off-balance sheet financial instruments:

Commitments to extend credit

Letters of credit

Management uses its best judgment in estimating the fair value of the Corporation's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, the fair value estimates herein are not necessarily indicative of the amounts the Corporation could have realized in sales transactions on the dates indicated. The estimated fair value amounts have been measured as of their respective quarter 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 than the amounts reported at each quarter end.

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

The following describes the estimated fair value of the Corporation's financial instruments as well as the significant methods and assumptions used to determine these estimated fair values.

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Carrying values approximate fair value for cash and due from banks, interest-bearing demand deposits with other banks, federal funds sold, restricted stock in the Federal Home Loan Bank, interest receivable, non-interest bearing demand deposits, securities sold under agreements to repurchase, other interest bearing liabilities and interest payable.

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.

Securities Available for Sale Debt securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Corporation 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.

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.

Impaired Loans Certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria.

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

Long-term debt The fair values of long-term debt are estimated using discounted cash flow analysis, based on incremental borrowing rates for similar types of borrowing 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.

NOTE 11 Subsequent Events

On October 20, 2009, the Board of Directors declared a regular cash dividend for the fourth quarter of 2009 of \$0.20 per share to shareholders of record on November 13, 2009, payable on December 1, 2009.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements:

The Private Securities Litigation Reform Act of 1995 contains safe harbor provisions regarding forward-looking statements. When used in this discussion, the words believes, anticipates, contemplates, expects, and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results, performance or achievements expressed or implied by such forward-looking statements to differ materially from those projected. Those risks and uncertainties include changes in interest rates and their impact on the level of deposits, loan demand and value of loan collateral, changes in the market value of the securities portfolio, increased competition from other financial institutions, governmental monetary policy, legislation and changes in banking regulations, changes in levels of FDIC deposit insurance premiums and assessments, risks associated with the effect of opening a new branch, the ability to control costs and expenses, and general economic conditions. The Corporation undertakes no obligation to update such forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Critical Accounting Policies:

Disclosure of the Corporation's significant accounting policies is included in the notes to the consolidated financial statements of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008. Some of these policies require significant judgments, estimates, and assumptions to be made by management, most particularly in connection with determining the provision for loan losses and the appropriate level of the allowance for loan losses, as well as management's evaluation of the investment portfolio for other-than-temporary impairment.

General:

The following discusses the consolidated financial condition of the Corporation as of September 30, 2009, as compared to December 31, 2008, and the consolidated results of operations for the three and nine months ended September 30, 2009, compared to the same period in 2008. This discussion should be read in conjunction with the interim consolidated financial statements and related footnotes included herein.

Introduction:

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

Financial Condition:

As of September 30, 2009, total assets increased by \$8,035,000, or 1.9%, as compared to December 31, 2008. Deposits increased \$15.0 million, \$8.6 million of which was used to repay short-term debt. Interest-bearing deposits grew by \$19.0 million, while non-interest bearing deposits declined by \$4.0 million.

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The table below shows changes in deposit volumes by type of deposit (in thousands of dollars) between December 31, 2008 and September 30, 2009.

| | September 30, 2009 | December 31, 2008 | Change | |
|-----------------------------------|-----------------------------------|----------------------------------|---------------|--------|
| | | | \$ | % |
| Deposits: | | | | |
| Demand, non-interest bearing | \$ 50,207 | \$ 54,200 | \$ (3,993) | (7.4%) |
| NOW and money market | 69,162 | 62,099 | 7,063 | 11.4% |
| Savings | 41,274 | 37,114 | 4,160 | 11.2% |
| Time deposits, \$100,000 and more | 41,452 | 39,059 | 2,393 | 6.1% |
| Other time deposits | 169,938 | 164,559 | 5,379 | 3.3% |
| | | | | |
| Total deposits | \$ 372,033 | \$ 357,031 | \$ 15,002 | 4.2% |

Overall, loans, net of unearned interest, decreased by \$4,192,000, or 1.3%, between December 31, 2008 and September 30, 2009. As shown in the table below (in thousands of dollars), the decrease in outstanding loans since December 31, 2008 has been related primarily to commercial, home equity and personal installment loan activity.

| | September 30, 2009 | December 31, 2008 | Change | |
|--|-----------------------------------|----------------------------------|---------------|---------|
| | | | \$ | % |
| Loans: | | | | |
| Commercial, financial and agricultural | \$ 33,864 | \$ 38,755 | \$ (4,891) | (12.6%) |
| Real estate commercial | 34,749 | 32,171 | 2,578 | 8.0% |
| Real estate construction | 20,919 | 22,144 | (1,225) | (5.5%) |
| Real estate mortgage | 141,840 | 140,016 | 1,824 | 1.3% |
| Home equity | 54,627 | 60,949 | (6,322) | (10.4%) |
| Obligations of states and political subdivisions | 12,522 | 7,177 | 5,345 | 74.5% |
| Personal | 12,419 | 13,920 | (1,501) | (10.8%) |
| | | | | |
| Total loans | \$ 310,940 | \$ 315,132 | \$ (4,192) | (1.3%) |

A summary of the transactions in the allowance for loan losses for each of the nine months ended September 30, 2009 and 2008 (in thousands) are presented below.

| | Periods Ended September 30, | |
|--|-----------------------------|----------|
| | 2009 | 2008 |
| Balance of allowance January 1 | \$ 2,610 | \$ 2,322 |
| Loans charged off | (391) | (92) |
| Recoveries of loans previously charged off | 9 | 20 |
| | | |
| Net charge-offs | (382) | (72) |
| Provision for loan losses | 377 | 291 |

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| | | | | | |
|---|---------------|----|-------|----|-------|
| Balance of allowance | end of period | \$ | 2,605 | \$ | 2,541 |
| Ratio of net charge-offs during period to average loans outstanding | | | 0.12% | | 0.02% |

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As of September 30, 2009, the Corporation has evaluated large commercial loan relationships and other significant loans for impairment. Of the loans that were evaluated, there are four loan relationships, on which a determination has been made that it is probable that principal and interest will not be collected in full. These four loans have an aggregate outstanding balance of \$1,787,000. The amount of impairment estimated for these collateral-dependent loans is \$165,000. Specific allocations totaling \$165,000 have been included within the loan loss reserve for these loans, adjusting the carrying value of these loans to the fair value of \$1,622,000. Other loans evaluated for impairment have an aggregate outstanding balance of \$4,834,000, but it has been determined that there is sufficient collateral to expect full repayment, and no impairment charge has been recorded. Management believes that the specific reserve is adequate to cover potential future losses related to these relationships. Otherwise, there are no material loans classified for regulatory purposes as loss, doubtful, substandard, or special mention which management expects to significantly impact future operating results, liquidity or capital resources. Following is a summary of the Bank's non-performing loans on September 30, 2009 as compared to December 31, 2008.

(Dollar amounts in thousands)

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Non-performing loans | | |
| Nonaccrual loans | \$ 3,039 | \$ 1,255 |
| Accruing loans past due 90 days or more | 463 | 664 |
| Restructured loans | | |
| Total | \$ 3,502 | \$ 1,919 |
| Average loans outstanding | \$ 310,229 | \$ 307,606 |

| | | |
|--|-------|-------|
| Ratio of non-performing loans to average loans outstanding | 1.13% | 0.62% |
|--|-------|-------|

Stockholders' equity increased by \$1,679,000, or 3.5%, from December 31, 2008 to September 30, 2009. Net income of \$3,863,000 and cash received for treasury stock reissued for the Corporation's stock option and stock purchase plans of \$133,000 increased stockholders' equity, while dividends paid of \$2,518,000 and cash used to purchase Corporation stock into treasury of \$128,000 reduced the Corporation's capital position. The Corporation repurchased stock into treasury pursuant to its stock repurchase program. During the first nine months of 2009, the Corporation purchased 7,600 shares. Securities available for sale increased in market value, representing an increase to equity of \$305,000, net of taxes while accounting for stock-based compensation activity increased equity by \$29,000. An adjustment of \$5,000 was made to equity to record the estimated unfunded liability of the Corporation's defined benefit retirement plan.

The FDIC Board has adopted a restoration plan that raised assessment rates for deposit insurance premiums for 2009 and also levied a special emergency assessment; these developments significantly affected operating results for the Corporation during the second quarter of 2009 and year-to-date, as described in the following operations overview. The FDIC has also proposed a prepayment of projected deposit insurance premiums for a three-year period that would be paid on December 30, 2009. The prepayment is estimated to be approximately \$1.8 million for the Corporation. The prepayment would be carried as a prepaid expense and amortized into expense in the operating periods to which it applies.

Management is not aware of any other current recommendations of applicable regulatory authorities that, if implemented, would have a material effect on the Corporation's liquidity, capital resources, or operations.

Subsequent to September 30, 2009, the following events took place:

On October 20, 2009, the Board of Directors declared a regular cash dividend for the fourth quarter of 2009 of \$0.20 per share to shareholders of record on November 13, 2009, payable on December 1, 2009.

Comparison of the Three Months Ended September 30, 2009 and 2008

Operations Overview:

Net income for the third quarter of 2009 was \$1,288,000, a decrease of \$163,000, or 11.2%, compared to the third quarter of 2008. Basic and diluted earnings per share were \$.30 in the third quarter of 2009, a \$0.03 decrease from the third quarter in 2008. Annualized return on average equity for the third quarter in 2009 was 10.39%, compared to the prior year's ratio for the same period of 11.89%. For the quarter ended September 30, annualized return on average assets was 1.17% in 2009, versus 1.34% in 2008, reflecting a decrease of 12.7%. The decrease in net income was primarily a result of a decrease in net interest income and in non-interest income.

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Presented below are selected key ratios for the two periods:

| | Three Months Ended | |
|---------------------------------------|--------------------|--------|
| | September 30, | |
| | 2009 | 2008 |
| Return on average assets (annualized) | 1.17% | 1.34% |
| Return on average equity (annualized) | 10.39% | 11.89% |
| Average equity to average assets | 11.24% | 11.25% |

| | | |
|--|-------|-------|
| Non-interest income, excluding securities losses, as a percentage of average assets (annualized) | 0.86% | 1.02% |
| Non-interest expense as a percentage of average assets (annualized) | 2.72% | 2.86% |

The discussion that follows further explains changes in the components of net income when comparing the third quarter of 2009 with the third quarter of 2008.

Net Interest Income:

Net interest income was \$3,935,000 for the third quarter of 2009, as compared to \$4,122,000 in the same quarter in 2008. Average earning assets grew by 1.7%, while the net interest margin on a fully tax equivalent basis decreased by 26 basis points.

Interest on loans decreased \$433,000, or 7.8%, in the third quarter of 2009 as compared to the same period in 2008. The average weighted interest rate decrease of 53 basis points lowered interest income by approximately \$393,000, while a decrease in average balances outstanding lowered interest income by approximately \$40,000.

Interest earned on investment securities and money market investments decreased \$165,000 in the third quarter of 2009 as compared to 2008, with average balances increasing \$8.4 million during the period. The yield on money market investments (federal funds and interest bearing deposits) decreased by 262 basis points in the third quarter of 2009 as compared to the third quarter of 2008, due to the reduction in the federal funds target rate from 2.00% on September 30, 2008 to 0.25% as of September 30, 2009. Likewise, the overall pre-tax yield on the investment securities portfolio decreased during that same timeframe by 83 basis points.

Average interest-bearing deposits and securities sold under agreements to repurchase increased by \$2,314,000, while average non-interest bearing deposits grew by \$362,000. This change in the mix of deposits added \$45,000 to interest expense, but was offset by reductions in interest expense due to the lower general rate environment. The cost to fund earning assets was reduced by 45 basis points, to 1.79%, in the third quarter of 2009 as compared to the third quarter of the previous year.

Total average earning assets during the third quarter of 2009 were \$401,104,000, compared to \$394,324,000 during the third quarter of 2008, yielding 5.71% in 2009 versus 6.42% in 2008. Funding costs for the earning assets were 1.79% and 2.24% for the third quarters of 2009 and 2008, respectively. Net interest margin on a fully tax-equivalent basis for the third quarter of 2009 was 4.12%. For the same period in 2008, the fully-tax equivalent net interest margin was 4.38%.

Provision for Loan Losses:

In the third quarter of 2009, the provision for loan losses was \$165,000, as compared to a provision of \$147,000 in the third quarter of 2008. Management regularly reviews the adequacy of the loan loss reserve and makes assessments as to specific loan impairment, historical charge-off expectations, general economic conditions in the Bank's market area, specific loan quality and other factors.

Non-interest Income:

Non-interest income in the third quarter of 2009 was \$952,000, compared to \$1,103,000 in the third quarter of 2008, a decrease of \$151,000.

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Commissions from sales of non-deposit products in the third quarter of 2009 were 58.2%, or \$92,000, lower than in the previous year's same quarter. Likewise, trust fee income was \$12,000, or 12.6%, lower in 2009's third quarter as compared to 2008's third quarter. Earnings on bank-owned life insurance and annuities decreased by \$16,000, or 11.0%, in the third quarter of 2009 compared to the same quarter in 2008 due to earnings rate declines. In the third quarter of 2009, a valuation reserve of \$44,000 was recorded to adjust the carrying value of three properties in other real estate owned. This reserve was partially offset by gains on the sale of other properties, resulting in a net loss on the sale of assets of \$33,000. The Corporation recognized no gains from the sales of securities during the third quarter of 2009, while a loss of \$8,000 was recorded in the third quarter of 2008.

As a percentage of average assets, annualized non-interest income, exclusive of net losses on the sale of securities, was 0.86% in the third quarter of 2009 as compared to 1.02% in the same period of 2008.

Non-interest Expense:

Total non-interest expense decreased \$94,000, or 3.0%, in the third quarter of 2009 as compared to 2008. The \$107,000 increase in the 2009 third quarter's FDIC insurance premium when compared to the same quarter in 2008 was significant, and expectations are that the quarterly premiums will remain at elevated levels for another year and then increase again, until the Bank Insurance Fund (BIF) is restored to levels acceptable to the FDIC. Employee benefit expense has increased by \$29,000, or 8.0% on a quarter to quarter comparison due primarily to an increase in the periodic expense of the defined benefit pension plan. Due to a variety of cost saving initiatives, all other major categories of non-interest expense decreased in 2009's third quarter as compared to 2008's third quarter. Most notable of the reductions was the \$98,000 decrease in employee compensation expense. Adjustments were made to reduce accrued levels of employee bonus projections, based upon the reduction of earnings through the third quarter of 2009, making up the bulk of the variance.

As a percentage of average assets, annualized noninterest expense was 2.72% in the third quarter of 2009 as compared to 2.86% in the same period of 2008.

Provision for income taxes:

Income tax expense in the third quarter of 2009 was \$430,000, or 18.7%, less than in the same time period in 2008. The effective tax rate in the third quarter of 2009 was 25.0% versus 26.7% in 2008. The ratio of tax-free interest-earning assets to total assets increased in 2009, providing for a greater amount of non-taxable interest income.

Comparison of the Nine Months Ended September 30, 2009 and 2008**Operations Overview:**

Income before income taxes for the first nine months of 2009 decreased by \$528,000, or 9.2%, when compared to the same period in 2008. Net interest income after provision for loan losses decreased by \$48,000, or 0.4%. Non-interest income decreased \$54,000, or 1.7%, while non-interest expense increased by \$426,000, or 4.7%. The provision for income tax decreased by \$141,000 when comparing the two periods, resulting in an overall decrease to net income of \$387,000, or 9.1%.

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Presented below are selected key ratios for the two periods:

| | Nine Months Ended September 30, | |
|---------------------------------------|------------------------------------|--------|
| | 2009 | 2008 |
| Return on average assets (annualized) | 1.18% | 1.33% |
| Return on average equity (annualized) | 10.48% | 11.63% |
| Average equity to average assets | 11.30% | 11.40% |

| | | |
|--|-------|-------|
| Non-interest income, excluding securities gains and impairment charges, as a percentage of average assets (annualized) | 1.02% | 1.10% |
| Non-interest expense as a percentage of average assets (annualized) | 2.91% | 2.83% |

There were several items that impact comparability when making comparisons of the two periods. Charges to earnings for equity securities deemed to be other-than-temporarily impaired and gains on the sale of properties occurred in both periods. During the first nine months of 2008, the Corporation recorded a gain from receipt of life insurance proceeds, a gain from the sale of securities, a lump-sum adjustment to reduce accrued, unvested post-retirement liabilities as a result of the departure of personnel and proceeds from the partial redemption of VISA shares. In 2009, noninterest income was recorded for Pennsylvania sales tax refunds and for deferred fees earned on the sale of credit life insurance. Additionally, in 2009, a special assessment was charged to banks by the FDIC.

The discussion that follows further explains these and other changes in the components of net income when comparing the year-to-date results of operations for 2009 and 2008.

Net Interest Income:

Net interest income was \$12,005,000 for the first nine months of 2009, as compared to \$11,967,000 in the same period in 2008. A 175 basis point reduction in the prime and federal funds rates between September 30, 2008 and September 30, 2009 affected the yield on earning assets to a greater extent than the cost of funding in the year-to-year comparison.

Interest on loans decreased \$911,000, or 5.5%, in the first nine months of 2009 as compared to the same period in 2008. An average weighted interest rate decrease of 59 basis points, partially offset by an increase of \$5,778,000 in the average balance of the loan portfolio, was responsible for lower interest income in comparison to the 2009 period. Interest earned on investment securities and money market investments decreased \$482,000 in the first nine months of 2009 as compared to 2008, with average balances increasing \$1,486,000 during the period. The yield on money market investments (federal funds and interest bearing deposits) decreased by 165 basis points in the first nine months of 2009 as compared to the first nine months of 2008, due to the reduction in the federal funds target rate from 2.00% on September 30, 2008 to a range of 0% to 0.25% as of September 30, 2009. Likewise, the overall pre-tax yield on the investment securities portfolio decreased during that same timeframe by 68 basis points.

Average interest-bearing deposits and securities sold under agreements to repurchase declined by \$422,000, while average non-interest bearing deposits grew by \$3,005,000, when comparing the first nine months of 2009 to the same period in 2008. This change in the mix of deposits, in addition to the lower general rate environment, contributed to the reduction in the cost to fund earning assets, which was reduced by 53 basis points, to 1.89%, in the first nine months of 2009.

Total average earning assets during the first nine months of 2009 were \$395,356,000, compared to \$388,092,000 during the first nine months of 2008, yielding 5.94% in 2009 versus 6.53% in 2008. Funding costs for the earning assets were 1.89% and 2.42% for the nine months ended September 30, 2009 and 2008, respectively. Net interest margin on a fully tax-equivalent basis for the first nine months of 2009 was 4.24%. For the same period in 2008, the fully-tax equivalent net interest margin was 4.30%.

Provision for Loan Losses:

In the first nine months of 2009, the provision made for loan losses was \$377,000. Management regularly reviews the adequacy of the loan loss reserve and makes assessments as to specific loan impairment, historical charge-off expectations, general economic conditions in the Bank's market area, specific loan quality and other factors. In the first

nine months of 2008, a loan loss provision of \$291,000 was recorded.

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Noninterest income:

Non-interest income in the first nine months of 2009 was \$3,103,000, compared to \$3,157,000 in the first nine months of 2008, a decrease of \$54,000. As mentioned in the overview above, there were several items that impacted comparability when making comparisons of the two periods. The following table quantifies the impact of these items.

| | Year-to-date through September 30, | |
|---|---------------------------------------|----------|
| | 2009 | 2008 |
| Non-interest income (in thousands) | | |
| Securities other-than-temporary impairment charge | \$ (226) | \$ (393) |
| Gains on the sale of securities | | 33 |
| Partial redemption of VISA shares | | 38 |
| Gains on the sale of former branch locations | 14 | 58 |
| Gains from life insurance proceeds | | 179 |
| Refund of overcharged PA sales tax from years 2004-2006 | 40 | |
| Prior period income from credit-life insurance sales | 323 | |
| Total positive (negative) impact on non-interest income | \$ 151 | \$ (85) |

In the first nine months of 2009, management identified other-than-temporary impairment on two equities in the Corporation's common stock portfolio and, accordingly, an impairment charge to earnings of \$226,000 was recorded. The same type of analysis in 2008 resulted in a similar impairment charge of \$393,000 on six equity securities. The Corporation recognized no gains from the sales of securities during the first nine months of 2009, while a gain of \$33,000 was recorded in the first nine months of 2008. Property used formerly as branch locations was sold during each of the comparative periods, yielding gains of \$14,000 in 2009 and \$58,000 in 2008. As a result of petitions to the state of Pennsylvania disputing certain charges for state sales tax over the periods of 2004 through 2006, the Corporation received a refund of \$40,000 in the first nine months of 2009. During the first nine months of 2008, the Corporation received \$179,000 in death benefits in excess of the carrying cash surrender value of bank-owned life insurance policies. In 2008, the Corporation received funds from VISA for the partial redemption of Class B shares that were created as a result of VISA's IPO. The redemption amount was \$38,000 and was recorded as other non-interest income. Included also in non-interest income in 2009 was an adjustment of \$323,000, representing previously unrecorded fees earned in prior periods from the sales of insurance policies on loans. The adjustment was deemed by management to be immaterial to the consolidated financial statements in all current and prior periods and therefore, required no prior period restatement of earnings. These types of transactions generally do not occur on a regular basis as part of recurring operating income. As a total, the positive impact of these transactions on non-interest income was \$236,000 greater in the first nine months of 2009 than in the same period in 2008.

Trust fees earned in the first nine months of 2009 were \$59,000 lower than those earned in the first nine months of 2008, primarily due to the reduction in market values in the recent economic downturn. Fees for customer service on deposit accounts in the first nine months of 2009 decreased slightly compared to the same period in 2008 by \$4,000, or 0.3%, due to reduced activity in the overdraft protection product. At \$324,000, commissions from the sale of non-deposit products were 60% of the \$541,000 in commissions earned in 2008. Income from bank owned life insurance and annuities decreased in the first nine months of 2009 compared to the first nine months of 2008 by \$34,000, or 8.9%, as a result of lower earning rates. Income from our unconsolidated subsidiary was \$146,000, representing earnings recorded under the equity method of accounting for the ownership of 39.16% of the First National Bank of Liverpool during the first nine months of 2009, a 3.9% decrease over the previous year's same period.

As a percentage of average assets, annualized non-interest income, exclusive of net gains on the sale of securities and impairment charges, was 1.02% in the first nine months of 2009 as compared to 1.10% in the same period of 2008. If the other items that affected comparability were excluded from the computation, the ratios would be 0.90% in 2009 and 1.01% in 2008.

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Noninterest expense:

Total non-interest expense increased \$426,000, or 4.7%, in the first nine months of 2009 as compared to 2008. Of the \$426,000 increase, \$300,000 was due to items that affected comparability. The following table quantifies the impact of the items that made up the \$300,000 variance.

| | Year-to-date through September 30, | |
|--|---------------------------------------|----------|
| | 2009 | 2008 |
| Non-interest expense (in thousands) | | |
| Forfeiture of unvested employee benefits | \$ | \$ (106) |
| FDIC Insurance special assessment | 194 | |
| Total negative (positive) impact on non-interest expense | \$ 194 | \$ (106) |

In the first nine months of 2008, certain unvested benefits were forfeited, resulting in an adjustment to the accrued liability for post-retirement benefits of \$106,000. In 2009's second quarter, banks were charged for a special assessment by the FDIC, which is intended to replenish the Bank Insurance Fund. In Juniata's case, the special assessment was \$194,000.

Exclusive of the benefit from the forfeiture of unvested employee benefits in 2008, employee compensation and benefits costs were \$69,000 less in the first nine months of 2009 when compared to the same period in 2008. The cost of regular, recurring FDIC insurance premiums (exclusive of the special assessment) rose by \$297,000 in the first nine months of 2009 when compared to the first nine months of 2008.

Other changes in noninterest expense in the comparable periods included an increase of \$75,000 in costs to maintain foreclosed assets and an increase of \$20,000 in professional consulting fees. Cost increases in these categories were offset somewhat by reductions in equipment expense and in director compensation costs.

As a percentage of average assets, annualized noninterest expense was 2.91% in the first nine months of 2009 as compared to 2.83% in the same period of 2008. If the items that affected comparability were excluded from the computation, the ratios would be 2.86% in 2009 and 2.87% in 2008. The increase in regular, recurring FDIC insurance expense added 9 basis points to the 2009 ratio.

Provision for income taxes:

Income tax expense in the first nine months of 2009 was \$141,000, or 9.4%, less than in the same time period in 2008. The effective tax rate in 2009 was 26.0% versus 26.1% in 2008. The ratio of tax-free interest-earning assets to total assets remained at approximately 9.4% in both periods, providing for a similar amount of non-taxable interest income.

Liquidity:

The objective of liquidity management is to ensure that sufficient funding is available, at a reasonable cost, to meet the ongoing operational cash needs of the Corporation and to take advantage of income producing opportunities as they arise. While the desired level of liquidity will vary depending upon a variety of factors, it is the primary goal of the Corporation to maintain a high level of liquidity in all economic environments. Principal sources of asset liquidity are provided by securities maturing in one year or less, other short-term investments such as federal funds sold and cash and due from banks. Liability liquidity, which is more difficult to measure, can be met by attracting deposits and maintaining the core deposit base. The Corporation is a member of the Federal Home Loan Bank of Pittsburgh for the purpose of providing short-term liquidity when other sources are unable to fill these needs. During the first nine months of 2009, the average balance of short-term borrowings from the Federal Home Loan Bank was \$138,000, with none outstanding on September 30, 2009. As of September 30, 2009, the Corporation had long-term debt of \$5,000,000 and had unused borrowing capacity with the Federal Home Loan Bank of \$160 million.

Funding derived from securities sold under agreements to repurchase is available through corporate cash management accounts for business customers. This product gives the Corporation the ability to pay interest on corporate checking accounts.

In view of the sources previously mentioned, management believes that the Corporation's liquidity is capable of providing the funds needed to meet loan demand.

Table of Contents**Off-Balance Sheet Arrangements:**

The Corporation's consolidated financial statements do not reflect various off-balance sheet arrangements that are made in the normal course of business, which may involve some liquidity risk, credit risk, and interest rate risk. These commitments consist mainly of loans approved but not yet funded, unused lines of credit and letters of credit issued using the same credit standards as on-balance sheet instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued to guarantee the financial performance obligation of a customer to a third party. Unused commitments and letters of credit at September 30, 2009, were \$53,099,000 and \$621,000, respectively. Because these instruments have fixed maturity dates, and because many of them will expire without being drawn upon, they do not generally present any significant liquidity risk to the Corporation. Management believes that any amounts actually drawn upon can be funded in the normal course of operations. The Corporation has no investment in or financial relationship with any unconsolidated entities that are reasonably likely to have a material effect on liquidity or the availability of capital resources.

Interest Rate Sensitivity:

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

Capital Adequacy:

Bank regulatory authorities in the United States issue risk-based capital standards. These capital standards relate a banking Corporation's capital to the risk profile of its assets and provide the basis by which all banking companies and banks are evaluated in terms of capital adequacy. The risk-based capital standards require all banks to have Tier 1 capital of at least 4% and total capital, including Tier 1 capital, of at least 8% of risk-adjusted assets. Tier 1 capital includes common stockholders' equity and qualifying perpetual preferred stock together with related surpluses and retained earnings. Total capital is comprised of Tier 1 capital, limited life preferred stock, qualifying debt instruments, and the reserves for possible loan losses. Banking regulators have also issued leverage ratio requirements. The leverage ratio requirement is measured as the ratio of Tier 1 capital to adjusted average assets. At September 30, 2009, the Bank exceeded the regulatory requirements to be considered a well capitalized financial institution, i.e., a leverage ratio exceeding 5%, Tier 1 capital exceeding 6% and total capital exceeding 10%.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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 Corporation. The Corporation's equity investments consist of common stocks of publicly traded financial institutions.

Recent 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 Corporation 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 less than 0.2% of the Corporation's total assets as of September 30, 2009. Management performs an impairment analysis on the entire investment portfolio, including the financial institutions stocks on a quarterly basis. As of September 30, 2009, no other-than-temporary impairment was identified. In the second quarter of 2009, an other-than-temporary impairment charge was recorded on two equity securities, resulting in a charge to earnings of \$226,000. There is no assurance that further declines in market values of the common stock portfolio in the future will not result in other-than-temporary impairment charges, depending upon facts and circumstances present.

The equity investments in the Corporation's portfolio had an adjusted cost basis of approximately \$984,000 and a fair value of \$868,000 at September 30, 2009. Net unrealized losses in this portfolio were approximately \$116,000 at September 30, 2009.

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

The primary objective of the Corporation'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 Corporation's balance sheet is relatively rate-neutral as rates rise, and then becomes slightly asset sensitive when loans begin to float off their floors. Over a one-year period, the effect of a 100, 200 and 300 basis point rate increase would decrease net interest income by \$66,000, \$132,000 and \$198,000, respectively. No rate shock modeling was done for a declining rate environment, as the federal funds target rate currently is between zero and 0.25%. The modeling process is continued by further estimating the impact that imbedded options and probable internal strategies may have in the changing-rate environment. Examples of imbedded options are floor and ceiling features in adjustable rate mortgages and call features on securities in the investment portfolio. Applying the likely results of all known imbedded options and likely internal pricing strategies to the simulation produces quite different results from the static position assumptions. Over a one-year period, the effect a 100, 200 and 300 basis point rate increase would add about \$26,000, \$105,000 and \$218,000, respectively, to net interest income. As the table below indicates, the net effect of interest rate risk on net interest income is minimal in a rising rate environment. Juniata's rate risk policies provide for maximum limits on net interest income that can be at risk for 100 through 300 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 |
|---|--|---|--|
| 300 | \$ (198) | \$ 218 | \$ 20 |
| 200 | (132) | 105 | (27) |
| 100 | (66) | 26 | (40) |
| 0 | | | |

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

No material change has been noted in the Bank's equity value at risk. Please refer to the Annual Report on Form 10-K as of December 31, 2008 for further discussion of this matter.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of September 30, 2009, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act), Rule 13a-15(e). Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. These controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

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

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

Changes in Internal Control Over Financial Reporting

There were no significant changes in the Corporation's internal control over financial reporting since December 31, 2008.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

There have been no material changes in risk factors that were disclosed in the Annual Report on Form 10-K as of December 31, 2008.

Table of Contents**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table provides information on repurchases by the Corporation of its common stock in each month of the quarter ended September 30, 2009:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|----------------------|---|---|---|---|
| July 1-31, 2009 | | \$ | | 210,936 |
| August 1-31, 2009 | | | | 210,936 |
| September 1-30, 2009 | | | | 210,936 |
| Totals | | | | 210,936 |

(1) On March 23, 2001, the Corporation announced plans to buy back 100,000 (200,000 on a post-split basis) shares of its common stock. There is no expiration date to this buyback plan, but subsequent to the initial plan, the Board of Directors authorized the repurchase of 400,000 additional shares in 2005 and then authorized 200,000

additional shares in September of 2008. As of November 9, 2009, the number of shares that may yet be purchased under the program was 210,936. No repurchase plan or program expired during the period covered by the table. The Corporation has no stock repurchase plan or program that it has determined to terminate prior to expiration or under which it does not intend to make further purchases.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

- | | |
|------|--|
| 3.1 | Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 4.1 to the Corporation's Form S-3 Registration Statement No. 333-129023 filed with the SEC on October 14, 2005) |
| 3.2 | Bylaws (incorporated by reference to Exhibit 3.2 to the Corporation's report on Form 8-K filed with the SEC on December 21, 2007) |
| 10.0 | 2004 Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.15 to the Corporation's report on Form 10-K filed with the SEC on March 16, 2005)* |
| 10.1 | Exhibits A-B to 2004 Executive Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Corporation's report on Form 10-Q filed with the SEC on August 7, 2009)* |

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- 31.1 Rule 13a 14(a)/15d 14(a) Certification of President and Chief Executive Officer
- 31.2 Rule 13a 14(a)/15d 14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of President and Chief Executive Officer (furnished, not filed)
- 32.2 Section 1350 Certification of Chief Financial Officer (furnished, not filed)

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

Juniata Valley Financial Corp.
(Registrant)

Date 11-09-2009

By: /s/ Francis J. Evanitsky
Francis J. Evanitsky, President and
Chief Executive Officer

Date 11-09-2009

By: /s/ JoAnn N. McMinn
JoAnn N. McMinn, Chief Financial
Officer,
Principal Accounting Officer and
Principal Financial Officer