JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
November 09, 2011

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

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

o **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. þ Yes o 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). þ Yes o No

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

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

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

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

Class	Outstanding as of November 9, 2011

Common Stock ($1.00 par value)	4,236,168 shares

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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Financial Condition
(Unaudited, in thousands, except share data)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 10,254	$ 12,758
Interest bearing deposits with banks	1,116	218
Federal funds sold	6,500	12,300
Cash and cash equivalents	17,870	25,276
Interest bearing time deposits with banks	1,096	1,345
Securities available for sale	112,355	79,923
Restricted investment in Federal Home Loan Bank (FHLB) stock	1,790	2,088
Investment in unconsolidated subsidiary	3,734	3,550
Total loans, net of unearned interest	292,353	298,102
Less: Allowance for loan losses	(2,907)	(2,824)
Total loans, net of allowance for loan losses	289,446	295,278
Premises and equipment, net	6,788	7,067
Other real estate owned	212	412
Bank owned life insurance and annuities	13,962	13,568
Core deposit intangible	220	254
Goodwill	2,046	2,046
Accrued interest receivable and other assets	5,321	4,946
Total assets	$ 454,840	$ 435,753
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 64,006	$ 60,696
Interest bearing	331,105	316,094
Total deposits	395,111	376,790
Securities sold under agreements to repurchase	3,057	3,314
Other interest bearing liabilities	1,222	1,200
Accrued interest payable and other liabilities	4,551	4,473
Total liabilities	403,941	385,777
Stockholders Equity:		
Preferred stock, no par value:		

Authorized 500,000 shares, none issued				
Common stock, par value $1.00 per share:				
Authorized 20,000,000 shares				
Issued 4,745,826 shares				
Outstanding				
4,236,168 shares at September 30, 2011;				
4,257,765 shares at December 31, 2010		4,746		4,746
Surplus		18,363		18,354
Retained earnings		38,696		37,868
Accumulated other comprehensive loss		(1,018)		(1,465)
Cost of common stock in Treasury:				
509,658 shares at September 30, 2011;				
488,061 shares at December 31, 2010		(9,888)		(9,527)
Total stockholders equity		50,899		49,976
Total liabilities and stockholders equity	$	454,840	$	435,753

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest income:				
Loans, including fees	$ 4,401	$ 4,824	$ 13,477	$ 14,756
Taxable securities	328	257	894	753
Tax-exempt securities	222	245	689	784
Federal funds sold	1	3	5	7
Other interest income	8	10	23	29
Total interest income	4,960	5,339	15,088	16,329
Interest expense:				
Deposits	1,162	1,288	3,528	4,154
Securities sold under agreements to repurchase	1	1	2	2
Short-term borrowings				1
Long-term debt		29		99
Other interest bearing liabilities	6	2	20	9
Total interest expense	1,169	1,320	3,550	4,265
Net interest income	3,791	4,019	11,538	12,064
Provision for loan losses	60	70	264	637
Net interest income after provision for loan losses	3,731	3,949	11,274	11,427
Noninterest income:				
Trust fees	109	90	316	300
Customer service fees	354	335	1,015	1,104
Earnings on bank-owned life insurance and annuities	123	133	366	393
Commissions from sales of non-deposit products	53	80	221	301
Income from unconsolidated subsidiary	66	60	197	179
Securities impairment charge		(40)		(40)
Gain on sales or calls of securities		4	6	31
Gain on sales of other real estate owned	14	30	28	36
Other noninterest income	300	244	895	679
Total noninterest income	1,019	936	3,044	2,983
Noninterest expense:				
Employee compensation expense	1,318	1,232	3,910	3,826
Employee benefits	334	363	1,158	1,182

Occupancy	236	243	731	692
Equipment	138	148	439	403
Data processing expense	336	366	995	1,077
Director compensation	74	88	221	261
Professional fees	111	128	341	357
Taxes, other than income	123	124	374	379
FDIC Insurance premiums	73	138	291	435
Amortization of intangibles	12	11	34	34
Other noninterest expense	368	317	1,106	956
Total noninterest expense	3,123	3,158	9,600	9,602
Income before income taxes	1,627	1,727	4,718	4,808
Provision for income taxes	413	442	1,174	1,197
Net income	$ 1,214	$ 1,285	$ 3,544	$ 3,611
Earnings per share				
Basic	$ 0.29	$ 0.30	$ 0.84	$ 0.84
Diluted	$ 0.29	$ 0.30	$ 0.83	$ 0.84
Cash dividends declared per share	$ 0.22	$ 0.21	$ 0.64	$ 0.61
Weighted average basic shares outstanding	4,236,168	4,283,024	4,243,273	4,307,417
Weighted average diluted shares outstanding	4,239,872	4,286,350	4,246,533	4,310,989

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)
(in thousands, except share data)

Nine Months Ended September 30, 2011

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2011	4,257,765	$ 4,746	$ 18,354	$ 37,868	$ (1,465)	$ (9,527)	$ 49,976
Comprehensive income:							
Net income				3,544			3,544
Change in unrealized gains on securities available for sale, net of reclassification adjustment and tax effects					369		369
Defined benefit retirement plan adjustments, net of tax effects					78		78
Total comprehensive income							3,991
Cash dividends at $0.64 per share				(2,716)			(2,716)
Stock-based compensation activity			19				19
Purchase of treasury stock	(24,500)					(417)	(417)
Treasury stock issued for stock option and stock purchase plans	2,903		(10)			56	46
Balance at September 30, 2011	4,236,168	$ 4,746	$ 18,363	$ 38,696	$ (1,018)	$ (9,888)	$ 50,899

Nine Months Ended September 30, 2010

	Number of Shares Outstanding	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders Equity
Balance at January 1, 2010	4,337,587	$ 4,746	$ 18,315	$ 36,478	$ (805)	$ (8,131)	$ 50,603
Comprehensive income:							
Net income				3,611			3,611
Change in unrealized gains on securities available for sale, net of reclassification adjustment and tax effects					178		178
Defined benefit retirement plan adjustments, net of tax effects					63		63

Total comprehensive income							3,852
Cash dividends at $0.61 per share				(2,627)			(2,627)
Stock-based compensation activity			36				36
Purchase of treasury stock, at cost	(66,400)					(1,171)	(1,171)
Treasury stock issued for stock option and stock purchase plans	4,078		(19)			80	61
Balance at September 30, 2010	4,275,265	$ 4,746	$ 18,332	$ 37,462	$ (564)	$ (9,222)	$ 50,754

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating activities:		
Net income	$ 3,544	$ 3,611
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	264	637
Depreciation	447	406
Net amortization of securities premiums	271	216
Amortization of core deposit intangible	34	34
Net amortization of loan origination costs	33	17
Deferral of net loan costs	8	35
Securities impairment charge		40
Net realized gains on sales or calls of securities	(6)	(31)
Gains on sales of other real estate owned	(28)	(36)
Earnings on bank owned life insurance and annuities	(366)	(393)
Deferred income tax expense	45	15
Equity in earnings of unconsolidated subsidiary, net of dividends of $19 and $28	(178)	(151)
Stock-based compensation expense	19	36
Decrease (increase) in accrued interest receivable and other assets	(538)	559
Increase (decrease) in accrued interest payable and other liabilities	118	(74)
Net cash provided by operating activities	3,667	4,921
Investing activities:		
Purchases of:		
Securities available for sale	(76,365)	(39,157)
Premises and equipment	(168)	(704)
Bank owned life insurance and annuities	(66)	(66)
Proceeds from:		
Maturities and calls of and principal repayments on securities available for sale	44,218	37,636
Redemption of FHLB stock	298	
Bank owned life insurance and annuities	20	50
Sale of other real estate owned	479	747
Sale of other assets	9	11
Net decrease in interest-bearing time deposits	249	75
Net decrease in loans receivable	5,276	6,043
Net cash provided by (used in) investing activities	(26,050)	4,635
Financing activities:		

Net increase (decrease) in deposits		18,321		(4,849)
Net decrease in securities sold under agreements to repurchase		(257)		(332)
Repayment of long-term debt				(5,000)
Cash dividends		(2,716)		(2,627)
Purchase of treasury stock		(417)		(1,171)
Treasury stock issued for employee stock plans		46		61
Net cash provided by (used in) financing activities		14,977		(13,918)
Net decrease in cash and cash equivalents		(7,406)		(4,362)
Cash and cash equivalents at beginning of period		25,276		19,895
Cash and cash equivalents at end of period	$	17,870	$	15,533
Supplemental information:				
Interest paid	$	3,512	$	4,358
Income taxes paid	$	1,075	$	1,145
Supplemental schedule of noncash investing and financing activities:				
Transfer of loans to other real estate owned	$	251	$	730
Transfer of loans to repossessed assets	$	9	$	

See accompanying notes to consolidated financial statements.

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Juniata Valley Financial Corp. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 (U.S. GAAP) for complete financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. For comparative purposes, whenever necessary, the 2010 balances have been reclassified to conform to the 2011 presentation. Such reclassifications, if any, had no impact on net income. Operating results for the three and nine-month periods ended September 30, 2011, are not necessarily indicative of the results for the year ended December 31, 2011. 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, 2010.

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of September 30, 2011 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

NOTE 2 Recent Accounting Pronouncements

ASU 2011-08

In September, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment.* The purpose of this ASU is to simplify how entities test goodwill for impairment by adding a new first step to the preexisting goodwill impairment test under Accounting Standards Codification (ASC) Topic 350, *Intangibles Goodwill and other.* This amendment gives the entity the option to first assess a variety of qualitative factors such as economic conditions, cash flows, and competition to determine whether it was more likely than not that the fair value of goodwill has fallen below its carrying value. If the entity determines that it is not likely that the fair value has fallen below its carrying value, then the entity will not have to complete the original two-step test under Topic 350. The amendments in this ASU are effective for impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Corporation is evaluating the impact of this ASU on its consolidated financial statements.

ASU 2011-05

The provisions of this ASU amend FASB ASC Topic 220, *Comprehensive Income*, to facilitate the continued alignment of U.S. GAAP with International Accounting Standards. The ASU prohibits the presentation of the components of comprehensive income in the statement of stockholder s equity. Reporting entities are allowed to present either: a statement of comprehensive income, which reports both net income and other comprehensive income; or separate but consecutive statements of net income and other comprehensive income. Under previous GAAP, any of the three presentations was acceptable. Regardless of the presentation selected, the reporting entity is required to present all reclassifications between other comprehensive and net income on the face of the new statement or statements. The provisions of this ASU are effective for fiscal years and interim periods beginning after December 15, 2011 for public entities. For nonpublic entities, the provisions are effective for fiscal years ending after December 15, 2012, and for interim and annual periods thereafter. As the two remaining options for presentation existed prior to the issuance of this ASU, early adoption is permitted. This guidance will not have an impact on the Corporation s consolidated financial position or results of operations.

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ASU 2011-04

This ASU amends FASB ASC Topic 820, *Fair Value Measurements*, to bring U.S. GAAP for fair value measurements in line with International Accounting Standards. The ASU clarifies existing guidance for items such as: the application of the highest and best use concept to non-financial assets and liabilities; the application of fair value measurement to financial instruments classified in a reporting entity s stockholder s equity; and disclosure requirements regarding quantitative information about unobservable inputs used in the fair value measurements of level 3 assets. The ASU also creates an exception to Topic 820 for entities which carry financial instruments within a portfolio or group, under which the entity is now permitted to base the price used for fair valuation upon a price that would be received to sell the net asset position or transfer a net liability position in an orderly transaction. The ASU also allows for the application of premiums and discounts in a fair value measurement if the financial instrument is categorized in level 2 or 3 of the fair value hierarchy. Lastly, the ASU contains new disclosure requirements regarding fair value amounts categorized as level 3 in the fair value hierarchy such as: disclosure of the valuation process used; effects of and relationships between unobservable inputs; usage of nonfinancial assets for purposes other than their highest and best use when that is the basis of the disclosed fair value; and categorization by level of items disclosed at fair value, but not measured at fair value for financial statement purposes. For public entities, this ASU is effective for interim and annual periods beginning after December 15, 2011. For nonpublic entities, the ASU is effective for annual periods beginning after December 15, 2011. Early adoption is not permitted. This guidance will not have a significant impact on the Corporation s consolidated financial position or results of operations.

ASU 2011-03

The FASB has issued this ASU to clarify the accounting principles applied to repurchase agreements, as set forth by FASB ASC Topic 860, *Transfers and Servicing*. This ASU, entitled *Reconsideration of Effective Control for Repurchase Agreements*, amends one of three criteria used to determine whether or not a transfer of assets may be treated as a sale by the transferor. Under Topic 860, the transferor may not maintain effective control over the transferred assets in order to qualify as a sale. This ASU eliminates the criteria under which the transferor must retain collateral sufficient to repurchase or redeem the collateral on substantially agreed upon terms as a method of maintaining effective control. This ASU is effective for both public and nonpublic entities for interim and annual reporting periods beginning on or after December 15, 2011, and requires prospective application to transactions or modifications of transactions which occur on or after the effective date. Early adoption is not permitted. This guidance will not have a significant impact on the Corporation s consolidated financial position or results of operations.

NOTE 3 Comprehensive Income

U.S. GAAP requires 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 and the liability associated with defined benefit plans, 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, 2011			Three Months Ended September 30, 2010		
	Before Tax Amount	Tax Expense	Net-of-Tax Amount	Before Tax Amount	Tax Expense or (Benefit)	Net-of-Tax Amount
Net income	$ 1,627	$ 413	$ 1,214	$ 1,727	$ 442	$ 1,285
Other comprehensive income:						
Unrealized gains (losses) on available for sale securities:						
Unrealized gains (losses) arising during the period	147	50	97	(25)	(9)	(16)
Unrealized gains from unconsolidated subsidiary	1		1	1		1
Less reclassification adjustment for:						
gains included in net income				(4)	(1)	(3)
securities impairment charge				40	14	26
Change in pension liability	40	14	26	32	11	21
Other comprehensive income	188	64	124	44	15	29
Total comprehensive income	$ 1,815	$ 477	$ 1,338	$ 1,771	$ 457	$ 1,314

	Nine Months Ended September 30, 2011			Nine Ended September 30, 2010		
	Before Tax Amount	Tax Expense or (Benefit)	Net-of-Tax Amount	Before Tax Amount	Tax Expense or (Benefit)	Net-of-Tax Amount
Net income	$ 4,718	$ 1,174	$ 3,544	$ 4,808	$ 1,197	$ 3,611
Other comprehensive income:						
Unrealized gains on available for sale securities:						
Unrealized gains arising during the period	556	189	367	239	81	158
Unrealized gains from unconsolidated subsidiary	6		6	14		14

Less reclassification adjustment for:						
gains included in net income	(6)	(2)	(4)	(31)	(11)	(20)
securities impairment charge				40	14	26
Change in pension liability	118	40	78	96	33	63
Other comprehensive income	674	227	447	358	117	241
Total comprehensive income	$ 5,392	$ 1,401	$ 3,991	$ 5,166	$ 1,314	$ 3,852

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

	9/30/2011	12/31/2010
Unrealized gains on available for sale securities	$ 768	$ 399
Unrecognized expense for defined benefit pension	(1,786)	(1,864)
Accumulated other comprehensive loss	$ (1,018)	$ (1,465)

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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, 2011	Three Months Ended September 30, 2010
Net income	$ 1,214	$ 1,285
Weighted-average common shares outstanding	4,236	4,283
Basic earnings per share	$ 0.29	$ 0.30
Weighted-average common shares outstanding	4,236	4,283
Common stock equivalents due to effect of stock options	4	3
Total weighted-average common shares and equivalents	4,240	4,286
Diluted earnings per share	$ 0.29	$ 0.30

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	$ 3,544	$ 3,611
Weighted-average common shares outstanding	4,243	4,307
Basic earnings per share	$ 0.84	$ 0.84
Weighted-average common shares outstanding	4,243	4,307
Common stock equivalents due to effect of stock options	3	4
Total weighted-average common shares and equivalents	4,246	4,311

Diluted earnings per share	$ 0.83	$ 0.84

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, 2011, the Corporation had $41,793,000 outstanding in loan commitments and other unused lines of credit extended to its customers as compared to $37,466,000 at December 31, 2010.

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, 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 $551,000 and $845,000 of letters of credit commitments as of September 30, 2011 and December 31, 2010, 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, 2011 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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NOTE 6 Defined Benefit Retirement Plan

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 under the plan are based on years of service and the employees compensation. The Corporation s funding policy allows contributions annually up to 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 2011 and does not expect to contribute to the defined benefit plan in the remainder of 2011. Pension expense included the following components for the three and nine month periods ended September 30, 2011 and 2010:

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Components of net periodic pension cost				
Service cost	$ 48	$ 47	$ 144	$ 140
Interest cost	119	118	358	354
Expected return on plan assets	(158)	(144)	(474)	(431)
Additional recognized amounts	38	32	114	96
Net periodic pension cost	$ 47	$ 53	$ 142	$ 159

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 2011 and 2010, amortization expense was $34,000. Accumulated amortization of core deposit intangible through September 30, 2011 was $229,000. The goodwill is not amortized, but is measured annually for impairment or more frequently if certain events occur which might indicate goodwill has been impaired. There was no impairment of goodwill during the nine month periods ended September 30, 2011 or 2010.

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 $3,734,000 as of September 30, 2011. 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.

NOTE 9 Securities

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. For equity securities, consideration is given to management s intention and ability to hold the securities until recovery of unrealized losses in assessing potential other-than-temporary impairment. More specifically, considerations used to determine other-than-temporary impairment status for individual equity holdings include the length of time the stock has remained in an unrealized loss position, the percentage of unrealized loss compared to the carrying cost of the stock, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent developments that would affect expectations for recovery or further decline.

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In instances when a determination is made that an other-than-temporary impairment exists and 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, the other-than-temporary impairment is separated into the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and the amount of the total other-than-temporary impaired 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 Corporation s investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 59%) and municipalities (approximately 37%) as of September 30, 2011. Most of the municipal bonds are general obligation bonds with maturities or pre-refunding dates within 5 years. The remaining 4% of the portfolio includes mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages, corporate notes and a group of equity investments in other financial institutions. The amortized cost and fair value of securities as of September 30, 2011 and December 31, 2010, 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.

	September 30, 2011			
Securities Available for Sale Type and maturity	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government agencies and corporations				
Within one year	$ 1,928	$ 1,953	$ 25	$
After one year but within five years	50,659	51,204	601	(56)
After five years but within ten years	13,497	13,522	40	(15)
	66,084	66,679	666	(71)
Obligations of state and political subdivisions				
Within one year	11,179	11,235	56	
After one year but within five years	25,315	25,779	479	(15)
After five years but within ten years	4,150	4,273	132	(9)
	40,644	41,287	667	(24)
Corporate notes				
After one year but within five years	1,000	1,011	11	
	1,000	1,011	11	
Mortgage-backed securities	2,497	2,583	86	
Equity securities	985	795	54	(244)
Total	$ 111,210	$ 112,355	$ 1,484	$ (339)

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	December 31, 2010			
Securities Available for Sale	Amortized	Fair	Gross Unrealized	Gross Unrealized
Type and maturity	Cost	Value	Gains	Losses
U.S. Treasury securities and obligations of U.S. Government agencies and corporations				
After one year but within five years	$ 34,607	$ 34,783	$ 348	$ (172)
After five years but within ten years	3,000	2,913		(87)
	37,607	37,696	348	(259)
Obligations of state and political subdivisions				
Within one year	12,219	12,390	175	(4)
After one year but within five years	24,493	24,877	488	(104)
After five years but within ten years	1,826	1,626		(200)
	38,538	38,893	663	(308)
Corporate notes				
After one year but within five years	1,000	1,028	28	
	1,000	1,028	28	
Mortgage-backed securities	1,246	1,345	99	
Equity securities	935	961	106	(80)
Total	$ 79,326	$ 79,923	$ 1,244	$ (647)

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, 2011 and December 31, 2010 (in thousands):

	Unrealized Losses at September 30, 2011					
	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	$ 18,429	$ (71)	$	$	$ 18,429	$ (71)
Obligations of state and political subdivisions	3,114	(24)			3,114	(24)
Debt securities	21,543	(95)			21,543	(95)
Equity securities	388	(124)	225	(120)	613	(244)

Total temporarily impaired securities	$ 21,931	$ (219)	$ 225	$ (120)	$ 22,156	$ (339)

	Unrealized Losses at December 31, 2010					
	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	$ 17,859	$ (259)	$	$	$ 17,859	$ (259)
Obligations of state and political subdivisions	9,719	(304)	881	(4)	10,600	(308)
Debt securities	27,578	(563)	881	(4)	28,459	(567)
Equity securities	389	(5)	270	(75)	659	(80)
Total temporarily impaired securities	$ 27,967	$ (568)	$ 1,151	$ (79)	$ 29,118	$ (647)

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The unrealized losses noted above are considered to be temporary impairments. There are 24 debt securities that were in an unrealized loss position on September 30, 2011, but none that have had unrealized losses for more than 12 months. We believe that the decline in the value of our debt securities is due only to interest rate fluctuations, rather than erosion of quality. As a result, we also believe that the payment of contractual cash flows, including principal repayment, is not at risk. As management does not intend to sell the securities, does not believe the Corporation will be required to sell the securities before recovery and expects to recover the entire amortized cost basis, none of the debt securities are deemed to be other-than-temporarily impaired.

Equity securities owned by the Corporation consist of common stock of various financial services providers (Bank Stocks) and are evaluated quarterly for evidence of other-than-temporary impairment. There were 14 equity securities that were in an unrealized loss position on September 30, 2011, and six of those that comprise a group of securities with unrealized losses for 12 months or more. Individually, none of these six have significant unrealized losses. Management has identified no new other-than-temporary impairment as of September 30, 2011 in the equity portfolio.