

JUNIATA VALLEY FINANCIAL CORP
Form 10-Q
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 000-13232

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

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

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

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(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 "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting
company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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

Class

Outstanding as of May 10, 2018

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Common Stock (\$1.00 par value) 4,772,948 shares

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

(Dollars in thousands, except share data)	(Unaudited)	
	March 31, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$ 12,130	\$ 9,839
Interest bearing deposits with banks	22	58
Cash and cash equivalents	12,152	9,897
Interest bearing time deposits with banks	350	350
Equity securities (fair value adjustment in net income)	1,113	-
Securities available for sale	147,449	153,824
Restricted investment in bank stock	2,904	3,104
Investment in unconsolidated subsidiary	4,845	4,812
Total loans	389,180	383,904
Less: Allowance for loan losses	(3,035)	(2,939)
Total loans, net of allowance for loan losses	386,145	380,965
Premises and equipment, net	8,724	8,887
Other real estate owned	377	355
Bank owned life insurance and annuities	15,045	14,972
Investment in low income housing partnerships	5,145	5,245
Core deposit and other intangible	184	195
Goodwill	5,448	5,448
Mortgage servicing rights	221	225
Accrued interest receivable and other assets	4,882	3,666
Total assets	\$ 594,984	\$ 591,945
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 119,567	\$ 115,911
Interest bearing	368,559	361,757
Total deposits	488,126	477,668
Securities sold under agreements to repurchase	4,240	9,769
Short-term borrowings	12,000	12,000

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Long-term debt	25,000	25,000
Other interest bearing liabilities	1,566	1,593
Accrued interest payable and other liabilities	6,053	6,528
Total liabilities	536,985	532,558
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 -		
4,816,831 shares at March 31, 2018;		
4,811,611 shares at December 31, 2017		
Outstanding -		
4,772,948 shares at March 31, 2018;		
4,767,656 shares at December 31, 2017	4,816	4,811
Surplus	18,575	18,565
Retained earnings	41,310	40,876
Accumulated other comprehensive loss	(5,869)	(4,034)
Cost of common stock in Treasury:		
43,883 shares at March 31, 2018;		
43,955 shares at December 31, 2017	(833)	(831)
Total stockholders' equity	57,999	59,387
Total liabilities and stockholders' equity	\$ 594,984	\$ 591,945

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary**Consolidated Statements of Income (Unaudited)**

(Dollars in thousands, except share data)	Three Months Ended	
	March 31, 2018	2017
Interest income:		
Loans, including fees	\$4,551	\$4,370
Taxable securities	775	683
Tax-exempt securities	103	114
Other interest income	10	7
Total interest income	5,439	5,174
Interest expense:		
Deposits	594	469
Securities sold under agreements to repurchase	15	3
Short-term borrowings	84	62
Long-term debt	93	85
Other interest bearing liabilities	8	8
Total interest expense	794	627
Net interest income	4,645	4,547
Provision for loan losses	158	105
Net interest income after provision for loan losses	4,487	4,442
Non-interest income:		
Customer service fees	412	433
Debit card fee income	292	270
Earnings on bank-owned life insurance and annuities	81	84
Trust fees	102	84
Commissions from sales of non-deposit products	50	47
Income from unconsolidated subsidiary	69	47
Fees derived from loan activity	95	45
Mortgage banking income	19	33
(Loss) gain on sales and calls of securities	(15)	504
Change in value of equity securities	(6)	-
Other non-interest income	75	69
Total non-interest income	1,174	1,616
Non-interest expense:		
Employee compensation expense	1,792	1,739
Employee benefits	564	654
Occupancy	318	295
Equipment	207	155
Data processing expense	416	417
Director compensation	54	60
Professional fees	177	142
Taxes, other than income	113	134

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FDIC Insurance premiums	70	91
Loss (gain) on sales of other real estate owned	-	13
Amortization of intangibles	11	17
Amortization of investment in low-income housing partnerships	200	120
Merger and acquisition expense	64	-
Other non-interest expense	419	432
Total non-interest expense	4,405	4,269
Income before income taxes	1,256	1,789
Income tax provision	(71) 330
Net income	\$1,327	\$1,459
Earnings per share		
Basic	\$0.28	\$0.31
Diluted	\$0.28	\$0.31
Cash dividends declared per share	\$0.22	\$0.22
Weighted average basic shares outstanding	4,770,389	4,756,517
Weighted average diluted shares outstanding	4,787,769	4,762,090

See Notes to Consolidated Financial Statements

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

(Dollars in thousands)	Three Months Ended March 31,					
	2018		2017			
	Before	Tax	Net of	Before	Tax	Net of
	Amount	Effect	Amount	Amount	Effect	Amount
Net income	\$1,256	\$ 71	\$1,327	\$1,789	\$(330)	\$1,459
Other comprehensive loss:						
Unrealized gains on available for sale securities:						
Unrealized holding (losses) gains arising during the period	(2,167)	456	(1,711)	258	(88)	170
Unrealized holding (losses) gains from unconsolidated subsidiary	(11)	-	(11)	9	-	9
Less reclassification adjustment for losses included in net income (1) (3)	15	(4)	11	(504)	171	(333)
Amortization of pension net actuarial cost (2) (3)	41	(9)	32	56	(19)	37
Other comprehensive loss	(2,122)	443	(1,679)	(181)	64	(117)
Total comprehensive (loss) income	\$(866)	\$ 514	\$(352)	\$1,608	\$(266)	\$1,342

(1) Amounts are included in (loss) gain on sales and calls of securities on the Consolidated statements of income as a separate element within total non-interest income.

(2) Amounts are included in the computation of net periodic benefit cost and are included in employee benefits expense on the Consolidated statements of income as a separate element within total non-interest expense.

(3) Income tax amounts are included in the provision for income taxes on the Consolidated statements of income.

See Notes to Consolidated Financial Statements

Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2018

(Dollars in thousands, except share data)	Number of		Retained	Accumulated		Total	
	Shares	Common		Other	Treasury		Stockholders'
	Outstanding	Stock	Surplus	Earnings	Loss	Stock	Equity
Balance, January 1, 2018	4,767,656	\$4,811	\$18,565	\$40,876	\$(4,034)	\$(831)	\$59,387
Net income				1,327			1,327
Other comprehensive loss					(1,679)		(1,679)
Reclassification for ASU 2016-01				156	(156)		-
Cash dividends at \$0.22 per share				(1,049)			(1,049)
Stock-based compensation			18				18
Purchase of treasury stock	(1,928)					(40)	(40)
Treasury stock issued for stock plans	2,000		(3)			38	35
Common stock issued for stock plans	5,220	5	(5)				-
Balance, March 31, 2018	4,772,948	\$4,816	\$18,575	\$41,310	\$(5,869)	\$(833)	\$57,999

Juniata Valley Financial Corp. and Subsidiary
Consolidated Statements of Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2017

(Dollars in thousands, except share data)	Number of		Retained	Accumulated		Total	
	Shares	Common		Other	Treasury		Stockholders'
	Outstanding	Stock	Surplus	Earnings	Loss	Stock	Equity
Balance, January 1, 2017	4,755,630	\$4,805	\$18,476	\$39,945	\$(3,209)	\$(927)	\$59,090
Net income				1,459			1,459
Other comprehensive loss					(117)		(117)
Cash dividends at \$0.22 per share				(1,047)			(1,047)
Stock-based compensation			21				21
Treasury stock issued for stock plans	2,213		(2)			41	39
Common stock issued for stock plans	4,650	5	(5)				-
Balance, March 31, 2017	4,762,493	\$4,810	\$18,490	\$40,357	\$(3,326)	\$(886)	\$59,445

See Notes to Consolidated Financial Statements

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

(Dollars in thousands)	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	\$ 1,327	\$ 1,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	158	105
Depreciation	204	156
Net amortization of securities premiums	145	156
Net amortization of loan origination fees	15	15
Deferred net loan origination costs	(55)	(103)
Amortization of core deposit intangible	11	17
Amortization of investment in low income housing partnership	200	120
Net accretion (amortization) of purchase fair value adjustments	13	(13)
Net realized loss (gain) on sales and calls of available for sale securities	15	(504)
Change in value of equity securities	6	-
Net loss on sales and valuation of other real estate owned	-	13
Earnings on bank owned life insurance and annuities	(81)	(84)
Deferred income tax credit	(56)	(4)
Equity in earnings of unconsolidated subsidiary, net of dividends of \$25 and \$24, respectively	(44)	(23)
Stock-based compensation expense	18	21
Mortgage loans originated for sale	-	(450)
Proceeds from mortgage loans sold to others	23	363
Mortgage banking income	(19)	(33)
(Increase) decrease in accrued interest receivable and other assets	(706)	268
Decrease in accrued interest payable and other liabilities	(447)	(246)
Net cash provided by operating activities	727	1,233
Investing activities:		
Purchases of:		
Securities available for sale	(4,119)	(15,814)
Premises and equipment	(41)	(251)
Bank owned life insurance and annuities	(6)	(7)
Proceeds from:		
Sales of securities available for sale	4,285	6,578
Maturities of and principal repayments on securities available for sale	2,779	2,994
Redemption of FHLB stock	200	158
Sale of other real estate owned	-	339
Sale of other assets	-	20
Investment in low income housing partnerships	(100)	(1,023)
Net increase in loans	(5,342)	(5,696)
Net cash used in investing activities	(2,344)	(12,702)
Financing activities:		

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Net increase in deposits	10,455	15,238
Net decrease in short-term borrowings and securities sold under agreements to repurchase	(5,529)	(3,527)
Cash dividends	(1,049)	(1,047)
Purchase of treasury stock	(40)	-
Treasury stock issued for employee stock plans	35	39
Net cash provided by financing activities	3,872	10,703
Net increase (decrease) in cash and cash equivalents	2,255	(766)
Cash and cash equivalents at beginning of year	9,897	9,559
Cash and cash equivalents at end of period	\$ 12,152	\$ 8,793
Supplemental information:		
Interest paid	\$ 792	\$ 676
Income taxes paid	-	-
Supplemental schedule of noncash investing and financing activities:		
Transfer of loans to other real estate owned	\$ 22	\$ 371
Transfer of loans to repossessed vehicles	12	-

See Notes to Consolidated Financial Statements

JUNIATA VALLEY FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Accounting Policies

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

On April 30, 2018, the Company completed the acquisition of Liverpool Community Bank (“Liverpool”). Liverpool was merged with and into the Bank. Refer to Note 13 for more information.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles (“U.S. GAAP”) for complete consolidated financial statements. Certain items in prior financial statements have been reclassified to conform to the current presentation. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three month period ended March 31, 2018 are not necessarily indicative of the results for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and notes thereto included in Juniata Valley Financial Corp.’s Annual Report on Form 10-K (“Annual Report”) for the year ended December 31, 2017.

The Company has evaluated events and transactions occurring subsequent to the consolidated statement of financial condition date of March 31, 2018 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. RECENT ACCOUNTING STANDARDS UPDATES

Adoption of New Accounting Standards

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Issued: May 2014

Summary: The amendments in this Update establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance. The revenue standard's core principle requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation.

In August 2015, the FASB issued **Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date**. ASU 2015-14 deferred the effective date of the new revenue recognition standard by one year. As such, it was effective for public entities in fiscal years beginning after December 15, 2017.

The Company adopted the ASU 2014-09 on January 1, 2018 and elected the modified retrospective transition method. Because the amended guidance does not apply to revenue associated with financial instruments accounted for under other U.S. GAAP, the Company assessed the affect the guidance had on the recognition processes of certain recurring revenue streams related to non-interest income, in addition to when it is appropriate to recognize a gain/loss on the transfer of nonfinancial assets, such as other real estate owned. The Company did not identify any significant changes in the timing of revenue recognition when considering the amended accounting guidance. Additional disclosures related to revenue recognition appear in Note 12.

ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.

Issued: February 2018

Summary: The Update allows entities to reclassify from accumulated other comprehensive income (“AOCI”) to retained earnings the 'stranded' tax effects of accounting for income tax rate changes on items accounted for in AOCI that were impacted by tax reform enacted in December 2017. Because the impact of tax rate changes is recorded in income, items accounted for in AOCI could be left with a stranded tax effect appearing as though those items do not reflect the appropriate tax rate. The FASB's changes were intended to improve the usefulness of information reported to financial statement users.

Effective Date: The changes are effective for years beginning after December 31, 2018, with early adoption permitted. The Company elected to adopt the changes in the first quarter of 2018, as of December 31, 2017. The amount transferred from AOCI to retained earnings totaled \$588,000 and represented the impact of the Company's corporate tax rate change from 34% to 21% at the date of enactment of the tax reform for the unrealized gains and losses on securities and the defined benefit plan accounted for in AOCI.

ASU 2016-01, *Measurement of Financial Instruments*

Issued: January 2016

Summary: The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in AOCI the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the Update emphasizes the existing requirement to use exit prices to measure fair value for disclosure purposes and clarifies that entities should not make use of a practicability exception in determining the fair value of loans. Accordingly, we refined the calculations used to determine the disclosed fair value of our loans as part of adopting this standard. The redefined calculation did not have a significant impact on our fair value disclosures.

Effective Date: For public entities, the amendments in the Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company currently holds a small portfolio of equity investments for which the fair value fluctuates with market activity. The Company adopted ASU 2016-01 on January 1, 2018. As of this date, the Company had \$197,000 in unrealized gains on equity securities (see Note 5). The adoption of this Update resulted in a reclassification of \$156,000 from other comprehensive loss to retained earnings. The Company recorded an unrealized net loss of \$6,000 on the consolidated statements of income for the three months ended March 31, 2018.

ASU 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

Issued: February 2018

Summary: The FASB issued this Update to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities in ASU 2016-01:

· Clarification regarding the ability to discontinue application of the measurement alternative for equity securities without a readily determinable fair value

· Clarification of the measurement date for fair value adjustments to the carrying amount of equity securities without a readily determinable fair value for which the measurement alternative is elected

· Clarification of the unit of account for fair value adjustments to forward contracts and purchased options on equity securities without a readily determinable fair value for which the measurement alternative is expected to be elected

- Presentation requirements for certain hybrid financial liabilities for which the fair value option is elected
- Measurement of financial liabilities denominated in a foreign currency for which the fair value option is elected

· Transition guidance for equity securities without a readily determinable fair value

The amendments in ASU 2018-03 are effective for public business entities for fiscal years beginning after December 15, 2017 and for interim periods within those fiscal years beginning after June 15, 2018. For all other entities, the effective date is the same as the effective date for ASU 2016-01. All entities may early adopt the amendments, including adoption in an interim period, provided they have already adopted ASU 2016-01. The Company adopted this Update in conjunction with the adoption of ASU 2016-01 on January 1, 2018. The adoption had no material impact to the Company's consolidated financial position or results of operations.

ASU 2017-09, Scope of Modification Accounting

Issued: May 2017

Summary: ASU 2017-09 clarifies Topic 718 such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the modification. The standard indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification.

Effective Date: The amendments were effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company adopted ASU 2017-09 on January 1, 2018 and it had no material impact on the Company's consolidated financial position or results of operations.

ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities

Issued: March 2017

Summary: ASU 2017-08 shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, rather than amortizing over the full contractual term. The ASU does not change the accounting for securities held at a discount.

Effective Date: The amendments are effective for public business entities for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company chose to early adopt this standard, and the financial statements as of, and for the year ended, December 31, 2017 reflected the impact of premium amortization on callable debt securities to the earliest call date. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

Issued: March 2017

Summary: ASU 2017-07 requires that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization.

Effective Date: The amendments were effective for public business entities for fiscal years beginning after December 15, 2017. The Company adopted this Update on January 1, 2018 and it had no impact on the Company's consolidated financial position and results of operations because the Company's defined benefit plan is frozen; therefore, there is no service cost component to consider. The cost for other components related to the defined benefit plan are recorded in employee benefits expense on the consolidated statements of income.

ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments

Issued: August 2016

Summary: ASU 2016-15 clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice.

Effective Date: The amendments were effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted this Update on January 1, 2018 and it did not have a material impact on the Company's consolidated financial position or results of operations.

Newly Issued, Not Yet Effective Standards

ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities

Issued: August 2017

Summary: ASU 2017-12 improves Topic 815 by simplifying and expanding the eligible hedging strategies for financial and nonfinancial risks by more closely aligning hedge accounting with a company's risk management activities, and also simplifies its application through targeted improvements in key practice areas. This includes expanding the list of items eligible to be hedged and amending the methods used to measure the effectiveness of hedging relationships. In addition, the ASU prescribes how hedging results should be presented and requires incremental disclosures. These changes are intended to allow preparers more flexibility and to enhance the transparency of how hedging results are presented and disclosed. Further, the new standard provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in earnings in the current period.

Effective Date: The amendments are effective for public business entities, for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the amendments for existing hedging relationships on the date of adoption. This Update will have no impact on the Company's consolidated financial position and results of operations.

ASU 2017-04, Simplifying the Test for Goodwill Impairment

Issued: January 2017

Summary: ASU 2017-04 eliminates the requirement of Step 2 in the current guidance to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value in Step 1 of the current guidance.

Effective Date: The amendments are effective for public business entities for fiscal years beginning after December 15, 2019. The adoption of this Update is not expected to have an impact on the Company's consolidated financial position and results of operations.

ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

Issued: June 2016

Summary: ASU 2016-13 requires credit losses on most financial assets to be measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss ("CECL") model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument.

The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price (“gross up approach”) to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above.

Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis.

Effective Date: The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. While the Company’s senior management is currently in the process of evaluating the impact of the amended guidance on its consolidated financial statements and disclosures, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio, rather than the incurred loss under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Company’s loan portfolio at the time of adoption. In preparation, the Company has partnered with a software provider specializing in ALLL analysis and is assessing the sufficiency of data currently available through its core database.

ASU 2016-02, *Leases*

Issued: February 2016

Summary: The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement.

Effective Date: The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company has determined that the provisions of ASU 2016-02 will result in an increase in assets to recognize the present value of the lease obligations with a corresponding increase in liabilities; however, the Company does not expect this new standard to have a material impact on the Company’s financial position, results of operations or cash flows because the Company owns most of its

facilities and this ASU will apply primarily to operating leases. The Company is currently evaluating the projected present value at the adoption date.

3. Accumulated other Comprehensive loss

Components of accumulated other comprehensive loss, net of tax, consisted of the following:

(Dollars in thousands)

	March 31, 2018		December 31, 2017	
Unrealized losses on available for sale securities	\$ (3,550)	\$ (1,683)
Unrecognized expense for defined benefit pension	(2,319)	(2,351)
Accumulated other comprehensive loss	\$ (5,869)	\$ (4,034)

4. Earnings Per Share

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

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

(Dollars in thousands, except earnings per share data)	Three Months Ended March 31,	
	2018	2017
Net income	\$ 1,327	\$ 1,459
Weighted-average common shares outstanding	4,770	4,757
Basic earnings per share	\$ 0.28	\$ 0.31
Weighted-average common shares outstanding	4,770	4,757
Common stock equivalents due to effect of stock options	17	5
Total weighted-average common shares and equivalents	4,787	4,762
Diluted earnings per share	\$ 0.28	\$ 0.31

5. Securities

On January 1, 2018, the Company adopted ASU 2016-01, Measurement of Financial Assets Instruments. Upon adoption, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in net income. For periods prior to January 1, 2018, equity securities were classified as available for sale and stated at fair value with unrealized gains and losses reported as a separate component of AOCI, net of tax. The adoption of this Update resulted in a reclassification of \$156,000 in net unrealized gains from AOCI to retained earnings. As of March 31, 2018 and December 31, 2017, the Company had \$1,113,000 and \$1,119,000 in equity investments recorded at fair value.

The Company's available for sale investment portfolio includes primarily bonds issued by U.S. Government sponsored agencies (approximately 23% of the investment portfolio), mortgage-backed securities issued by Government-sponsored agencies and backed by residential mortgages (approximately 63%) and municipal bonds (approximately 14%) as of March 31, 2018. Most of the municipal bonds are general obligation bonds with maturities or pre-refunding dates within 5 years.

The amortized cost and fair value of securities available for sale as of March 31, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without prepayment penalties.

(Dollars in thousands)	March 31, 2018		
	Amortized Fair	Gross Unrealized	Gross Unrealized

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Securities Available for Sale Type and Maturity	Cost	Value	Gains	Losses
Obligations of U.S. Government agencies and corporations				
Within one year	\$5,999	\$5,971	\$ -	\$ (28)
After one year but within five years	14,999	14,496	-	(503)
After five years but within ten years	13,998	13,346	-	(652)
	34,996	33,813	-	(1,183)
Obligations of state and political subdivisions				
Within one year	696	696	-	-
After one year but within five years	14,808	14,645	16	(179)
After five years but within ten years	5,245	5,030	6	(221)
	20,749	20,371	22	(400)
Mortgage-backed securities	96,184	93,265	1	(2,920)
Total securities available for sale	\$151,929	\$147,449	\$ 23	\$ (4,503)

(Dollars in thousands)	December 31, 2017		Gross Unrealized Gains	Gross Unrealized Losses
	Amortized Cost	Fair Value		
Securities Available for Sale				
Type and Maturity				
Obligations of U.S. Government agencies and corporations				
Within one year	\$6,000	\$5,969	\$ -	\$ (31)
After one year but within five years	15,000	14,689	-	(311)
After five years but within ten years	13,998	13,556	-	(442)
	34,998	34,214	-	(784)
Obligations of state and political subdivisions				
Within one year	2,521	2,516	-	(5)
After one year but within five years	13,959	13,955	50	(54)
After five years but within ten years	8,611	8,510	18	(119)
	25,091	24,981	68	(178)
Mortgage-backed securities	94,945	93,510	38	(1,473)
Equity securities	922	1,119	197	-
Total	\$155,956	\$153,824	\$ 303	\$ (2,435)

Certain obligations of the U.S. Government and state and political subdivisions are pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes as required or permitted by law. The carrying value of the pledged assets was \$49,050,000 and \$47,825,000 at March 31, 2018 and December 31, 2017, respectively.

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

The following table summarizes proceeds received from sales or calls of available for sale investment securities transactions and the resulting realized gains and losses.

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2018	2017
Gross proceeds from sales and calls of securities	\$ 4,285	\$ 6,578
Securities available for sale:		
Gross realized gains from sold and called securities	\$ -	\$ 506
Gross realized losses from sold and called securities	(15)	(2)
Net (losses) gains	\$ (15)	\$ 504

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As of January 1, 2018, upon the adoption of ASU 2016-01, all of the Company's equity securities are within the scope of ASC Topic 321, Investments – Equity Securities. ASC 321 requires all equity investments within its scope to be measured at fair value with changes in fair value recognized in net income.

The following table summarizes the unrealized and realized gains and losses recognized in net income on equity securities during the three months ended March 31, 2018:

(Dollars in thousands)	Three Months Ended March 31, 2018
Net gains and (losses) recognized during the period on equity securities	\$ (6)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period	-
Unrealized gains and (losses) recognized during the reporting period on equity securities still held at the reporting date	\$ (6)

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. Management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are taken before an assessment is made as to whether the entity will recover the cost basis of the investment. In instances when a determination is made that an other-than-temporary impairment exists and the entity does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, the other-than-temporary impairment is separated into the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss).

The following tables show gross unrealized losses and fair values of securities available for sale, aggregated by category and length of time the individual securities have been in a continuous unrealized loss position, at March 31, 2018 and December 31, 2017:

(Dollars in thousands)	Unrealized Losses at March 31, 2018								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	5	\$10,688	\$(312)	15	\$23,125	\$(871)	20	\$33,813	\$(1,183)
Obligations of state and political subdivisions	17	10,450	(173)	6	3,742	(227)	23	14,192	(400)
Mortgage-backed securities	25	52,253	(1,381)	20	36,929	(1,539)	45	89,182	(2,920)
Total temporarily impaired securities	47	\$73,391	\$(1,866)	41	\$63,796	\$(2,637)	88	\$137,187	\$(4,503)

(Dollars in thousands)	Unrealized Losses at December 31, 2017								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. Government agencies and corporations	5	\$10,845	\$(157)	15	\$23,369	\$(627)	20	\$34,214	\$(784)
Obligations of state and political subdivisions	23	10,491	(70)	6	3,862	(108)	29	14,353	(178)
Mortgage-backed securities	23	51,050	(518)	20	38,740	(955)	43	89,790	(1,473)
Total debt securities	51	72,386	(745)	41	65,971	(1,690)	92	138,357	(2,435)
Equity securities	1	9	-	1	4	-	2	13	-

Total temporarily impaired securities	52	\$72,395	\$ (745)	42	\$65,975	\$ (1,690)	94	\$138,370	\$ (2,435)
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At March 31, 2018, 20 U.S. Government agency and corporation securities had unrealized losses that, in the aggregate, did not exceed 1.0% of the amortized cost of the securities portfolio. Fifteen of these securities have been in a continuous loss position for 12 months or more.

At March 31, 2018, 23 obligations of state and political subdivisions had unrealized losses that, in the aggregate, did not exceed 1.0% of the amortized cost of the securities portfolio. Six of these securities has been in a continuous loss position for 12 months or more.

At March 31, 2018, 45 mortgage-backed securities had an unrealized loss that did not exceed 2.0% of the amortized cost of the securities portfolio. Twenty of these securities has been in a continuous loss position for 12 months or more. The mortgage-backed securities in the Company's portfolio are government sponsored enterprise (GSE) pass-through instruments issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), which guarantees the timely payment of principal on these investments.

The unrealized losses noted above are considered to be temporary impairments. The decline in the values of the debt securities is due only to interest rate fluctuations, rather than erosion of issuer credit quality. As a result, the payment of contractual cash flows, including principal repayment, is not at risk. Because the Company does not intend to sell the securities, does not believe the Company will be required to sell the securities before recovery and expects to recover the entire amortized cost basis, none of the debt securities are deemed to be other-than-temporarily impaired for the periods ended, March 31, 2018, March 31, 2017 and December 31, 2017, respectively.

Equity securities owned by the Company consist of common stock of various financial services providers. Management identified no other-than-temporary impairment as of, or for the periods ended December 31, 2017 and March 31, 2017.

6. Loans and Related Allowance for Credit Losses

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

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

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is generally discontinued when the contractual payment of principal or interest has become 90 days past due or reasonable doubt exists as to the full, timely collection of principal or interest. However, it is the Company's policy to continue to accrue interest on loans over 90 days past due as long as (1) they are guaranteed or well secured and (2) there is an effective means of timely collection in process. When a loan is placed on non-accrual status, all unpaid interest credited to income in the current year is reversed against current period income, and unpaid interest accrued in

prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, accruals are resumed on loans only when the obligation is brought fully current with respect to interest and principal, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

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

Loans Held for Sale

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

In a business combination, the Company may acquire loans which it intends to sell. These loans are assigned a fair value by obtaining actual bids on the loans and adjusting for contingencies in the bids. These loans are carried at lower of cost or market value until sold, adjusted periodically if conditions change before the subsequent sale. Adjustments to fair value and gains or losses recognized upon sale are included in gains on sales of loans which is a component of non-interest income.

Commercial, Financial and Agricultural Lending

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

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

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

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

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

Commercial Real Estate Lending

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

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

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

Real Estate Construction Lending

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

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

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

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

Mortgage Lending

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

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

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

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

in a subordinate position for the loan collateral.

Obligations of States and Political Subdivisions

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

Personal Lending

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

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

Personal loans may entail greater credit risk than do residential mortgage loans, particularly in the case of personal loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, any repossessed collateral for a defaulted personal loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, personal loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

Allowance for Credit Losses

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

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

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

- principal or interest has been in default for 120 days or more and for which no payment has been received during the previous four months;
- all collateral securing the loan has been liquidated and a deficiency balance remains;
- a bankruptcy notice is received for an unsecured loan;
- a confirming loss event has occurred; or
- the loan is deemed to be uncollectible for any other reason.

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

In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses and may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management’s comprehensive analysis of the loan portfolio, management believes the level of the allowance for loan losses as of March 31, 2018 was adequate.

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

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

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

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

The component of the allowance for contingencies relates to other loans that have been segmented into risk rated categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated quarterly or when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans classified as special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified as substandard have one or more well-defined weaknesses that jeopardize the liquidation of the debt. Substandard loans include loans that are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass. Specific reserves may be established for larger, individual classified loans as a result of this evaluation, as discussed above. Remaining loans are categorized into large groups of smaller balance homogeneous loans and are collectively evaluated for impairment. This computation is generally based on historical loss experience adjusted for qualitative factors. During 2017, the historical loss experience look-back period was changed from ten years to five years in conjunction with an increase in the number of homogeneous loan groups. Increasing the number of portfolio segments allows for a more granular approach to the analysis, and historical loss experience is more specific to the selected loan types. Management asserts that evaluating a look-back period longer than five years is no longer appropriate since more recent information is generally considered to be the most relevant. As indicated above, the historical loss experience is averaged over a five-year look-back period for each of the defined portfolio segments. The qualitative risk factors are reviewed for relevancy each quarter and include:

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

· Nature and volume of the portfolio and terms of loans;

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

· Volume and severity of past due, classified and nonaccrual loans, as well as other loan modifications;

· Existence and effect of any concentrations of credit and changes in the level of such concentrations;

· Effect of external factors, including competition, legal and regulatory requirements; and

· Risk from change in the historical look-back period.

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

Acquired Loans

Loans that Juniata acquires through business combinations are recorded at fair value with no carryover of the related allowance for loan losses. Fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable discount and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable discount. The nonaccretable discount includes estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows will require Juniata to evaluate the need for an additional allowance for credit losses. Subsequent improvement in expected cash flows will result in the reversal of a corresponding amount of the nonaccretable discount which Juniata will then reclassify as accretable discount that will be recognized into interest income over the remaining life of the loan.

Acquired loans that met the criteria for impaired or nonaccrual of interest prior to the acquisition may be considered performing upon acquisition, regardless of whether the customer is contractually delinquent if Juniata expects to fully collect the new carrying value (i.e. fair value) of the loans. As such, Juniata may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretible discount. In addition, charge-offs on such loans would be first applied to the nonaccretible difference portion of the fair value adjustment.

Loans acquired through business combinations that do not meet the specific criteria of ASC 310-30, but for which a discount is attributable at least in part to credit quality, are also accounted for in accordance with this guidance. As a result, related discounts are recognized subsequently through accretion based on the contractual cash flows of the acquired loans.

Loan Portfolio Classification

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of March 31, 2018 and December 31, 2017.

(Dollars in thousands)					
	Pass	Special Mention	Substandard	Doubtful	Total
As of March 31, 2018					
Commercial, financial and agricultural	\$40,868	\$8,433	\$ 1,959	\$ 2	\$51,262
Real estate - commercial	113,197	18,746	5,628	899	138,470
Real estate - construction	27,024	3,642	2,663	-	33,329
Real estate - mortgage	137,363	2,909	2,775	533	143,580
Obligations of states and political subdivisions	12,516	912	-	-	13,428
Personal	9,090	16	5	-	9,111
Total	\$340,058	\$34,658	\$ 13,030	\$ 1,434	\$389,180

(Dollars in thousands)					
	Pass	Special Mention	Substandard	Doubtful	Total
As of December 31, 2017					
Commercial, financial and agricultural	\$34,826	\$8,692	\$ 2,280	\$ 4	\$45,802
Real estate - commercial	114,299	17,928	7,189	953	140,369
Real estate - construction	22,470	3,297	2,636	-	28,403
Real estate - mortgage	139,861	3,551	2,859	617	146,888
Obligations of states and political subdivisions	12,088	956	-	-	13,044
Personal	9,360	32	6	-	9,398

Total	\$332,904	\$34,456	\$14,970	\$1,574	\$383,904
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The Company has certain loans in its portfolio that are considered to be impaired. It is the policy of the Company to recognize income on impaired loans that have been transferred to nonaccrual status on a cash basis, only to the extent that it exceeds principal balance recovery. Until an impaired loan is placed on nonaccrual status, income is recognized on the accrual basis. Collateral analysis is performed on each impaired loan at least quarterly, and results are used to determine if a specific reserve is necessary to adjust the carrying value of each individual loan down to the estimated fair value. Generally, specific reserves are carried against impaired loans based upon estimated collateral value until a confirming loss event occurs or until termination of the credit is scheduled through liquidation of the collateral or foreclosure. Charge off will occur when a confirmed loss is identified. Professional appraisals of collateral, discounted for expected selling costs, appraisal age, economic conditions and other known factors are used to determine the charge-off amount.

The following table summarizes information regarding impaired loans by portfolio class as of March 31, 2018 and December 31, 2017.

(Dollars in thousands)	As of March 31, 2018			As of December 31, 2017		
	Unpaid		Related	Unpaid		Related
	Recorded Investment	Principal Balance		Recorded Investment	Principal Balance	
Impaired loans						
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 2	\$ 10	\$ -	\$ 468	\$ 477	\$ -
Real estate - commercial	899	1,289	-	5,031	5,957	-
Acquired with credit deterioration	170	231	-	191	247	-
Real estate - mortgage	2,099	3,651	-	2,232	3,738	-
Acquired with credit deterioration	329	380	-	337	384	-
Total:						
Commercial, financial and agricultural	\$ 2	\$ 10	\$ -	\$ 468	\$ 477	\$ -
Real estate - commercial	899	1,289	-	5,031	5,957	-
Acquired with credit deterioration	170	231	-	191	247	-
Real estate - mortgage	2,099	3,651	-	2,232	3,738	-
Acquired with credit deterioration	329	380	-	337	384	-
	\$ 3,499	\$ 5,561	\$ -	\$ 8,259	\$ 10,803	\$ -

Average recorded investment of impaired loans and related interest income recognized for the three months ended March 31, 2018 and 2017 are summarized in the table below.

(Dollars in thousands)	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average	Interest	Cash	Average	Interest	Cash
	Recorded Investment	Income Recognized	Basis Interest Income	Recorded Investment	Income Recognized	Basis Interest Income
Impaired loans						
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 235	\$ -	\$ -	\$ 431	\$ 7	\$ -
Real estate - commercial	2,965	-	-	5,155	75	-
Acquired with credit deterioration	181	-	-	428	-	-
Real estate - construction	-	-	-	2,455	34	-
Real estate - mortgage	2,166	5	1	3,095	5	7
Acquired with credit deterioration	333	-	-	391	-	-

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With an allowance recorded:

Commercial, financial and agricultural	\$ -	\$ -	\$ -	\$ 10	\$ -	\$ -
Real estate - commercial	-	-	-	460	-	-
Real estate - mortgage	-	-	-	694	-	-

Total:

Commercial, financial and agricultural	\$ 235	\$ -	\$ -	\$ 441	\$ 7	\$ -
Real estate - commercial	2,965	-	-	5,615	75	-
Acquired with credit deterioration	181	-	-	428	-	-
Real estate - construction	-	-	-	2,455	34	-
Real estate - mortgage	2,166	5	1	3,789	5	7
Acquired with credit deterioration	333	-	-	391	-	-
	\$ 5,880	\$ 5	\$ 1	\$ 13,119	\$ 121	\$ 7

The following table presents nonaccrual loans by classes of the loan portfolio as of March 31, 2018 and December 31, 2017.

(Dollars in thousands)

	March 31, 2018	December 31, 2017
Nonaccrual loans:		
Commercial, financial and agricultural	\$ 2	\$ 4
Real estate - commercial	899	953
Real estate - mortgage	1,796	1,917
Total	\$ 2,697	\$ 2,874

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of March 31, 2018 and December 31, 2017.

(Dollars in thousands)	30-59	60-89	Greater	Total	Current	Total	Loans
	Days	Days	than	Past			Past
	Past	Past	90	Past		Loans	Greater
	Due	Due	Days	Due		Loans	than 90
							Days and
							Accruing
As of March 31, 2018							
Commercial, financial and agricultural	\$ -	-	-	\$ -	\$51,262	\$51,262	\$ -
Real estate - commercial:							
Real estate - commercial	171	-	-	171	138,129	138,300	-
Acquired with credit deterioration	158	-	12	170	-	170	12
Real estate - construction	1	-	-	1	33,328	33,329	-
Real estate - mortgage:							
Real estate - mortgage	450	77	-	527	142,724	143,251	-
Acquired with credit deterioration	-	-	122	122	207	329	122
Obligations of states and political subdivisions	-	-	-	-	13,428	13,428	-
Personal	25	-	-	25	9,086	9,111	-
Total	\$ 805	\$ 77	\$ 134	\$ 1,016	\$388,164	\$389,180	\$ 134

Loans
Past
Due
Greater

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(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	than 90 Days and Accruing
As of December 31, 2017							
Commercial, financial and agricultural	\$ -	\$ -	\$ -	\$ -	\$45,802	\$45,802	\$ -
Real estate - commercial:							
Real estate - commercial	16	23	-	39	140,139	140,178	-
Acquired with credit deterioration	-	-	28	28	163	191	28
Real estate - construction	-	-	-	-	28,403	28,403	-
Real estate - mortgage:							
Real estate - mortgage	694	80	64	838	145,713	146,551	64
Acquired with credit deterioration	-	-	123	123	214	337	123
Obligations of states and political subdivisions	-	-	-	-	13,044	13,044	-
Personal	66	6	-	72	9,326	9,398	-
Total	\$ 776	\$ 109	\$ 215	\$ 1,100	\$382,804	\$383,904	\$ 215

The following tables summarize information regarding troubled debt restructurings by loan portfolio class at March 31, 2018 and December 31, 2017.

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of March 31, 2018				
Accruing troubled debt restructurings:				
Real estate - mortgage	7	\$ 369	\$ 397	\$ 305
Non-accruing troubled debt restructurings:				
Commercial, financial, agricultural	1	19	20	2
Real estate - mortgage	1	25	25	19
	9	\$ 413	\$ 442	\$ 326

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
As of December 31, 2017				
Accruing troubled debt restructurings:				
Real estate - mortgage	7	\$ 369	\$ 397	\$ 315
Non-accruing troubled debt restructurings:				
Commercial, financial, agricultural	1	19	20	4
Real estate - mortgage	1	25	25	20
	9	\$ 413	\$ 442	\$ 339

The Company's troubled debt restructurings are also impaired loans, which may result in a specific allocation and subsequent charge-off if appropriate. As of March 31, 2018, there were no specific reserves carried for troubled debt restructured loans. There were also no defaults of troubled debt restructurings that took place during the three months ended March 31, 2018 or 2017 within 12 months of restructure. On December 31, 2017, there were no specific reserves carried for the troubled debt restructurings. There was one troubled debt restructured loan for \$4,000 at December 31, 2017 for which an \$8,000 charge-off was recorded in 2017. The amended terms of the restructured loans vary, and may include interest rates that have been reduced, principal payments that have been reduced or deferred for a period of time and/or maturity dates that have been extended.

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There were no loan terms modified resulting in troubled debt restructuring during the three months ended March 31, 2018. The following table lists the loan whose terms were modified resulting in a troubled debt restructuring during the three month period ending March 31, 2017.

(Dollars in thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Three Months Ended March 31, 2017				
Accruing troubled debt restructurings:				
Commercial, financial, agricultural	1	\$ 19	\$ 20	\$ 19
	1	\$ 19	\$ 20	\$ 19

Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process at March 31, 2018 and December 31, 2017 totaled \$956,000 and \$1,285,000, respectively.

The following tables summarize the activity in the allowance for loan losses and related investments in loans receivable.

As of, and for the periods ended, March 31, 2018

(Dollars in thousands)	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
Beginning balance, January 1, 2018	\$ 273	\$ 1,022	\$ 288	\$ 1,285	\$ -	\$ 71	\$ 2,939
Charge-offs		(51)		(11)		(11)	(73)
Recoveries	3	5				3	11
Provisions	43	83	52	(15)	-	(5)	158
Ending balance, March 31, 2018	\$ 319	\$ 1,059	\$ 340	\$ 1,259	\$ -	\$ 58	\$ 3,035
collectively evaluated for impairment	\$ 319	\$ 1,059	\$ 340	\$ 1,259	\$ -	\$ 58	\$ 3,035
Loans receivable:							
Ending balance	\$ 51,262	\$ 138,470	\$ 33,329	\$ 143,580	\$ 13,428	\$ 9,111	\$ 389,180
individually evaluated for impairment	2	899	-	2,099	-	-	3,000
acquired with credit deterioration	-	170	-	329	-	-	499
collectively evaluated for impairment	\$ 51,260	\$ 137,401	\$ 33,329	\$ 141,152	\$ 13,428	\$ 9,111	\$ 385,681

As of, and for the periods ended, March 31, 2017

	Commercial, financial and agricultural	Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
Allowance for loan losses:							
	\$ 318	\$ 948	\$ 231	\$ 1,143	\$ -	\$ 83	\$ 2,723

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Beginning balance, January 1, 2017							
Charge-offs	-	-	-	(64)	-	(6)	(70)
Recoveries	-	-	-	44	-	3	47
Provisions	50	120	(105)	37	-	3	105
Ending balance, March 31, 2017	\$ 368	\$ 1,068	\$ 126	\$ 1,160	\$ -	\$ 83	\$ 2,805
individually evaluated for impairment	11	30	-	66	-	-	107
collectively evaluated for impairment	\$ 357	\$ 1,038	\$ 126	\$ 1,094	\$ -	\$ 83	\$ 2,698
Loans receivable:							
Ending balance	\$ 45,539	\$ 139,560	\$ 20,295	\$ 150,747	\$ 17,648	\$ 9,913	\$ 383,702
individually evaluated for impairment	445	5,729	2,455	3,521	-	-	12,150
acquired with credit deterioration	-	215	-	367	-	-	582
collectively evaluated for impairment	\$ 45,094	\$ 133,616	\$ 17,840	\$ 146,859	\$ 17,648	\$ 9,913	\$ 370,970

As of December 31, 2017

(Dollars in thousands)	Commercial, financial and agricultural		Real estate - commercial	Real estate - construction	Real estate - mortgage	Obligations of states and political subdivisions	Personal	Total
	Allowance for loan losses:							
Beginning balance, January 1, 2017	\$ 318	\$ 948	\$ 231	\$ 1,143	\$ -	\$ 83	\$ 2,723	
Charge-offs	(46)	(70)	-	(149)	-	(27)	(292)	
Recoveries	5	2	-	45	-	17	69	
Provisions	(4)	142	57	246	-	(2)	439	
Ending balance, December 31, 2017	\$ 273	\$ 1,022	&nb					