

JUNIATA VALLEY FINANCIAL CORP  
Form 10-K  
April 02, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year ended December 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 No. 0-13232

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

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

Bridge and Main Streets, PO Box 66  
Mifflintown, PA 17059-0066  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (717) 436-8211

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$1.00

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 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 every Interactive Data File required to be submitted 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 such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer   
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 Act)

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrants most recently completed second fiscal quarter was \$111,380,229.<sup>(1)</sup>

There were 5,098,748 shares of the registrant's common stock outstanding as of April 2, 2019.

(1) The aggregate dollar amount of the voting stock set forth equals the number of shares of the Company's Common Stock outstanding, reduced by the amount of Common Stock held by officers, directors, shareholders owning in excess of 10% of the Company's Common Stock and the Company's employee benefit plans multiplied by the last reported sale price for the Company's Common Stock on June 30, 2018, the last business day of the registrants most recently completed second fiscal quarter. The information provided shall not be construed as an admission that any officer, director or 10% shareholder of the Company, or any employee benefit plan, may be deemed an affiliate of the Company or that such person or entity is the beneficial owner of the shares reported as being held by such person or entity, and any such inference is hereby disclaimed.

#### DOCUMENTS INCORPORATED BY REFERENCE

(Specific sections incorporated are identified under applicable items herein)

Certain portions of the Company's Annual Report to Shareholders for the year ended December 31, 2018 are incorporated by reference in Parts I and II of this Report. The Company's Annual Report to Shareholders is attached to this Report as Exhibit 13.1.

With the exception of the information incorporated by reference in Parts I and II of this Report, the Company's Annual Report to Shareholders for the year ended December 31, 2018 is not to be deemed "filed" with the Securities and Exchange Commission for any purpose.

Certain portions of the Company's Proxy Statement to be filed in connection with its 2019 Annual Meeting of Shareholders are incorporated by reference in Part III of this Report; provided, however, that any information in such Proxy Statement that is not required to be included in this Annual Report on Form 10-K shall not be deemed to be incorporated herein or filed for the purposes of the Securities Act of 1933 or the Securities Exchange Act of 1934.

Other documents incorporated by reference are listed in the Exhibit Index.

## **PART I**

### **ITEM 1. BUSINESS**

#### Overview

Juniata Valley Financial Corp. (the “Company” or “Juniata”) is a Pennsylvania corporation that was formed in 1983 as a result of a plan of merger and reorganization of The Juniata Valley Bank (the “Bank”). The plan received regulatory approval on June 7, 1983, and Juniata, a one-bank holding company, registered under the Bank Holding Company Act of 1956. The Bank is the oldest independent commercial bank in Juniata and Mifflin Counties, having originated under a state bank charter in 1867. The Company has one reportable segment, consisting of the Bank, as described in Note 2 of Notes to Consolidated Financial Statements contained in the Company’s 2018 Annual Report to Shareholders (the “2018 Annual Report”).

#### Nature of Operations

Juniata operates primarily in central and northern Pennsylvania with the purpose of delivering financial services within its local markets. The Company provides retail and commercial banking services through 16 offices in the following locations: five community offices in Juniata County; five community offices in Mifflin County, as well as a financial services office; two community offices in McKean County; one community office in each of Potter, Perry and Huntingdon Counties; and a loan production office in Centre County. On April 30, 2018, Juniata, which previously owned 39.16%, or 1,214 of the 3,100 outstanding common shares of Liverpool Community Bank (“Liverpool” or “LCB”), completed the acquisition of the remainder of Liverpool’s outstanding common stock. Under the terms of a merger agreement between the parties, LCB merged with and into the Bank.

The Company offers a full range of consumer and commercial banking services. Consumer banking services include: Internet banking; mobile banking; telephone banking; twelve automated teller machines; personal checking accounts; club accounts; checking overdraft privileges; money market deposit accounts; savings accounts; debit cards; certificates of deposit; individual retirement accounts; secured lines of credit; construction and mortgage loans; and safe deposit boxes. Commercial banking services include: low and high-volume business checking accounts; Internet account management services; remote deposit capability; ACH origination; payroll direct deposit; commercial lines of credit; commercial letters of credit; mobile deposit for small business customers; and commercial term and demand loans.

The Bank also provides comprehensive trust, asset management and estate services, and the Company has a contractual arrangement with a broker-dealer to offer a full range of financial services, including annuities, mutual funds, stock and bond brokerage services and long-term care insurance to the Bank’s customers. Management believes

the Bank has a relatively stable deposit base with no major seasonal depositor or group of depositors. Most of the Company's commercial customers are small and mid-sized businesses in central and northern Pennsylvania.

Juniata's loan underwriting policies are updated periodically and are presented for approval to the Board of Directors of the Bank. The purpose of the policies is to grant loans on a sound and collectible basis, to invest available funds in a safe, profitable manner, to serve the credit needs of the communities in Juniata's primary market area and to ensure that all loan applicants receive fair and equal treatment in the lending process. It is the intent of the underwriting policies to seek to minimize loan losses by requiring careful investigation of the credit history of each applicant, verifying the source of repayment and the ability of the applicant to repay, securing those loans in which collateral is deemed to be required, exercising care in the documentation of the application, review, approval and origination process and administering a comprehensive loan collection program.

The major types of investments held by Juniata consist of obligations and securities issued by U.S. government agencies or corporations, obligations of state and local political subdivisions, mortgage-backed securities and common stock. Juniata's investment policy directs that investments be managed in a way that provides necessary funding for the Company's liquidity needs and adequate collateral to pledge for public funds held and, as directed by the Asset Liability Committee, manages interest rate risk. The investment policy specifies the types of permitted investments owned, addresses credit quality of investments and includes limitations by investment types and issuer.

The Company's primary source of funds is deposits, consisting of transaction type accounts, such as demand deposits and savings accounts, and time deposits, such as certificates of deposit. The majority of deposits are held by customers residing or located in Juniata's market area. No material portion of the deposits has been obtained from a single or small group of customers, and the Company believes that the loss of any customer's deposits or a small group of customers' deposits would not have a material adverse effect on the Company.

Other sources of funds used by the Company include retail repurchase agreements, borrowings from the Federal Home Loan Bank of Pittsburgh and lines of credit established with various correspondent banks for overnight funding.

## Competition

The Bank's service area is characterized by a high level of competition for banking and financial services among commercial banks, varying in size from local community banks to regional and national banks, credit unions, savings and loan associations, and non-bank financial institutions located inside and outside the Bank's market area. The Bank actively competes with dozens of such banks and institutions for local consumer and commercial deposit accounts, loans and other types of banking business. Many competitors have substantially greater financial resources and larger branch systems than those of the Bank.

In commercial transactions, the Company believes that the Bank's legal lending limit to a single borrower (approximately \$9,553,000 as of December 31, 2018) enables it to compete effectively for the business of small and mid-sized businesses. However, this legal lending limit is considerably lower than that of various competing institutions and thus may act as a constraint on the Bank's effectiveness in competing for larger financings.

In consumer transactions, the Bank believes that it is able to compete on a substantially equal basis with larger financial institutions because it offers competitive interest rates on savings and time deposits and on loans.

In competing with other banks, savings and loan associations and financial institutions, the Bank seeks to provide personalized services through management's knowledge and awareness of its service areas, customers and borrowers. In management's opinion, larger institutions often do not provide sufficient attention to the retail depositors and the relatively small commercial borrowers that comprise the Bank's primary customer base.

Other competitors, including credit unions, consumer finance companies, insurance companies and money market mutual funds, compete with many of the lending and deposit services offered by the Bank. The Bank also competes with insurance companies, investment counseling firms, mutual funds and other business firms and individuals in corporate and trust investment management services.

## Supervision and Regulation

### *General*

The Company operates in a highly regulated industry, and thus may be affected by changes in state and federal regulations and legislation. As a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"), the Company is subject to supervision and examination by the Board of Governors of the Federal Reserve System ("FRB") and is required to file periodic reports and information regarding its business operations and those of the Bank with the FRB. In addition, under the Pennsylvania Banking Code of 1965, the Pennsylvania Department of Banking and Securities has the authority to examine the books, records and affairs of

the Company and to require any documentation deemed necessary to ensure compliance with the Pennsylvania Banking Code.

The Bank Holding Company Act requires the Company to obtain FRB approval before: acquiring more than a five percent ownership interest in any class of the voting securities of any bank; acquiring all or substantially all of the assets of a bank; or merging or consolidating with another bank holding company. In addition, the Bank Holding Company Act prohibits a bank holding company from acquiring the assets, or more than five percent of the voting securities, of a bank located in another state, unless such acquisition is specifically authorized by the statutes of the state in which the bank is located.

The Company is generally prohibited under the Bank Holding Company Act from engaging in, or acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company engaged in, nonbanking activities unless the FRB, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making such determination, the FRB considers whether the performance of these activities by a bank holding company can reasonably be expected to produce benefits to the public that outweigh the possible adverse effects.

A satisfactory safety and soundness rating, particularly with regard to capital adequacy, and a satisfactory Community Reinvestment Act rating are generally prerequisites to obtaining federal regulatory approval to make acquisitions and open branch offices. As of December 31, 2018, the Bank was rated “satisfactory” under the Community Reinvestment Act and was a “well capitalized” bank. An institution’s Community Reinvestment Act rating is considered in determining whether to grant approvals relating to charters, branches and other deposit facilities, relocations, mergers, consolidations and acquisitions. Less than satisfactory performance may be the basis for denying an application.

There are various legal restrictions on the extent to which the Company and its non-bank subsidiaries can borrow or otherwise obtain credit from the Bank. In general, these restrictions require that any such extensions of credit must be secured by designated amounts of specified collateral and are limited, as to any one of the Company or such non-bank subsidiaries, to ten percent of the lending bank’s capital stock and surplus and, as to the Company and all such non-bank subsidiaries in the aggregate, to 20 percent of the Bank’s capital stock and surplus. Further, the Company and the Bank are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property or furnishing of services.



As a bank chartered under the laws of Pennsylvania, the Bank is subject to the regulations and supervision of the Federal Deposit Insurance Corporation (“FDIC”) and the Pennsylvania Department of Banking and Securities. These government agencies conduct regular safety and soundness and compliance reviews that have resulted in satisfactory evaluations to date. Some of the aspects of the lending and deposit business of the Bank that are regulated by these agencies include personal lending, mortgage lending and reserve requirements.

The operations of the Bank are also subject to numerous Federal, state and local laws and regulations which set forth specific restrictions and procedural requirements with respect to interest rates on loans, the extension of credit, credit practices, the disclosure of credit terms and discrimination in credit transactions. The Bank also is subject to certain limitations on the amount of cash dividends that it can pay to the Company. See Note 17 of Notes to Consolidated Financial Statements, contained in the 2018 Annual Report, which is included in Exhibit 13 to this report and incorporated by reference in this Item 1.

Under FRB policy, the Company is expected to act as a source of financial strength to the Bank, and to commit resources to support the Bank in circumstances where it might not be in a financial position to support itself. Consistent with the “source of strength” policy for subsidiary banks, the FRB has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common stockholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the Company’s capital needs, asset quality and overall financial condition.

As a public company, the Company is subject to the Securities and Exchange Commission’s rules and regulations relating to periodic reporting, proxy solicitation and insider trading.

#### *FDIC Insurance*

The FDIC is an independent federal agency that insures the deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC administers the Deposit Insurance Fund (“DIF”). The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) permanently raised the standard maximum deposit insurance coverage amount to \$250,000 and made the increase retroactive to January 1, 2008. The FDIC deposit insurance coverage limit applies per depositor, per insured depository institution for each account ownership category. The FDIC has been given greater latitude in setting the assessment rates for insured depository institutions which could be used to impose minimum assessments.

The FDIC is authorized to set the reserve ratios for the DIF annually at between 1.15% and 1.5% of estimated insured deposits. FDIC assessment rates currently range from 12 to 50 basis points. Institutions in the lowest risk category, Risk Category I, pay between 12 and 14 basis points. Initial base assessment rates range between 12 and 45 basis

points (12 – 16 basis points for Category I). The initial base rates for risk categories II, III and IV were 20, 30 and 45 basis points, respectively. For institutions in any risk category, assessment rates rose above initial rates for institutions relying significantly on secured liabilities. Assessment rates increased for institutions with a ratio of secured liabilities (repurchase agreements, Federal Home Loan Bank advances, secured Federal Funds purchased and other secured borrowings) to domestic deposits of greater than 15%, with a maximum of 50% above the rate before such adjustment.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd Frank Act”) revised the statutory authorities governing the FDIC’s management of the DIF. Key requirements from the Dodd-Frank Act have resulted in the FDIC’s adoption of amendments that: (1) redefined the assessment base used to calculate deposit insurance assessments to “average consolidated total assets minus average tangible equity”; (2) raised the DIF’s minimum reserve ratio to 1.35 percent and removed the upper limit on the reserve ratio; (3) revised adjustments to the assessment rates by eliminating one adjustment and adding another; and (4) revised the deposit insurance assessment rate schedules due to changes to the assessment base. Revised rate schedules and other revisions to the deposit insurance assessment rules became effective April 1, 2011. Though deposit insurance assessments maintain a risk-based approach, the FDIC’s changes effective April 1, 2011, impose a more extensive risk-based assessment system on large insured depository institutions with at least \$10 billion in total assets since they are more complex in nature and could pose greater risk. Due to the changes to the assessment base and assessment rates, as well as the DIF restoration time frame, the impact on the Company’s deposit insurance assessments resulted in lower premiums from 2011 through 2018 and will likely continue in future years.

Under the Reform Act, the FDIC may terminate the insurance of an institution's deposits upon finding that the institution has engaged in unsafe and unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The Company does not know of any practice, condition or violation that might lead to termination of its deposit insurance.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, an agency of the Federal government established to finance resolutions of insolvent thrifts. These assessments, the current quarterly rate of which is approximately 0.00115% of the total assessment base, will continue until the Financing Corporation bonds fully mature in 2019.

#### *Community Reinvestment Act*

Under the Community Reinvestment Act, the Bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate-income neighborhoods. However, the Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The Community Reinvestment Act also requires:

- the applicable regulatory agency to assess an institution's record of meeting the credit needs of its community;
- public disclosure of an institution's CRA rating; and

that the applicable regulatory agency provides a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system.

#### *Capital Regulation*

All bank holding companies and banks, including the Company and its subsidiary, are subject to risk-based and leverage capital standards. The risk-based capital standards relate a banking organization's capital to the risk profile of its assets and require that bank holding companies and banks have Tier 1 capital of at least 4% of total risk-adjusted assets, and total capital, including Tier 1 capital, equal to at least 8% of total risk-adjusted assets. Tier 1 capital includes common stockholders' equity and qualifying perpetual preferred stock together with related surpluses and retained earnings. The remaining portion of this capital standard, known as Tier 2 capital, may be comprised of limited life preferred stock, qualifying subordinated debt instruments and the reserves for possible loan losses.

Additionally, banking organizations must maintain a minimum leverage ratio of 3%, measured as the ratio of Tier 1 capital to adjusted average assets. This 3% leverage ratio is a minimum for the most highly rated banking organizations without any supervisory, financial or operational weaknesses or deficiencies. Other banking organizations are expected to maintain leverage capital ratios that are 100 to 200 basis points above such minimum, depending upon their financial condition.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "1991 Act"), a bank holding company is required to guarantee that any "undercapitalized" (as such term is defined in the statute) insured depository institution subsidiary will comply with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards as of the time the institution failed to comply with such capital restoration plan.

See Note 17 of Notes to Consolidated Financial Statements, contained in the 2018 Annual Report and incorporated by reference in this Item 1, for a table that provides the Company's risk-based capital ratios and leverage ratio.

Federal banking agencies have broad powers to take corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized", "significantly undercapitalized," or "critically undercapitalized." As of December 31, 2018, the Bank was a "well-capitalized" bank, as defined by the FDIC.

The FDIC has issued a rule that sets the capital level for each of the five capital categories by which banks are evaluated. A bank is deemed to be "well capitalized" if the bank has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 6% or greater, has a leverage ratio of 5% or greater, and is not subject to any order or final capital directive by the FDIC to meet and maintain a specific capital level for any capital measure. A bank may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it received an unsatisfactory safety and soundness examination rating.

All of the bank regulatory agencies have issued rules that amend their capital guidelines for interest rate risk and require such agencies to consider in their evaluation of a bank's capital adequacy the exposure of a bank's capital and economic value to changes in interest rates. These rules do not establish an explicit supervisory threshold. The agencies intend, at a subsequent date, to incorporate explicit minimum requirements for interest rate risk into their risk-based capital standards and have proposed a supervisory model to be used together with bank internal models to gather data and hopefully propose at a later date, explicit minimum requirements.

The United States is a member of the Basel Committee on Banking Supervision (the "Basel Committee") that provides a forum for regular international cooperation on banking supervisory matters. The Basel Committee develops guidelines and supervisory standards and is best known for its international standards on capital adequacy.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, officially identified by the Basel Committee as "Basel III". In July 2013, the FRB published final rules to implement the Basel III capital framework and revise the framework for the risk-weighting of assets. The Basel III rules, among other things, narrow the definition of regulatory capital. As fully phased in on January 1, 2019, Basel III requires bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. Basel III also provides for a "countercyclical capital buffer," an additional capital requirement that generally is imposed when national regulators determine that excess aggregate credit growth has become associated with a buildup of systemic risk, in order to absorb losses during periods of economic stress. Banking institutions that maintain insufficient capital to comply with the capital conservation buffer face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Additionally, the Basel III framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests, including a liquidity coverage ratio (LCR) designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, and a net stable funding ratio (NSFR) designed to promote more medium and long-term funding based on the liquidity characteristics of the assets and activities of banking entities over a one-year time horizon. In September 2014, the federal regulatory agencies finalized rules implementing the LCR for U.S. financial institutions that are "internationally active banking organizations" and those generally with more than \$250 billion in total consolidated assets. The FRB separately adopted a less stringent, modified LCR requirement for bank holding companies that have more than \$50 billion in total consolidated assets. Because of the Company's size, neither the LCR Rule nor any additional proposed rules under the Basel III liquidity framework are applicable to it.

The final rules revise federal regulatory agencies' risk-based and leverage capital requirements and their method for calculating risk-weighted assets to make them consistent with the Basel III framework. The final rules apply to all depository institutions, top-tier bank holding companies with total consolidated assets of \$500 million or more, and top-tier savings and loan holding companies ("banking organizations"). Among other things, the rules establish a new common equity tier 1 (CET1) minimum capital requirement (4.5% of risk-weighted assets) and a higher minimum tier

1 capital requirement (from 4.0% to 6.0% of risk-weighted assets), and assign higher risk weightings (150%) to exposures that are more than 90 days past due or are on nonaccrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property.

As fully phased in, Basel III requires financial institutions to maintain: (a) as a newly adopted international standard, a minimum ratio of CET1 to risk-weighted assets of at least 4.5%; (b) a minimum ratio of tier 1 capital to risk-weighted assets of at least 6.0%; (c) a minimum ratio of total (that is, tier 1 plus tier 2) capital to risk-weighted assets of at least 8.0%; and (d) as a newly adopted international standard, a minimum leverage ratio of 3.0%, calculated as the ratio of tier 1 capital balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter). In addition, the final rules also limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" of 2.5% above each of the foregoing capital requirements stated in (a) – (c).

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

As of December 31, 2018, the Company's current capital levels meet the minimum capital requirements, including capital conservation buffer, as prescribed in the U.S. Basel III Capital Rules.

### *Gramm-Leach-Bliley Act*

On November 12, 1999, the Gramm-Leach-Bliley Act (“GLB”) became law. GLB permits commercial banks to affiliate with investment banks. It also permits bank holding companies which elect financial holding company status to engage in any type of financial activity, including securities, insurance, merchant banking/equity investment and other activities that are financial in nature. The Company has not elected financial holding company status. The merchant banking provisions allow a bank holding company to make a controlling investment in any kind of company, financial or commercial. GLB allows a bank to engage in virtually every type of activity currently recognized as financial or incidental or complementary to a financial activity. A commercial bank that wishes to engage in these activities is required to be well capitalized, well managed and to have a satisfactory or better Community Reinvestment Act rating. GLB also allows subsidiaries of banks to engage in a broad range of financial activities that are not permitted for banks themselves. Although the Company and the Bank have not commenced these types of activities to date, GLB enables them to evaluate new financial activities that would complement the products already offered to enhance non-interest income.

### *Sarbanes-Oxley Act of 2002*

The Sarbanes-Oxley Act of 2002 implemented a broad range of corporate governance, accounting and reporting measures for companies, like Juniata, that have securities registered under the Securities Exchange Act of 1934. Specifically, the Sarbanes-Oxley Act and the various regulations promulgated under the Act, established, among other things: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) additional responsibilities relating to financial statements for the Chief Executive Officer and Chief Financial Officer of reporting companies; (iii) standards for auditors and regulation of audits, including independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iv) increased disclosure and reporting obligations for reporting companies and their directors and executive officers, including accelerated reporting of stock transactions and a prohibition on trading during pension blackout periods; and (v) a range of civil and criminal penalties for fraud and other violations of the securities laws. In addition, Sarbanes-Oxley required stock exchanges, such as NASDAQ, to institute additional requirements relating to corporate governance in their listing rules.

Section 404 of the Sarbanes-Oxley Act requires the Company to include in its Annual Report on Form 10-K a report by management and an attestation report by the Company’s independent registered public accounting firm on the adequacy of the Company’s internal control over financial reporting. Management’s internal control report must, among other things, set forth management’s assessment of the effectiveness of the Company’s internal control over financial reporting.

### *Financial Privacy*

Federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect the Company by limiting how

consumer information is transmitted and conveyed to outside vendors.

*Anti-Money Laundering Initiatives and the USA Patriot Act*

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (“USA Patriot Act”) imposes significant compliance and due diligence obligations, creates criminal and financial liability for non-compliance and expands the extra-territorial jurisdiction of the U.S. The United States Treasury has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations require financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

*Office of Foreign Assets Control Regulation*

The U.S. has instituted economic sanctions which restrict transactions with designated foreign countries, nationals and others. These are typically known as the “OFAC rules” because they are administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”). The OFAC-administered sanctions target countries in various ways. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country, and prohibitions on “U.S. persons” engaging in financial transactions which relate to investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the institution. As U.S. financial institutions, the Company and the Bank are required to comply with the OFAC rules.



*Consumer Protection Statutes and Regulations*

The Company is subject to many federal consumer protection statutes and regulations, including the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Fair Housing Act, Real Estate Settlement Procedures Act and Home Mortgage Disclosure Act. Among other things, these acts:

- require banks to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require banks to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

On November 17, 2009, the FRB published a final rule amending Regulation E, which implements the Electronic Funds Transfer Act. The final rule limits the ability of a financial institution to assess an overdraft fee for paying automated teller machine transactions and one-time debit card transactions that overdraw a customer's account, unless the customer affirmatively consents, or opts in, to the institution's payment of overdrafts for these transactions.

*Dodd-Frank Act*

The Dodd-Frank Act resulted in significant financial regulatory reform. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators. Among other things, the Dodd-Frank Act created the Financial Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the Consumer Financial Protection Bureau ("CFPB"), which has broad regulatory and enforcement powers over consumer financial products and services. Effective July 21, 2011, the CFPB became responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The Dodd Frank Act also provided that, for banks with total assets of more than \$10 billion, the CFPB would have exclusive or primary authority to examine those banks for, and enforce compliance with, the federal consumer financial laws. Although not subject to

examination by the CFPB, the Company remains subject to the review and supervision of other applicable regulatory authorities, and such authorities may enforce compliance with regulations issued by the CFPB.

The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of numerous regulations, some of which have not yet been issued. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing those regulations. Additional uncertainty regarding the effects of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act.

The Dodd-Frank Act's provisions that have received the most public attention have generally been those which apply only to larger institutions with total consolidated assets of \$50 billion or more. However, the Dodd-Frank Act contains numerous other provisions that affect all bank holding companies, including the Company.

The following is a list of significant provisions of the Dodd-Frank Act, and, if applicable, the resulting regulatory rules adopted, that apply (or will apply), most directly to the Company and its subsidiary:

Federal deposit insurance - On April 1, 2011, the FDIC's revised deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the Dodd-Frank Act created a two scorecard system, one for large depository institutions that have more than \$10 billion in assets and another for highly complex institutions that have over \$50 billion in assets.

Debit card interchange fees - In June 2011, the FRB adopted regulations, which became effective on October 1, 2011, setting maximum permissible interchange fees issuers can receive or charge on electronic debit card transaction fees and network exclusivity arrangements (the "Current Rule").

Interest on demand deposits - Beginning in July 2011, depository institutions were no longer prohibited from paying interest on business transaction and other accounts.

Stress testing - In October 2012, the FRB issued final rules regarding company-run stress testing. In accordance with these rules, a company whose assets exceed \$10 billion is required to conduct an annual stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the FRB. The stress test is designed to assess the potential impact of various scenarios on a company's earnings, capital levels and capital ratios over at least a nine-quarter time horizon. If applicable, the Company's board of directors and its senior management are required to consider the results of the stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. While the Company believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile, this requirement is not applicable to the Company because its assets are under \$10 billion.

Ability-to-pay rules and qualified mortgages - As required by the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 amending Regulation Z, implementing the Truth in Lending Act, by requiring mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a residential mortgage loan has a reasonable ability to repay the loan according to its terms. These final rules, most of which became effective January 10, 2014, prohibit creditors, such as the Company, from extending residential mortgage loans without regard for the consumer's ability to repay and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating to residential mortgage loan origination. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a residential mortgage loan that does not have certain high-risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount, and the borrower's total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored entity or a federal agency).

Compliance with these rules has increased Juniata's overall regulatory compliance costs and required changes to the underwriting practices of the Company with respect to mortgage loans.

Integrated disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act - In December 2013, the CFPB issued final rules revising and integrating previously separate disclosures required under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) in connection with certain

closed-end consumer mortgage loans. These final rules became effective August 1, 2015 and require lenders to provide a new Loan Estimate, combining content from the former Good Faith Estimate required under RESPA and the initial disclosures required under TILA not later than the third business day after submission of a loan application, and a new Closing Disclosure, combining content of the former HUD-1 Settlement Statement required under RESPA and the final disclosures required under TILA at least three days prior to the loan closing.

Volcker Rule — As mandated by the Dodd-Frank Act, in December 2013, the OCC, FRB, FDIC, SEC and Commodity Futures Trading Commission issued a final rule (the "Final Rules") implementing certain prohibitions and restrictions on the ability of a banking entity and non-bank financial company supervised by the FRB to engage in proprietary trading and have certain ownership interests in, or relationships with, a "covered fund" (the so-called "Volcker Rule"). The Final Rules generally treat as a covered fund any entity that would be an investment company under the Investment Company Act of 1940 (the "1940 Act") but for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. The Final Rules also require regulated entities to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include making regular reports about those activities to regulators. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Company.

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While the Company does not engage in proprietary trading or in any other activities prohibited by the Final Rules, the Company will continue to evaluate whether any of its investments fall within the definition of a "covered fund" and would need to be disposed of by the extended deadline. However, based on the Company's evaluation to date, it does not currently expect that the Final Rules will have a material effect on its business, financial condition or results of operations.

**Incentive compensation** — As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in April 2011. The proposed rule would require the reporting of incentive-based compensation arrangements by a covered financial institution and prohibit incentive-based compensation arrangements at a covered financial institution that provides excessive compensation or that could expose the institution to inappropriate risks that could lead to material financial loss. The proposed rule, if adopted as currently proposed, could limit the manner in which the Company structures incentive compensation for its executives.

#### *National Monetary Policy*

In addition to being affected by general economic conditions, the earnings and growth of the Bank and, therefore, the earnings and growth of the Company, are affected by the policies of regulatory authorities, including the FRB and the FDIC. An important function of the FRB is to regulate the money supply and credit conditions. Among the instruments used to implement these objectives are open market operations in U.S. government securities, setting the discount rate and changes in financial institution reserve requirements. These instruments are used in varying combinations to influence overall growth and distribution of credit, bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon the future businesses, earnings and growth of the Company cannot be predicted with certainty.

#### *Tax Cuts and Jobs Act*

On December 22, 2017, the Tax Cuts and Jobs Act (TCJA) was signed into law. Among other changes, the TCJA significantly changed corporate income tax law by reducing the corporate income tax rate from 35% to 21%, allowing for immediate capital expensing of certain qualified property and eliminating the deductibility of DIF assessments. The tax laws were generally effective for the 2018 tax year; however, the Company recognized certain effects of the changes in 2017, which was when the new legislation was enacted. Refer to Note 16 of Notes to Consolidated Financial Statements contained in the 2018 Annual Report for additional disclosures regarding the impact of the TCJA.

#### Employees

As of December 31, 2018, the Company had a total of 131 full-time and 47 part-time employees.

Additional Information

The Company files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. Our SEC filings are available on the SEC's website (<http://www.sec.gov>).

The Company's common stock is quoted under the symbol "JUVF" on the OTC-Pink Bulletin Board, an automated quotation service, made available through, and governed by, the NASDAQ system. You may also read reports, proxy statements and other information we file at the offices of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, DC 20006.

The Company's Internet address is [www.JVBonline.com](http://www.JVBonline.com). At that address, we make available, free of charge, the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act (see "Investor Information" section of website), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

In addition, we will provide, at no cost, paper or electronic copies of our reports and other filings made with the SEC (except for exhibits). Requests should be directed to JoAnn N. McMinn, Chief Financial Officer, Juniata Valley Financial Corp., PO Box 66, Mifflintown, PA 17059, 717-436-8211.

The information on the websites listed above is not and should not be considered to be part of this annual report on Form 10-K and is not incorporated by reference in this document.

## ITEM 1A. RISK FACTORS

An investment in the Company's common stock involves certain risks, including, among others, the risks described below. In addition to the other information contained in this report, you should carefully consider the following risk factors in analyzing whether to make or to continue an investment in the Company:

### RISKS RELATED TO INTEREST RATES AND LIQUIDITY

**Fluctuations in market interest rates, particularly in a continuing period of low market interest rates, and relative balances of rate-sensitive assets to rate-sensitive liabilities, can negatively impact net interest margin and net interest income.**

The operations of financial institutions such as the Company are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings.

An institution's net interest income is significantly affected by market rates of interest that in turn are affected by prevailing economic conditions, by the fiscal and monetary policies of the federal government and by the policies of various regulatory agencies. The FRB regulates the national money supply in order to manage recessionary and inflationary pressures. In doing so, the FRB may use techniques such as engaging in open market transactions of U.S. Government securities, changing the discount rate and changing reserve requirements against bank deposits. The use of these techniques may also affect interest rates charged on loans and paid on deposits. The interest rate environment, which includes both the level of interest rates and the shape of the U.S. Treasury yield curve, has a significant impact on net interest income.

Low market interest rates have pressured the net interest margin in recent years. Interest-earning assets, such as loans and investments, have been originated, acquired or repriced at lower rates, reducing the average rate earned on those assets. While the average rate paid on interest-bearing liabilities, such as deposits and borrowings, has also declined, the decline has not always occurred at the same pace as the decline in the average rate earned on interest-earning assets, resulting in a narrowing of the net interest margin.

Competition sometimes requires the Company to lower rates charged on loans more than the decline in market rates would otherwise indicate. Competition may also require the Company to pay higher rates on deposits than market rates would otherwise indicate. Thus, although loan demand has improved in recent years, intense competition among lenders has continued to place downward pressure on loan yields, also narrowing the net interest margin. Further, due

to historically low market interest rates, rates paid on deposits have tended to reach a natural floor below which it is difficult to further reduce such rates.

Like all financial institutions, the Company's consolidated statement of financial condition is affected by fluctuations in interest rates. Volatility in interest rates can also result in disintermediation, which is the flow of deposits away from financial institutions into direct investments, such as U.S. Government and corporate securities and other investment vehicles, including mutual funds, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than bank deposit products. See "Item 7: Management's Discussion of Financial Condition and Results of Operations".

See the section entitled "Interest Rate Risk and Table 5 – Maturity Distribution" in Management's Discussion and Analysis of Financial Condition in the 2018 Annual Report, incorporated by reference in this Item 1A, for the maturity distribution and cumulative sensitivity ratio of the Company's interest earning assets and interest bearing liabilities.

**Capital and liquidity strategies, including the impact of the capital and liquidity requirements implemented by the Basel III standards, may require the Company to maintain higher levels of capital, which could restrict the amount of capital that the Company has available to deploy for income generating and other activities.**

In July 2013, the FRB approved the final rules implementing the Basel III capital standards (the "Basel III Rules") which substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions. See previous Capital Regulation discussion.

As of December 31, 2018, the Company believes its current capital levels meet the fully phased-in minimum capital requirements as prescribed in the U.S. Basel III Capital Rules. However, the new rules, which began January 1, 2015 and which were fully phased in on January 1, 2019, effectively require financial institutions to maintain higher capital levels than was previously required. As a result, Juniata may have to maintain capital in the form of assets that contribute less income to Juniata and that are not available for deployment as loans or other interest-income generating assets, funding of capital projects or other growth initiatives.



**Competition, including competition on rates of deposit and for loan growth may negatively impact the Company's net interest margin.**

There is significant competition among banks in the market areas served by the Company. In addition, as a result of deregulation of the financial industry, the Bank also competes with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, the mutual funds industry, full service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulations than the Company with respect to the products and services they provide. Some of the Company's competitors have greater resources than the Company and, as a result, may have higher lending limits and may offer other services not offered by the Company. See "Item 1: Business - Competition." Competition may adversely affect the rates the Company pays on deposits and charges on loans, thereby potentially adversely affect the Company's profitability. The Company's profitability depends upon its continued ability to successfully compete in the markets it serves. Further, intense competition among lenders can contribute to downward pressure on loan yields.

**Changes in interest rates or disruption in liquidity markets may adversely affect the Company's sources of funding.**

The Company must maintain sufficient sources of liquidity to meet the demands of its depositors and borrowers, support its operations and meet regulatory expectations. The Company's liquidity practices emphasize core deposits and repayments and maturities of loans and investments as its primary sources of liquidity. These primary sources of liquidity can be supplemented by FHLB advances, borrowings from the Federal Reserve Bank and lines of credit from correspondent banks. Lower-cost, core deposits may be adversely affected by changes in interest rates, and secondary sources of liquidity can be costlier to the Company than funding provided by deposit account balances having similar maturities. In addition, adverse changes in the Company's results of operations or financial condition, regulatory actions involving the Company, or changes in regulatory, industry or market conditions could lead to increases in the cost of these secondary sources of liquidity, the inability to refinance or replace these secondary funding sources as they mature, or the withdrawal of unused borrowing capacity under these secondary funding sources.

While the Company attempts to manage its liquidity through various techniques, the assumptions and estimates used do not always accurately forecast the impact of changes in customer behavior. For example, the Company may face limitations on its ability to fund loan growth if customers move funds out of the Bank's deposit accounts in response to increases in interest rates. In the years following the 2008 financial crisis, even as the general level of market interest rates remained low by historical standards, depositors frequently avoided higher-yielding and higher-risk alternative investments, in favor of the safety and liquidity of non-maturing deposit accounts. These circumstances contributed to significant growth in non-maturing deposit account balances at the Company, and at depository financial institutions generally. As interest rates rise, customers may become more sensitive to interest rates when making deposit decisions and considering alternative opportunities. This increased sensitivity to interest rates could cause customers to move funds into higher-yielding deposit accounts offered by the Company's bank subsidiary, require the Company's bank subsidiary to offer higher interest rates on deposit accounts to retain customer deposits or cause customers to move

funds into alternative investments or deposits of other banks or non-bank providers. Technology and other factors have also made it more convenient for customers to transfer low-cost deposits into higher-cost deposits or into alternative investments or deposits of other banks or non-bank providers. Movement of customer deposits into higher-yielding deposit accounts offered by the Company's bank subsidiary, the need to offer higher interest rates on deposit accounts to retain customer deposits or the movement of customer deposits into alternative investments or deposits of other banks or non-bank providers could increase the Company's funding costs, reduce its net interest margin and/or create liquidity challenges.

Market conditions have been negatively impacted by disruptions in the liquidity markets in the past, and such disruptions or an adverse change in the Company's results of operations or financial condition could, in the future, have a negative impact on secondary sources of liquidity. If the Company is not able to continue to rely primarily on customer deposits to meet its liquidity and funding needs, continue to access secondary, non-deposit funding sources on favorable terms or otherwise fails to manage its liquidity effectively, the Company's ability to continue to grow may be constrained, and the Company's liquidity, operating margins, results of operations and financial condition may be materially adversely affected.

**Regulators are increasingly emphasizing liquidity planning at both the bank and Company levels.**

Due to regulatory limitations on the Corporation's ability to rely on short-term borrowings, any significant movements of deposits away from traditional depository accounts which negatively impacts the Corporation's loan-to-deposit ratio could restrict its ability to achieve growth in loans or require the Corporation to pay higher interest rates on deposit products in order to retain deposits to fund loans.

Liquidity must also be managed at the holding company level. Banking regulators carefully scrutinize liquidity at the holding company level, in addition to consolidated and bank liquidity levels. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of loans and dividends. Generally, these limitations are based on a subsidiary bank's regulatory capital levels and net income. These factors have affected some institutions' ability to pay dividends and have required some institutions to establish borrowing facilities at the holding company level.

## **COMPLIANCE AND REGULATORY RISKS**

**The increasing time and expense associated with regulatory compliance and risk management could negatively impact our results of operations.**

The time, expense and internal and external resources associated with regulatory compliance continue to increase. Thus, balancing the need to address regulatory changes and effectively managing growth in non-interest expenses has become more challenging than it has been in the past.

The Company and the Bank are extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole. In general, these laws and regulations establish: the eligible business activities for the Company; certain acquisition and merger restrictions; limitations on intercompany transactions such as loans and dividends; capital adequacy requirements; requirements for anti-money laundering programs; consumer lending and other compliance requirements. While these statutes and regulations are generally designed to minimize potential loss to depositors and the FDIC insurance funds, they do not eliminate risk, and compliance with such statutes and regulations increases the Company's expense, requires management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors and larger bank competitors.

Compliance with banking statutes and regulations is important to the Company's ability to engage in new activities and to consummate additional acquisitions. Bank regulators are scrutinizing banks through longer and more extensive bank examinations in both the safety and soundness and compliance areas. The results of such examinations could result in a delay in receiving required regulatory approvals for potential new activities and transactional matters. In the event that the Company's compliance record would be determined to be unsatisfactory, such approvals may not be able to be obtained. Federal and state banking regulators also possess broad powers to take supervisory actions, as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums and limitations on the Company's operations that could have a material adverse effect on its business and profitability.

In addition, the Company is subject to changes in federal and state tax laws as well as changes in banking and credit regulations, accounting principles, governmental economic and monetary policies and collection efforts by taxing authorities.

**Financial reform legislation is likely to have a significant impact on the Company's business and results of operations; however, until more implementing regulations are adopted, the extent to which the legislation will impact the Company is uncertain.**

In July, 2010, the President of the United States signed into law the Dodd-Frank Act. Among other things, the Dodd-Frank Act created the Financial Stability Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the CFPB, which has broad regulatory and enforcement powers over consumer financial products and services. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators, imposed additional corporate governance and disclosure requirements in areas such as executive compensation and proxy access, and restricted private equity activities of banks.

The scope of the Dodd-Frank Act impacted many aspects of the financial services industry. However, its implementation requires the development and adoption of many regulations, some of which have not yet been proposed, adopted or fully implemented. The ultimate effect of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act. The delay in the implementation of many of the regulations mandated by the Dodd-Frank Act has resulted in a lack of clear regulatory guidance to banks. The resulting uncertainty has caused banks to take a cautious approach to business initiatives and planning. The Company has been impacted, and will likely continue to be in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks and revised deposit insurance assessments. It also is likely to be impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under consumer protection laws.

Pursuant to the Dodd-Frank Act, the CFPB was given rulemaking authority over most providers of consumer financial services in the U.S., examination and enforcement authority over the consumer operations of large banks, as well as interpretive authority with respect to numerous existing consumer financial services regulations. The CFPB began exercising these oversight authorities over the largest banks during 2011.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing, most provisions of which became effective January 10, 2014. These rules prohibit creditors, such as the Bank, from extending residential mortgage loans without regard for the consumer's ability to repay, provide certain safe harbor protections for the origination of loans that meet the requirements for a "qualified mortgage," add restrictions and requirements to residential mortgage origination and servicing practices and restrict the imposition of prepayment penalties and compensation practices relating to residential mortgage loan origination. Compliance with these rules has increased the Company's overall regulatory compliance costs and required the Bank to change its underwriting practices. Moreover, these rules may adversely affect the volume of mortgage loans that the Bank originates and may subject it to increased potential liability related to its residential loan origination activities. In December 2013, the CFPB issued final rules revising and integrating previously separate disclosures required under the Truth in Lending Act and RESPA in connection with closed-end consumer mortgages. These final rules became effective August 1, 2015, and compliance with these rules required the Corporation to adapt its systems and procedures to accommodate the use of new disclosure forms to be provided to closed-end consumer mortgage borrowers at the time of application and at the time of closing for those loans within the timeframes required under these new rules.

## **RISKS RELATED TO OPERATIONS**

**Cyber security incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.**

The Company's computer systems, software and networks are subject to ongoing cyber incidents, such as unauthorized access; mishandling or misuse of information; loss or destruction of data (including confidential customer information); account takeovers; unavailability of service; computer viruses or other malicious code; cyber-attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage; denial of service attacks; and other events. Cyber threats may arise from human error, fraud or malice on the part of employees or third parties, including third party vendors, or may result from accidental technological failure. In addition, the party's intent on penetrating our systems may also attempt to fraudulently induce employees, customers, third parties or other users of our systems to disclose sensitive information in order to gain access to our data or that of the Company's customers.

Cyber security incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (the Company's own or that of third parties) and the disruption of business operations. The potential consequences of a material cyber security incident include reputational damage, litigation with third parties, and increased cyber security protection and remediation costs, which in turn could adversely affect the Company's competitiveness and results of operations. The Company carries insurance to partially offset the risk of loss; however, there can be no assurance that the policy limits or policy exclusions would adequately protect the Company from a related loss.

**Potential disruption or failure of network and information processing systems and those of third-party vendors may negatively impact our operations.**

The Company's business activities are dependent on its ability to accurately and timely process, record and monitor a large number of transactions. If any of its financial, accounting, network or other information processing systems fail or have other significant shortcomings, the Company could be materially adversely affected. The Company outsources some of its processing and other activities to third party vendors. Third parties with which the Company does business could be sources of operational risk to the Company, including the risk that the third parties' own network and information processing systems could fail. Any of these occurrences could materially diminish the Company's ability to operate one or more of the Company's businesses, or cause the Company to suffer financial loss, a disruption of its business, regulatory sanctions or damage to its reputation, any of which could materially adversely affect the Company.

The Company may be subject to disruptions or failures of the Company's financial, accounting, network and information processing systems arising from events that are wholly or partially beyond the Company's control, which may include, for example, computer viruses or electrical or telecommunications outages, denial of service attacks or hacking targeting the Company's network or information processing systems or the Company's websites, natural disasters, disease pandemics or other damage to property or physical assets or terrorist acts. The Company has developed an emergency recovery program, which includes plans to maintain or resume operations in the event of an emergency, and has contingency plans in the event that operations or systems cannot be resumed or restored. The emergency recovery program is periodically reviewed and updated, and components of the emergency recovery program are periodically tested and validated. The Company also reviews and evaluates the emergency recovery programs of vendors which provide certain third-party systems that the Company considers critical. Nevertheless, there is no guarantee that these measures or any other measures can provide absolute security. In addition, because the methods used to cause cyber-attacks change frequently or, in some cases, are not recognized until launched, the Corporation may be unable to implement effective preventive measures or proactively address these methods. Resulting disruptions or failures affecting any of our systems may give rise to interruption in service to customers, damage to the Company's reputation and loss or liability to the Company.

**Failure by the Company to keep up with technological advancements in deployment of services and efficiency of operations may make it more vulnerable to competition.**

The financial services industry is continually undergoing rapid technological change, with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's financial institution competitors have substantially greater resources to invest in technological improvements, and new payment services developed and offered by non-financial institution competitors pose an increasing threat to the traditional payment services offered by financial institutions. The Company may not be able to effectively implement new technology-driven products and services, be successful in marketing these products and services to its customers, or effectively deploy new technologies to improve the efficiency of its operations. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Company's business, financial condition and results of operations.

Further, the costs of new technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the fast pace of change and innovation, that the Company's technology, either purchased or developed internally, will meet or continue to meet the needs of the Company and the needs of its customers.

**ECONOMIC AND CREDIT RISKS**

**Difficult economic conditions and real estate markets, including protracted periods of low-growth and sluggish loan demand, can negatively impact the Company's income, and result in higher charge-offs as borrowers' ability to repay is negatively impacted by those conditions.**

Lending money is an essential part of the banking business, and the revenues derived from lending activities are the most significant segment of the Company's income statement. Extended periods of sluggish loan demand can materially affect the composition of the Company's consolidated statement of financial condition, reducing the ratio of loans to deposits and the Company's profitability. Adverse changes in the economy and real estate markets and the duration of economic downturns can negatively affect the solvency of businesses and consumers. Borrowers' inability to repay loans causes increases in non-performing assets, which may result in elevated collection and carrying costs related to such non-performing assets and increases in loan charge-offs, significantly impacting the loan loss provision charged to earnings to fund the allowance for loan losses. The risk of non-payment is affected by credit risks of the borrower, changes in economic and industry conditions, the duration of the loan and, in the case of a collateralized loan, uncertainties as to the future value of the collateral supporting the loan. Historically, commercial loans have presented a greater risk of non-payment than consumer loans. The application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

The Company has established an allowance for loan losses that management believes to be adequate to offset probable losses on the Company's existing loans. However, there is no precise method of estimating loan losses. The Company determines the appropriate level of the allowance for credit losses based on many quantitative and qualitative factors, including, but not limited to: the size and composition of the loan portfolio; changes in risk ratings; changes in collateral values; delinquency levels; historical losses; and economic conditions. In addition, as the Company's loan portfolio grows, it will generally be necessary to increase the allowance for credit losses through additional provisions, which will impact the Company's operating results. If the Company's assumptions and judgments regarding such matters prove to be inaccurate, its allowance for credit losses might not be sufficient, and additional provisions for credit losses might need to be made. Depending on the amount of such provisions for credit losses, the adverse impact on the Company's earnings could be material. Also, there can be no assurance that any future declines in real estate market conditions, general economic conditions or changes in regulatory policies will not require the Company to increase its allowance for loan losses, through additional loan loss provisions, which could reduce earnings.



**Investment securities losses, including other-than-temporary declines in the value of available for sale securities, may result in charges to earnings that could negatively impact our results of operations.**

Price fluctuations in securities markets, as well as other market events, could have an impact on the Company's results of operations. As described below, the Company's holding of certain securities and the revenues the Company earns from its trust and investment management services business are particularly sensitive to those events:

**Equity investments:**

As of December 31, 2018, the Company's equity investments were comprised primarily of publicly traded financial institutions. The value of the securities in the Company's equity portfolio may be affected by a number of factors. General economic conditions and uncertainty surrounding the financial institution sector as a whole, impacts the value of these securities. Upon the adoption of Accounting Standard Update (ASU) 2016-01, *Measurement of Financial Asset Instruments*, on January 1, 2018, equity investments are stated at fair value with realized and unrealized gains and losses reported in net income. Declines in bank stock values in general, as well as deterioration in the performance of specific banks are now reflected on the Consolidated Statements of Income in the 2018 Annual Report. Prior to the adoption of ASU 2016-01, unrealized gains and losses on equity investments were reported as a separate component of AOCI, net of tax, and deterioration of the value or performance of the stock could result in other-than-temporary impairment charges. Considerations used to determine other-than-temporary impairment status to individual holdings include the length of time the stock has remained in an unrealized loss position, and the percentage of unrealized loss compared to the carrying cost of the stock, dividend reduction or suspension, market analyst reviews and expectations, and other pertinent news that would affect expectations for recovery or further decline.

**Municipal securities:**

As of December 31, 2018, the Company had approximately \$18.2 million of municipal securities issued by various municipalities in its investment portfolio. Uncertainty with respect to the financial viability of municipal insurers places greater emphasis on the underlying strength of issuers. Increasing pressure on local tax revenues of issuers due to adverse economic conditions could also have a negative impact on the underlying credit quality of issuers.

**Investment management and trust services revenue:**

The Company's investment management and trust services revenue is also impacted by fluctuations in the securities markets. A portion of this revenue is based on the value of the underlying investment portfolios. If the values of those investment portfolios decrease, whether due to factors influencing U.S. securities markets, in general, or otherwise, the Company's revenue could be negatively impacted. In addition, the Company's ability to sell its brokerage services is dependent, in part, upon consumers' level of confidence in securities markets.

**RISKS RELATED TO INVESTMENT IN THE COMPANY'S STOCK**

**The Corporation is a holding company and relies on dividends from its subsidiaries for substantially all of its revenue and its ability to make dividends, distributions and other payments.**

The Company is a separate and distinct legal entity from the Bank, and depends on the payment of dividends from the Bank for substantially all of its revenues. As a result, the Company's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of the Bank to pay dividends or make other payments to the Company. There can be no assurance that the Bank will be able to pay dividends at past levels, or at all, in the future. If the Company does not receive sufficient cash dividends or is unable to borrow from the Bank, then the Company may not have sufficient funds to pay dividends to its shareholders, repurchase its common stock or service its debt obligations.

**"Anti-takeover" provisions may keep shareholders from receiving a premium for their shares.**

The Articles of Incorporation of the Company presently contain certain provisions, such as staggered Board of Directors terms and super majority voting requirements for transactions not approved by the Company's Board of Directors, which may be deemed to be "anti-takeover" in nature in that such provisions may deter, discourage or make more difficult the assumption of control of the Company by another Company or person through a tender offer, merger, proxy contest or similar transaction or series of transactions. In addition, provisions of Pennsylvania and applicable banking laws could similarly make it more difficult for a third party to acquire control of the Company. The overall effects of the "anti-takeover" provisions may be to discourage, make costlier or more difficult, or prevent a future takeover offer, thereby preventing shareholders from receiving a premium for their securities in a takeover offer. These provisions may also increase the possibility that a future bidder for control of the Company will be required to act through arms-length negotiation with the Company's Board of Directors. Copies of the Articles of Incorporation of the Company are on file with the Securities and Exchange Commission and the Pennsylvania Secretary of State.

**If the Company fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, current and potential shareholders could lose confidence in the Company's financial reporting, which could harm its business and the trading price of its common stock.**

The Company has established a process to document and evaluate its internal controls over financial reporting in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and related regulations, which require annual management assessments of the effectiveness of the Company's internal controls over financial reporting and a report by the Company's independent registered public accounting firm on the effectiveness of the Company's internal control. In this regard, management has dedicated internal resources, engaged outside consultants and adopted a detailed work plan to (i) assess and document the adequacy of internal controls over financial reporting, (ii) take steps to improve control processes, where appropriate, (iii) validate through testing that controls are functioning as documented and (iv) maintain a continuous reporting and improvement process for internal control over financial reporting.

The Company's efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding the Company's assessment of its internal controls over financial reporting and the Company's independent registered public accounting firm audit of internal control are likely to continue to result in increased expenses. The Company's management and audit committee have given the Company's compliance with Section 404 a high priority. The Company cannot be certain that these measures will ensure that the Company implements and maintains adequate controls over its financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's operating results or cause the Company to fail to meet its reporting obligations. If the Company fails to correct any issues in the design or operating effectiveness of internal controls over financial reporting or fails to prevent fraud, current and potential shareholders could lose confidence in the Company's financial reporting, which could harm its business and the trading price of its

common stock. Please see Item 9A describing certain material weaknesses as to the Company's disclosure controls and procedures, and internal control over financial reporting with respect to the company's financial statements as of, and for the year ended, December 31, 2018.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

The physical properties of the Company are all owned or leased by the Bank.

##### **The Bank owns and operates, for banking purposes, the buildings located at:**

One South Main Street, Mifflintown, Pennsylvania

218 Bridge Street, Mifflintown, Pennsylvania (its corporate headquarters)

4068 William Penn Highway, Mifflintown, Pennsylvania (branch office)

1762 Butcher Shop Road, Mifflintown, Pennsylvania (operations center and Trust offices)

301 Market Street, Port Royal, Pennsylvania (branch office)

30580 Rt. 35, McAlisterville, Pennsylvania (branch office)

Four North Market Street, Millerstown, Pennsylvania (branch office)

17428 Tuscarora Creek Road, Blairs Mills, Pennsylvania (branch office)

One East Market Street, Lewistown, Pennsylvania (branch office)

20 Prince Street, Reedsville, Pennsylvania (branch office)

100 West Water Street, Lewistown, Pennsylvania (branch office)

320 South Logan Boulevard, Burnham, Pennsylvania (branch office)

571 Main Street, Richfield, Pennsylvania (branch office)

64 Main Street, Port Allegany, Pennsylvania (branch office)

118 East Second Street, Coudersport, Pennsylvania (branch office)

104 N Front Street, Liverpool, Pennsylvania (branch office)



**The Bank leases four offices:**

**Branch Offices**

Wal-Mart Supercenter, Route 522 South, Lewistown, Pennsylvania (lease expires January 2022)

52 West Mill Street, Port Allegany, Pennsylvania (lease expires June 2028)

**Financial Services Office**

129 South Main Street, Suite 600, Lewistown, Pennsylvania (lease expires October 2029)

**Loan Production Office**

1366 South Atherton Street, State College, Pennsylvania (lease expires December 2020)

**ITEM 3. LEGAL PROCEEDINGS**

The nature of the Company's and Bank's business, at times, generates litigation involving matters arising in the ordinary course of business. However, in the opinion of management, there are no proceedings pending to which the Company or the Bank is a party or to which its property is subject, which, if adversely determined, would be material in relation to their financial condition. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Company by government authorities or others.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information:**

Information regarding the market for the Company's stock, the market price of the stock and dividends that the Company has paid is included in the Company's Annual Report to Shareholders for the year ended December 31, 2018, in the section entitled "Common Stock Market Prices and Dividends," and is incorporated by reference in this Item 5.

Holder:

As of April 2, 2019, there were 1,777 registered holders of the Company's outstanding common stock.

For information concerning the Company's Equity Compensation Plans, see "Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

Recent Sales of Unregistered Securities:

None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

The Company periodically repurchases shares of its common stock under the share repurchase program approved by the Board of Directors. The program will remain authorized until all approved shares are repurchased, unless terminated by the Board of Directors. There were 1,488 shares purchased with respect to the program during the fourth quarter of 2018, and 170,574 shares remain available to purchase under the program.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2018	-	\$ -	-	172,062
November 1-30, 2018	1,488	20.36	1,488	170,574
December 1-31, 2018	-	-	-	170,574
Totals	1,488		1,488	170,574

**ITEM 6. SELECTED FINANCIAL DATA**

The section entitled “Five Year Financial Summary - Selected Financial Data” in the Company’s Annual Report to Shareholders for the year ended December 31, 2018 is incorporated by reference in this Item 6.



## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The section entitled "Management's Discussion and Analysis of Financial Condition" and "Results of Operations" in the Company's Annual Report to Shareholders for the year ended December 31, 2018 is incorporated by reference in this Item 7.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The Company's Consolidated Financial Statements and the Notes to Consolidated Financial Statements thereto included in the Company's Annual Report to Shareholders for the year ended December 31, 2018 are incorporated by reference in this Item 8.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this Form 10-K are certifications of the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications.

### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

The Company's management, with the participation of its CEO and CFO, conducted an evaluation, as of December 31, 2018, of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule

13a-15(e)). Based on this evaluation, the Company's CEO and CFO concluded that, as of the end of the period covered by this annual report, the Company's disclosure controls and procedures were not effective because of the material weaknesses described below.

### **Conclusion Regarding Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a – 15(f) promulgated under the Exchange Act. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation under the framework in *Internal Control-Integrated Framework (2013)*, the Company's management concluded that internal control over financial reporting was not effective as of December 31, 2018.

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

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*.

Based on our assessment, management concluded that as of December 31, 2018, the Company's internal control over financial reporting was not effective and did not meet the criteria of the *Internal Control-Integrated Framework (2013)*. We concluded that material weaknesses in our internal control over financial reporting existed related to management not designing and maintaining controls over the annual review process for evaluating risk ratings on commercial loans and over the accounting for income taxes.

The independent registered public accounting firm that audited the consolidated financial statements included in the annual report has issued an adverse opinion in its report on the Company's internal control over financial reporting. During the first quarter of 2019, Management has evaluated the causes of the material weaknesses and is taking steps to improve its internal controls over financial reporting, including formally documenting policies and procedures pertaining to the ongoing process for evaluating risk ratings on commercial loans and to the accounting for income taxes, as well as formally testing the key controls.

/s/ Marcie A. Barber  
Marcie A. Barber, President and Chief Executive Officer

/s/ JoAnn N. McMinn

JoAnn N. McMinn, Chief Financial Officer

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

### **Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

Juniata Valley Financial Corp.

Mifflintown, Pennsylvania

### **Opinion on Internal Control over Financial Reporting**

We have audited Juniata Valley Financial Corp., and its wholly-owned subsidiary, The Juniata Valley Bank's (the "Company's") internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria. We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated statement of financial condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes, and our report dated April 2, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report on Management's Assessment of Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm

registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses regarding management not designing and maintaining controls over the annual review process for evaluating risk ratings on commercial loans and over the accounting for income taxes have been described in management's assessment. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 financial statements, and this report does not affect our report dated April 2, 2019 on those financial statements.

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ BDO USA, LLP

Harrisburg, Pennsylvania

April 2, 2019

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## **ITEM 9B. OTHER INFORMATION**

None.

## **PART III**

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference herein is information appearing in the Proxy Statement for the Annual Meeting of Shareholders to be held on May 21, 2019 (the “Proxy Statement”) under the captions “Directors of the Company”, “Executive Officers of the Company”, “Corporate Governance and Board Matters” and “Section 16(a) Beneficial Ownership Reporting Compliance”. The Company has adopted a Code of Ethics that is applicable to the Company’s Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer and other designated senior officers, which can be found in the Investor Information – Governance Documents section of the Company’s website at [www.JVBonline.com](http://www.JVBonline.com). The Company will file its Proxy Statement on or before April 9, 2019.

## **ITEM 11. EXECUTIVE COMPENSATION**

Incorporated by reference herein is the information contained in the Proxy Statement under the captions “Director’s Compensation” and “Compensation Committee Interlocks and Insider Participation”.

## **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference herein is the information contained in the Proxy Statement under the caption “Stock Ownership by Management and Beneficial Owners”. Additionally, the following table contains information regarding equity compensation plans approved by shareholders, which include a stock option plan for the Company’s employees and an employee stock purchase plan. The Company has no equity compensation plans that were not approved by shareholders.

Equity Compensation Plan Information



Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights <b>a</b>	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Equity compensation plans approved by security holders	113,756	\$ 17.76	337,914
Equity compensation plans not approved by security holders	-	-	
Total	113,756	\$ 17.76	337,914

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Incorporated by reference herein is the information contained in the Proxy Statement under the caption “Related Party Transactions” and “Corporate Governance and Board Matters”.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated by reference herein is information contained in the Proxy Statement under the caption “Independent Registered Public Accounting Firm”.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) The following consolidated financial statements of the Company are filed as part of this Form 10-K:

(i) Reports of Independent Registered Public Accounting Firm

(ii) Consolidated Statements of Financial Condition as of December 31, 2018 and December 31, 2017

Consolidated Statements of Income for the fiscal years ended December 31, 2018, December 31, 2017 and  
(iii) December 31, 2016

(iv) Consolidated Statements of Comprehensive Income for the fiscal years ended December 31, 2018, December 31,  
2017 and December 31, 2016

(v) Consolidated Statements of Stockholders' Equity for the fiscal years ended December 31, 2018, December 31,  
2017 and December 31, 2016

(vi) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018, December 31, 2017 and  
December 31, 2016

(vii) Notes to Consolidated Financial Statements

(a)(2) Financial Statements Schedules. All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have therefore been omitted.

(a)(3) Exhibits.

Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3(i) to the Company's Form 8-K Current Report filed with the SEC on November 12, 2015)

3.2 Amended and Restated Bylaws – (incorporated by reference to Exhibit 3.4 to the Company's Current Report on Form 8-K filed with the SEC on February 27, 2019)

10.1 Form of 1999 Directors Deferred Compensation Agreement (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2009)\*

10.2 Form of Amendments to the 1999 Directors Deferred Compensation Agreement (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2011)\*

10.3 Form of Director Supplemental Life Insurance/ Split Dollar Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2009)\*

10.4 Employee Annual Incentive Plan, (filed herewith)\*

10.5 Change of Control Severance Agreement with JoAnn N. McMinn (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 8, 2005).\*

10.6 Salary Continuation Agreement with JoAnn N. McMinn (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the SEC on March 14, 2008)\*

- 10.7 Salary Continuation Agreement with Marcie A. Barber (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K filed with the SEC on March 14, 2008)\*
- 10.8 Change of Control Severance Agreement with Marcie A. Barber (incorporated by reference to Exhibit 10.19 to the Company's Current Report on Form 8-K filed with the SEC on May 27, 2008)\*
- 10.9 Long Term Incentive Plan of Juniata Valley Financial Corp. (incorporated by reference to Exhibit 10.1 to the Company's 2016 proxy statement filed with the SEC on April 8, 2016)\*
- 10.10 Technology Outsourcing Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on January 22, 2010)
- 10.11 Agreement and Plan of Merger, dated December 29, 2017 by and between Juniata Valley Financial Corp., The Juniata Valley Bank and Liverpool Community Bank (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on January 5, 2018)
- 13.1 Annual Report to Shareholders
- 21.1 Subsidiaries of Juniata Valley Financial Corp.
- 23.1 Consent of BDO USA, LLP
- 31.1 Rule 13a-4(d) Certification of Marcie A. Barber
- 31.2 Rule 13a-4(d) Certification of JoAnn N. McMinn
- 32.1 Section 1350 Certification of Marcie A. Barber
- 32.2 Section 1350 Certification of JoAnn N. McMinn
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase

\*Denotes a compensatory plan.

n Denotes that portions of such Plan have been omitted pursuant to a request for confidential treatment and such confidential information has been filed separately with the Securities Exchange Commission.

(b) Exhibits. The exhibits required to be filed as part of this report are submitted as a separate section of this report.

(c) Financial Statements Schedules. None Required.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**JUNIATA VALLEY FINANCIAL CORP. (REGISTRANT)**

Date: April 2, 2019

/s/ Marcie A. Barber  
By: Marcie A. Barber  
Director, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Timothy I. Havice  
Timothy I. Havice  
Chairman  
April 2, 2019

/s/ Philip E. Gingerich, Jr.  
Philip E. Gingerich, Jr.  
Vice Chairman  
April 2, 2019

/s/ Marcie A. Barber  
Marcie A. Barber  
Director and Chief Executive Officer (Principal Executive Officer)  
April 2, 2019

/s/ Martin L. Dreibelbis  
Martin L. Dreibelbis  
Director  
April 2, 2019

/s/ Gary E. Kelsey  
Gary E. Kelsey  
Director  
April 2, 2019

/s/ Michael A. Buffington  
Michael A. Buffington  
Director  
April 2, 2019

/s/ Richard M. Scanlon

Richard M. Scanlon, DMD  
Director

April 2, 2019

/s/ Bradley J. Wagner  
Bradley J. Wagner  
Director

April 2, 2019

/s/ JoAnn N. McMinn  
JoAnn N. McMinn  
Chief Financial Officer (Principal Accounting and Financial Officer)

April 2, 2019