

CITIZENS & NORTHERN CORP
Form 10-Q
August 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2018**

or

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

For the transition period from _____ to _____.

Commission file number: 000-16084

CITIZENS & NORTHERN CORPORATION

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(Exact name of Registrant as specified in its charter)

PENNSYLVANIA 23-2451943
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

90-92 MAIN STREET, WELLSBORO, PA 16901

(Address of principal executive offices) (Zip code)

570-724-3411

(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No "

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

Large accelerated filer " Accelerated filer x 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. "

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

Yes No

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

Common Stock (\$1.00 par value) 12,281,924 Shares Outstanding on July 30, 2018

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CITIZENS & NORTHERN CORPORATION

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Exhibit 32. Section 1350 Certifications

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS****(In Thousands, Except Share and Per Share Data) (Unaudited)**

	June 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$ 19,720	\$ 25,664
Interest-bearing	31,755	14,580
Total cash and due from banks	51,475	40,244
Available-for-sale debt securities, at fair value	348,044	355,937
Marketable equity security	948	971
Loans held for sale	177	765
Loans receivable	818,647	815,713
Allowance for loan losses	(8,831)	(8,856)
Loans, net	809,816	806,857
Bank-owned life insurance	18,835	20,083
Accrued interest receivable	4,042	4,048
Bank premises and equipment, net	15,017	15,432
Foreclosed assets held for sale	2,897	1,598
Deferred tax asset, net	4,304	3,289
Intangible assets - Goodwill and core deposit intangibles	11,952	11,954
Other assets	16,500	15,781
TOTAL ASSETS	\$ 1,284,007	\$ 1,276,959
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 248,502	\$ 241,214
Interest-bearing	792,397	767,235
Total deposits	1,040,899	1,008,449
Short-term borrowings	17,169	61,766
Long-term borrowings	27,054	9,189
Accrued interest and other liabilities	9,706	9,112
TOTAL LIABILITIES	1,094,828	1,088,516
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares; issued 12,655,171; outstanding 12,280,538 at June 30, 2018 and 12,214,525 December 31,	12,655	12,655

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2017		
Paid-in capital	71,947	72,035
Retained earnings	118,012	113,608
Treasury stock, at cost; 374,633 shares at June 30, 2018 and 440,646 shares at December 31, 2017	(7,096)	(8,348)
Accumulated other comprehensive loss	(6,339)	(1,507)
TOTAL STOCKHOLDERS' EQUITY	189,179	188,443
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,284,007	\$ 1,276,959

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Income****(In Thousands Except Per Share Data) (Unaudited)**

	3 Months Ended		6 Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
INTEREST INCOME				
Interest and fees on loans:				
Taxable	\$9,575	\$8,609	\$18,776	\$16,983
Tax-exempt	560	501	1,116	951
Interest on mortgages held for sale	4	6	6	10
Interest on balances with depository institutions	96	41	146	73
Income from available-for-sale debt securities:				
Taxable	1,381	1,352	2,744	2,755
Tax-exempt	712	826	1,425	1,670
Dividends on marketable equity security	6	5	11	10
Total interest and dividend income	12,334	11,340	24,224	22,452
INTEREST EXPENSE				
Interest on deposits	879	575	1,608	1,096
Interest on short-term borrowings	82	45	281	122
Interest on long-term borrowings	118	358	183	713
Total interest expense	1,079	978	2,072	1,931
Net interest income	11,255	10,362	22,152	20,521
(Credit) provision for loan losses	(20)	4	272	456
Net interest income after (credit) provision for loan losses	11,275	10,358	21,880	20,065
NONINTEREST INCOME				
Trust and financial management revenue	1,526	1,497	2,948	2,677
Brokerage revenue	271	208	483	364
Insurance commissions, fees and premiums	13	31	57	72
Service charges on deposit accounts	1,302	1,112	2,506	2,213
Service charges and fees	82	86	168	166
Interchange revenue from debit card transactions	641	568	1,220	1,088
Net gains from sale of loans	166	188	350	354
Loan servicing fees, net	61	55	189	127
Increase in cash surrender value of life insurance	98	94	195	184
Other noninterest income	529	267	979	725
Sub-total	4,689	4,106	9,095	7,970
Gain on restricted equity security	1,750	0	1,750	0
Realized (losses) gains on available-for-sale debt securities, net	(282)	107	(282)	252
Total noninterest income	6,157	4,213	10,563	8,222
NONINTEREST EXPENSE				
Salaries and wages	4,193	3,972	8,317	7,840
Pensions and other employee benefits	1,200	1,137	2,810	2,661
Occupancy expense, net	613	600	1,250	1,178

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Furniture and equipment expense	313	315	584	628
Data processing expenses	694	615	1,335	1,190
Automated teller machine and interchange expense	319	305	641	599
Pennsylvania shares tax	336	336	672	672
Professional fees	279	188	555	375
Telecommunications	157	132	390	266
Directors' fees	168	186	352	371
Other noninterest expense	1,412	1,290	2,673	2,594
Total noninterest expense	9,684	9,076	19,579	18,374
Income before income tax provision	7,748	5,495	12,864	9,913
Income tax provision	1,377	1,374	2,118	2,358
NET INCOME	\$6,371	\$4,121	\$10,746	\$7,555
EARNINGS PER COMMON SHARE - BASIC	\$0.52	\$0.34	\$0.88	\$0.62
EARNINGS PER COMMON SHARE - DILUTED	\$0.52	\$0.34	\$0.87	\$0.62

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**Consolidated Statements of Comprehensive Income****(In Thousands) (Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 6,371	\$ 4,121	\$ 10,746	\$ 7,555
Unrealized (losses) gains on available-for-sale securities:				
Unrealized holding (losses) gains on available-for-sale securities	(1,292)	1,644	(6,131)	2,280
Reclassification adjustment for losses (gains) realized in income	282	(107)	282	(252)
Other comprehensive (loss) gain on available-for-sale securities	(1,010)	1,537	(5,849)	2,028
Unfunded pension and postretirement obligations:				
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain	0	0	93	166
Amortization of prior service cost and net actuarial loss included in net periodic benefit cost	(5)	(6)	(10)	(12)
Other comprehensive (loss) gain on unfunded retirement obligations	(5)	(6)	83	154
Other comprehensive (loss) income before income tax	(1,015)	1,531	(5,766)	2,182
Income tax related to other comprehensive loss (income)	214	(536)	1,211	(764)
Net other comprehensive (loss) income	(801)	995	(4,555)	1,418
Comprehensive income	\$ 5,570	\$ 5,116	\$ 6,191	\$ 8,973

The accompanying notes are an integral part of these unaudited consolidated financial statements.

CITIZENS & NORTHERN CORPORATION – FORM 10-Q**CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands) (Unaudited)**

	6 Months Ended	
	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$10,746	\$7,555
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	272	456
Realized losses (gains) on available-for-sale securities, net	282	(252)
Unrealized loss on marketable equity security	23	0
Gain on restricted equity security	(1,750)	0
Depreciation expense	850	826
Accretion and amortization on securities, net	512	583
Increase in cash surrender value of life insurance	(195)	(184)
Stock-based compensation and other expense	338	322
Deferred income taxes	196	411
Decrease in fair value of servicing rights	26	78
Gains on sales of loans, net	(350)	(354)
Origination of loans for sale	(10,730)	(12,741)
Proceeds from sales of loans	11,571	11,434
Increase in accrued interest receivable and other assets	(454)	(1,568)
Decrease in accrued interest payable and other liabilities	677	921
Other	193	104
Net Cash Provided by Operating Activities	12,207	7,591
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	820	348
Purchase of certificates of deposit	(350)	(100)
Proceeds from sales of available-for-sale securities	0	14,373
Proceeds from calls and maturities of available-for-sale securities	23,605	27,529
Purchase of available-for-sale securities	(22,355)	(9,376)
Redemption of Federal Home Loan Bank of Pittsburgh stock	4,020	4,054
Purchase of Federal Home Loan Bank of Pittsburgh stock	(2,542)	