

CITIZENS & NORTHERN CORP
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2016**

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

(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 ☒ 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 ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

Yes ☐ No ☒

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

Common Stock (\$1.00 par value) 12,068,583 Shares Outstanding on August 1, 2016

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

CITIZENS & NORTHERN CORPORATION

Index

Part I. Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited) – June 30, 2016 and December 31, 2015 Page 3

Consolidated Statements of Income (Unaudited) – Three-month and Six-month Periods Ended June 30, 2016 and 2015 Page 4

Consolidated Statements of Comprehensive Income (Unaudited) - Three-month and Six-month Periods Ended June 30, 2016 and 2015 Page 5

Consolidated Statements of Cash Flows (Unaudited) – Six Months Ended June 30, 2016 and 2015 Page 6

Consolidated Statements of Changes in Stockholders' Equity (Unaudited) - Six Months Ended June 30, 2016 and 2015 Page 7

Notes to Unaudited Consolidated Financial Statements Pages 8 – 39

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Pages 40 – 58

Item 3. Quantitative and Qualitative Disclosures About Market Risk Pages 59 – 61

Item 4. Controls and Procedures Page 61

Part II. Other Information Pages 62 – 63

Signatures Page 64

Exhibit 10.1. Restricted Stock Agreement

Exhibit 31.1. Rule 13a-14(a)/15d-14(a) Certification - Chief Executive Officer

Exhibit 31.2. Rule 13a-14(a)/15d-14(a) Certification - Chief Financial Officer

Exhibit 32. Section 1350 Certifications

CITIZENS & NORTHERN CORPORATION – FORM 10-QITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data) (Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$ 14,567	\$ 14,710
Interest-bearing	12,869	21,351
Total cash and due from banks	27,436	36,061
Available-for-sale securities, at fair value	417,205	420,290
Loans held for sale	381	280
Loans receivable	727,842	704,880
Allowance for loan losses	(7,929)	(7,889)
Loans, net	719,913	696,991
Bank-owned life insurance	19,511	20,764
Accrued interest receivable	3,837	3,768
Bank premises and equipment, net	15,339	15,406
Foreclosed assets held for sale	2,052	1,260
Deferred tax asset, net	425	3,115
Intangible asset - Core deposit intangibles	24	30
Intangible asset - Goodwill	11,942	11,942
Other assets	12,953	13,510
TOTAL ASSETS	\$ 1,231,018	\$ 1,223,417
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 215,004	\$ 211,041
Interest-bearing	752,947	724,574
Total deposits	967,951	935,615
Short-term borrowings	25,702	53,496
Long-term borrowings	38,615	38,767
Accrued interest and other liabilities	8,220	8,052
TOTAL LIABILITIES	1,040,488	1,035,930
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at June 30, 2016 and December 31, 2015	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2016 and 2015; issued 12,655,171 at June 30, 2016 and December 31, 2015; outstanding 12,070,195 at June 30, 2016 and 12,180,623 December 31, 2015	12,655	12,655
Paid-in capital	71,391	71,654
Retained earnings	110,677	109,454
Treasury stock, at cost; 584,976 shares at June 30, 2016 and 474,548 shares at December 31, 2015	(11,087)	(8,804)
Sub-total	183,636	184,959
Accumulated other comprehensive income:		

Edgar Filing: CITIZENS & NORTHERN CORP - Form 10-Q

Unrealized gain on available-for-sale securities	6,849	2,493
Defined benefit plans gain	45	35
Total accumulated other comprehensive income	6,894	2,528
TOTAL STOCKHOLDERS' EQUITY	190,530	187,487
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,231,018	\$ 1,223,417

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, 2016	June 30, 2015	June 30, 2016	June 30, 2015
INTEREST INCOME				
Interest and fees on loans	\$8,086	\$7,753	\$16,060	\$15,462
Interest on balances with depository institutions	36	25	60	51
Interest on loans to political subdivisions	452	391	900	740
Interest on mortgages held for sale	8	3	14	5
Income from available-for-sale securities:				
Taxable	1,490	1,934	3,045	3,908
Tax-exempt	847	1,013	1,743	2,029
Dividends	5	67	39	154
Total interest and dividend income	10,924	11,186	21,861	22,349
INTEREST EXPENSE				
Interest on deposits	522	479	1,001	965
Interest on short-term borrowings	41	5	103	6
Interest on long-term borrowings	362	692	725	1,418
Total interest expense	925	1,176	1,829	2,389
Net interest income	9,999	10,010	20,032	19,960
Provision for loan losses	318	221	686	224
Net interest income after provision for loan losses	9,681	9,789	19,346	19,736
OTHER INCOME				
Service charges on deposit accounts	1,164	1,305	2,302	2,327
Service charges and fees	123	123	217	236
Trust and financial management revenue	1,251	1,241	2,395	2,355
Brokerage revenue	180	206	353	425
Insurance commissions, fees and premiums	27	23	48	63
Interchange revenue from debit card transactions	487	500	950	974
Net gains from sale of loans	295	183	463	330
Decrease in fair value of servicing rights	(108)	(33)	(179)	(150)
Increase in cash surrender value of life insurance	93	102	189	199
Other operating income	394	312	858	759
Sub-total	3,906	3,962	7,596	7,518
Realized gains on available-for-sale securities, net	122	932	505	1,006
Total other income	4,028	4,894	8,101	8,524
OTHER EXPENSES				
Salaries and wages	3,913	3,603	7,800	7,090
Pensions and other employee benefits	1,002	935	2,439	2,320
Occupancy expense, net	560	640	1,169	1,362
Furniture and equipment expense	439	467	866	921
FDIC Assessments	155	148	297	299
Pennsylvania shares tax	323	317	645	635
Professional fees	282	140	571	296
Automated teller machine and interchange expense	267	255	516	501
Software subscriptions	251	211	492	408
Loss on prepayment of debt	0	910	0	910
Other operating expense	1,343	1,248	2,812	2,665

Edgar Filing: CITIZENS & NORTHERN CORP - Form 10-Q

Total other expenses	8,535	8,874	17,607	17,407
Income before income tax provision	5,174	5,809	9,840	10,853
Income tax provision	1,303	1,452	2,396	2,681
NET INCOME	\$3,871	\$4,357	\$7,444	\$8,172
NET INCOME PER SHARE - BASIC	\$0.32	\$0.36	\$0.61	\$0.67
NET INCOME PER SHARE - DILUTED	\$0.32	\$0.36	\$0.61	\$0.67

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)	3 Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$3,871	\$4,357	\$7,444	\$8,172
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) on available-for-sale securities	2,431	(4,572)	7,205	(847)
Reclassification adjustment for gains realized in income	(122)	(932)	(505)	(1,006)
Other comprehensive gain (loss) on available-for-sale securities	2,309	(5,504)	6,700	(1,853)
Unfunded pension and postretirement obligations:				
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain (loss)	0	0	26	(100)
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(5)	(5)	(10)	(8)
Other comprehensive (loss) gain on unfunded retirement obligations	(5)	(5)	16	(108)
Other comprehensive income (loss) before income tax	2,304	(5,509)	6,716	(1,961)
Income tax related to other comprehensive income (loss)	(806)	1,929	(2,350)	687
Net other comprehensive income (loss)	1,498	(3,580)	4,366	(1,274)
Comprehensive income	\$5,369	\$777	\$11,810	\$6,898

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, June 30,
2016 2015**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income	\$7,444	\$8,172
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	686	224
Realized gains on available-for-sale securities, net	(505)	(1,006)
Loss on prepayment of debt	0	910
Realized loss (gain) on foreclosed assets	67	(61)
Depreciation expense	787	958
Accretion and amortization on securities, net	660	791
Accretion and amortization on loans and deposits, net	(8)	(10)
Decrease in fair value of servicing rights	179	150
Increase in cash surrender value of life insurance	(189)	(199)
Stock-based compensation	325	307
Amortization of core deposit intangibles	6	11
Deferred income taxes	340	424
Gains on sales of loans, net	(463)	(330)
Origination of loans for sale	(12,698)	(10,029)
Proceeds from sales of loans	12,953	10,089
Increase in accrued interest receivable and other assets	(708)	(1,225)
(Decrease) increase in accrued interest payable and other liabilities	(296)	681
Net Cash Provided by Operating Activities	8,580	9,857

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from maturities of certificates of deposit	100	0
Purchase of certificates of deposit	(340)	0
Proceeds from sales of available-for-sale securities	19,387	11,255
Proceeds from calls and maturities of available-for-sale securities	37,009	41,777
Purchase of available-for-sale securities	(46,766)	(35,200)
Redemption of Federal Home Loan Bank of Pittsburgh stock	2,642	2,042
Purchase of Federal Home Loan Bank of Pittsburgh stock	(1,600)	(2,960)
Net increase in loans	(24,751)	(34,153)
Proceeds from bank owned life insurance	1,442	1,442
Purchase of premises and equipment	(720)	(539)
Return of principal on limited liability entity investments	82	99
Proceeds from sale of foreclosed assets	292	657
Net Cash Used in Investing Activities	(13,223)	(15,580)