

CITIZENS & NORTHERN CORP
Form 10-Q
November 05, 2015

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 September 30, 2015

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

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(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) 12,179,133 Shares Outstanding on November 2, 2015

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CITIZENS & NORTHERN CORPORATION

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CITIZENS & NORTHERN CORPORATION – FORM 10-Q**ITEM 1. FINANCIAL STATEMENTS
CONSOLIDATED BALANCE SHEETS**

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

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$14,781	\$14,812
Interest-bearing	17,440	21,235
Total cash and due from banks	32,221	36,047
Available-for-sale securities, at fair value	461,713	516,807
Loans held for sale	76	0
Loans receivable	679,865	630,545
Allowance for loan losses	(7,416)	(7,336)
Loans, net	672,449	623,209
Bank-owned life insurance	20,971	22,119
Accrued interest receivable	3,937	3,908
Bank premises and equipment, net	15,546	16,256
Foreclosed assets held for sale	1,363	1,189
Deferred tax asset, net	762	1,668
Intangible asset - Core deposit intangibles	36	52
Intangible asset - Goodwill	11,942	11,942
Other assets	11,515	8,766
TOTAL ASSETS	\$1,232,531	\$1,241,963
LIABILITIES		
Deposits:		
Noninterest-bearing	\$203,844	\$212,439
Interest-bearing	757,268	755,550
Total deposits	961,112	967,989
Short-term borrowings	10,244	5,537
Long-term borrowings	62,842	73,060
Accrued interest and other liabilities	8,233	7,015
TOTAL LIABILITIES	1,042,431	1,053,601
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at September 30, 2015 and December 31, 2014	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2015 and 2014; issued 12,655,171 at September 30, 2015 and at December 31, 2014; outstanding 12,187,033 at September 30, 2015 and 12,279,980 December 31, 2014	12,655	12,655
Paid-in capital	71,460	71,541
Retained earnings	108,520	105,550
	(8,657)	(6,744)

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Treasury stock, at cost; 468,138 shares at September 30, 2015 and 375,191 shares at December 31, 2014

Sub-total	183,978	183,002
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	6,116	5,281
Defined benefit plans gain	6	79
Total accumulated other comprehensive income	6,122	5,360
TOTAL STOCKHOLDERS' EQUITY	190,100	188,362
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,232,531	\$1,241,963

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		Fiscal Year To Date	
	Sept. 30, 2015	Sept. 30, 2014	9 Months Ended 2015	9 Months Ended 2014
INTEREST INCOME				
Interest and fees on loans	\$7,851	\$8,040	\$23,313	\$24,123
Interest on balances with depository institutions	22	33	73	95
Interest on loans to political subdivisions	470	348	1,210	1,055
Interest on mortgages held for sale	5	5	10	13
Income from available-for-sale securities:		0		
Taxable	1,758	1,990	5,666	5,753
Tax-exempt	949	1,070	2,978	3,261
Dividends	79	86	233	241
Total interest and dividend income	11,134	11,572	33,483	34,541
INTEREST EXPENSE				
Interest on deposits	487	543	1,452	1,650
Interest on short-term borrowings	9	1	15	7
Interest on long-term borrowings	630	743	2,048	2,208
Total interest expense	1,126	1,287	3,515	3,865
Net interest income	10,008	10,285	29,968	30,676
Provision for loan losses	302	218	526	353
Net interest income after provision for loan losses	9,706	10,067	29,442	30,323
OTHER INCOME				
Service charges on deposit accounts	1,302	1,275	3,629	3,812
Service charges and fees	137	144	373	405
Trust and financial management revenue	1,123	1,140	3,478	3,325
Brokerage revenue	215	213	640	682
Insurance commissions, fees and premiums	24	44	87	103
Interchange revenue from debit card transactions	482	504	1,456	1,474
Net gains from sale of loans	243	141	573	557
Increase (decrease) in fair value of servicing rights	13	(17)	(137)	35
Increase in cash surrender value of life insurance	95	99	294	278
Net (loss) gain from premises and equipment	(1)	9	(1)	8
Other operating income	328	335	1,018	939
Sub-total	3,961	3,887	11,410	11,618
Realized gains on available-for-sale securities, net	79	760	1,085	894
Total other income	4,040	4,647	12,495	12,512
OTHER EXPENSES				
Salaries and wages	3,744	4,348	10,834	11,559
Pensions and other employee benefits	1,016	1,091	3,336	3,563
Occupancy expense, net	623	646	1,985	2,002
Furniture and equipment expense	477	461	1,398	1,399
FDIC Assessments	155	151	454	444
Pennsylvania shares tax	311	336	877	1,014
Professional fees	128	135	363	427
Automated teller machine and interchange expense	234	239	735	668

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Software subscriptions	209	184	617	575
Loss on prepayment of debt	0	0	910	0
Other operating expense	1,220	1,445	3,946	4,256
Total other expenses	8,117	9,036	25,455	25,907
Income before income tax provision	5,629	5,678	16,482	16,928
Income tax provision	1,395	1,411	4,076	4,210
NET INCOME	\$4,234	\$4,267	\$12,406	\$12,718
NET INCOME PER SHARE - BASIC	\$0.35	\$0.34	\$1.02	\$1.02
NET INCOME PER SHARE - DILUTED	\$0.35	\$0.34	\$1.01	\$1.02

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

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

	3 Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2015	2014	2015	2014
Net income	\$4,234	\$4,267	\$12,406	\$12,718
Unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains (losses) on available-for-sale securities	3,216	(1,357)	2,369	8,500
Reclassification adjustment for gains realized in income	(79)	(760)	(1,085)	(894)
Other comprehensive gain (loss) on available-for-sale securities	3,137	(2,117)	1,284	7,606
Unfunded pension and postretirement obligations:				
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive (loss) gain	0	0	(100)	144
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(3)	(4)	(11)	(12)
Other comprehensive (loss) gain on unfunded retirement obligations	(3)	(4)	(111)	132
Other comprehensive income (loss) before income tax	3,134	(2,121)	1,173	7,738
Income tax related to other comprehensive (income) loss	(1,098)	742	(411)	(2,708)
Net other comprehensive income (loss)	2,036	(1,379)	762	5,030
Comprehensive income	\$6,270	\$2,888	\$13,168	\$17,748

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)	9 Months Ended	
	Sept. 30, 2015	Sept. 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$12,406	\$12,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	526	353
Realized gains on available-for-sale securities, net	(1,085)	(894)
Loss on prepayment of debt	910	0
Realized (gain) loss on foreclosed assets	(37)	49
Loss (gain) on disposition of premises and equipment	1	(8)
Depreciation expense	1,442	1,470
Accretion and amortization on securities, net	1,204	1,008
Accretion and amortization on loans and deposits, net	(16)	(20)
Decrease (increase) in fair value of servicing rights	137	(35)
Increase in cash surrender value of life insurance	(294)	(278)
Stock-based compensation	459	463
Amortization of core deposit intangibles	16	26
Deferred income taxes	495	963
Gains on sales of loans, net	(573)	(557)
Origination of loans for sale	(16,613)	(16,544)
Proceeds from sales of loans	16,975	16,599
(Increase) decrease in accrued interest receivable and other assets	(2,030)	126
Increase in accrued interest payable and other liabilities	1,333	1,028
Net Cash Provided by Operating Activities	15,256	16,467
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	0	720
Proceeds from sales of available-for-sale securities	25,972	52,344
Proceeds from calls and maturities of available-for-sale securities	65,261	56,581
Purchase of available-for-sale securities	(35,200)	(126,674)
Redemption of Federal Home Loan Bank of Pittsburgh stock	3,791	977
Purchase of Federal Home Loan Bank of Pittsburgh stock	(4,674)	(245)
Net (increase) decrease in loans	(52,273)	11,833
Proceeds from bank-owned life insurance	1,442	0
Purchase of premises and equipment	(733)	(477)
Proceeds from disposition of premises and equipment	0	43
Return of principal on limited liability entity investments	133	125
Proceeds from sale of foreclosed assets	2,386	469
Net Cash Provided by (Used in) Investing Activities	6,105	(4,304)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in deposits	(6,877)	27,013
Net increase (decrease) in short-term borrowings	4,707	(16,620)
Repayments of long-term borrowings	(11,128)	(207)
Purchase of treasury stock	(3,944)	(2,464)

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Sale of treasury stock	379	99
Tax benefit from compensation plans	117	120
Common dividends paid	(8,441)	(8,564)
Net Cash Used in Financing Activities	(25,187)	(623)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,826)	11,540
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,619	38,591
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$27,793	\$50,131

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$2,523	\$1,514
Accrued purchase of available-for-sale securities	\$0	\$354
Interest paid	\$3,525	\$3,888
Income taxes paid	\$3,295	\$3,062

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Consolidated Statements of Changes in Stockholders' Equity
(In Thousands Except Share and Per
Share Data)
(Unaudited)

	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Nine Months Ended								
September 30, 2015:								
Balance, December 31, 2014	12,655,171	375,191	\$12,655	\$71,541	\$105,550	\$5,360	(\$6,744)	\$188,362
Net income					12,406			12,406
Other comprehensive income, net						762		762
Cash dividends declared on common stock, \$.78 per share					(9,543)			(9,543)
Shares issued for dividend reinvestment plan		(55,795)		56			1,046	1,102
Treasury stock purchased		203,100					(3,944)	(3,944)
Shares issued from treasury related to exercise of stock options		(22,335)		(26)			405	379
Restricted stock granted		(34,800)		(627)			627	0
Forfeiture of restricted stock		2,777		47			(47)	0
Stock-based compensation expense				459				459
Tax effect of stock option exercises				(6)				(6)
Tax benefit from dividends on restricted stock				16				16
Tax benefit from employee benefit plan					107			107
Balance, September 30, 2015	12,655,171	468,138	\$12,655	\$71,460	\$108,520	\$6,122	(\$8,657)	\$190,100
Nine Months Ended								
September 30, 2014:								
Balance, December 31, 2013	12,596,540	206,477	\$12,596	\$70,105	\$101,216	(\$993)	(\$3,452)	\$179,472
Net income					12,718			12,718
Other comprehensive income, net						5,030		5,030
Cash dividends declared on common stock, \$0.78 per share					(9,693)			(9,693)

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Shares issued for dividend reinvestment plan	59,498	60	1,069	1,129
Treasury stock purchased		129,000		(2,464) (2,464)
Shares issued from treasury and redeemed related to exercise of stock options	(867)	(10,173)		