

ACNB CORP
Form 10-Q
August 04, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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, 2017

Commission file number 1-35015

ACNB CORPORATION

(Exact name of Registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2233457
(I.R.S. Employer
Identification No.)

16 Lincoln Square, Gettysburg, Pennsylvania
(Address of principal executive offices)

17325
(Zip Code)

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Registrant's telephone number, including area code: **(717) 334-3161**

Title of each class	Name of each exchange on which registered
Common Stock, \$2.50 par value per share	The NASDAQ Stock Market, LLC

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's Common Stock outstanding on August 4, 2017, was 7,015,259.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	June 30, 2017	June 30, 2016	December 31, 2016
ASSETS			
Cash and due from banks	\$ 17,384	\$ 14,299	\$ 13,796
Interest bearing deposits with banks	8,896	31,919	5,135
Total Cash and Cash Equivalents	26,280	46,218	18,931
Securities available for sale	133,719	117,001	142,990
Securities held to maturity, fair value \$50,000; \$60,897; \$55,425	50,088	59,681	55,568
Loans held for sale	1,278	955	1,770
Loans, net of allowance for loan losses \$14,148; \$14,636; \$14,194	955,527	852,196	893,716
Premises and equipment	18,170	18,965	18,153
Restricted investment in bank stocks	4,899	4,351	4,349
Investment in bank-owned life insurance	41,273	40,200	40,742
Investments in low-income housing partnerships	2,690	3,120	2,899
Goodwill	6,308	6,308	6,308
Intangible assets	526	859	688
Foreclosed assets held for resale	63	730	256
Other assets	21,115	18,526	19,950
Total Assets	\$ 1,261,936	\$ 1,169,110	\$ 1,206,320
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	\$ 190,572	\$ 177,366	\$ 180,593
Interest bearing	809,582	744,861	787,028
Total Deposits	1,000,154	922,227	967,621
Short-term borrowings	30,837	36,190	34,590
Long-term borrowings	95,850	80,500	74,250
Other liabilities	11,251	10,916	9,798
Total Liabilities	1,138,092	1,049,833	1,086,259
STOCKHOLDERS EQUITY			
Preferred stock, \$2.50 par value; 20,000,000 shares authorized; no shares outstanding			
	15,349	15,299	15,317

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Common stock, \$2.50 par value; 20,000,000 shares authorized; 6,139,499,
6,119,406 and 6,126,738 shares issued; 6,076,899, 6,056,806 and 6,064,138
shares outstanding

Treasury stock, at cost (62,600 shares)	(728)	(728)	(728)
Additional paid-in capital	11,287	10,746	10,941
Retained earnings	103,488	97,638	100,555
Accumulated other comprehensive loss	(5,552)	(3,678)	(6,024)
Total Stockholders Equity	123,844	119,277	120,061
Total Liabilities and Stockholders Equity	\$ 1,261,936	\$ 1,169,110	\$ 1,206,320

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Dollars in thousands, except per share data	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
INTEREST INCOME				
Loans, including fees	\$ 9,964	\$ 8,983	\$ 19,494	\$ 17,904
Securities:				
Taxable	784	782	1,584	1,590
Tax-exempt	117	161	267	340
Dividends	64	55	113	106
Other	33	29	37	34
Total Interest Income	10,962	10,010	21,495	19,974
INTEREST EXPENSE				
Deposits	687	570	1,322	1,128
Short-term borrowings	15	12	60	28
Long-term borrowings	429	398	816	781
Total Interest Expense	1,131	980	2,198	1,937
Net Interest Income	9,831	9,030	19,297	18,037
PROVISION FOR LOAN LOSSES				
Net Interest Income after Provision for Loan Losses	9,831	9,030	19,297	18,037
OTHER INCOME				
Service charges on deposit accounts	617	575	1,187	1,103
Income from fiduciary activities	478	434	920	828
Earnings on investment in bank-owned life insurance	276	290	531	558
Gain on sales of premises and equipment		449		449
Service charges on ATM and debit card transactions	381	391	739	746
Commissions from insurance sales	1,564	1,328	2,718	2,431
Other	212	344	515	568
Total Other Income	3,528	3,811	6,610	6,683
OTHER EXPENSES				
Salaries and employee benefits	5,934	5,604	11,682	11,029
Net occupancy	496	502	1,033	1,072
Equipment	844	761	1,627	1,472
Other tax	168	193	379	390
Professional services	344	198	583	453
Supplies and postage	168	122	337	313
Marketing and corporate relations	138	151	202	268
FDIC and regulatory	140	174	279	351
Merger expenses	208		370	
Intangible assets amortization	82	86	162	174
Foreclosed real estate (income) expenses	(14)	39	16	40
Other operating	1,126	982	1,964	1,759
Total Other Expenses	9,634	8,812	18,634	17,321

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Income before Income Taxes	3,725	4,029	7,273	7,399
PROVISION FOR INCOME TAXES	1,003	1,047	1,914	1,870
Net Income	\$ 2,722	\$ 2,982	\$ 5,359	\$ 5,529
PER SHARE DATA				
Basic earnings	\$ 0.45	\$ 0.49	\$ 0.88	\$ 0.91
Cash dividends declared	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Dollars in thousands	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$ 2,722	\$ 2,982	\$ 5,359	\$ 5,529
OTHER COMPREHENSIVE INCOME				
SECURITIES				
Unrealized gains arising during the period, net of income taxes of \$52, \$77, \$131 and \$423, respectively	95	153	252	823
Reclassification adjustment for net gains included in net income, net of income taxes of \$0, \$0, \$0 and \$0, respectively (A) (C)				
PENSION				
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of \$59, \$58, \$118 and \$116, respectively (B) (C)	110	112	220	225
TOTAL OTHER COMPREHENSIVE INCOME	205	265	472	1,048
TOTAL COMPREHENSIVE INCOME	\$ 2,927	\$ 3,247	\$ 5,831	\$ 6,577

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

(A) Gross amounts are included in net gains on sales or calls of securities on the Consolidated Statements of Income in total other income.

(B) Gross amounts are included in the computation of net periodic benefit cost and are included in salaries and employee benefits on the Consolidated Statements of Income in total other expenses.

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY(UNAUDITED)

Six Months Ended June 30, 2017 and 2016

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
BALANCE JANUARY 1, 2016	\$ 15,256	\$ (728)	\$ 10,387	\$ 94,526	\$ (4,726)	\$ 114,715
Net income				5,529		5,529
Other comprehensive income, net of taxes					1,048	1,048
Common stock shares issued (9,647 shares)	24		200			224
Restricted stock grants (7,435 shares)	19		100			119
Restricted stock compensation expense			59			59
Cash dividends declared				(2,417)		(2,417)
BALANCE JUNE 30, 2016	\$ 15,299	\$ (728)	\$ 10,746	\$ 97,638	\$ (3,678)	\$ 119,277
BALANCE JANUARY 1, 2017	\$ 15,317	\$ (728)	\$ 10,941	\$ 100,555	\$ (6,024)	\$ 120,061
Net income				5,359		5,359
Other comprehensive income, net of taxes					472	472
Common stock shares issued (6,568 shares)	17		121			138
Restricted stock grants (6,193 shares)	15		105			120
Restricted stock compensation expense			120			120
Cash dividends declared				(2,426)		(2,426)
BALANCE JUNE 30, 2017	\$ 15,349	\$ (728)	\$ 11,287	\$ 103,488	\$ (5,552)	\$ 123,844

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,359	\$ 5,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	(206)	(296)
Gain on sales of foreclosed assets held for resale, including writedowns	(36)	(23)
Gain on sale of premises and equipment		(449)
Earnings on investment in bank-owned life insurance	(531)	(558)
Restricted stock compensation expense	120	59
Depreciation and amortization	942	873
Provision for loan losses		
Net amortization of investment securities premiums	264	263
(Increase) decrease in accrued interest receivable	(103)	144
Increase (decrease) in accrued interest payable	103	(50)
Mortgage loans originated for sale	(12,102)	(18,017)
Proceeds from sales of loans originated for sale	12,800	19,193
Increase in other assets	(1,102)	(467)
Increase in other liabilities	1,688	912
Net Cash Provided by Operating Activities	7,196	7,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	5,438	11,732
Proceeds from maturities of investment securities available for sale	13,456	14,323
Purchase of investment securities available for sale	(4,024)	(4,052)
(Purchase) redemption of restricted investment in bank stocks	(550)	63
Net increase in loans	(61,811)	(14,321)
Capital expenditures	(803)	(1,699)
Proceeds from sales of premises and equipment	6	1,929
Proceeds from sales of foreclosed real estate	229	212
Net Cash (Used in) Provided by Investing Activities	(48,059)	8,187
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	9,979	11,142
Net increase (decrease) in time certificates of deposits and interest bearing deposits	22,554	(1,895)
Net (decrease) increase in short-term borrowings	(3,753)	988
Proceeds from long-term borrowings	24,600	9,000
Repayments on long-term borrowings	(3,000)	(5,000)
Dividends paid	(2,426)	(2,417)
Common stock issued	258	343
Net Cash Provided by Financing Activities	48,212	12,161
Net Increase in Cash and Cash Equivalents	7,349	27,461
CASH AND CASH EQUIVALENTS BEGINNING	18,931	18,757
CASH AND CASH EQUIVALENTS ENDING	\$ 26,280	\$ 46,218
Interest paid	\$ 2,095	\$ 1,987

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Income taxes paid	\$	1,750	\$	2,000
Loans transferred to foreclosed assets held for resale and other foreclosed transactions	\$		\$	338

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

ACNB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Nature of Operations

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, provides banking, trust, insurance, and other financial services to businesses and consumers through its wholly-owned subsidiaries, ACNB Bank (Bank) and Russell Insurance Group, Inc. (RIG). The Bank engages in full-service commercial and consumer banking and trust services through its twenty-two retail banking office locations in Adams, Cumberland, Franklin and York Counties, Pennsylvania. There is also a loan production office situated in York County, Pennsylvania.

RIG is a full-service insurance agency based in Westminster, Maryland, with a second location in Germantown, Maryland. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients.

The Corporation's primary source of revenue is interest income on loans and investment securities and fee income on its products and services. Expenses consist of interest expense on deposits and borrowed funds, provisions for loan losses, and other operating expenses.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly ACNB Corporation's financial position and the results of operations, comprehensive income, changes in stockholders' equity, and cash flows. All such adjustments are of a normal recurring nature.

The accounting policies followed by the Corporation are set forth in Note A to the Corporation's consolidated financial statements in the 2016 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 15, 2017. It is suggested that the consolidated financial statements contained herein be read in conjunction with the consolidated financial statements and notes included in the Corporation's Annual Report on Form 10-K. The results of operations for the three and six month periods ended June 30, 2017, are not necessarily indicative of the results to be expected for the full year.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of June 30, 2017, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

2. Earnings Per Share and Restricted Stock Plan

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The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 6,066,675 and 6,043,522 weighted average shares of common stock outstanding for the six months ended June 30, 2017 and 2016, respectively, and 6,068,673 and 6,046,489 for the three months ended June 30, 2017 and 2016, respectively. All outstanding unvested restricted stock awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

The Corporation has a restricted stock plan available to selected officers and employees of the Bank to advance the best interest of the Corporation and its shareholders. The plan provides those persons who have responsibility for its growth with additional incentive by allowing them to acquire ownership in the Corporation and, thereby, encouraging them to contribute to the success of the Corporation. Plan expense is recognized over the vesting period of the stock issued under the plan. As of June 30, 2017, 19,301 shares were issued under this plan, of which 12,693 were fully vested. 2,064 shares vested during the three months ended June 30, 2017; the remaining 6,608 will vest over the next year. \$61,000 of compensation expenses related to the grants were recognized during the three months ended June 30, 2017, and \$120,000 of compensation expenses related to the grants were recognized during the six months ended June 30, 2017. \$59,000 of compensation expenses related to the grants were recognized during the three and six months ended June 30, 2016.

3. Retirement Benefits

The components of net periodic benefit expense related to the non-contributory, defined benefit pension plan for the three and six month periods ended June 30 were as follows:

In thousands	Three Months Ended June 30,		Six Months Ended June 30	
	2017	2016	2017	2016
Service cost	\$ 210	\$ 199	\$ 420	\$ 398
Interest cost	284	284	568	568
Expected return on plan assets	(630)	(607)	(1,260)	(1,215)
Amortization of net loss	169	170	338	341
Net Periodic Benefit Expense	\$ 33	\$ 46	\$ 66	\$ 92

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2016, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2017. As of June 30, 2017, this contribution amount had still not been determined. Effective April 1, 2012, no inactive or former participant in the plan is eligible to again participate in the plan, and no employee hired after March 31, 2012, is eligible to participate in the plan. As of the last annual census, ACNB Bank had a combined 358 active, vested, terminated and retired persons in the plan.

4. Guarantees

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are written conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Corporation generally holds collateral and/or personal guarantees supporting these commitments. The Corporation had \$5,437,000 in standby letters of credit as of June 30, 2017. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The current amount of the liability, as of June 30, 2017, for guarantees under standby letters of credit issued is not material.

5. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of taxes, are as follows:

In thousands		Unrealized (Losses) Gains on Securities		Pension Liability		Accumulated Other Comprehensive Loss
BALANCE	JUNE 30, 2017	\$	(13)	\$	(5,539)	\$ (5,552)
BALANCE	DECEMBER 31, 2016	\$	(266)	\$	(5,758)	\$ (6,024)
BALANCE	JUNE 30, 2016	\$	1,987	\$	(5,665)	\$ (3,678)

6. Segment Reporting

The Corporation has two reporting segments, the Bank and RIG. RIG is managed separately from the banking segment, which includes the Bank and related financial services that the Corporation offers through its banking subsidiary. RIG offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients.

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Segment information for the six month periods ended June 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
2017			
Net interest income and other income from external customers	\$ 23,215	\$ 2,692	\$ 25,907
Income before income taxes	6,675	598	7,273
Total assets	1,252,723	9,213	1,261,936
Capital expenditures	803		803
2016			
Net interest income and other income from external customers	\$ 22,289	\$ 2,431	\$ 24,720
Income before income taxes	6,939	460	7,399
Total assets	1,159,662	9,448	1,169,110
Capital expenditures	1,687	12	1,699

Segment information for the three month periods ended June 30, 2017 and 2016, is as follows:

In thousands	Banking	Insurance	Total
2017			
Net interest income and other income from external customers	\$ 11,821	\$ 1,538	\$ 13,359
Income before income taxes	3,237	488	3,725
Total assets	1,252,723	9,213	1,261,936
Capital expenditures	436		436
2016			
Net interest income and other income from external customers	\$ 11,513	\$ 1,328	\$ 12,841
Income before income taxes	3,720	309	4,029
Total assets	1,159,662	9,448	1,169,110
Capital expenditures	924		924

Intangible assets, representing customer lists, are amortized over 10 years on a straight line basis. Goodwill is not amortized, but rather is analyzed annually for impairment. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Tax amortization of goodwill and the intangible assets is deductible for tax purposes.

7. Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported, net of tax, in

other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses on debt securities, management considers (1) whether management intends to sell the security, or (2) if it is more likely than not that management will be required to sell the security before recovery, or (3) if management does not expect to recover the entire amortized cost basis. In assessing potential other-than-temporary impairment for equity securities, consideration is given to management's intention and ability to hold the securities until recovery of unrealized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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Amortized cost and fair value of securities at June 30, 2017, and December 31, 2016, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
JUNE 30, 2017				