

ACNB CORP
Form 10-Q
October 28, 2016

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 September 30, 2016

Commission file number 0-11783

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)

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

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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, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

The number of shares of the Registrant's Common Stock outstanding on October 28, 2016, was 6,061,062.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	September 30, 2016	September 30, 2015	December 31, 2015
ASSETS			
Cash and due from banks	\$ 13,705	\$ 13,013	\$ 13,468
Interest bearing deposits with banks	41,686	33,076	5,289
Total Cash and Cash Equivalents	55,391	46,089	18,757
Securities available for sale	143,940	108,708	125,693
Securities held to maturity, fair value \$58,566; \$74,069; \$71,363	57,562	73,507	71,542
Loans held for sale	1,877	1,229	1,835
Loans, net of allowance for loan losses \$14,488; \$14,762; \$14,747	857,535	810,490	838,213
Premises and equipment	18,224	17,952	18,044
Restricted investment in bank stocks	4,191	4,078	4,414
Investment in bank-owned life insurance	40,476	39,366	39,642
Investments in low-income housing partnerships	3,003	3,457	3,345
Goodwill	6,308	6,308	6,308
Intangible assets	774	1,118	1,033
Foreclosed assets held for resale	309	599	580
Other assets	19,279	19,642	18,519
Total Assets	\$ 1,208,869	\$ 1,132,543	\$ 1,147,925
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	\$ 186,035	\$ 156,962	\$ 166,224
Interest bearing	779,512	738,407	746,756
Total Deposits	965,547	895,369	912,980
Short-term borrowings	35,503	37,724	35,202
Long-term borrowings	76,500	75,500	76,500
Other liabilities	10,565	9,405	8,528
Total Liabilities	1,088,115	1,017,998	1,033,210
STOCKHOLDERS EQUITY			
Preferred stock, \$2.50 par value; 20,000,000 shares authorized; no shares outstanding			

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Common stock, \$2.50 par value; 20,000,000 shares authorized;

6,123,662, 6,097,235 and 6,102,324 shares issued; 6,061,062, 6,034,635

and 6,039,724 shares outstanding

	15,310	15,243	15,256
Treasury stock, at cost (62,600 shares)	(728)	(728)	(728)
Additional paid-in capital	10,849	10,290	10,387
Retained earnings	99,196	92,881	94,526
Accumulated other comprehensive loss	(3,873)	(3,141)	(4,726)
Total Stockholders Equity	120,754	114,545	114,715
Total Liabilities and Stockholders Equity	\$ 1,208,869	\$ 1,132,543	\$ 1,147,925

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
INTEREST INCOME				
Loans, including fees	\$ 9,150	\$ 8,699	\$ 27,054	\$ 26,256
Securities:				
Taxable	770	743	2,360	2,337
Tax-exempt	156	208	496	660
Dividends	53	44	159	258
Other	52	23	86	62
Total Interest Income	10,181	9,717	30,155	29,573
INTEREST EXPENSE				
Deposits	602	545	1,730	1,577
Short-term borrowings	10	5	38	33
Long-term borrowings	384	409	1,165	1,308
Total Interest Expense	996	959	2,933	2,918
Net Interest Income	9,185	8,758	27,222	26,655
PROVISION FOR LOAN LOSSES				
Net Interest Income after Provision for Loan Losses	9,185	8,758	27,222	26,655
OTHER INCOME				
Service charges on deposit accounts	631	624	1,734	1,734
Income from fiduciary activities	416	410	1,244	1,150
Earnings on investment in bank-owned life insurance	276	277	834	824
Net gains on sales or calls of securities		158		259
Gain on sales of premises and equipment			449	
Service charges on ATM and debit card transactions	381	359	1,127	1,113
Commissions from insurance sales	1,269	1,223	3,700	3,503
Other	328	239	896	739
Total Other Income	3,301	3,290	9,984	9,322
OTHER EXPENSES				
Salaries and employee benefits	5,580	5,118	16,609	15,706
Net occupancy	481	511	1,553	1,635
Equipment	740	758	2,212	2,223
Other tax	201	269	591	666
Professional services	217	197	670	621
Supplies and postage	178	175	491	493
Marketing and corporate relations	123	88	391	293
FDIC and regulatory	181	175	532	504
Intangible assets amortization	85	84	259	251
Foreclosed real estate expenses	72	112	112	220
Other operating	922	773	2,681	2,413

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Total Other Expenses	8,780	8,260	26,101	25,025
Income before Income Taxes	3,706	3,788	11,105	10,952
PROVISION FOR INCOME TAXES	938	976	2,808	2,787
Net Income	\$ 2,768	\$ 2,812	\$ 8,297	\$ 8,165
PER SHARE DATA				
Basic earnings	\$ 0.46	\$ 0.47	\$ 1.37	\$ 1.36
Cash dividends declared	\$ 0.20	\$ 0.20	\$ 0.60	\$ 0.60

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
NET INCOME	\$ 2,768	\$ 2,812	\$ 8,297	\$ 8,165
OTHER COMPREHENSIVE (LOSS) INCOME				
SECURITIES				
Unrealized (losses) gains arising during the period, net of income taxes of \$(158), \$(16), \$265 and \$(256), respectively	(308)	(34)	515	(497)
Reclassification adjustment for net gains included in net income, net of income taxes of \$0, \$(54), \$0 and \$(88), respectively (A) (C)		(104)		(171)
PENSION				
Amortization of pension net loss and prior service cost, net of income taxes of \$59, \$43, \$175 and \$129, respectively (B) (C)	113	84	338	250
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(195)	(54)	853	(418)
TOTAL COMPREHENSIVE INCOME	\$ 2,573	\$ 2,758	\$ 9,150	\$ 7,747

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)

Nine Months Ended September 30, 2016 and 2015

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
BALANCE JANUARY 1, 2015	\$ 15,196	\$ (728)	\$ 9,948	\$ 88,329	\$ (2,723)	\$ 110,022
Net income				8,165		8,165
Other comprehensive loss, net of taxes					(418)	(418)
Common stock shares issued (18,985 shares)	47		342			389
Cash dividends declared				(3,613)		(3,613)
BALANCE SEPTEMBER 30, 2015	\$ 15,243	\$ (728)	\$ 10,290	\$ 92,881	\$ (3,141)	\$ 114,545
BALANCE JANUARY 1, 2016	\$ 15,256	\$ (728)	\$ 10,387	\$ 94,526	\$ (4,726)	\$ 114,715
Net income				8,297		8,297
Other comprehensive income, net of taxes					853	853
Common stock shares issued (13,903 shares)	35		303			338
Restricted stock grants (7,435 shares)	19		100			119
Restricted stock compensation expense			59			59
Cash dividends declared				(3,627)		(3,627)
BALANCE SEPTEMBER 30, 2016	\$ 15,310	\$ (728)	\$ 10,849	\$ 99,196	\$ (3,873)	\$ 120,754

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

ACNB CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Dollars in thousands	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,297	\$ 8,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	(477)	(337)
Gain on sales of foreclosed assets held for resale, including writedowns	(28)	(36)
Gain on sale of premises and equipment	(449)	
Earnings on investment in bank-owned life insurance	(834)	(824)
Gain on sales or calls of securities		(259)
Restricted stock compensation expense	59	
Depreciation and amortization	1,324	1,308
Provision for loan losses		
Net amortization of investment securities premiums	391	510
Decrease in accrued interest receivable	29	76
Decrease in accrued interest payable	(10)	(8)
Mortgage loans originated for sale	(29,761)	(22,192)
Proceeds from sales of loans originated for sale	30,196	22,923
(Increase) decrease in other assets	(887)	1,102
Increase in other liabilities	966	1,518
Net Cash Provided by Operating Activities	8,816	11,946
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	13,809	7,581
Proceeds from maturities of investment securities available for sale	22,334	18,516
Proceeds from sales of investment securities available for sale		2,933
Purchase of investment securities available for sale	(39,127)	(13,118)
Purchase of investment securities held to maturity		(8,044)
Redemption of restricted investment in bank stocks	223	138
Net increase in loans	(19,660)	(27,520)
Purchase of bank-owned life insurance		(600)
Purchase of book of business		(174)
Capital expenditures	(2,025)	(1,283)
Proceeds from sales of premises and equipment	1,929	
Proceeds from sales of foreclosed real estate	637	2,184
Net Cash Used in Investing Activities	(21,880)	(19,387)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	19,811	11,975
Net increase in time certificates of deposits and interest bearing deposits	32,756	38,518
Net increase (decrease) in short-term borrowings	301	(7,975)
Proceeds from long-term borrowings	9,000	11,000
Repayments on long-term borrowings	(9,000)	(16,437)
Dividends paid	(3,627)	(3,613)
Common stock issued	457	389
Net Cash Provided by Financing Activities	49,698	33,857
Net Increase in Cash and Cash Equivalents	36,634	26,416

CASH AND CASH EQUIVALENTS	BEGINNING		18,757		19,673
CASH AND CASH EQUIVALENTS	ENDING	\$	55,391	\$	46,089
Interest paid		\$	2,943	\$	2,926
Income taxes paid		\$	3,200	\$	975
Loans transferred to foreclosed assets held for resale and other foreclosed transactions		\$	338	\$	1,130

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

ACNB CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

ACNB Corporation (the Corporation or ACNB), headquartered in Gettysburg, Pennsylvania, provides banking, insurance, and 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 2015 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 4, 2016. 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 nine month periods ended September 30, 2016, are not necessarily indicative of the results to be expected for the full year. Fixed assets held for sale is measured at the lower of its carrying amount or fair value less cost to sell.

The Corporation has evaluated events and transactions occurring subsequent to the statement of condition date of September 30, 2016, 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 6,048,216 and 6,023,090 weighted average shares of common stock outstanding for the nine months ended September 30, 2016 and 2015, respectively, and 6,057,508 and 6,030,846 for the three months ended September 30, 2016 and 2015, 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. To date, 7,435 shares were issued under this plan, which resulted in \$59,000 of compensation expense. Of the 7,435 shares issued under the plan, 2,478 shares are fully vested and 4,957 will vest over the next two years.

3. Retirement Benefits

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

In thousands	Three Months Ended September 30,		Nine Months Ended September 30	
	2016	2015	2016	2015
Service cost	\$ 199	\$ 220	\$ 597	\$ 660
Interest cost	284	260	852	780
Expected return on plan assets	(609)	(635)	(1,824)	(1,906)
Amortization of net loss	172	120	513	360
Amortization of prior service cost		6		19
Net Periodic Benefit Expense (Income)	\$ 46	\$ (29)	\$ 138	\$ (87)

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2015, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2016. As of September 30, 2016, it was determined that no contribution would be made for 2016. 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 375 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 \$5,719,000 in standby letters of credit as of September 30, 2016. 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 September 30, 2016, 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		Pension	Accumulated Other
		Gains on		Liability	Comprehensive
		Securities		Loss	
BALANCE	SEPTEMBER 30, 2016	\$ 1,679	\$	(5,552)	\$ (3,873)

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BALANCE	DECEMBER 31, 2015	\$	1,164	\$	(5,890)	\$	(4,726)
BALANCE	SEPTEMBER 30, 2015	\$	1,902	\$	(5,043)	\$	(3,141)

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 nine month periods ended September 30, 2016 and 2015, is as follows:

In thousands	Banking	Insurance	Total
2016			
Net interest income and other income from external customers	\$ 33,871	\$ 3,349	\$ 37,220
Income before income taxes	10,424	681	11,105
Total assets	1,199,365	9,504	1,208,869
Capital expenditures	2,013	12	2,025
2015			
Net interest income and other income from external customers	\$ 32,331	\$ 3,646	\$ 35,977
Income before income taxes	10,354	598	10,952
Total assets	1,122,465	10,078	1,132,543
Capital expenditures	1,263	20	1,283

Segment information for the three month periods ended September 30, 2016 and 2015, is as follows:

In thousands	Banking	Insurance	Total
2016			
Net interest income and other income from external customers	\$ 11,581	\$ 919	\$ 12,500
Income before income taxes	3,485	221	3,706
Total assets	1,199,365	9,504	1,208,869
Capital expenditures	326		326
2015			
Net interest income and other income from external customers	\$ 10,687	\$ 1,361	\$ 12,048
Income before income taxes	3,557	231	3,788
Total assets	1,122,465	10,078	1,132,543
Capital expenditures	637		637

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