

CITIZENS & NORTHERN CORP
Form 10-Q
May 08, 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 **March 31, 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) 12,198,511 Shares Outstanding on May 4, 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)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$17,568	\$14,812
Interest-bearing	18,862	21,235
Total cash and due from banks	36,430	36,047
Available-for-sale securities, at fair value	527,814	516,807
Loans held for sale	214	0
Loans receivable	628,345	630,545
Allowance for loan losses	(7,134)	(7,336)
Loans, net	621,211	623,209
Bank-owned life insurance	22,216	22,119
Accrued interest receivable	4,021	3,908
Bank premises and equipment, net	16,154	16,256
Foreclosed assets held for sale	1,583	1,189
Deferred tax asset, net	0	1,668
Intangible asset - Core deposit intangibles	47	52
Intangible asset - Goodwill	11,942	11,942
Other assets	10,326	8,766
TOTAL ASSETS	\$1,251,958	\$1,241,963
LIABILITIES		
Deposits:		
Noninterest-bearing	\$223,596	\$212,439
Interest-bearing	753,038	755,550
Total deposits	976,634	967,989
Short-term borrowings	5,840	5,537
Long-term borrowings	72,988	73,060
Deferred tax liability, net	14	0
Accrued interest and other liabilities	7,379	7,015
TOTAL LIABILITIES	1,062,855	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 March 31, 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 March 31, 2015 and December 31, 2014	12,655	12,655
Paid-in capital	71,074	71,541
Retained earnings	106,201	105,550
	(8,493)	(6,744)

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Treasury stock, at cost; 461,987 shares at March 31, 2015 and 375,191 shares at December 31, 2014

Sub-total	181,437	183,002
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities	7,654	5,281
Defined benefit plans gain	12	79
Total accumulated other comprehensive income	7,666	5,360
TOTAL STOCKHOLDERS' EQUITY	189,103	188,362
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,251,958	\$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	
	March 31,	March 31,
	2015	2014
INTEREST INCOME		
Interest and fees on loans	\$7,709	\$7,998
Interest on balances with depository institutions	26	30
Interest on loans to political subdivisions	349	373
Interest on mortgages held for sale	2	3
Income from available-for-sale securities:		
Taxable	1,974	1,802
Tax-exempt	1,016	1,111
Dividends	87	89
Total interest and dividend income	11,163	11,406
INTEREST EXPENSE		
Interest on deposits	486	554
Interest on short-term borrowings	1	5
Interest on long-term borrowings	726	729
Total interest expense	1,213	1,288
Net interest income	9,950	10,118
Provision (credit) for loan losses	3	(311)
Net interest income after provision (credit) for loan losses	9,947	10,429
OTHER INCOME		
Service charges on deposit accounts	1,022	1,223
Service charges and fees	113	127
Trust and financial management revenue	1,114	1,047
Brokerage revenue	219	227
Insurance commissions, fees and premiums	40	32
Interchange revenue from debit card transactions	474	453
Net gains from sale of loans	147	151
(Decrease) increase in fair value of servicing rights	(117)	105
Increase in cash surrender value of life insurance	97	88
Other operating income	378	298
Sub-total	3,487	3,751
Realized gains on available-for-sale securities, net	74	31
Total other income	3,561	3,782
OTHER EXPENSES		
Salaries and wages	3,487	3,565
Pensions and other employee benefits	1,385	1,319
Occupancy expense, net	722	715
Furniture and equipment expense	454	472
FDIC Assessments	151	147
Pennsylvania shares tax	249	341
Professional fees	122	148
Automated teller machine and interchange expense	246	211

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Software subscriptions	197	190
Other operating expense	1,451	1,416
Total other expenses	8,464	8,524
Income before income tax provision	5,044	5,687
Income tax provision	1,229	1,399
NET INCOME	\$3,815	\$4,288
NET INCOME PER SHARE - BASIC	\$0.31	\$0.35
NET INCOME PER SHARE - DILUTED	\$0.31	\$0.34

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)**

	3 Months Ended March 31,	
	2015	2014
Net income	\$3,815	\$4,288
Unrealized gains on available-for-sale securities:		
Unrealized holding gains on available-for-sale securities	3,725	5,334
Reclassification adjustment for gains realized in income	(74)	(31)
Other comprehensive gain on available-for-sale securities	3,651	5,303
Unfunded pension and postretirement obligations:		
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive (loss) gain	(100)	141
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(3)	(4)
Other comprehensive (loss) gain on unfunded retirement obligations	(103)	137
Other comprehensive income before income tax	3,548	5,440
Income tax related to other comprehensive income	(1,242)	(1,905)
Net other comprehensive income	2,306	3,535
Comprehensive income	\$6,121	\$7,823

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands) (Unaudited)	3 Months Ended	
	March 31,	March 31,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,815	\$4,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	3	(311)
Realized gains on available-for-sale securities, net	(74)	(31)
Realized loss on foreclosed assets	13	31
Depreciation expense	469	498
Accretion and amortization on securities, net	383	356
Accretion and amortization on loans and deposits, net	(5)	(7)
Decrease (increase) in fair value of servicing rights	117	(105)
Increase in cash surrender value of life insurance	(97)	(88)
Stock-based compensation	150	212
Amortization of core deposit intangibles	5	9
Deferred income taxes	440	621
Gains on sales of loans, net	(147)	(151)
Origination of loans for sale	(4,150)	(4,773)
Proceeds from sales of loans	4,052	4,805
Increase in accrued interest receivable and other assets	(1,752)	(864)
Increase in accrued interest payable and other liabilities	487	1,961
Net Cash Provided by Operating Activities	3,709	6,451
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	0	240
Proceeds from sales of available-for-sale securities	861	27,514
Proceeds from calls and maturities of available-for-sale securities	19,400	13,848
Purchase of available-for-sale securities	(28,152)	(36,004)
Redemption of Federal Home Loan Bank of Pittsburgh stock	485	955
Purchase of Federal Home Loan Bank of Pittsburgh stock	(546)	(120)
Net decrease in loans	1,402	17,753
Purchase of premises and equipment	(367)	(90)
Return of principal on limited liability entity investments	54	42
Proceeds from sale of foreclosed assets	191	270
Net Cash (Used in) Provided by Investing Activities	(6,672)	24,408
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	8,645	7,317
Net increase (decrease) in short-term borrowings	303	(18,655)
Repayments of long-term borrowings	(72)	(68)
Purchase of treasury stock	(3,022)	0
Sale of treasury stock	279	62
Tax benefit from compensation plans	42	40
Common dividends paid	(2,829)	(2,847)
Net Cash Provided by (Used in) Financing Activities	3,346	(14,151)

INCREASE IN CASH AND CASH EQUIVALENTS	383	16,708
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,619	38,591
CASH AND CASH EQUIVALENTS, END OF YEAR	\$32,002	\$55,299

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$598	\$730
Accrued purchase of available-for-sale securities	\$0	\$1,736
Interest paid	\$1,201	\$1,290
Income taxes paid	\$175	\$270

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

CITIZENS & NORTHERN CORPORATION – FORM 10-Q

**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
<u>Three Months Ended March 31, 2015:</u>								
Balance, December 31, 2014	12,655,171	375,191	\$12,655	\$71,541	\$105,550	\$5,360	(\$6,744)	\$188,362
Net income					3,815			3,815
Other comprehensive income, net						2,306		2,306
Cash dividends declared on common stock, \$.26 per share					(3,201)			(3,201)
Shares issued for dividend reinvestment plan		(19,239)					372	372
Treasury stock purchased		155,800					(3,022)	(3,022)
Shares issued from treasury related to exercise of stock options		(16,908)		(28)			307	279
Restricted stock granted		(34,800)		(627)			627	0
Forfeiture of restricted stock		1,943		33			(33)	0
Stock-based compensation expense				150				150
Tax benefit from dividends on restricted stock				5				5
Tax benefit from employee benefit plan								