

CITIZENS & NORTHERN CORP
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2014**

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) 12,430,482 Shares Outstanding on May 7, 2014

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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,	December 31,
	2014	2013
ASSETS		
Cash and due from banks:		
Noninterest-bearing	\$22,478	\$15,917
Interest-bearing	38,609	28,702
Total cash and due from banks	61,087	44,619
Available-for-sale securities, at fair value	484,014	482,658
Loans held for sale	133	54
Loans receivable	625,818	644,303
Allowance for loan losses	(8,343)	(8,663)
Loans, net	617,475	635,640
Bank-owned life insurance	21,831	21,743
Accrued interest receivable	3,954	4,146
Bank premises and equipment, net	17,022	17,430
Foreclosed assets held for sale	1,321	892
Deferred tax asset, net	3,818	6,344
Intangible asset - Core deposit intangibles	78	87
Intangible asset - Goodwill	11,942	11,942
Other assets	12,464	12,140
TOTAL ASSETS	\$1,235,139	\$1,237,695
LIABILITIES		
Deposits:		
Noninterest-bearing	\$210,891	\$191,245
Interest-bearing	750,942	763,271
Total deposits	961,833	954,516
Short-term borrowings	4,730	23,385
Long-term borrowings	73,270	73,338
Accrued interest and other liabilities	10,544	6,984
TOTAL LIABILITIES	1,050,377	1,058,223
STOCKHOLDERS' EQUITY		
Preferred stock, \$1,000 par value; authorized 30,000 shares; \$1,000 liquidation preference per share; no shares issued at March 31, 2014 and December 31, 2013	0	0
Common stock, par value \$1.00 per share; authorized 20,000,000 shares in 2014 and 2013; issued 12,616,059 at March 31, 2014 and 12,596,540 at December 31, 2013	12,616	12,596
Paid-in capital	70,421	70,105
Retained earnings	102,311	101,216
Treasury stock, at cost; 187,059 shares at March 31, 2014 and 206,477 shares at December 31, 2013	(3,128)	(3,452)
Sub-total	182,220	180,465
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale securities	2,442	(1,004)
Defined benefit plans gain	100	11

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Total accumulated other comprehensive income (loss)	2,542	(993)
TOTAL STOCKHOLDERS' EQUITY	184,762	179,472
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$1,235,139	\$1,237,695

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, 2014	March 31, 2013
INTEREST INCOME		
Interest and fees on loans	\$7,998	\$9,225
Interest on balances with depository institutions	30	28
Interest on loans to political subdivisions	373	362
Interest on mortgages held for sale	3	21
Income from available-for-sale securities:		
Taxable	1,802	1,717
Tax-exempt	1,111	1,212
Dividends	89	82
Total interest and dividend income	11,406	12,647
INTEREST EXPENSE		
Interest on deposits	554	778
Interest on short-term borrowings	5	1
Interest on long-term borrowings	729	821
Total interest expense	1,288	1,600
Net interest income	10,118	11,047
(Credit) provision for loan losses	(311)	183
Net interest income after (credit) provision for loan losses	10,429	10,864
OTHER INCOME		
Service charges on deposit accounts	1,223	1,226
Service charges and fees	127	134
Trust and financial management revenue	1,047	944
Brokerage revenue	227	144
Insurance commissions, fees and premiums	32	45
Interchange revenue from debit card transactions	453	464
Net gains from sale of loans	151	504
Increase in fair value of servicing rights	105	8
Increase in cash surrender value of life insurance	88	93
Other operating income	298	281
Sub-total	3,751	3,843
Total other-than-temporary impairment losses on available-for-sale securities	0	(25)
Portion of (gain) recognized in other comprehensive loss (before taxes)	0	0
Net impairment losses recognized in earnings	0	(25)
Realized gains on available-for-sale securities, net	31	1,184
Total other income	3,782	5,002
OTHER EXPENSES		
Salaries and wages	3,565	3,600
Pensions and other employee benefits	1,319	1,255
Occupancy expense, net	715	634
Furniture and equipment expense	472	494
FDIC Assessments	147	152
Pennsylvania shares tax	341	350
Professional fees	148	157

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Automated teller machine and interchange expense	211	272
Software subscriptions	190	223
Loss on prepayment of debt	0	1,023
Other operating expense	1,416	1,416
Total other expenses	8,524	9,576
Income before income tax provision	5,687	6,290
Income tax provision	1,399	1,584
NET INCOME	\$4,288	\$4,706
NET INCOME PER SHARE - BASIC	\$0.35	\$0.38
NET INCOME PER SHARE - DILUTED	\$0.34	\$0.38

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,	March 31,
	2014	2013
Net income	\$4,288	\$4,706
Unrealized gains (losses) on available-for-sale securities:		
Unrealized holding gains (losses) on available-for-sale securities	5,334	(2,447)
Reclassification adjustment for (gains) realized in income	(31)	(1,159)
Other comprehensive gain (loss) on available-for-sale securities	5,303	(3,606)
Unfunded pension and postretirement obligations:		
Changes from plan amendments and actuarial gains and losses included in accumulated other comprehensive gain	141	636
Amortization of net transition obligation, prior service cost and net actuarial loss included in net periodic benefit cost	(4)	0
Other comprehensive gain on unfunded retirement obligations	137	636
Other comprehensive income (loss) before income tax	5,440	(2,970)
Income tax related to other comprehensive (income) loss	(1,905)	1,038
Net other comprehensive income (loss)	3,535	(1,932)
Comprehensive income	\$7,823	\$2,774

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)	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$4,288	\$4,706
Adjustments to reconcile net income to net cash provided by operating activities:		
(Credit) provision for loan losses	(311)	183
Realized gains on available-for-sale securities, net	(31)	(1,159)
Loss on prepayment of debt	0	1,023
Realized loss on foreclosed assets	31	3
Depreciation expense	498	511
Accretion and amortization on securities, net	356	513
Accretion and amortization on loans and deposits, net	(7)	(8)
Increase in fair value of mortgage servicing rights	(105)	(8)
Increase in cash surrender value of life insurance	(88)	(93)
Stock-based compensation	212	287
Amortization of core deposit intangibles	9	13
Deferred income taxes	621	1,270
Gains on sales of loans, net	(151)	(504)
Origination of loans for sale	(4,773)	(16,346)
Proceeds from sales of loans	4,805	18,471
Increase in accrued interest receivable and other assets	(864)	(1,009)
Increase (decrease) in accrued interest payable and other liabilities	1,961	(970)
Net Cash Provided by Operating Activities	6,451	6,883
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of certificates of deposit	240	0
Proceeds from sales of available-for-sale securities	27,514	23,024
Proceeds from calls and maturities of available-for-sale securities	13,848	22,614
Purchase of available-for-sale securities	(36,004)	(35,065)
Redemption of Federal Home Loan Bank of Pittsburgh stock	955	693
Purchase of Federal Home Loan Bank of Pittsburgh stock	(120)	0
Net decrease in loans	17,753	17,202
Purchase of premises and equipment	(90)	(263)
Purchase of investment in limited liability entity	0	(26)
Return of principal on limited liability entity investments	42	37
Proceeds from sale of foreclosed assets	270	9
Net Cash Provided by Investing Activities	24,408	28,225
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	7,317	(38,132)
Net decrease in short-term borrowings	(18,655)	(930)
Repayments of long-term borrowings	(68)	(8,174)
Sale of treasury stock	62	53
Tax benefit from compensation plans	40	28
Common dividends paid	(2,847)	(2,720)
Net Cash Used in Financing Activities	(14,151)	(49,875)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,708	(14,767)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,591	55,016
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$55,299	\$40,249

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Assets acquired through foreclosure of real estate loans	\$730	\$48
Accrued purchase of available-for-sale securities	\$1,736	\$811
Interest paid	\$1,290	\$1,609
Income taxes paid	\$270	\$200

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****Three Months Ended March 31, 2014 and 2013****(In Thousands Except Share and Per Share Data)**

(Unaudited)	Common Shares	Treasury Shares	Common Stock	Paid-in Capital	Retained Earnings	Accum. Other Comprehensive (Loss) Income	Treasury Stock	Total
<u>Three Months Ended March 31, 2014:</u>								
Balance, December 31, 2013	12,596,540	206,477	\$12,596	\$70,105	\$101,216	(\$993)	(\$3,452)	\$179,472
Net income					4,288			4,288
Other comprehensive income, net						3,535		3,535
Cash dividends declared on common stock, \$.26 per share					(3,227)			(3,227)
Shares issued for dividend reinvestment plan	19,519		20	360				380
Shares issued from treasury related to exercise of stock options		(4,095)		(6)			68	62
Restricted stock granted		(16,711)		(279)			279	0
Forfeiture of restricted stock		1,388		23			(23)	0
Stock-based compensation expense				212				212
Tax effect of stock option exercises				1				1
Tax benefit from dividends on restricted stock				5				5
Tax benefit from employee benefit plan					34			34
Balance, March 31, 2014	12,616,059	187,059	\$12,616	\$70,421	\$102,311	\$2,542	(\$3,128)	\$184,762
<u>Three Months Ended March 31, 2013:</u>								
Balance, December 31, 2012	12,525,411	251,376	\$12,525	\$68,622	\$94,839	\$11,003	(\$4,203)	\$182,786
Net income					4,706			4,706
Other comprehensive loss, net						(1,932)		(1,932)
Cash dividends declared on common stock, \$.25 per share					(3,078)			(3,078)
Shares issued for dividend reinvestment plan	18,169							