

ACNB CORP
Form 10-Q
October 31, 2014

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, 2014

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
Common Stock, \$2.50 par value per share

Name of each exchange on which registered
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 31, 2014, was 6,011,329.

PART I - FINANCIAL INFORMATION

ACNB CORPORATION

ITEM 1 - FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION (UNAUDITED)

Dollars in thousands, except per share data	September 30, 2014	September 30, 2013	December 31, 2013
ASSETS			
Cash and due from banks	\$ 14,338	\$ 16,371	\$ 13,963
Interest bearing deposits with banks	9,670	2,856	4,153
Total Cash and Cash Equivalents	24,008	19,227	18,116
Securities available for sale	122,064	135,163	129,983
Securities held to maturity, fair value \$74,338; \$94,667; \$92,082	75,407	96,255	94,373
Loans held for sale	1,482	603	496
Loans, net of allowance for loan losses \$15,421; \$16,797; \$16,091	750,920	701,251	712,557
Premises and equipment	16,871	15,545	15,991
Restricted investment in bank stocks	5,239	4,189	6,861
Investment in bank-owned life insurance	37,667	32,003	32,237
Investments in low-income housing partnerships	3,974	5,233	4,687
Goodwill	6,308	6,308	6,308
Intangible assets	1,359	1,928	1,845
Foreclosed assets held for resale	1,688	1,608	1,762
Other assets	20,544	15,217	20,831
Total Assets	\$ 1,067,531	\$ 1,034,530	\$ 1,046,047
LIABILITIES AND STOCKHOLDERS EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	\$ 142,696	\$ 130,110	\$ 128,011
Interest bearing	681,316	689,121	672,632
Total Deposits	824,012	819,231	800,643
Short-term borrowings	53,824	57,418	49,052
Long-term borrowings	69,505	47,767	82,703
Other liabilities	8,482	7,094	6,847
Total Liabilities	955,823	931,510	939,245
STOCKHOLDERS EQUITY			
Preferred stock, \$2.50 par value; 20,000,000 shares authorized; no shares outstanding			
Common stock, \$2.50 par value; 20,000,000 shares authorized; 6,073,929, 6,049,261 and 6,053,911 shares issued; 6,011,329, 5,986,661 and 5,991,311 shares outstanding	15,185	15,123	15,135

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Treasury stock, at cost (62,600 shares)	(728)	(728)	(728)
Additional paid-in capital	9,959	9,557	9,628
Retained earnings	87,069	81,532	82,661
Accumulated other comprehensive income (loss)	223	(2,464)	106
Total Stockholders Equity	111,708	103,020	106,802
Total Liabilities and Stockholders Equity	\$ 1,067,531	\$ 1,034,530	\$ 1,046,047

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,	
	2014	2013	2014	2013
INTEREST INCOME				
Loans, including fees	\$ 8,199	\$ 7,840	\$ 24,222	\$ 24,074
Securities:				
Taxable	843	1,078	2,805	3,166
Tax-exempt	260	280	800	922
Dividends	55	6	144	16
Other	19	16	49	64
Total Interest Income	9,376	9,220	28,020	28,242
INTEREST EXPENSE				
Deposits	460	500	1,326	1,721
Short-term borrowings	12	17	46	44
Long-term borrowings	439	419	1,346	1,321
Total Interest Expense	911	936	2,718	3,086
Net Interest Income	8,465	8,284	25,302	25,156
PROVISION FOR LOAN LOSSES		150	150	1,300
Net Interest Income after Provision for Loan Losses	8,465	8,134	25,152	23,856
OTHER INCOME				
Service charges on deposit accounts	550	596	1,548	1,682
Income from fiduciary activities	337	333	1,074	976
Earnings on investment in bank-owned life insurance	281	246	825	741
Net gains on sales or calls of securities	2		54	
Service charges on ATM and debit card transactions	391	376	1,150	1,051
Commissions from insurance sales	1,124	1,079	3,721	3,609
Other	245	217	552	873
Total Other Income	2,930	2,847	8,924	8,932
OTHER EXPENSES				
Salaries and employee benefits	4,776	4,546	14,485	14,158
Net occupancy	470	463	1,544	1,471
Equipment	731	727	2,051	2,177
Other tax	184	199	555	669
Professional services	158	232	732	667
Supplies and postage	156	127	429	443
Marketing and corporate relations	150	81	451	293
FDIC and regulatory	183	191	582	592
Intangible assets amortization	162	160	487	481
Foreclosed real estate expenses	135	503	252	410
Other operating	874	817	2,313	2,458
Total Other Expenses	7,979	8,046	23,881	23,819

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Income before Income Taxes	3,416	2,935	10,195	8,969
PROVISION FOR INCOME TAXES	792	627	2,368	1,921
Net Income	\$ 2,624	\$ 2,308	\$ 7,827	\$ 7,048
PER SHARE DATA				
Basic earnings	\$ 0.44	\$ 0.39	\$ 1.30	\$ 1.18
Cash dividends declared	\$ 0.19	\$ 0.19	\$ 0.57	\$ 0.57

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,	
	2014	2013	2014	2013
NET INCOME	\$ 2,624	\$ 2,308	\$ 7,827	\$ 7,048
OTHER COMPREHENSIVE (LOSS) INCOME				
SECURITIES				
Unrealized (losses) gains arising during the period, net of income taxes of \$(181), \$(82), \$62 and \$(1,336), respectively	(352)	(159)	122	(2,595)
Reclassification adjustment for net gains included in net income, net of income taxes of \$(1), \$0, \$(18) and \$0, respectively (A) (C)	(1)		(36)	
PENSION				
Amortization of pension net loss, transition liability, and prior service cost, net of income taxes of \$5, \$58, \$15 and \$176, respectively (B) (C)	10	115	31	343
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(343)	(44)	117	(2,252)
TOTAL COMPREHENSIVE INCOME	\$ 2,281	\$ 2,264	\$ 7,944	\$ 4,796

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 Statement 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, 2014 and 2013

Dollars in thousands	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
BALANCE JANUARY 1, 2013	\$ 15,070	\$ (728)	\$ 9,246	\$ 77,888	\$ (212)	\$ 101,264
Net income				7,048		7,048
Other comprehensive loss, net of taxes					(2,252)	(2,252)
Common stock shares issued (21,293 shares)	53		311			364
Cash dividends declared				(3,404)		(3,404)
BALANCE SEPTEMBER 30, 2013	\$ 15,123	\$ (728)	\$ 9,557	\$ 81,532	\$ (2,464)	\$ 103,020
BALANCE JANUARY 1, 2014	\$ 15,135	\$ (728)	\$ 9,628	\$ 82,661	\$ 106	\$ 106,802
Net income				7,827		7,827
Other comprehensive income, net of taxes					117	117
Common stock shares issued (20,018 shares)	50		331			381
Cash dividends declared				(3,419)		(3,419)
BALANCE SEPTEMBER 30, 2014	\$ 15,185	\$ (728)	\$ 9,959	\$ 87,069	\$ 223	\$ 111,708

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,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,827	\$ 7,048
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of loans originated for sale	(138)	(417)
(Gain) loss on sales of foreclosed assets held for resale, including writedowns	(42)	173
Earnings on investment in bank-owned life insurance	(825)	(741)
Gain on sales or calls of securities	(54)	
Depreciation and amortization	1,530	1,500
Provision for loan losses	150	1,300
Net amortization of investment securities premiums	625	739
Decrease in accrued interest receivable	139	226
Decrease in accrued interest payable	(301)	(419)
Mortgage loans originated for sale	(10,192)	(18,882)
Proceeds from sales of loans originated for sale	9,344	25,383
Decrease in other assets	581	861
Increase in other liabilities	1,984	734
Net Cash Provided by Operating Activities	10,628	17,505
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities of investment securities held to maturity	18,600	7,223
Proceeds from maturities of investment securities available for sale	13,747	33,202
Proceeds from sales of investment securities available for sale	1,862	
Purchase of investment securities held to maturity		(53,689)
Purchase of investment securities available for sale	(7,765)	(6,875)
Net increase in loans	(39,363)	(11,741)
Redemption of restricted investment in bank stocks	1,622	1,129
Investment in low-income housing partnerships		(249)
Purchase of bank-owned life insurance	(4,605)	(140)
Capital expenditures	(1,924)	(1,433)
Proceeds from sale of low-income housing partnerships	219	
Proceeds from sale of foreclosed real estate	966	2,967
Net Cash Used in Investing Activities	(16,641)	(29,606)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in demand deposits	14,685	10,813
Net increase (decrease) in time certificates of deposits and interest bearing deposits	8,684	(25,758)
Net increase in short-term borrowings	4,772	10,115
Dividends paid	(3,419)	(3,404)
Common stock issued	381	364
Proceeds from long-term borrowings	10,000	2,000
Repayments on long-term borrowings	(23,198)	(14,187)
Net Cash Provided by (Used in) Financing Activities	11,905	(20,057)
Net Increase (Decrease) in Cash and Cash Equivalents	5,892	(32,158)
CASH AND CASH EQUIVALENTS BEGINNING	18,116	51,385

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CASH AND CASH EQUIVALENTS	ENDING	\$	24,008	\$	19,227
Interest paid		\$	3,019	\$	3,505
Income taxes paid		\$	1,600	\$	2,225
Loans transferred to foreclosed assets held for resale		\$	850	\$	501

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 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. The agency offers a broad range of property and casualty, life, and health insurance to both commercial and individual clients. In 2008, as part of an agency acquisition, a second location of RIG was established in Germantown, Maryland.

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 2013 ACNB Corporation Annual Report on Form 10-K, filed with the SEC on March 7, 2014. 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, 2014, 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 September 30, 2014, 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

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The Corporation has a simple capital structure. Basic earnings per share of common stock is computed based on 5,998,925 and 5,973,418 weighted average shares of common stock outstanding for the nine months ended September 30, 2014 and 2013, respectively, and 6,006,321 and 5,981,936 for the three months ended September 30, 2014 and 2013, respectively. The Corporation does not have dilutive securities outstanding.

3. Retirement Benefits

The components of net periodic benefit (income) cost 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,	
	2014	2013	2014	2013
Service cost	\$ 172	\$ 194	\$ 516	\$ 582
Interest cost	259	223	777	669
Expected return on plan assets	(578)	(489)	(1,734)	(1,467)
Amortization of net loss	5	163	16	489
Amortization of prior service cost	10	10	30	30
Net Periodic Benefit (Income) Cost	\$ (132)	\$ 101	\$ (395)	\$ 303

The Corporation previously disclosed in its consolidated financial statements for the year ended December 31, 2013, that it had not yet determined the amount the Bank planned on contributing to the defined benefit plan in 2014. As of September 30, 2014, 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 368 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 \$5,742,000 in standby letters of credit as of September 30, 2014. 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, 2014, for guarantees under standby letters of credit issued is not material.

5. Accumulated Other Comprehensive Income (Loss)

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

In thousands		Unrealized	Pension	Accumulated Other
		Gains on Securities	Liability	Comprehensive Income (Loss)
BALANCE	SEPTEMBER 30, 2014	\$ 2,658	\$ (2,435)	\$ 223

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BALANCE	DECEMBER 31, 2013	\$	2,572	\$	(2,466)	\$	106
BALANCE	SEPTEMBER 30, 2013	\$	3,019	\$	(5,483)	\$	(2,464)

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, 2014 and 2013, is as follows:

In thousands	Banking	Insurance	Total
2014			
Net interest income and other income from external customers	\$ 30,370	\$ 3,856	\$ 34,226
Income before income taxes	9,566	629	10,195
Total assets	1,058,774	8,757	1,067,531
Capital expenditures	1,924		1,924
2013			
Net interest income and other income from external customers	\$ 30,786	\$ 3,302	\$ 34,088
Income before income taxes	8,470	499	8,969
Total assets	1,024,946	9,584	1,034,530
Capital expenditures	1,426	7	1,433

Segment information for the three month periods ended September 30, 2014 and 2013, is as follows:

In thousands	Banking	Insurance	Total
2014			
Net interest income and other income from external customers	\$ 10,141	\$ 1,254	\$ 11,395
Income before income taxes	3,269	147	3,416
Total assets	1,058,774	8,757	1,067,531
Capital expenditures	918		918
2013			
Net interest income and other income from external customers	\$ 10,343	\$ 788	\$ 11,131
Income before income taxes	2,813	122	2,935
Total assets	1,024,946	9,584	1,034,530
Capital expenditures	734		734

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. 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

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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 September 30, 2014, and December 31, 2013, were as follows:

In thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
SEPTEMBER 30, 2014				
U.S. Government and agencies	\$	19,007		