

ORRSTOWN FINANCIAL SERVICES INC
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 – Q

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

For the quarterly period ended June 30, 2017

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: 001-34292

ORRSTOWN FINANCIAL SERVICES, INC.
(Exact Name of Registrant as Specified in its Charter)

Pennsylvania 23-2530374
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)
77 East King Street, P. O. Box 250, Shippensburg, Pennsylvania 17257
(Address of Principal Executive Offices) (Zip Code)
Registrant’s Telephone Number, Including Area Code: (717) 532-6114

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, a 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 x

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 Act.). Yes No

Number of shares outstanding of the registrant's Common Stock as of July 31, 2017: 8,343,018.

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Glossary of Defined Terms

The following terms may be used throughout this Report, including the consolidated financial statements and related notes.

Term	Definition
ALL	Allowance for loan losses
AFS	Available for sale
AOCI	Accumulated other comprehensive income (loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	Orrstown Bank, the commercial banking subsidiary of Orrstown Financial Services, Inc.
CET1	Common Equity Tier 1
CMO	Collateralized mortgage obligation
Company	Orrstown Financial Services, Inc. and subsidiaries (interchangeable with "Orrstown" below)
EPS	Earnings per common share
ERM	Enterprise risk management
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHLB	Federal Home Loan Bank
FRB	Board of Governors of the Federal Reserve System
GAAP	Accounting principles generally accepted in the United States of America
GSE	U.S. government-sponsored enterprise
IRC	Internal Revenue Code of 1986, as amended
LHFS	Loans held for sale
MBS	Mortgage-backed securities
MPF Program	Mortgage Partnership Finance Program
MSR	Mortgage servicing right
NIM	Net interest margin
OCI	Other comprehensive income (loss)
OFA	Orrstown Financial Advisors, a division of the Bank that provides investment and brokerage services
OREO	Other real estate owned (foreclosed real estate)
Orrstown	Orrstown Financial Services, Inc. and subsidiaries
OTTI	Other-than-temporary impairment
Parent Company	Orrstown Financial Services, Inc., the parent company of Orrstown Bank and Wheatland Advisors, Inc.
2011 Plan	2011 Orrstown Financial Services, Inc. Incentive Stock Plan
Repurchase Agreements	Securities sold under agreements to repurchase
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
TDR	Troubled debt restructuring
Wheatland	Wheatland Advisors, Inc., the Registered Investment Advisor subsidiary of Orrstown Financial Services, Inc.

Unless the context otherwise requires, the terms "Orrstown," "we," "us," "our," and "Company" refer to Orrstown Financial Services, Inc. and its subsidiaries.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets (Unaudited)

ORRSTOWN FINANCIAL SERVICES, INC.

(Dollars in thousands, except per share data)	June 30, 2017	December 31, 2016
Assets		
Cash and due from banks	\$19,754	\$ 16,072
Interest-bearing deposits with banks	18,258	14,201
Cash and cash equivalents	38,012	30,273
Restricted investments in bank stocks	7,072	7,970
Securities available for sale	401,904	400,154
Loans held for sale	5,182	2,768
Loans	934,382	883,391
Less: Allowance for loan losses	(12,751)	(12,775)
Net loans	921,631	870,616
Premises and equipment, net	35,036	34,871
Cash surrender value of life insurance	32,523	32,102
Accrued interest receivable	4,467	4,672
Other assets	29,103	31,078
Total assets	\$1,474,930	\$ 1,414,504
Liabilities		
Deposits:		
Noninterest-bearing	\$157,703	\$ 150,747
Interest-bearing	1,038,233	1,001,705
Total deposits	1,195,936	1,152,452
Short-term borrowings	90,562	87,864
Long-term debt	23,991	24,163
Accrued interest and other liabilities	21,178	15,166
Total liabilities	1,331,667	1,279,645
Shareholders' Equity		
Preferred stock, \$1.25 par value per share; 500,000 shares authorized; no shares issued or outstanding	0	0
Common stock, no par value—\$0.05205 stated value per share 50,000,000 shares authorized; 8,348,243 and 8,343,435 shares issued; 8,343,908 and 8,285,733 shares outstanding	435	437
Additional paid - in capital	124,727	124,935
Retained earnings	15,324	11,669
Accumulated other comprehensive income (loss)	2,857	(1,165)
Treasury stock—common, 4,335 and 57,702 shares, at cost	(80)	(1,017)
Total shareholders' equity	143,263	134,859
Total liabilities and shareholders' equity	\$1,474,930	\$ 1,414,504

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of ContentsConsolidated Statements of Income (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC.

	Three Months		Six Months	
	Ended		Ended	
(Dollars in thousands, except per share data)	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Interest and dividend income				
Interest and fees on loans	\$9,851	\$ 8,384	\$19,055	\$16,375
Interest and dividends on investment securities:				
Taxable	1,766	1,368	3,593	2,832
Tax-exempt	805	441	1,586	882
Short-term investments	46	79	64	144
Total interest and dividend income	12,468	10,272	24,298	20,233
Interest expense				
Interest on deposits	1,484	1,191	2,810	2,330
Interest on short-term borrowings	189	25	361	91
Interest on long-term debt	77	105	172	211
Total interest expense	1,750	1,321	3,343	2,632
Net interest income	10,718	8,951	20,955	17,601
Provision for loan losses	100	0	100	0
Net interest income after provision for loan losses	10,618	8,951	20,855	17,601
Noninterest income				
Service charges on deposit accounts	1,429	1,372	2,787	2,675
Other service charges, commissions and fees	283	289	492	449
Trust and investment management income	1,623	1,188	3,069	2,524
Brokerage income	518	577	985	1,026
Mortgage banking activities	813	727	1,316	1,369
Earnings on life insurance	271	270	539	538
Other income	32	114	113	201
Investment securities gains	654	0	657	1,420
Total noninterest income	5,623	4,537	9,958	10,202
Noninterest expenses				
Salaries and employee benefits	7,422	6,312	14,822	12,495
Occupancy expense	705	592	1,462	1,118
Furniture and equipment	826	748	1,562	1,534
Data processing	664	519	1,175	1,154
Telephone and communication	193	190	315	366
Automated teller and interchange fees	194	237	372	398
Advertising and bank promotions	391	355	778	811
FDIC insurance	178	223	315	455
Legal fees	108	225	261	406
Other professional services	377	345	732	684
Directors' compensation	249	257	491	488
Collection and problem loan	3	96	78	148
Real estate owned	(12)	58	8	101
Taxes other than income	220	253	448	408
Regulatory settlement	0	1,000	0	1,000
Other operating expenses	899	1,148	1,744	2,113
Total noninterest expenses	12,417	12,558	24,563	23,679

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Income before income tax expense	3,824	930	6,250	4,124
Income tax expense	516	252	940	866
Net income	\$3,308	\$ 678	\$5,310	\$3,258
Per share information:				
Basic earnings per share	\$0.41	\$ 0.08	\$0.66	\$0.40
Diluted earnings per share	0.40	0.08	0.65	0.40
Dividends per share	0.10	0.09	0.20	0.17

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of ContentsConsolidated Statements of Comprehensive Income (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	\$ 3,308	\$ 678	\$5,310	\$3,258
Other comprehensive income, net of tax:				
Unrealized gains on securities available for sale arising during the period	5,130	4,596	6,750	10,992
Reclassification adjustment for gains realized in net income	(654)	0	(657)	(1,420)
Net unrealized gains	4,476	4,596	6,093	9,572
Tax effect	(1,521)	(1,609)	(2,071)	(3,350)
Total other comprehensive income, net of tax and reclassification adjustments	2,955	2,987	4,022	6,222
Total comprehensive income	\$ 6,263	\$ 3,665	\$9,332	\$9,480

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of ContentsConsolidated Statements of Changes in Shareholders' Equity (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC.

(Dollars in thousands, except per share data)	Six Months Ended June 30, 2017 and 2016					
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance, January 1, 2016	\$435	\$124,317	\$7,939	\$ 1,199	\$(829)	\$ 133,061
Net income	0	0	3,258	0	0	3,258
Total other comprehensive income, net of taxes	0	0	0	6,222	0	6,222
Cash dividends (\$0.17 per share)	0	0	(1,410)	0	0	(1,410)
Share-based compensation plans:						
Issuance of stock (37,462 common shares and 2,461 treasury shares), including compensation expense of \$499	2	490	0	0	47	539
Acquisition of treasury stock (35,648 shares)	0	0	0	0	(631)	(631)
Balance, June 30, 2016	\$437	\$124,807	\$9,787	\$ 7,421	\$(1,413)	\$ 141,039
Balance, January 1, 2017	\$437	\$124,935	\$11,669	\$ (1,165)	\$(1,017)	\$ 134,859
Net income	0	0	5,310	0	0	5,310
Total other comprehensive income, net of taxes	0	0	0	4,022	0	4,022
Cash dividends (\$0.20 per share)	0	0	(1,655)	0	0	(1,655)
Share-based compensation plans:						
Issuance of stock (4,808 net common shares and 53,367 treasury shares issued), including compensation expense of \$666	(2)	(208)	0	0	937	727
Balance, June 30, 2017	\$435	\$124,727	\$15,324	\$ 2,857	\$(80)	\$ 143,263

The Notes to Consolidated Financial Statements are an integral part of these statements.

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Consolidated Statements of Cash Flows (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC.

	Six Months Ended	
(Dollars in thousands)	June 30, 2017	June 30, 2016
Cash flows from operating activities		
Net income	\$5,310	\$ 3,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums on securities available for sale	2,477	2,577
Depreciation and amortization	1,539	1,458
Provision for loan losses	100	0
Share-based compensation		