

ORRSTOWN FINANCIAL SERVICES INC
Form 10-Q
May 08, 2018
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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
^x 1934

For the quarterly period ended March 31, 2018

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 April 30, 2018: 8,413,314.

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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, the trade name for the Bank's Trust Department |
| 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 information) | March 31, 2018 | December 31, 2017 |
|---|-------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$14,848 | \$21,734 |
| Interest-bearing deposits with banks | 15,324 | 8,073 |
| Cash and cash equivalents | 30,172 | 29,807 |
| Restricted investments in bank stocks | 12,122 | 9,997 |
| Securities available for sale | 454,800 | 415,308 |
| Loans held for sale | 3,659 | 6,089 |
| Loans | 1,044,114 | 1,010,012 |
| Less: Allowance for loan losses | (13,000) | (12,796) |
| Net loans | 1,031,114 | 997,216 |
| Premises and equipment, net | 34,387 | 34,809 |
| Cash surrender value of life insurance | 34,682 | 33,570 |
| Accrued interest receivable | 4,902 | 5,048 |
| Other assets | 30,068 | 27,005 |
| Total assets | \$1,635,906 | \$1,558,849 |
| Liabilities | | |
| Deposits: | | |
| Noninterest-bearing | \$172,496 | \$162,343 |
| Interest-bearing | 1,127,018 | 1,057,172 |
| Total deposits | 1,299,514 | 1,219,515 |
| Short-term borrowings | 93,731 | 93,576 |
| Long-term debt | 83,725 | 83,815 |
| Accrued interest and other liabilities | 16,380 | 17,178 |
| Total liabilities | 1,493,350 | 1,414,084 |
| 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; 8,423,779 and 8,347,856 shares issued; 8,412,314 and 8,347,039 shares outstanding | 438 | 435 |
| Additional paid - in capital | 125,988 | 125,458 |
| Retained earnings | 18,667 | 16,042 |
| Accumulated other comprehensive income (loss) | (2,238) | 2,845 |
| Treasury stock—common, 11,465 and 817 shares, at cost | (299) | (15) |
| Total shareholders' equity | 142,556 | 144,765 |
| Total liabilities and shareholders' equity | \$1,635,906 | \$1,558,849 |

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

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

| (Dollars in thousands, except per share information) | Three Months Ended | |
|--|-----------------------|-------------------|
| | March 31, 2018 | March 31, 2017 |
| Interest and dividend income | | |
| Interest and fees on loans | \$ 11,056 | \$ 9,204 |
| Interest and dividends on investment securities | | |
| Taxable | 2,293 | 1,827 |
| Tax-exempt | 871 | 781 |
| Short-term investments | 55 | 18 |
| Total interest and dividend income | 14,275 | 11,830 |
| Interest expense | | |
| Interest on deposits | 1,824 | 1,326 |
| Interest on short-term borrowings | 363 | 172 |
| Interest on long-term debt | 404 | 95 |
| Total interest expense | 2,591 | 1,593 |
| Net interest income | 11,684 | 10,237 |
| Provision for loan losses | 200 | 0 |
| Net interest income after provision for loan losses | 11,484 | 10,237 |
| Noninterest income | | |
| Service charges on deposit accounts | 1,418 | 1,358 |
| Other service charges, commissions and fees | 249 | 209 |
| Trust and investment management income | 1,668 | 1,446 |
| Brokerage income | 558 | 467 |
| Mortgage banking activities | 635 | 503 |
| Earnings on life insurance | 277 | 268 |
| Other income | 81 | 81 |
| Investment securities gains | 816 | 3 |
| Total noninterest income | 5,702 | 4,335 |
| Noninterest expenses | | |
| Salaries and employee benefits | 8,022 | 7,400 |
| Occupancy | 798 | 757 |
| Furniture and equipment | 919 | 736 |
| Data processing | 619 | 511 |
| Telephone and communication | 196 | 122 |
| Automated teller and interchange fees | 171 | 178 |
| Advertising and bank promotions | 382 | 387 |
| FDIC insurance | 166 | 137 |
| Legal fees | 66 | 153 |
| Other professional services | 303 | 355 |
| Directors' compensation | 251 | 242 |
| Collection and problem loan | 57 | 75 |
| Real estate owned | 25 | 20 |
| Taxes other than income | 251 | 228 |
| Other operating expenses | 843 | 845 |
| Total noninterest expenses | 13,069 | 12,146 |
| Income before income tax expense | 4,117 | 2,426 |

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| | | |
|----------------------------|---------|----------|
| Income tax expense | 492 | 424 |
| Net income | \$3,625 | \$ 2,002 |
| Per share information: | | |
| Basic earnings per share | \$0.45 | \$ 0.25 |
| Diluted earnings per share | 0.44 | 0.24 |
| Dividends per share | 0.12 | 0.10 |

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

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Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
ORRSTOWN FINANCIAL SERVICES, INC.

| (Dollars in thousands) | Three Months Ended | |
|--|-----------------------|-------------------|
| | March 31, 2018 | March 31, 2017 |
| Net income | \$3,625 | \$ 2,002 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gains (losses) on securities available for sale arising during the period | (5,619) | 1,620 |
| Reclassification adjustment for gains realized in net income | (816) | (3) |
| Net unrealized gains (losses) | (6,435) | 1,617 |
| Tax effect | 1,352 | (550) |
| Total other comprehensive income (loss), net of tax and reclassification adjustments | (5,083) | 1,067 |
| Total comprehensive income (loss) | \$(1,458) | \$ 3,069 |

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 information) | Three Months Ended March 31, 2018 and 2017 | | | | | |
|--|--|----------------------------|-------------------|---|----------------|----------------------------|
| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Shareholders' Equity |
| Balance, January 1, 2017 | \$437 | \$124,935 | \$11,669 | \$ (1,165) | \$(1,017) | \$ 134,859 |
| Net income | 0 | 0 | 2,002 | 0 | 0 | 2,002 |
| Total other comprehensive income, net of taxes | 0 | 0 | 0 | 1,067 | 0 | 1,067 |
| Cash dividends (\$0.10 per share) | 0 | 0 | (823) | 0 | 0 | (823) |
| Share-based compensation plans: | | | | | | |
| Issuance of stock (6,268 common shares forfeited and 53,367 treasury shares issued), including compensation expense of \$303 | (3) | | | | | |