

ORRSTOWN FINANCIAL SERVICES INC

Form 10-Q

November 06, 2018

Table of Contents

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 September 30, 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 every Interactive Data File required to be submitted 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 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

Non-accelerated filer  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.

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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 October 31, 2018: 9,432,862.

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Table of Contents

ORRSTOWN FINANCIAL SERVICES, INC.  
INDEX

	Page
<u>Part I – FINANCIAL INFORMATION</u>	
<u>Glossary</u>	<u>3</u>
Item 1. <u>Financial Statements</u>	<u>4</u>
<u>Consolidated Balance Sheets (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Income (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Changes in Shareholders’ Equity (Unaudited)</u>	<u>7</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>8</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>10</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>61</u>
Item 4. <u>Controls and Procedures</u>	<u>62</u>
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>63</u>
Item 1A. <u>Risk Factors</u>	<u>63</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>65</u>
Item 3. <u>Defaults upon Senior Securities</u>	<u>65</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>65</u>
Item 5. <u>Other Information</u>	<u>65</u>
Item 6. <u>Exhibits</u>	<u>66</u>
<u>SIGNATURES</u>	<u>67</u>

Table of Contents

## 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)
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.

Table of Contents

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## Consolidated Balance Sheets (Unaudited)

## ORRSTOWN FINANCIAL SERVICES, INC.

(Dollars in thousands, except per share information)	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 21,892	\$ 21,734
Interest-bearing deposits with banks	19,125	8,073
Cash and cash equivalents	41,017	29,807
Restricted investments in bank stocks	9,337	9,997
Securities available for sale	489,356	415,308
Loans held for sale	4,765	6,089
Loans	1,084,941	1,010,012
Less: Allowance for loan losses	(13,812)	(12,796)
Net loans	1,071,129	997,216
Premises and equipment, net	35,922	34,809
Cash surrender value of life insurance	34,799	33,570
Accrued interest receivable	5,393	5,048
Other assets	29,037	27,005
Total assets	\$ 1,720,755	\$ 1,558,849
Liabilities		
Deposits:		
Noninterest-bearing	\$ 187,721	\$ 162,343
Interest-bearing	1,241,449	1,057,172
Total deposits	1,429,170	1,219,515
Short-term borrowings	45,353	93,576
Long-term debt	83,543	83,815
Accrued interest and other liabilities	17,132	17,178
Total liabilities	1,575,198	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; 8,393,158 and 8,347,856 shares issued; 8,385,627 and 8,347,039 shares outstanding	437	435
Additional paid - in capital	126,260	125,458
Retained earnings	24,529	16,042
Accumulated other comprehensive income (loss)	(5,472)	2,845
Treasury stock—common, 7,531 and 817 shares, at cost	(197)	(15)
Total shareholders' equity	145,557	144,765
Total liabilities and shareholders' equity	\$ 1,720,755	\$ 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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Interest and dividend income				
Interest and fees on loans	\$12,281	\$ 10,337	\$35,068	\$ 29,392
Interest and dividends on investment securities				
Taxable	2,922	1,925	7,754	5,518
Tax-exempt	955	758	2,834	2,344
Short-term investments	68	78	169	142
Total interest and dividend income	16,226	13,098	45,825	37,396
Interest expense				
Interest on deposits	2,780	1,619	6,765	4,429
Interest on short-term borrowings	332	182	1,097	543
Interest on long-term debt	410	216	1,222	388
Total interest expense	3,522	2,017	9,084	5,360
Net interest income	12,704	11,081	36,741	32,036
Provision for loan losses	200	100	600	200
Net interest income after provision for loan losses	12,504	10,981	36,141	31,836
Noninterest income				
Service charges on deposit accounts	1,524	1,437	4,405	4,224
Other service charges, commissions and fees	492	205	1,430	697
Trust and investment management income	1,668	1,551	5,037	4,620
Brokerage income	455	424	1,514	1,409
Mortgage banking activities	735	797	2,049	2,113
Income from life insurance	533	275	1,101	814
Other income	56	34	272	147
Investment securities gains	29	533	891	1,190
Total noninterest income	5,492	5,256	16,699	15,214
Noninterest expenses				
Salaries and employee benefits	7,610	7,544	23,487	22,366
Occupancy	775	639	2,252	2,101
Furniture and equipment	990	937	2,977	2,499
Data processing	661	527	1,875	1,702
Telephone and communication	181	221	542	536
Automated teller and interchange fees	187	196	548	568
Advertising and bank promotions	279	325	898	1,103
FDIC insurance	169	139	507	454
Legal fees	215	565	364	826
Other professional services	361	380	1,140	1,112
Directors' compensation	207	254	663	745
Collection and problem loan	59	56	137	134
Real estate owned	18	41	96	49
Taxes other than income	259	211	761	659
Merger related	319	0	473	0
Other operating expenses	1,046	1,052	2,957	2,796
Total noninterest expenses	13,336	13,087	39,677	37,650
Income before income tax expense	4,660	3,150	13,163	9,400

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Income tax expense	644	376	1,510	1,316
Net income	\$4,016	\$ 2,774	\$11,653	\$ 8,084
Per share information:				
Basic earnings per share	\$0.50			