

CNB FINANCIAL CORP/PA  
Form 10-Q  
August 04, 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 000-13396

**CNB FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**25-1450605**  
(I.R.S. Employer  
Identification No.)

**1 South Second Street**

**P.O. Box 42**

**Clearfield, Pennsylvania 16830**

(Address of principal executive offices)

**Registrant's telephone number, including area code, (814) 765-9621**

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

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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, 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.

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 outstanding of the issuer's common stock as of August 1, 2017

COMMON STOCK NO PAR VALUE PER SHARE: 15,285,236 SHARES

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### **Forward-Looking Statements**

This quarterly report on form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to the financial condition, liquidity, results of operations, future performance and our business. These forward-looking statements are intended to be covered by the safe harbor for

forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are those that are not historical facts. Forward-looking statements include statements with respect to beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors (some of which are beyond our control). Forward-looking statements often include the words believes, expects, anticipates, estimates, forecasts, intends, targets, potentially, probably, projects, outlook or similar expressions or future conditional verbs such as may, will, should, would. Such known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, include, but are not limited to, (i) changes in general business, industry or economic conditions or competition; (ii) changes in any applicable law, rule, regulation, policy, guideline or practice governing or affecting financial holding companies and their subsidiaries or with respect to tax or accounting principles or otherwise; (iii) adverse changes or conditions in capital and financial markets; (iv) changes in interest rates; (v) higher than expected costs or other difficulties related to integration of combined or merged businesses; (vi) the inability to realize expected cost savings or achieve other anticipated benefits in connection with business combinations and other acquisitions; (vii) changes in the quality or composition of our loan and investment portfolios; (viii) adequacy of loan loss reserves; (ix) increased competition; (x) loss of certain key officers; (xi) continued relationships with major customers; (xii) deposit attrition; (xiii) rapidly changing technology; (xiv) unanticipated regulatory or judicial proceedings and liabilities and other costs; (xv) changes in the cost of funds, demand for loan products or demand for financial services; (xvi) other economic, competitive, governmental or technological factors affecting our operations, markets, products, services and prices; and (xvii) our success at managing the foregoing items. Some of these and other factors are discussed in our annual and quarterly reports filed with the Securities and Exchange Commission (SEC). Such factors could have an adverse impact on our financial position and our results of operations.

The forward-looking statements contained herein are based upon management's beliefs and assumptions. Any forward-looking statement made herein speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by law.

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## Part I Financial Information

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

Dollars in thousands, except share data

	(unaudited)	
	June 30, 2017	December 31, 2016
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 31,293	\$ 26,937
Interest bearing deposits with other banks	1,756	2,246
Total cash and cash equivalents	33,049	29,183
Securities available for sale	453,065	495,835
Trading securities	5,751	4,858
Loans held for sale	1,652	7,528
Loans	2,024,307	1,876,966
Less: unearned discount	(3,478)	(3,430)
Less: allowance for loan losses	(17,269)	(16,330)
Net loans	2,003,560	1,857,206
FHLB and other equity interests	23,298	19,186
Premises and equipment, net	50,367	49,522
Bank owned life insurance	44,786	44,273
Mortgage servicing rights	1,381	1,391
Goodwill	38,730	38,730
Core deposit intangible	2,192	2,854
Accrued interest receivable and other assets	21,078	23,255
Total Assets	\$ 2,678,909	\$ 2,573,821
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
Non-interest bearing deposits	\$ 313,871	\$ 289,922
Interest bearing deposits	1,762,918	1,727,600
Total deposits	2,076,789	2,017,522
Short-term borrowings	44,959	134,078
FHLB and other long term borrowings	217,981	102,926
Subordinated debentures	70,620	70,620
Deposits held for sale	0	6,456
Accrued interest payable and other liabilities	28,268	30,435
Total liabilities	2,438,617	2,362,037
Common stock, \$0 par value; authorized 50,000,000 shares; issued 15,308,378 shares at June 30, 2017 and 14,473,482 shares at December 31, 2016	0	0
Additional paid in capital	96,490	77,737

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Retained earnings	142,409	134,295
Treasury stock, at cost (23,007 shares at June 30, 2017 and 5,667 shares at December 31, 2016)	(541)	(127)
Accumulated other comprehensive income (loss)	1,934	(121)
<b>Total shareholders' equity</b>	<b>240,292</b>	<b>211,784</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 2,678,909</b>	<b>\$ 2,573,821</b>

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Three months ended June 30,	
	2017	2016
<b>INTEREST AND DIVIDEND INCOME:</b>		
Loans including fees	\$ 23,915	\$ 19,043
<b>Securities:</b>		
Taxable	2,125	2,414
Tax-exempt	774	867
Dividends	189	149
<b>Total interest and dividend income</b>	<b>27,003</b>	<b>22,473</b>
<b>INTEREST EXPENSE:</b>		
Deposits	2,243	2,077
Borrowed funds	785	794
Subordinated debentures (includes \$74 and \$86 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2017 and 2016, respectively)	986	199
<b>Total interest expense</b>	<b>4,014</b>	<b>3,070</b>
<b>NET INTEREST INCOME</b>	<b>22,989</b>	<b>19,403</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>1,134</b>	<b>220</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>21,855</b>	<b>19,183</b>
<b>NON-INTEREST INCOME:</b>		
Service charges on deposit accounts	1,165	1,006
Other service charges and fees	559	624
Wealth and asset management fees	952	780
Net realized gains on available-for-sale securities (includes \$155 and \$1,005 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2017 and 2016, respectively)	155	1,005
Net realized and unrealized gains on trading securities	127	64
Mortgage banking	247	147
Bank owned life insurance	364	263
Card processing and interchange income	970	787
Gain on sale of branch	536	0
Other	14	142
<b>Total non-interest income</b>	<b>5,089</b>	<b>4,818</b>
<b>NON-INTEREST EXPENSES:</b>		
Salaries and benefits	8,902	7,908
Net occupancy expense	2,257	1,881
Amortization of core deposit intangible	331	217
Data processing	1,019	1,121
State and local taxes	614	558
Legal, professional, and examination fees	666	364

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Advertising	619	395
FDIC insurance premiums	370	340
Prepayment penalties long-term borrowings	0	1,506
Core processing conversion costs	0	1,488
Merger costs	0	173
Card processing and interchange expenses	614	448
Other	2,405	2,353
Total non-interest expenses	17,797	18,752
INCOME BEFORE INCOME TAXES	9,147	5,249
INCOME TAX EXPENSE (includes \$28 and \$322 income tax expense from reclassification items in 2017 and 2016, respectively)	2,464	1,184
NET INCOME	\$ 6,683	\$ 4,065
EARNINGS PER SHARE:		
Basic	\$ 0.44	\$ 0.28
Diluted	\$ 0.44	\$ 0.28
DIVIDENDS PER SHARE:		
Cash dividends per share	\$ 0.165	\$ 0.165

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

Dollars in thousands, except per share data

	Six months ended June 30,	
	2017	2016
<b>INTEREST AND DIVIDEND INCOME:</b>		
Loans including fees	\$ 45,885	\$ 37,729
<b>Securities:</b>		
Taxable	4,316	4,769
Tax-exempt	1,574	1,750
Dividends	332	291
<b>Total interest and dividend income</b>	<b>52,107</b>	<b>44,539</b>
<b>INTEREST EXPENSE:</b>		
Deposits	4,364	4,093
Borrowed funds	1,594	1,708
Subordinated debentures (includes \$149 and \$176 accumulated other comprehensive income reclassification for change in fair value of interest rate swap agreements in 2017 and 2016, respectively)	1,958	393
<b>Total interest expense</b>	<b>7,916</b>	<b>6,194</b>
<b>NET INTEREST INCOME</b>	<b>44,191</b>	<b>38,345</b>
<b>PROVISION FOR LOAN LOSSES</b>	<b>2,150</b>	<b>1,416</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>42,041</b>	<b>36,929</b>
<b>NON-INTEREST INCOME:</b>		
Service charges on deposit accounts	2,255	1,987
Other service charges and fees	1,088	1,184
Wealth and asset management fees	1,823	1,503
Net realized gains on available-for-sale securities (includes \$1,538 and \$1,005 accumulated other comprehensive income reclassifications for net realized gains on available-for-sale securities in 2017 and 2016, respectively)	1,538	1,005
Net realized and unrealized gains on trading securities	315	30
Mortgage banking	431	318
Bank owned life insurance	716	526
Card processing and interchange income	1,848	1,622
Gain on sale of branch	536	0
Other	312	420
<b>Total non-interest income</b>	<b>10,862</b>	<b>8,595</b>
<b>NON-INTEREST EXPENSES:</b>		
Salaries and benefits	17,907	15,399
Net occupancy expense	4,797	3,720
Amortization of core deposit intangible	662	432
Data processing	1,980	2,373
State and local taxes	1,353	1,050
Legal, professional, and examination fees	1,215	738

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Advertising	1,032	879
FDIC insurance premiums	574	662
Prepayment penalties long-term borrowings	0	1,506
Core processing conversion costs	0	1,555
Merger costs	0	215
Card processing and interchange expenses	1,036	1,082
Other	4,275	3,955
Total non-interest expenses	34,831	33,566
<b>INCOME BEFORE INCOME TAXES</b>	<b>18,072</b>	<b>11,958</b>
INCOME TAX EXPENSE (includes \$486 and \$291 income tax expense from reclassification items in 2017 and 2016, respectively)	4,909	2,874
<b>NET INCOME</b>	<b>\$ 13,163</b>	<b>\$ 9,084</b>
<b>EARNINGS PER SHARE:</b>		
Basic	\$ 0.87	\$ 0.63
Diluted	\$ 0.87	\$ 0.63
<b>DIVIDENDS PER SHARE:</b>		
Cash dividends per share	\$ 0.33	\$ 0.33

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

Dollars in thousands

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
<b>NET INCOME</b>	<b>\$ 6,683</b>	<b>\$ 4,065</b>	<b>\$ 13,163</b>	<b>\$ 9,084</b>
Other comprehensive income, net of tax:				
Net change in fair value of interest rate swap agreements designated as cash flow hedges:				
Unrealized loss on interest rate swaps, net of tax of \$5 and \$14 for the three months ended June 30, 2017 and 2016, and \$1 and \$59 for the six months ended June 30, 2017 and 2016	(8)	(25)	(2)	(109)
Reclassification adjustment for losses recognized in earnings, net of tax of (\$26) and (\$31) for the three months ended June 30, 2017 and 2016, and (\$52) and (\$62) for the six months ended June 30, 2017 and 2016	48	56	97	114
	40	31	95	5
Net change in unrealized gains on securities available for sale:				
Unrealized gains on other-than-temporarily impaired securities available for sale:				
Unrealized gains (losses) arising during the period, net of tax of \$0 and \$179 for the three months ended June 30, 2017 and 2016, and (\$47) and \$276 for the six months ended June 30, 2017 and 2016	0	(332)	87	(513)
Reclassification adjustment for realized gains included in net income, net of tax of \$0 and \$323 for the three months ended June 30, 2017 and 2016, and \$484 and \$323 for the six months ended June 30, 2017 and 2016	0	(599)	(899)	(599)
	0	(931)	(812)	(1,112)
Unrealized gains on other securities available for sale:				
Unrealized gains arising during the period, net of tax of (\$1,088) and (\$991) for the three months ended June 30, 2017 and 2016, and (\$1,544) and (\$2,936) for the six months ended June 30, 2017 and 2016	2,023	1,839	2,873	5,454
Reclassification adjustment for realized gains included in net income, net of tax of \$54 and \$29 for the three months ended June 30, 2017 and 2016, and \$54 and \$29 for the six months ended June 30, 2017 and 2016	(101)	(54)	(101)	(54)
	1,922	1,785	2,772	5,400
Other comprehensive income	1,962	885	2,055	4,293
<b>COMPREHENSIVE INCOME</b>	<b>\$ 8,645</b>	<b>\$ 4,950</b>	<b>\$ 15,218</b>	<b>\$ 13,377</b>

See Notes to Consolidated Financial Statements



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## CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Dollars in thousands

	Six months ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 13,163	\$ 9,084
Adjustments to reconcile net income to net cash provided by operations:		
Provision for loan losses	2,150	1,416
Depreciation and amortization of premises and equipment, core deposit intangible, and mortgage servicing rights	2,683	1,981
Amortization and accretion of securities premiums and discounts, deferred loan fees and costs, net yield and credit mark on acquired loans, and unearned income	(485)	(671)
Net realized gains on sales of available-for-sale securities	(1,538)	(1,005)
Net realized and unrealized gains on trading securities	(315)	(30)
Proceeds from sale of trading securities	402	468
Purchase of trading securities	(980)	(300)
Gain on sale of branch	(536)	0
Gain on sale of loans	(156)	(213)
Net losses on dispositions of premises and equipment and foreclosed assets	20	70
Proceeds from sale of loans	13,106	7,995
Origination of loans held for sale	(10,714)	(7,324)
Income on bank owned life insurance, including death benefit proceeds in excess of cash surrender value	(716)	(526)
Stock-based compensation expense	396	412
Contribution of treasury stock	0	61
Changes in:		
Accrued interest receivable and other assets	(1,724)	156
Accrued interest payable and other liabilities	(3,073)	(750)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>11,683</b>	<b>10,824</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities, prepayments and calls of available-for-sale securities	41,358	29,113
Proceeds from sales of available-for-sale securities	7,618	4,420
Purchase of available-for-sale securities	(2,268)	(1,703)
Proceeds from death benefit of BOLI policies	203	0
Net cash received from sale of branch	1,079	0
Loan origination and payments, net	(148,106)	(78,766)
Purchase of FHLB and other equity interests	(4,112)	(102)
Purchase of premises and equipment	(2,995)	(3,384)
Proceeds from the sale of premises and equipment and foreclosed assets	236	377
<b>NET CASH USED IN BY INVESTING ACTIVITIES</b>	<b>(106,987)</b>	<b>(50,045)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in:		
Checking, money market and savings accounts	53,958	71,735
Certificates of deposit	6,388	3,807
Purchase of treasury stock	(1,357)	(23)
Cash dividends paid	(5,049)	(4,771)
Proceeds from stock offering, net of issuance costs	19,294	0

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Repayment of long-term borrowings	(24,945)	(50,011)
Advances from long-term borrowings	140,000	0
Net change in short-term borrowings	(89,119)	15,149
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>99,170</b>	<b>35,886</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,866</b>	<b>(3,335)</b>
CASH AND CASH EQUIVALENTS, Beginning	29,183	27,261
<b>CASH AND CASH EQUIVALENTS, Ending</b>	<b>\$ 33,049</b>	<b>\$ 23,926</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 7,916	\$ 6,664
Income taxes	3,100	2,026
<b>SUPPLEMENTAL NONCASH DISCLOSURES:</b>		
Transfers to other real estate owned	\$ 51	\$ 40
Grant of restricted stock awards from treasury stock	943	874
Net assets transferred for sale of branch, excluding cash and cash equivalents	543	0

See Notes to Consolidated Financial Statements

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**CNB FINANCIAL CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. BASIS OF PRESENTATION**

The accompanying consolidated financial statements have been prepared pursuant to rules and regulations of the SEC and in compliance with accounting principles generally accepted in the United States of America ( GAAP ). Because this report is based on an interim period, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

In the opinion of management of the registrant, the accompanying consolidated financial statements as of June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial condition and the results of operations for the periods presented. The financial performance reported for CNB Financial Corporation (the Corporation ) for the three and six month periods ended June 30, 2017 is not necessarily indicative of the results to be expected for the full year. This information should be read in conjunction with the Corporation s Annual Report on Form 10-K for the period ended December 31, 2016 (the 2016 Form 10-K ). All dollar amounts are stated in thousands, except share and per share data and other amounts as indicated. Certain prior period amounts have been reclassified to conform to the current period presentation.

**2. STOCK COMPENSATION**

The Corporation has a stock incentive plan for key employees and independent directors. The stock incentive plan, which is administered by a committee of the Board of Directors, provides for aggregate grants of up to 500,000 shares of common stock in the form of nonqualified options or restricted stock. For key employees, the plan vesting is one-fourth of the granted options or restricted stock per year beginning one year after the grant date, with 100% vested on the fourth anniversary of t