

LCNB CORP
Form 10-Q
May 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2018

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 001-35292

LCNB Corp.

(Exact name of registrant as specified in its charter)

Ohio

31-1626393

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2 North Broadway, Lebanon, Ohio 45036

(Address of principal executive offices, including Zip Code)

(513) 932-1414

(Registrant's telephone number, including area code)

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, 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 (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.

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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

The number of shares outstanding of the issuer's common stock, without par value, as of May 1, 2018 was 10,041,668 shares.

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LCNB CORP. AND SUBSIDIARIES

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LCNB CORP. AND SUBSIDIARIES
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (Dollars in thousands, except per share data)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS:		
Cash and due from banks	\$12,713	\$21,159
Interest-bearing demand deposits	4,781	4,227
Total cash and cash equivalents	17,494	25,386
Investment securities:		
Equity securities with a readily determinable fair value, at fair value	2,144	2,160
Equity securities without a readily determinable fair value, at cost	1,099	1,099
Debt securities, available-for-sale, at fair value	267,894	275,213
Debt securities, held-to-maturity, at cost	32,502	32,571
Federal Reserve Bank stock, at cost	2,732	2,732
Federal Home Loan Bank stock, at cost	3,638	3,638
Loans, net	853,128	845,657
Premises and equipment, net	34,595	34,927
Goodwill	30,183	30,183
Core deposit and other intangibles	3,600	3,799
Bank owned life insurance	28,171	27,985
Other assets	11,611	10,288
TOTAL ASSETS	\$1,288,791	\$1,295,638
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$286,186	\$283,212
Interest-bearing	837,277	802,609
Total deposits	1,123,463	1,085,821
Short-term borrowings	—	47,000
Long-term debt	6,219	303
Accrued interest and other liabilities	10,525	12,243
TOTAL LIABILITIES	1,140,207	1,145,367
COMMITMENTS AND CONTINGENT LIABILITIES	—	—
SHAREHOLDERS' EQUITY:		
Preferred shares – no par value, authorized 1,000,000 shares, none outstanding	—	—
Common shares – no par value; authorized 19,000,000 shares; issued 10,794,779 and 10,776,686 shares at March 31, 2018 and December 31, 2017, respectively	77,159	76,977
Retained earnings	88,933	87,301
Treasury shares at cost, 753,627 shares at March 31, 2018 and December 31, 2017	(11,665)	(11,665)

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Accumulated other comprehensive loss, net of taxes	(5,843)	(2,342)
TOTAL SHAREHOLDERS' EQUITY	148,584		150,271	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,288,791		\$ 1,295,638	

The accompanying notes to consolidated condensed financial statements are an integral part of these statements.

The consolidated condensed balance sheet as of December 31, 2017 has been derived from the audited consolidated balance sheet as of that day.

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2018	2017
INTEREST INCOME:		
Interest and fees on loans	\$9,413	\$ 8,915
Dividends on equity securities with a readily determinable fair value	15	15
Dividends on equity securities without a readily determinable fair value	7	6
Interest on debt securities, taxable	931	1,072
Interest on debt securities non-taxable	704	799
Other investments	72	57
TOTAL INTEREST INCOME	11,142	10,864
INTEREST EXPENSE:		
Interest on deposits	871	843
Interest on short-term borrowings	69	30
Interest on long-term debt	14	4
TOTAL INTEREST EXPENSE	954	877
NET INTEREST INCOME	10,188	9,987
PROVISION FOR LOAN LOSSES	79	15
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,109	9,972
NON-INTEREST INCOME:		
Trust income	964	852
Service charges and fees on deposit accounts	1,305	1,222
Bank owned life insurance income	186	189
Gains from sales of loans	22	39
Other operating income	159	128
TOTAL NON-INTEREST INCOME	2,636	2,430
NON-INTEREST EXPENSE:		
Salaries and employee benefits	4,977	4,526
Equipment expenses	253	211
Occupancy expense, net	727	568
State franchise tax	303	284
Marketing	132	143
Amortization of intangibles	185	185
FDIC insurance premiums	99	104
Contracted services	315	248
Other real estate owned	2	5
Merger-related expenses	758	—
Other non-interest expense	1,798	1,694
TOTAL NON-INTEREST EXPENSE	9,549	7,968
INCOME BEFORE INCOME TAXES	3,196	4,434
PROVISION FOR INCOME TAXES	483	1,188
NET INCOME	\$2,713	\$ 3,246

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Dividends declared per common share	\$0.16	\$ 0.16
Earnings per common share:		
Basic	\$0.27	\$ 0.32
Diluted	0.27	0.32
Weighted average common shares outstanding:		
Basic	10,020,611	9,954,054
Diluted	10,028,588	10,002,878

The accompanying notes to consolidated condensed financial statements are an integral part of these statements.

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LCNB CORP. AND SUBSIDIARIES
 CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In thousands)
 (Unaudited)

	Three Months Ended March 31,	
	2018	2017
Net income	\$2,713	\$3,246
Other comprehensive income (loss):		
Net unrealized gain (loss) on available-for-sale securities (net of taxes of \$(792) and \$256 for the three months ended March 31, 2018 and 2017, respectively)	(2,979)	528
Change in nonqualified pension plan unrecognized net loss and unrecognized prior service cost (net of taxes of \$1 for the three months ended March 31, 2018)	3	—
Other comprehensive income (loss), net of tax	(2,976)	528
TOTAL COMPREHENSIVE INCOME (LOSS)	\$(263)	\$3,774

The accompanying notes to consolidated condensed financial statements are an integral part of these statements.

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Common Shares Outstanding	Common Stock	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2016	9,998,025	\$76,490	\$80,736	\$(11,665)	\$ (2,617)	\$ 142,944
Net income			3,246			3,246
Other comprehensive income, net of taxes					528	528
Dividend Reinvestment and Stock Purchase Plan	4,192	93				93
Exercise of stock options	3,398	51				51
Compensation expense relating to stock options		1				1
Compensation expense relating to restricted stock	4,027	56				56
Common stock dividends, \$0.16 per share			(1,601)			(1,601)
Balance at March 31, 2017	10,009,642	\$76,691	\$82,381	\$(11,665)	\$ (2,089)	\$ 145,318
Balance at December 31, 2017	10,023,059	\$76,977	\$87,301	\$(11,665)	\$ (2,342)	\$ 150,271
Cumulative effect of changes in accounting principles (1)			525		(525)	—
Balance at December 31, 2017, as adjusted	10,023,059	76,977	87,826	(11,665)	(2,867)	150,271
Net income			2,713			2,713
Other comprehensive loss, net of taxes					(2,976)	(2,976)
Dividend Reinvestment and Stock Purchase Plan	4,828	93				93
Exercise of stock options	2,631	33				33
Compensation expense relating to restricted stock	10,634	56				56
Common stock dividends, \$0.16 per share			(1,606)			(1,606)
Balance at March 31, 2018	10,041,152	\$77,159	\$88,933	\$(11,665)	\$ (5,843)	\$ 148,584

(1) Represents the impact of adopting Accounting Standards Update No. 2018-02 and No. 2016-01. See Note 1 of the consolidated condensed financial statements for more information.

The accompanying notes to consolidated condensed financial statements are an integral part of these statements.

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LCNB CORP. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$2,713	\$3,246
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation, amortization, and accretion	988	771
Provision for loan losses	79	15
Deferred income tax provision (benefit)	(871)	466
Increase in cash surrender value of bank owned life insurance	(186)	(189)
Realized loss from equity securities	23	—
Realized gain from sales and impairment of premises and equipment	(1)	—
Realized loss from sales and impairment of other real estate owned and repossessed assets	—	3
Origination of mortgage loans for sale	(868)	(1,957)
Realized gains from sales of loans	(22)	(39)
Proceeds from sales of mortgage loans	879	1,971
Compensation expense related to stock options	—	1
Compensation expense related to restricted stock	56	56
Changes in:		
Accrued income receivable	(692)	(652)
Other assets	786	(631)
Other liabilities	(1,468)	(1,192)
TOTAL ADJUSTMENTS	(1,297)	(1,377)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	1,416	1,869
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities with a readily determinable fair value	65	—
Proceeds from maturities and calls of debt securities:		
Available-for-sale	3,124	4,205
Held-to-maturity	589	5,398
Purchases of investment securities:		
Equity securities with a readily determinable fair value	(71)	—
Debt securities, available-for-sale	—	(9,916)
Debt securities, held-to-maturity	(520)	(2,850)
Net increase (decrease) in loans	(7,488)	8,263
Proceeds from sale of other real estate owned and repossessed assets	—	971
Purchases of premises and equipment	(86)	(3,166)
Proceeds from sale of premises and equipment	1	—
NET CASH FLOWS (USED IN) PROVIDED BY INVESTING ACTIVITIES	(4,386)	2,905
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	37,642	37,293
Net decrease in short-term borrowings	(47,000)	(26,083)
Proceeds from long-term debt	6,000	—

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Principal payments on long-term debt	(84)	(118)
Proceeds from issuance of common stock	11	12
Proceeds from exercise of stock options	33	51
Cash dividends paid on common stock	(1,524)	(1,520)
NET CASH FLOWS (USED IN) PROVIDED BY FINANCING ACTIVITIES	(4,922)	9,635
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,892)	14,409