

EMCLAIRE FINANCIAL CORP
Form 10-K
March 24, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One):

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

For the fiscal year ended: December 31, 2015

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: 000-18464

EMCLAIRE FINANCIAL CORP

(Exact name of registrant as specified in its charter)

Pennsylvania 25-1606091
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

612 Main Street, Emlenton, PA 16373
(Address of principal executive office) (Zip Code)

Edgar Filing: EMCLAIRE FINANCIAL CORP - Form 10-K

Registrant's telephone number: (844) 767-2311

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$1.25 per share NASDAQ Capital Markets (NASDAQ)
(Title of Class) (Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO .

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 month (or for such shorter period that the registrant was required to submit and post such files). YES NO .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO .

As of June 30, 2015, the aggregate value of the 1,809,195 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 324,663 shares held by the directors and officers of the Registrant as a group, was approximately \$43.3 million. This figure is based on the last sales price of \$23.94 per share of the Registrant's Common Stock on June 30, 2015. The number of outstanding shares of common stock as of March 24, 2016, was 2,144,808.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

EMCLAIRE FINANCIAL CORP

TABLE OF CONTENTS

PART I

Item 1. <u>Business</u>	K-3
Item 1A. <u>Risk Factors</u>	K-21
Item 1B. <u>Unresolved Staff Comments</u>	K-21
Item 2. <u>Properties</u>	K-21
Item 3. <u>Legal Proceedings</u>	K-21
Item 4. <u>Mine Safety Disclosures</u>	K-21

PART II

Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	K-21
Item 6. <u>Selected Financial Data</u>	K-22
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	K-22
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	K-33
Item 8. <u>Financial Statements and Supplementary Data</u>	K-33
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	K-33
Item 9A. <u>Controls and Procedures</u>	K-34
Item 9B. <u>Other Information</u>	K-34

PART III

Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	K-34
Item 11. <u>Executive Compensation</u>	K-35

Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	K-35
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	K-35
Item 14. <u>Principal Accountant Fees and Services</u>	K-35

PART IV

Item 15. <u>Exhibits and Financial Statement Schedules</u>	K-36
--	------

SIGNATURES AND CERTIFICATIONS

K-38

K-2

Discussions of certain matters in this Form 10-K and other related year end documents may constitute 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 (the Exchange Act), and as such, may involve risks and uncertainties. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations, are generally identifiable by the use of words or phrases such as “believe”, “plan”, “expect”, “intend”, “anticipate”, “estimate”, “project”, “forecast”, “may increase”, “may fluctuate”, “may improve” and similar expressions, or future or conditional verbs such as “will”, “should”, “would”, and “could”. These forward-looking statements relate to, among other things, expectations of the business environment in which the Corporation operates, projections of future performance, potential future credit experience, perceived opportunities in the market and statements regarding the Corporation’s mission and vision. The Corporation’s actual results, performance and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements due to a wide range of factors. These factors include, but are not limited to, changes in interest rates, general economic conditions, the local economy, the demand for the Corporation’s products and services, accounting principles or guidelines, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, U.S. Treasury, and Federal Reserve, real estate markets, competition in the financial services industry, attracting and retaining key personnel, performance of new employees, regulatory actions, changes in and utilization of new technologies and other risks detailed in the Corporation’s reports filed with the Securities and Exchange Commission (SEC) from time to time. These factors should be considered in evaluating the forward-looking statements, and undue reliance should not be placed on such statements. The Corporation does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

PART I

Item 1. Business

General

Emclair Financial Corp (the Corporation) is a Pennsylvania corporation and financial holding company that provides a full range of retail and commercial financial products and services to customers in western Pennsylvania through its wholly owned subsidiary bank, The Farmers National Bank of Emlenton (the Bank). The Corporation also provides real estate settlement services through its subsidiary, Emclair Settlement Services, LLC (the Title Company).

The Bank was organized in 1900 as a national banking association and is a financial intermediary whose principal business consists of attracting deposits from the general public and investing such funds in real estate loans secured by liens on residential and commercial property, consumer loans, commercial business loans, marketable securities and interest-earning deposits. The Bank currently operates through a network of fifteen retail branch offices in Venango,

Edgar Filing: EMCLAIRE FINANCIAL CORP - Form 10-K

Butler, Clarion, Clearfield, Crawford, Elk, Jefferson and Mercer counties, Pennsylvania. The Corporation and the Bank are headquartered in Emlenton, Pennsylvania.

The Bank is subject to examination and comprehensive regulation by the Office of the Comptroller of the Currency (OCC), which is the Bank's chartering authority, and the Federal Deposit Insurance Corporation (FDIC), which insures customer deposits held by the Bank to the full extent provided by law. The Bank is a member of the Federal Reserve Bank of Cleveland (FRB) and the Federal Home Loan Bank of Pittsburgh (FHLB). The Corporation is a registered bank holding company pursuant to the Bank Holding Company Act of 1956, as amended (BHCA), and a financial holding company under the Gramm-Leach Bliley Act of 1999 (GLBA).

At December 31, 2015, the Corporation had \$600.6 million in total assets, \$52.8 million in stockholders' equity, \$429.9 million in net loans and \$489.9 million in total deposits.

K-3

On December 30, 2015, the Corporation announced the signing of a definitive merger agreement under which United American Savings Bank (United American) will merge into The Farmers National Bank of Emlenton in a cash transaction valued at approximately \$14.1 million. United American is a traditional community bank with one branch location in Pittsburgh Pennsylvania, with reported assets of approximately \$89.3 million at December 31, 2015.

Under the terms of the agreement, shareholders of United American will receive \$42.67 in cash for each share of United American common stock. The transaction is expected to be completed in the second quarter of 2016, subject to the satisfaction of customary closing conditions, including regulatory approval and the approval of the shareholders of United American.

Lending Activities

General. The principal lending activities of the Corporation are the origination of residential mortgage, commercial mortgage, commercial business and consumer loans. Nearly all of the Corporation's loans are originated in and secured by property within the Corporation's primary market area.

One-to-Four Family Mortgage Loans. The Corporation offers first mortgage loans secured by one-to-four family residences located mainly in the Corporation's primary lending area. One-to-four family mortgage loans amounted to 32.0% of the total loan portfolio at December 31, 2015. Typically such residences are single-family owner occupied units. The Corporation is an approved, qualified lender for the Federal Home Loan Mortgage Corporation (FHLMC) and the FHLB. As a result, the Corporation may sell loans to and service loans for the FHLMC and FHLB in market conditions and circumstances where this is advantageous in managing interest rate risk.

Home Equity Loans. The Corporation originates home equity loans secured by single-family residences. Home equity loans amounted to 20.1% of the total loan portfolio at December 31, 2015. These loans may be either a single advance fixed-rate loan with a term of up to 20 years or a variable rate revolving line of credit. These loans are made only on owner-occupied single-family residences.

Commercial Business and Commercial Real Estate Loans. Commercial lending constitutes a significant portion of the Corporation's lending activities. Commercial business and commercial real estate loans amounted to 46.3% of the total loan portfolio at December 31, 2015. Commercial real estate loans generally consist of loans granted for commercial purposes secured by commercial or other nonresidential real estate. Commercial loans consist of secured and unsecured loans for such items as capital assets, inventory, operations and other commercial purposes.

Consumer Loans. Consumer loans generally consist of fixed-rate term loans for automobile purchases, home improvements not secured by real estate, capital and other personal expenditures. The Corporation also offers unsecured revolving personal lines of credit and overdraft protection. Consumer loans amounted to 1.6% of the total loan portfolio at December 31, 2015.

Loans to One Borrower. National banks are subject to limits on the amount of credit that they can extend to one borrower. Under current law, loans to one borrower are limited to an amount equal to 15% of unimpaired capital and surplus on an unsecured basis, and an additional amount equal to 10% of unimpaired capital and surplus if the loan is secured by readily marketable collateral. At December 31, 2015, the Bank's loans to one borrower limit based upon 15% of unimpaired capital was \$8.4 million. The Bank may grant credit to borrowers in excess of the legal lending limit as part of the Legal Lending Limit Pilot Program approved by the OCC which allows the Bank to exceed its legal lending limit within certain parameters. At December 31, 2015, the Bank's largest single lending relationship had an outstanding balance of \$8.4 million.

Loan Portfolio. The following table sets forth the composition and percentage of the Corporation's loans receivable in dollar amounts and in percentages of the portfolio as of December 31:

<i>(Dollar amounts in thousands)</i>	2015		2014		2013		2012		2011	
	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%	Dollar Amount	%
Mortgage loans on real estate:										
Residential first mortgages	\$ 139,305	32.0 %	\$ 107,173	27.8 %	\$ 105,541	29.5 %	\$ 97,246	28.7 %	\$ 93,610	
Home equity loans and lines of credit	87,410	20.1 %	89,106	23.2 %	87,928	24.6 %	85,615	25.2 %	71,238	
Commercial	129,691	29.8 %	110,810	28.8 %	101,499	28.5 %	98,823	29.2 %	94,765	
Total real estate loans	356,406	81.9 %	307,089	79.8 %	294,968	82.6 %	281,684	83.1 %	259,613	
Other loans:										
Commercial business	71,948	16.5 %	70,185	18.2 %	53,214	14.9 %	45,581	13.4 %	43,826	
Consumer	6,742	1.6 %	7,598	2.0 %	9,117	2.6 %	11,886	3.5 %	12,642	
Total other loans	78,690	18.1 %	77,783	20.2 %	62,331	17.4 %	57,467	16.9 %	56,468	
Total loans receivable	435,096	100.0%	384,872	100.0%	357,299	100.0%	339,151	100.0%	316,081	
Less:										
Allowance for loan losses	5,205		5,224		4,869		5,350		3,536	
Net loans receivable	\$429,891		\$379,648		\$352,430		\$333,801		\$312,545	

The following table sets forth the final maturity of loans in the Corporation's portfolio as of December 31, 2015. Demand loans having no stated schedule of repayment and no stated maturity are reported as due within one year.

<i>(Dollar amounts in thousands)</i>	Due in one year or less	Due from one to five years	Due from five to ten years	Due after ten years	Total
Residential mortgages	\$ 4,544	\$ 1,805	\$ 6,967	\$ 125,989	\$ 139,305
Home equity loans and lines of credit	94	8,624	24,539	54,153	87,410
Commercial mortgages	6,487	5,724	49,925	67,555	129,691
Commercial business	4,124	19,111	15,080	33,633	71,948
Consumer	153	3,521	955	2,113	6,742
	\$ 15,402	\$ 38,785	\$ 97,466	\$ 283,443	\$ 435,096

Edgar Filing: EMCLAIRE FINANCIAL CORP - Form 10-K

The following table sets forth the dollar amount of the Corporation's fixed and adjustable rate loans with maturities greater than one year as of December 31, 2015:

<i>(Dollar amounts in thousands)</i>	Fixed rates	Adjustable rates
Residential mortgage	\$ 123,741	\$ 11,020