FRANKLIN FINANCIAL SERVICES CORP /PA/
Form 10-Q
August 08, 2016
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, 2016

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 0-12126

FRANKLIN FINANCIAL SERVICES CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	25-1440803
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 South Main Street, Chambersburg	PA 17201-0819
(Address of principal executive offices)	(Zip Code)

(717) 264-6116

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

There were 4,302,395 outstanding shares of the Registrant's common stock as of July 31, 2016.

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Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)(unaudited)	June 30 2016	December 31 2015
Assets		
Cash and due from banks	$ 15,668	$ 20,664
Interest-bearing deposits in other banks	25,381	18,502
Total cash and cash equivalents	41,049	39,166
Investment securities available for sale, at fair value	163,557	159,473
Restricted stock	436	782
Loans held for sale	487	461
Loans	826,656	782,016
Allowance for loan losses	(10,318)	(10,086)
Net Loans	816,338	771,930
Premises and equipment, net	14,414	14,759
Bank owned life insurance	22,196	22,364
Goodwill	9,016	9,016
Other real estate owned	6,194	6,451
Deferred tax asset, net	3,947	4,758
Other assets	6,412	6,135
Total assets	$ 1,084,046	$ 1,035,295
Liabilities		
Deposits		
Noninterest-bearing checking	$ 162,515	$ 152,095
Money management, savings and interest checking	722,413	680,686
Time	80,626	85,731
Total Deposits	965,554	918,512
Other liabilities	2,544	5,407
Total liabilities	968,098	923,919
Shareholders' equity		
Common stock, $1 par value per share,15,000,000 shares authorized with 4,685,049 shares issued and 4,301,648 shares outstanding at June 30, 2016 and 4,659,319 shares issued and 4,275,879 shares outstanding at December 31, 2015	4,685	4,659
Capital stock without par value, 5,000,000 shares authorized with no shares issued and outstanding	-	-
Additional paid-in capital	39,454	38,778
Retained earnings	81,090	78,517
Accumulated other comprehensive loss	(2,356)	(3,722)

Treasury stock, 383,401 shares at June 30, 2016 and 383,440 shares at December 31, 2015, at cost	(6,925)	(6,856)
Total shareholders' equity	115,948	111,376
Total liabilities and shareholders' equity	$ 1,084,046	$ 1,035,295

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Income

(Dollars in thousands, except per share data) (unaudited)	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2016	2015	2016	2015
Interest income				
Loans, including fees:	$ 7,964	$ 7,477	$ 16,053	$ 14,853
Interest and dividends on investments:				
Taxable interest	584	613	1,160	1,248
Tax exempt interest	357	408	723	817
Dividend income	4	8	10	60
Deposits and obligations of other banks	79	72	141	127
Total interest income	8,988	8,578	18,087	17,105
Interest expense				
Deposits	548	619	1,091	1,260
Short-term borrowings	-	-	2	-
Total interest expense	548	619	1,093	1,260
Net interest income	8,440	7,959	16,994	15,845
Provision for loan losses	1,875	310	2,175	635
Net interest income after provision for loan losses	6,565	7,649	14,819	15,210
Noninterest income				
Investment and trust services fees	1,218	1,388	2,472	2,651
Loan service charges	189	314	415	496
Deposit service charges and fees	602	586	1,180	1,077
Other service charges and fees	313	311	616	607
Debit card income	375	356	722	675
Increase in cash surrender value of life insurance	132	140	267	279
Net (loss) gain on sale of other real estate owned	(2)	-	(10)	32
OTTI losses on debt securities	-	-	(20)	(20)
Gain on conversion of investment security	-	-	-	728
Securities gains, net	2	8	3	8
Other	27	13	164	237
Total noninterest income	2,856	3,116	5,809	6,770
Noninterest expense				
Salaries and employee benefits	4,346	4,203	8,716	8,286
Occupancy, net	553	556	1,152	1,172
Furniture and equipment	218	239	434	470
Advertising	262	283	543	471
Legal and professional	394	203	691	499
Data processing	504	556	1,001	1,023
Pennsylvania bank shares tax	260	206	496	402
Intangible amortization	-	90	-	181
FDIC insurance	169	160	326	308
ATM/debit card processing	200	186	428	373

Foreclosed real estate	13	7	76	19
Telecommunications	90	118	209	235
Other	721	852	1,453	1,711
Total noninterest expense	7,730	7,659	15,525	15,150
Income before federal income tax expense	1,691	3,106	5,103	6,830
Federal income tax expense	130	632	815	1,472
Net income	$ 1,561	$ 2,474	$ 4,288	$ 5,358
Per share				
Basic earnings per share	$ 0.36	$ 0.58	$ 1.00	$ 1.27
Diluted earnings per share	$ 0.36	$ 0.58	$ 1.00	$ 1.26
Cash dividends declared	$ 0.21	$ 0.19	$ 0.40	$ 0.36

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands) (unaudited)	For the Three Months Ended June 30 2016	2015	For the Six Months Ended June 30 2016	2015
Net Income	$ 1,561	$ 2,474	$ 4,288	$ 5,358
Securities:				
Unrealized gains arising during the period	1,006	(1,239)	2,051	(536)
Reclassification adjustment for (gains) losses included in net income (1)	(2)	(8)	17	(716)
Net unrealized gains (losses)	1,004	(1,247)	2,068	(1,252)
Tax effect	(340)	424	(702)	426
Net of tax amount	664	(823)	1,366	(826)
Derivatives:				
Unrealized gains arising during the period	-	32	-	31
Reclassification adjustment for losses included in net income (2)	-	64	-	160
Net unrealized gains	-	96	-	191
Tax effect	-	(32)	-	(65)
Net of tax amount	-	64	-	126
Total other comprehensive income (loss)	664	(759)	1,366	(700)
Total Comprehensive Income	$ 2,225	$ 1,715	$ 5,654	$ 4,658

Reclassification adjustment / Statement line item	Tax expense (benefit)			
(1) Securities / gain on conversion & securities (gains) losses, net	$ 1	$ 3	$ (6)	$ 243
(2) Derivatives / interest expense on deposits	-	(22)	-	(54)

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Changes in Shareholders' Equity

For the Six Months Ended June 30, 2016 and 2015:

(Dollars in thousands, except per share data) (unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at December 31, 2014	$ 4,607	$ 37,504	$ 71,452	$ (3,100)	$ (6,942)	$ 103,521
Net income	-	-	5,358	-	-	5,358
Other comprehensive loss	-	-	-	(700)	-	(700)
Cash dividends declared, $.36 per share	-	-	(1,522)	-	-	(1,522)
Treasury shares issued under employer stock option plans, 4,518 shares	-	5	-	-	81	86
Common stock issued under dividend reinvestment plan, 18,507 shares	18	417	-	-	-	435
Balance at June 30, 2015	$ 4,625	$ 37,926	$ 75,288	$ (3,800)	$ (6,861)	$ 107,178
Balance at December 31, 2015	$ 4,659	$ 38,778	$ 78,517	$ (3,722)	$ (6,856)	$ 111,376
Net income	-	-	4,288	-	-	4,288
Other comprehensive income	-	-	-	1,366	-	1,366
Cash dividends declared, $.40 per share	-	-	(1,715)	-	-	(1,715)
Acquisition of 15,521 shares of treasury stock	-	-	-	-	(350)	(350)
Treasury shares issued under employer stock purchase plan, 188 shares	-	1	-	-	278	279
Treasury shares issued under dividend reinvestment plan, 15,372 shares	-	82	-	-	3	85
Common stock issued under dividend reinvestment plan, 25,230 shares	25	527	-	-	-	552
Common stock issued under incentive stock option plan, 500 shares	1	8	-	-	-	9
Stock option compensation expense	-	58	-	-	-	58
Balance at June 30, 2016	$ 4,685	$ 39,454	$ 81,090	$ (2,356)	$ (6,925)	$ 115,948

The accompanying notes are an integral part of these unaudited financial statements.

Consolidated Statements of Cash Flows

	Six Months Ended June 30	
	2016	2015
(Dollars in thousands) (unaudited)		
Cash flows from operating activities		
Net income	$ 4,288	$ 5,358
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	666	675
Net amortization of loans and investment securities	794	796
Amortization and net change in mortgage servicing rights valuation	27	9
Amortization of intangibles	-	181
Provision for loan losses	2,175	635
Gain on sales of securities	(3)	(8)
Impairment write-down on securities recognized in earnings	20	20
Gain on conversion of investment security	-	(728)
Loans originated for sale	(4,963)	(3,812)
Proceeds from sale of loans	4,937	2,446
Write-down of other real estate owned	46	-
Write-down on premises and equipment	-	60
Net loss (gain) on sale or disposal of other real estate/other repossessed assets	10	(32)
Increase in cash surrender value of life insurance	(267)	(279)
Stock option compensation	58	-
(Increase) decrease in other assets	(504)	1,380
(Decrease) in other liabilities	(2,588)	(2,195)
Net cash provided by operating activities	4,696	4,506
Cash flows from investing activities		
Proceeds from sales and calls of investment securities available for sale	1,765	1,381
Proceeds from maturities and pay-downs of securities available for sale	11,929	14,132
Purchase of investment securities available for sale	(16,605)	(21,689)
Net decrease (increase) in restricted stock	346	(1)
Net increase in loans	(46,522)	(7,256)
Capital expenditures	(288)	(190)
Proceeds from surrender of life insurance policy	436	-
Proceeds from sale of other real estate	224	129
Net cash used in investing activities	(48,715)	(13,494)
Cash flows from financing activities		
Net increase in demand deposits, interest-bearing checking, and savings accounts	52,147	41,406
Net decrease in time deposits	(5,105)	(6,528)
Net decrease in repurchase agreements	-	(9,079)
Dividends paid	(1,715)	(1,522)
Common stock issued under stock option plans	288	86
Common stock issued under dividend reinvestment plan	637	435
Purchase of treasury stock	(350)	-

Net cash provided by financing activities	45,902	24,798
Increase in cash and cash equivalents	1,883	15,810
Cash and cash equivalents as of January 1	39,166	48,593
Cash and cash equivalents as of June 30	$ 41,049	$ 64,403
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest on deposits and other borrowed funds	$ 1,097	$ 1,304
Income taxes	$ 2,100	$ 1,513
Noncash Activities		
Loans transferred to Other Real Estate	$ 23	$ 449

The accompanying notes are an integral part of these unaudited financial statements.

FRANKLIN FINANCIAL SERVICES CORPORATION and SUBSIDIARIES

UNAUDITED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

The consolidated financial statements include the accounts of Franklin Financial Services Corporation (the Corporation), and its wholly-owned subsidiaries, Farmers and Merchants Trust Company of Chambersburg (the Bank) and Franklin Future Fund Inc. Farmers and Merchants Trust Company of Chambersburg is a commercial bank that has one wholly-owned subsidiary, Franklin Financial Properties Corp. Franklin Financial Properties Corp. holds real estate assets that are leased by the Bank. Franklin Future Fund Inc. is a non-bank investment company. The activities of non-bank entities are not significant to the consolidated totals. All significant intercompany transactions and account balances have been eliminated.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations, and cash flows as of June 30, 2016, and for all other periods presented have been made.

Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Corporation's 2015 Annual Report on Form 10-K. The consolidated results of operations for the three and six month periods ended June 30, 2016 are not necessarily indicative of the operating results for the full year. Management has evaluated subsequent events for potential recognition and/or disclosure through the date these consolidated financial statements were issued.

The consolidated balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete consolidated financial statements.

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Earnings per share are computed based on the weighted average number of shares outstanding during each period end. A reconciliation of the weighted average shares outstanding used to calculate basic earnings per share and diluted earnings per share follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
(Dollars and shares in thousands, except per share data)	2016	2015	2016	2015
Weighted average shares outstanding (basic)	4,294	4,234	4,289	4,228
Impact of common stock equivalents	4	11	3	8
Weighted average shares outstanding (diluted)	4,298	4,245	4,292	4,236

Anti-dilutive options excluded from calculation	43	13	44	28
Net income	$ 1,561	$ 2,474	$ 4,288	$ 5,358
Basic earnings per share	$ 0.36	$ 0.58	$ 1.00	$ 1.27
Diluted earnings per share	$ 0.36	$ 0.58	$ 1.00	$ 1.26

Note 2. Recent Accounting Pronouncements

Financial Instruments – Credit Losses (Topic 326). In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss (CECL) model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent account for PCD financial assets is the same expected loss model described above. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Revenue from Contracts with Customers (Topic 606). The amendments in this Update (ASU 2014-09) establish a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The ASU is effective for public entities for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. January 1, 2017) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is prohibited under U.S. GAAP. The Corporation does not believe ASU 2014-09 will have a material effect on its financial statements.

Financial Instruments – Overall (Topic 825-10). In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Topic 825-10): "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends the guidance on the classification and measurement of financial instruments. Some of the amendments in ASU 2016-01 include the following: 1) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; 3) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and 4) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value; among others. For public business entities, the amendments of ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Corporation does not believe ASU 2016-01 will have a material effect on its financial statements.

Leases (Topic 842). In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases. From the lessee's perspective, the new standard established a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement for a lessees. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as financing. If the lessor doesn't convey risks and rewards or control, an operating lease results.

The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Note 3. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive losses included in shareholders' equity are as follows:

(Dollars in thousands)	June 30 2016	December 31, 2015
Net unrealized gains on securities	$ 3,206	$ 1,138
Tax effect	(1,089)	(387)
Net of tax amount	2,117	751
Accumulated pension adjustment	(6,777)	(6,777)
Tax effect	2,304	2,304
Net of tax amount	(4,473)	(4,473)
Total accumulated other comprehensive loss	$ (2,356)	$ (3,722)

Note 4. Guarantees

The Corporation does not issue any guarantees that would require liability recognition or disclosure, other than its standby letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as those that are involved in extending loan facilities to customers. The Bank generally holds collateral and/or personal guarantees supporting these commitments. The Bank had $29.4 million and $25.9 million of standby letters of credit as of June 30, 2016 and December 31, 2015, respectively. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of June 30, 2016 and December 31, 2015 for guarantees under standby letters of credit issued was not material.

Note 5. Investments

The amortized cost and estimated fair value of investment securities available for sale as of June 30, 2016 and December 31, 2015 are as follows:

(Dollars in thousands) June 30, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	$ 164	$ 76	$ -	$ 240
U.S. Government and Agency securities	13,104	339	(17)	13,426
Municipal securities	68,430	2,354	(43)	70,741
Trust preferred securities	5,968	-	(798)	5,170
Agency mortgage-backed securities	71,448	1,310	(35)	72,723
Private-label mortgage-backed securities	1,201	27	(5)	1,223
Asset-backed securities	36	-	(2)	34
	$ 160,351	$ 4,106	$ (900)	$ 163,557

(Dollars in thousands) December 31, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	$ 164	$ 69	$ -	$ 233
U.S. Government and Agency securities	13,705	164	(33)	13,836
Municipal securities	67,851	1,555	(218)	69,188
Trust preferred securities	5,958	-	(669)	5,289
Agency mortgage-backed securities	69,284	621	(386)	69,519
Private-label mortgage-backed securities	1,335	39	(2)	1,372
Asset-backed securities	38	-	(2)	36
	$ 158,335	$ 2,448	$ (1,310)	$ 159,473

At June 30, 2016 and December 31, 2015, the fair value of investment securities pledged to secure public funds, trust balances, deposit and other obligations totaled $69.4 million and $79.6 million, respectively.

The amortized cost and estimated fair value of debt securities at June 30, 2016, by contractual maturity are shown below. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities.

(Dollars in thousands)	Amortized cost	Fair value
Due in one year or less	$ 2,618	$ 2,641
Due after one year through five years	11,175	11,516
Due after five years through ten years	28,597	29,698
Due after ten years	45,148	45,516
	87,538	89,371
Mortgage-backed securities	72,649	73,946
	$ 160,187	$ 163,317

The composition of the net realized securities gains for the three and six months ended are as follows:

(Dollars in thousands)	For the Three Months Ended June 30 2016	2015	For the Six Months Ended June 30 2016	2015
Gross gains realized	$ 2	$ -	$ 3	$ 8
Gross losses realized	-	-	-	-
Conversion gain	-	-	-	728
Net gains realized	$ 2	$ -	$ 3	$ 736

The following table provides additional detail about trust preferred securities as of June 30, 2016:

Trust Preferred Securities

(Dollars in thousands)

Deal Name	Maturity	Single Issuer or Pooled	Class	Amortized Cost	Fair Value	Gross Unrealized Gain (Loss)	Lowest Credit Rating Assigned
BankAmerica Cap III	1/15/2027	Single	Preferred Stock	$ 966	$ 832	$ (134)	BB+
Wachovia Cap Trust II	1/15/2027	Single	Preferred Stock	279	254	(25)	BBB
Huntington Cap Trust	2/1/2027	Single	Preferred Stock	944	795	(149)	BB
Corestates Captl Tr II	2/15/2027	Single	Preferred Stock	941	848	(93)	BBB+
Huntington Cap Trust II	6/15/2028	Single	Preferred Stock	897	767	(130)	BB
Chase Cap VI JPM	8/1/2028	Single	Preferred Stock	965	832	(133)	BBB-
Fleet Cap Tr V	12/18/2028	Single	Preferred Stock	976	842	(134)	BB+
				$ 5,968	$ 5,170	$ (798)	

The following table provides additional detail about private label mortgage-backed securities as of June 30, 2016:

Private Label Mortgage Backed Securities

(Dollars in thousands) Description	Origination Date	Amortized Cost	Fair Value	Gross Unrealized Gain (Loss)	Collateral Type	Lowest Credit Rating Assigned	Credit Support %	Cumulative OTTI Charges
MALT 2004-6 7A1	6/1/2004	$ 322	$ 319	$ (3)	ALT A	CCC	15.07	$ -
RALI 2005-QS2 A1	2/1/2005	176	187	11	ALT A	CC	4.83	10
RALI 2006-QS4 A2	4/1/2006	425	423	(2)	ALT A	D	-	323
GSR 2006-5F 2A1	5/1/2006	53	60	7	Prime	D	-	15
RALI 2006-QS8 A1	7/28/2006	225	234	9	ALT A	D	-	227
		$ 1,201	$ 1,223	$ 22				$ 575

Impairment:

The investment portfolio contained thirty-seven securities with $21.0 million of temporarily impaired fair value and $900 thousand in unrealized losses at June 30, 2016. The total unrealized loss position has improved from a $1.3 million unrealized loss at year-end 2015.

For securities with an unrealized loss, Management applies a systematic methodology in order to perform an assessment of the potential for other-than-temporary impairment. In the case of debt securities, investments considered for other-than-temporary impairment: (1) had a specified maturity or repricing date; (2) were generally expected to be redeemed at par, and (3) were expected to achieve a recovery in market value within a reasonable period of time. In addition, the Bank considers whether it intends to sell these securities or whether it will be forced to sell these securities before the earlier of amortized cost recovery or maturity. Equity securities are assessed for other-than-temporary impairment based on the length of time of impairment, dollar amount of the impairment and general market and financial conditions relating to specific issues. The impairment identified on debt and equity securities and subject to assessment at June 30, 2016, was deemed to be temporary and required no further adjustments to the financial statements, unless otherwise noted.

The following table reflects temporary impairment in the investment portfolio (excluding restricted stock), aggregated by investment category, length of time that individual securities have been in a continuous unrealized loss position and the number of securities in each category as of June 30, 2016 and December 31, 2015:

	June 30, 2016								
	Less than 12 months			12 months or more			Total		
	Fair	Unrealized		Fair	Unrealized		Fair	Unrealized	
(Dollars in thousands)	Value	Losses	Count	Value	Losses	Count	Value	Losses	Count
U.S. Government and Agency securities	$ -	$ -	-	$ 3,612	$ (17)	10	$ 3,612	$ (17)	10
Municipal securities	-	-	-	2,328	(43)	3	2,328	(43)	3
Trust preferred securities	-	-	-	5,170	(798)	7	5,170	(798)	7
Agency mortgage-backed securities	3,218	(2)	3	5,929	(33)	11	9,147	(35)	14
Private-label mortgage-backed securities	319	(3)	1	423	(2)	1	742	(5)	2
Asset-backed securities	-	-	-	5	(2)	1	5	(2)	1
Total temporarily impaired securities	$ 3,537	$ (5)	4	$ 17,467	$ (895)	33	$ 21,004	$ (900)	37

	December 31, 2015								
	Less than 12 months			12 months or more			Total		
	Fair	Unrealized		Fair	Unrealized		Fair	Unrealized	
(Dollars in thousands)	Value	Losses	Count	Value	Losses	Count	Value	Losses	Count
U.S. Government and Agency securities	$ 479	$ (1)	3	$ 4,364	$ (32)	10	$ 4,843	$ (33)	13
Municipal securities	5,806	(35)	8	4,785	(183)	7	10,591	(218)	15
Trust preferred securities	-	-	-	5,289	(669)	7	5,289	(669)	7
Agency mortgage-backed securities	18,977	(215)	29	7,394	(171)	13	26,371	(386)	42
Private-label mortgage-backed securities	-	-	-	246	(2)	1			