

FRANKLIN FINANCIAL SERVICES CORP /PA/

Form 10-Q

November 06, 2017

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, 2017

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

(State or other jurisdiction of incorporation or organization)

25-1440803

(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

Edgar Filing: FRANKLIN FINANCIAL SERVICES CORP /PA/ - Form 10-Q

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, 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 Act) Yes No

There were 4,347,855 outstanding shares of the Registrant’s common stock as of October 31, 2017.

INDEX

Part I - FINANCIAL INFORMATION

<u>Item 1</u>	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016 (unaudited)</u>	1
	<u>Consolidated Statements of Income for the Three and Nine Months ended September 30, 2017 and 2016 (unaudited)</u>	2
	<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2017 and 2016 (unaudited)</u>	3
	<u>Consolidated Statements of Changes in Shareholders' Equity for the Nine Months ended September 30, 2017 and 2016 (unaudited)</u>	3
	<u>Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2017 and 2016 (unaudited)</u>	4
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	5
<u>Item 2</u>	<u>Management's Discussion and Analysis of Results of Operations and Financial Condition</u>	28
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	48
<u>Item 4</u>	<u>Controls and Procedures</u>	48

Part II - OTHER INFORMATION

<u>Item 1</u>	<u>Legal Proceedings</u>	49
<u>Item 1A</u>	<u>Risk Factors</u>	49
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	49
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u>	49
<u>Item 4</u>	<u>Mine Safety Disclosures</u>	49
<u>Item 5</u>	<u>Other Information</u>	50
<u>Item 6</u>	<u>Exhibits</u>	50
	<u>SIGNATURE PAGE</u>	51

Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)(unaudited)	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	\$ 16,678	\$ 16,888
Interest-bearing deposits in other banks	54,683	19,777
Total cash and cash equivalents	71,361	36,665
Investment securities available for sale, at fair value	132,322	143,875
Restricted stock	456	1,767
Loans held for sale	452	540
Loans	911,503	893,873
Allowance for loan losses	(11,543)	(11,075)
Net Loans	899,960	882,798
Premises and equipment, net	13,807	14,058
Bank owned life insurance	22,850	22,459
Goodwill	9,016	9,016
Other real estate owned	2,629	4,915
Deferred tax asset, net	6,146	5,844
Other assets	6,550	5,506
Total assets	\$ 1,165,549	\$ 1,127,443
Liabilities		
Deposits		
Non-interest bearing checking	\$ 183,297	\$ 170,345
Money management, savings and interest checking	774,513	737,140
Time	75,338	74,635
Total deposits	1,033,148	982,120
Short-term borrowings	—	24,270
Other liabilities	7,821	4,560
Total liabilities	1,040,969	1,010,950
Shareholders' equity		
Common stock, \$1 par value per share, 15,000,000 shares authorized with 4,688,349 shares issued and 4,346,394 shares outstanding at September 30, 2017 and 4,688,349 shares issued and 4,316,836 shares outstanding at December 31, 2016	4,688	4,688
Capital stock without par value, 5,000,000 shares authorized with no shares issued and outstanding	—	—
Additional paid-in capital	40,238	39,752
Retained earnings	89,532	83,081
Accumulated other comprehensive loss	(3,607)	(4,215)

Edgar Filing: FRANKLIN FINANCIAL SERVICES CORP /PA/ - Form 10-Q

Treasury stock, 341,955 shares at September 30, 2017 and 371,513 shares at December 31, 2016, at cost	(6,271)	(6,813)
Total shareholders' equity	124,580	116,493
Total liabilities and shareholders' equity	\$ 1,165,549	\$ 1,127,443

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

1

Consolidated Statements of Income

(Dollars in thousands, except per share data) (unaudited)	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2017	2016	September 30, 2017	2016
Interest income				
Loans, including fees	\$ 9,130	\$ 8,343	\$ 26,808	\$ 24,394
Interest and dividends on investments:				
Taxable interest	509	569	1,558	1,729
Tax exempt interest	275	355	861	1,079
Dividend income	2	2	23	12
Deposits and obligations of other banks	147	79	297	220
Total interest income	10,063	9,348	29,547	27,434
Interest expense				
Deposits	629	559	1,785	1,650
Short-term borrowings	—	4	15	6
Total interest expense	629	563	1,800	1,656
Net interest income	9,434	8,785	27,747	25,778
Provision for loan losses	250	1,150	420	3,325
Net interest income after provision for loan losses	9,184	7,635	27,327	22,453
Noninterest income				
Investment and trust services fees	1,353	1,211	3,991	3,683
Loan service charges	201	102	657	518
Deposit service charges and fees	611	635	1,789	1,815
Other service charges and fees	340	325	996	941
Debit card income	325	373	1,062	1,095
Increase in cash surrender value of life insurance	130	131	391	399
Net loss on sale of other real estate owned	(23)	(20)	(23)	(31)
OTTI losses on debt securities	—	(10)	—	(30)
Securities gains, net	1	—	3	4
Other	33	56	186	219
Total noninterest income	2,971	2,803	9,052	8,613
Noninterest Expense				
Salaries and employee benefits	4,694	4,566	14,190	13,282
Occupancy, furniture and equipment, net	809	777	2,386	2,363
Advertising	332	296	873	839
Legal and professional	502	423	1,173	1,114
Data processing	567	539	1,643	1,540
Pennsylvania bank shares tax	243	203	728	699
FDIC Insurance	82	188	281	514
ATM/debit card processing	190	214	630	642
Foreclosed real estate	24	18	95	93
Telecommunications	106	91	308	300
Other	756	665	2,116	2,119
Total noninterest expense	8,305	7,980	24,423	23,505
Income before federal income taxes	3,850	2,458	11,956	7,561

Edgar Filing: FRANKLIN FINANCIAL SERVICES CORP /PA/ - Form 10-Q

Federal income tax expense	774	383	2,517	1,198
Net income	\$ 3,076	\$ 2,075	\$ 9,439	\$ 6,363
Per share				
Basic earnings per share	\$ 0.71	\$ 0.48	\$ 2.18	\$ 1.48
Diluted earnings per share	\$ 0.70	\$ 0.48	\$ 2.17	\$ 1.48
Cash dividends declared	\$ 0.24	\$ 0.21	\$ 0.69	\$ 0.61

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 September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	\$ 3,076	\$ 2,075	\$ 9,439	\$ 6,363
Securities:				
Unrealized gains arising during the period	(97)	(524)	924	1,528
Reclassification adjustment for net (gains) losses and OTTI included in net income (1)	(1)	10	(3)	26
Net unrealized gains	(98)	(514)	921	1,554
Tax effect	33	174	(313)	(528)
Net of tax amount	(65)	(340)	608	1,026
Pension:				
Change in plan assets and benefit obligations	—	—	—	—
Reclassification adjustment for losses included in net income (2)	—	225	—	225
Net unrealized losses	—	225	—	225
Tax effect	—	(76)	—	(76)
Net of tax amount	—	149	—	149
Total other comprehensive (loss) income	(65)	(191)	608	1,175
Total Comprehensive Income	\$ 3,011	\$ 1,884	\$ 10,047	\$ 7,538

Reclassification adjustment / Statement line item	Tax expense (benefit)			
(1) Securities / securities (gains) losses and OTTI losses, net	\$ —	\$ (3)	\$ 1	\$ (9)
(2) Pension / Salary & Benefits	—	(77)	—	(77)

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

Consolidated Statements of Changes in Shareholders' Equity

For the Nine Months ended September 30, 2017 and 2016

Edgar Filing: FRANKLIN FINANCIAL SERVICES CORP /PA/ - Form 10-Q

	Common	Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury	Total
(Dollars in thousands, except per share data) (unaudited)	Stock	Capital	Earnings	Loss	Stock	Total
Balance at December 31, 2015	\$ 4,659	\$ 38,778	\$ 78,517	\$ (3,722)	\$ (6,856)	\$ 111,376
Net income	—	—	6,363	—	—	6,363
Other comprehensive income	—	—	—	1,175	—	1,175
Cash dividends declared, \$.61 per share	—	—	(2,618)	—	—	(2,618)
Acquisition of 30,196 shares of treasury stock	—	—	—	—	(700)	(700)
Treasury shares issued under employer stock purchase plan, 539 shares	—	2	—	—	10	12
Treasury shares issued under dividend reinvestment plan, 24,171 shares	—	134	—	—	438	572
Common stock issued under dividend reinvestment plan, 25,230 shares	25	527	—	—	—	552
Common stock issued under incentive stock option plan, 3,600 shares	4	55	—	—	—	59
Stock option compensation expense	—	88	—	—	—	88
Balance at September 30, 2016	\$ 4,688	\$ 39,584	\$ 82,262	\$ (2,547)	\$ (7,108)	\$ 116,879
Balance at December 31, 2016	\$ 4,688	\$ 39,752	\$ 83,081	\$ (4,215)	\$ (6,813)	\$ 116,493
Net income	—	—	9,439	—	—	9,439
Other comprehensive income	—	—	—	608	—	608
Cash dividends declared, \$.69 per share	—	—	(2,988)	—	—	(2,988)
Treasury shares issued under employee stock purchase plan, 6,568 shares	—	29	—	—	—	—