

PEOPLES FINANCIAL SERVICES CORP.

Form 10-Q

November 07, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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Form 10-Q

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the quarterly period ended September 30, 2016

or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
for the transition period from

001-36388

(Commission File Number)

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PEOPLES FINANCIAL SERVICES CORP.

(Exact name of registrant as specified in its charter)

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(State of incorporation)	(IRS Employer ID Number)
150 North Washington Avenue, Scranton, PA (Address of principal executive offices)	18503 (Zip code)

(570) 346-7741

(Registrant's telephone number, including area code)

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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 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 as defined 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 Exchange Act. Yes No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of the registrant's common stock, as of the latest practicable date: 7,394,143 at October 31, 2016.

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PEOPLES FINANCIAL SERVICES CORP.

FORM 10-Q

For the Quarter Ended September 30, 2016

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## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in thousands, except share and per share data)

	September 30, 2016	December 31, 2015
Assets:		
Cash and due from banks	\$ 31,620	\$ 28,218
Interest-bearing deposits in other banks	294	4,699
Investment securities:		
Available-for-sale	249,913	284,935
Held-to-maturity: Fair value September 30, 2016, \$11,546; December 31, 2015, \$12,606	10,864	12,109
Total investment securities	260,777	297,044
Loans, net	1,522,391	1,340,865
Less: allowance for loan losses	15,712	12,975
Net loans	1,506,679	1,327,890
Loans held for sale	360	
Premises and equipment, net	33,049	28,157
Accrued interest receivable	5,309	5,796
Goodwill	63,370	63,370
Intangible assets	4,498	5,397
Other assets	65,283	58,487
Total assets	\$ 1,971,239	\$ 1,819,058
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 342,782	\$ 320,978
Interest-bearing	1,223,028	1,134,832
Total deposits	1,565,810	1,455,810
Short-term borrowings	75,300	38,325
Long-term debt	58,685	60,354
Accrued interest payable	434	560
Other liabilities	14,570	15,241
Total liabilities	1,714,799	1,570,290
Stockholders' equity:		
Common stock, par value \$2.00, authorized 25,000,000 shares, issued and outstanding 7,394,143 shares at September 30, 2016 and 7,410,606 shares at December 31, 2015	14,788	14,821
Capital surplus	134,853	135,371
Retained earnings	108,677	100,701
Accumulated other comprehensive loss	(1,878)	(2,125)
Total stockholders' equity	256,440	248,768
Total liabilities and stockholders' equity	\$ 1,971,239	\$ 1,819,058

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in thousands, except share and per share data)

September 30,	Three Months Ended		Nine Months Ended	
	2016	2015	2016	2015
Interest income:				
Interest and fees on loans:				
Taxable	\$ 15,294	\$ 13,341	\$ 44,400	\$ 40,072
Tax-exempt	770	585	2,301	1,714
Interest and dividends on investment securities:				
Taxable	575	792	1,879	2,508
Tax-exempt	861	858	2,611	2,498
Dividends	10	9	31	24
Interest on interest-bearing deposits in other banks	15	13	47	39
Interest on federal funds sold				9
Total interest income	17,525	15,598	51,269	46,864
Interest expense:				
Interest on deposits	1,356	1,229	3,961	3,689
Interest on short-term borrowings	116	11	282	23
Interest on long-term debt	353	245	1,067	756
Total interest expense	1,825	1,485	5,310	4,468
Net interest income	15,700	14,113	45,959	42,396
Provision for loan losses	1,200	900	3,600	2,400
Net interest income after provision for loan losses	14,500	13,213	42,359	39,996
Noninterest income:				
Service charges, fees and commissions	1,542	1,531	4,513	4,685
Merchant services income	1,257	1,183	3,209	2,936
Commission and fees on fiduciary activities	539	541	1,495	1,487
Wealth management income	271	224	979	627
Mortgage banking income	217	197	616	667
Life insurance investment income	199	192	594	569
Net gain on sale of investment securities available-for-sale		147	623	979
Total noninterest income	4,025	4,015	12,029	11,950
Noninterest expense:				
Salaries and employee benefits expense	5,466	5,397	16,702	16,243
Net occupancy and equipment expense	2,316	2,246	6,998	6,863
Merchant services expense	890	823	2,270	2,006
Amortization of intangible assets	297	296	899	896
Other expenses	3,048	2,944	8,879	8,303
Total noninterest expense	12,017	11,706	35,748	34,311
Income before income taxes	6,508	5,522	18,640	17,635

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Income tax expense	1,390	1,113	3,785	3,751
Net income	5,118	4,409	14,855	13,884
Other comprehensive income (loss):				
Unrealized (loss) gain on investment securities available-for-sale	(1,120)	826	1,003	134
Reclassification adjustment for net gain on sales included in net income		(147)	(623)	(979)
Other comprehensive (loss) income	(1,120)	679	380	(845)
Income tax related to other comprehensive (loss) income	(392)	237	133	(296)
Other comprehensive (loss) income, net of income taxes	(728)	442	247	(549)
Comprehensive income	\$ 4,390	\$ 4,851	\$ 15,102	\$ 13,335
Per share data:				
Net income:				
Basic	\$ 0.69	\$ 0.58	\$ 2.01	\$ 1.84
Diluted	\$ 0.69	\$ 0.58	\$ 2.01	\$ 1.84
Average common shares outstanding:				
Basic	7,394,143	7,536,824	7,397,581	7,543,751
Diluted	7,394,143	7,536,824	7,397,581	7,543,751
Dividends declared	\$ 0.31	\$ 0.31	\$ 0.93	\$ 0.93

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in thousands, except share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2016	\$ 14,821	\$ 135,371	\$ 100,701	\$ (2,125)	\$ 248,768
Stock based compensation		53			53
Net income			14,855		14,855
Other comprehensive income, net of income taxes				247	247
Dividends declared: \$0.93 per share			(6,879)		(6,879)
Shares retired: 16,463 shares	(33)	(571)			(604)
Balance, September 30, 2016	14,788	134,853	108,677	(1,878)	256,440
Balance, January 1, 2015	15,097	140,214	92,297	(829)	246,779
Stock based compensation		52			52
Net income			13,884		13,884
Other comprehensive loss, net of income taxes				(549)	(549)
Dividends declared: \$0.93 per share			(7,016)		(7,016)
Shares retired: 24,249 shares	(59)	(1,003)			(1,062)
Balance, September 30, 2015	\$ 15,038	\$ 139,263	\$ 99,165	\$ (1,378)	\$ 252,088

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in thousands, except per share data)

For the Nine Months Ended September 30,	2016	2015
Cash flows from operating activities:		
Net income	\$ 14,855	\$ 13,884
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	1,208	1,178
Amortization of deferred loan costs	575	440
Amortization of intangibles	899	896
Amortization of loss on investment tax credits	358	484
Provision for loan losses	3,600	2,400
Net gain on sale of other real estate owned	(25)	(132)
Net loss on disposal of equipment		87
Loans originated for sale	(17,432)	(20,664)
Proceeds from sale of loans originated for sale	17,688	21,378
Net gain on sale of loans originated for sale	(616)	(667)
Net amortization of investment securities	2,826	3,171
Net gain on sale of investment securities	(623)	(979)
Life insurance investment income	(594)	(569)
Deferred income tax expense		119
Stock based compensation	53	52
Net change in:		
Accrued interest receivable	487	253
Other assets	(1,799)	(496)
Accrued interest payable	(126)	(78)
Other liabilities	(671)	(1,827)
Net cash provided by operating activities	20,663	18,930
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale	27,408	65,858
Proceeds from repayments of investment securities:		
Available-for-sale	42,277	41,659
Held-to-maturity	1,221	1,526
Purchases of investment securities:		
Available-for-sale	(36,462)	(70,768)
Net (purchase) redemption of restricted equity securities	(1,508)	343
Net increase in lending activities	(183,482)	(62,156)
Investment in low income housing investment tax credits	(2,045)	(3,050)
Purchases of premises and equipment	(6,100)	(2,848)
Proceeds from the sale of premises and equipment		14
Purchase of investment in life insurance	(1,500)	
Proceeds from sale of other real estate owned	702	484
Net cash used in investing activities	(159,489)	(28,938)

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Cash flows from financing activities:		
Net increase in deposits	110,000	19,092
Repayment of long-term debt	(1,669)	(2,140)
Net increase in short-term borrowings	36,975	10,693
Retirement of common stock	(604)	(1,062)
Cash dividends paid	(6,879)	(7,016)
Net cash provided by financing activities	137,823	19,567
Net (decrease) increase in cash and cash equivalents	(1,003)	9,559
Cash and cash equivalents at beginning of year	32,917	31,426
Cash and cash equivalents at end of year	\$ 31,914	\$ 40,985

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Peoples Financial Services Corp.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

(Dollars in thousands, except per share data)

For the Nine Months Ended September 30,	2016	2015
Supplemental disclosures:		
Cash paid during the period for:		
Interest	\$ 5,436	\$ 5,114
Income taxes	3,900	2,900
Noncash items:		
Transfers of loans to other real estate	\$ 761	\$ 370

See notes to unaudited consolidated financial statements

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Peoples Financial Services Corp.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

1. Summary of significant accounting policies:

Nature of operations:

Peoples Financial Services Corp., a bank holding company incorporated under the laws of Pennsylvania, provides a full range of financial services through its wholly-owned subsidiary, Peoples Security Bank and Trust Company (“Peoples Bank”), including its subsidiary, Peoples Advisors, LLC (collectively, the “Company” or “Peoples”). The Company services its retail and commercial customers through twenty-four full-service community banking offices located within the Bucks, Lackawanna, Lehigh, Luzerne, Monroe, Montgomery, Susquehanna, Wayne and Wyoming Counties of Pennsylvania and Broome County of New York.

Basis of presentation:

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. All significant intercompany balances and transactions have been eliminated in consolidation. Prior-period amounts are reclassified when necessary to conform to the current year’s presentation. These reclassifications did not have any effect on the operating results or financial position of the Company. The operating results and financial position of the Company for the three and nine months ended and as of September 30, 2016, are not necessarily indicative of the results of operations and financial position that may be expected in the future.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates that are particularly susceptible to material change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of deferred tax assets, determination of other-than-temporary impairment losses on securities, impairment of goodwill and fair value of

assets acquired and liabilities assumed in business combinations. Actual results could differ from those estimates. For additional information and disclosures required under GAAP, reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Recent accounting standards:

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are intended to reduce diversity in practice. The ASU contains additional guidance clarifying when an entity should separate cash receipts and cash payments and classify them into more than one class of cash flows (including when reasonable judgment is required to estimate and allocate cash flows) versus when an entity should classify the aggregate amount into one class of cash flows on the basis of predominance.

The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The company does not expect the adoption of this ASU to have a significant impact on its financial condition or results of operations.

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Peoples Financial Services Corp.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

## 2. Other comprehensive loss:

The components of other comprehensive loss and their related tax effects are reported in the Consolidated Statements of Income and Comprehensive Income. The accumulated other comprehensive loss included in the Consolidated Balance Sheets relates to net unrealized gains and losses on investment securities available-for-sale and benefit plan adjustments.

The components of accumulated other comprehensive loss included in stockholders' equity at September 30, 2016 and December 31, 2015 is as follows:

	September 30, 2016	December 31, 2015
Net unrealized gain on investment securities available-for-sale	\$ 4,973	\$ 4,593
Income tax	1,740	1,607
Net of income taxes	3,233	2,986
Benefit plan adjustments	(7,863)	(7,863)
Income tax	(2,752)	(2,752)
Net of income taxes	(5,111)	(5,111)
Accumulated other comprehensive loss	\$ (1,878)	\$ (2,125)

Other comprehensive income (loss) and related tax effects for the three and nine months ended September 30, 2016 and 2015 is as follows:

Three Months Ended September 30,	2016	2015
Unrealized (loss) gain on investment securities available-for-sale	\$ (1,120)	\$ 826
Net gain on the sale of investment securities available-for-sale(1)		(147)
Other comprehensive income (loss) gain before taxes	(1,120)	679
Income tax (benefit) expense	(392)	237
Other comprehensive (loss) income	\$ (728)	\$ 442

Nine Months Ended September 30,	2016	2015
Unrealized gain on investment securities available-for-sale	\$ 1,003	\$ 134
Net gain on the sale of investment securities available-for-sale(1)	(623)	(979)
Other comprehensive income gain (loss) before taxes	380	(845)
Income tax expense (benefit)	133	(296)
Other comprehensive income (loss)	\$ 247	\$ (549)

(1)Represents amounts reclassified out of accumulated comprehensive loss and included in gains on sale of investment securities on the consolidated statements of income and comprehensive income.

### 3. Earnings per share:

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance.

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Peoples Financial Services Corp.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

There were no shares considered anti-dilutive for the three and nine month periods ended September 30, 2016 and 2015.

	2016		2015	
For the Three Months Ended September 30,	Basic	Diluted	Basic	Diluted
Net Income	\$ 5,118	\$ 5,118	\$ 4,409	\$ 4,409
Average common shares outstanding	7,394,143	7,394,143	7,536,824	7,536,824
Earnings per share	\$ 0.69	\$ 0.69	\$ 0.58	\$ 0.58
	2016		2015	
For the Nine Months Ended September 30	Basic	Diluted	Basic	Diluted
Net Income	\$ 14,855	\$ 14,855	\$ 13,884	\$ 13,884
Average common shares outstanding	7,397,581	7,397,581	7,543,751	7,543,751
Earnings per share	\$ 2.01	\$ 2.01	\$ 1.84	\$ 1.84

## 4. Investment securities:

The amortized cost and fair value of investment securities aggregated by investment category at September 30, 2016 and December 31, 2015 are summarized as follows:

	Amortized	Gross	Gross	Fair
September 30, 2016	Cost	Unrealized	Unrealized	Value
Available-for-sale:		Gains	Losses	
U.S. Government-sponsored enterprises	\$ 67,478	\$ 218	\$ 40	\$ 67,656
State and municipals:				
Taxable	14,732	1,023	1	15,754
Tax-exempt	114,699	3,601	3	118,297

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Mortgage-backed securities:				
U.S. Government agencies	23,300	104	23	23,381
U.S. Government-sponsored enterprises	24,731	156	62	24,825
Total	\$ 244,940	\$ 5,102	\$ 129	\$ 249,913
Held-to-maturity:				
Tax-exempt state and municipals	\$ 6,863	\$ 424	\$	\$ 7,287
Mortgage-backed securities:				
U.S. Government agencies	72	1		73
U.S. Government-sponsored enterprises	3,929	257		4,186
Total	\$ 10,864	\$ 682	\$	\$ 11,546

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Peoples Financial Services Corp.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Treasury securities	\$ 10,030		\$ 31	\$ 9,999
U.S. Government-sponsored enterprises	68,831	\$ 291	62	69,060
State and municipals:				
Taxable	15,842	735	32	16,545
Tax-exempt	121,099	3,915	90	124,924
Mortgage-backed securities:				
U.S. Government agencies	31,612	73	117	31,568
U.S. Government-sponsored enterprises	32,928	119	208	32,839
Total	\$ 280,342	\$ 5,133	\$ 540	\$ 284,935
Held-to-maturity:				
Tax-exempt state and municipals	\$ 6,865	\$ 186	\$ 16	\$ 7,035
Mortgage-backed securities:				
U.S. Government agencies	84	1		85
U.S. Government-sponsored enterprises	5,160	326		5,486
Total	\$ 12,109	\$ 513	\$ 16	\$ 12,606

The maturity distribution of the fair value, which is the net carrying amount, of the debt securities classified as available-for-sale at September 30, 2016, is summarized as follows:

September 30, 2016	Fair Value
Within one year	\$ 34,959
After one but within five years	90,493
After five but within ten years	49,407
After ten years	26,848
	201,707
Mortgage-backed securities	48,206
Total	\$ 249,913

The maturity distribution of the amortized cost and fair value, of debt securities classified as held-to-maturity at September 30, 2016, is summarized as follows:

September 30, 2016	Amortized Cost	Fair Value
Within one year		
After one but within five years		
After five but within ten years		
After ten years	\$ 6,863	\$ 7,287
	6,863	7,287
Mortgage-backed securities	4,001	4,259
Total	\$ 10,864	\$ 11,546

Securities with a carrying value of \$151,393 and \$180,478 at September 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and repurchase agreements as required or permitted by law.

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Peoples Financial Services Corp.

## NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

Securities and short-term investment activities are conducted with a diverse group of government entities, corporations and state and local municipalities. The counterparty's creditworthiness and type of collateral is evaluated on a case-by-case basis. At September 30, 2016 and December 31, 2015, there were no significant concentrations of credit risk from any one issuer, with the exception of U.S. Government agencies and sponsored enterprises that exceeded 10.0 percent of stockholders' equity.

The fair value and gross unrealized losses of investment securities with unrealized losses for which an other-than-temporary impairment ("OTTI") has not been recognized at September 30, 2016 and December 31, 2015, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, are summarized as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2016						
U.S. Government-sponsored enterprises	\$ 19,368	\$ 40			\$ 19,368	\$ 40
State and municipals:						
Taxable	558	1			558	1
Tax-exempt	3,244	2	\$ 632	\$ 1	3,876	3
Mortgage-backed securities:						
U.S. Government agencies	7,554	8	1,675	15	9,229	23
U.S. Government-sponsored enterprises	2,359	3	2,478	59	4,837	62
Total	\$ 33,083	\$ 54	\$ 4,785	\$ 75	\$ 37,868	\$ 129

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
U.S. Treasury securities	\$ 9,999	\$ 31			\$ 9,999	\$ 31
U.S. Government-sponsored enterprises	34,159	62			34,159	62
State and municipals:						

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Taxable			\$ 532	\$ 32	532	32
Tax-exempt	21,341	87	1,952	19	23,293	106
Mortgage-backed securities:						
U.S. Government agencies	15,114	56	5,477	61	20,591	117
U.S. Government-sponsored enterprises	17,647	104	6,030	104	23,677	208
Total	\$ 98,260	\$ 340	\$ 13,991	\$ 216	\$ 112,251	\$ 556

The Company had 43 investment securities, consisting of one taxable state and municipal obligation, nine U.S. Government-sponsored enterprise securities, 13 tax-exempt state and municipal obligations, and 20 mortgage-backed securities that were in unrealized loss positions at September 30, 2016. Of these securities, one tax-exempt state and municipal obligation and six mortgage-backed securities were in a continuous unrealized loss position for twelve months or more. Management does not consider the unrealized losses on the debt securities, as a result of changes in interest rates, to be OTTI based on historical evidence that indicates the cost of these securities is recoverable within a reasonable period of time in relation to normal cyclical changes in the market rates of interest. Moreover, because there has been no material change in the credit quality of the issuers or other events or circumstances that may cause a significant adverse impact on the fair value of these securities, and management does not intend to sell these securities and it is unlikely that the Company will be required to sell these securities before recovery of their amortized cost basis, which may be maturity, the Company does not consider the unrealized losses to be OTTI at September 30, 2016. There was no OTTI recognized for the three or nine months ended September 30, 2016 and 2015.

The Company had 88 investment securities, consisting of 38 tax-exempt state and municipal obligations, one taxable state and municipal obligation, one U.S. Treasury security, 12 U.S. Government-sponsored enterprise securities and 36 mortgage-backed securities that were in unrealized loss positions at December 31, 2015. Of these securities, seven

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except share and per share data)

mortgage-backed securities, four tax-exempt state and municipal securities, and one taxable state and municipal obligation were in a continuous unrealized loss position for twelve months or more.

5. Loans, net and allowance for loan losses:

The major classifications of loans outstanding, net of deferred loan origination fees and costs at September 30, 2016 and December 31, 2015 are summarized as follows. Net deferred loan costs were \$544 and \$690 at September 30, 2016 and December 31, 2015.

September 30, 2016