

Territorial Bancorp Inc.
Form 10-Q
May 09, 2018
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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 March 31, 2018

or

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

For transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

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Maryland
(State or Other Jurisdiction of Incorporation)

26-4674701
(I.R.S. Employer Identification No.)

1132 Bishop Street, Suite 2200, Honolulu, Hawaii
(Address of Principal Executive Offices)

96813
(Zip Code)

(808) 946-1400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and formal 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 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 Exchange Act). Yes No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 9,733,830 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of April 30, 2018.

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	\$ 65,112	\$ 32,089
Investment securities available for sale	2,733	2,851
Investment securities held to maturity, at amortized cost (fair value of \$402,659 and \$406,663 at March 31, 2018 and December 31, 2017, respectively)	409,285	404,792
Loans held for sale	—	403
Loans receivable, net	1,505,058	1,488,971
Federal Home Loan Bank stock, at cost	6,325	6,541
Federal Reserve Bank stock, at cost	3,106	3,103
Accrued interest receivable	5,183	5,142
Premises and equipment, net	5,588	5,721
Bank-owned life insurance	44,416	44,201
Income taxes receivable	13	1,571
Deferred income tax assets, net	4,993	4,609
Prepaid expenses and other assets	3,889	3,852
Total assets	\$ 2,055,701	\$ 2,003,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 1,665,172	\$ 1,597,295
Advances from the Federal Home Loan Bank	98,000	107,200
Securities sold under agreements to repurchase	30,000	30,000
Accounts payable and accrued expenses	24,645	26,390
Income taxes payable	1,617	1,483
Advance payments by borrowers for taxes and insurance	3,895	6,624
Total liabilities	1,823,329	1,768,992
Stockholders' Equity:	—	—

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Preferred stock, \$0.01 par value; authorized 50,000,000 shares, no shares issued or outstanding		
Common stock, \$0.01 par value; authorized 100,000,000 shares; issued and outstanding 9,733,830 and 9,915,058 shares at March 31, 2018 and December 31, 2017, respectively	97	99
Additional paid-in capital	67,557	73,050
Unearned ESOP shares	(5,260)	(5,383)
Retained earnings	176,856	172,782
Accumulated other comprehensive loss	(6,878)	(5,694)
Total stockholders' equity	232,372	234,854
Total liabilities and stockholders' equity	\$ 2,055,701	\$ 2,003,846

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
Interest income:		
Loans	\$ 14,907	\$ 13,513
Investment securities	3,129	3,081
Other investments	198	187
Total interest income	18,234	16,781
Interest expense:		
Deposits	2,451	1,651
Advances from the Federal Home Loan Bank	419	254
Securities sold under agreements to repurchase	125	216
Total interest expense	2,995	2,121
Net interest income	15,239	14,660
Provision for loan losses	9	71
Net interest income after provision for loan losses	15,230	14,589
Noninterest income:		
Service fees on loan and deposit accounts	415	556
Income on bank-owned life insurance	215	226
Gain on sale of investment securities	—	95
Gain on sale of loans	43	63
Other	69	82
Total noninterest income	742	1,022
Noninterest expense:		
Salaries and employee benefits	5,647	5,083
Occupancy	1,516	1,449
Equipment	942	866
Federal deposit insurance premiums	153	148
Other general and administrative expenses	1,135	1,161
Total noninterest expense	9,393	8,707
Income before income taxes	6,579	6,904
Income taxes	1,759	2,583
Net income	\$ 4,820	\$ 4,321

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Basic earnings per share	\$ 0.52	\$ 0.47
Diluted earnings per share	\$ 0.51	\$ 0.46
Cash dividends declared per common share	\$ 0.20	\$ 0.20
Basic weighted-average shares outstanding	9,284,496	9,215,142
Diluted weighted-average shares outstanding	9,484,177	9,445,989

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 4,820	\$ 4,321
Change in unrealized loss on securities	(49)	2
Other comprehensive income (loss), net of tax	(49)	2
Comprehensive income	\$ 4,771	\$ 4,323

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2016	\$ 98	\$ 71,914	\$ (5,872)	\$ 168,962	\$ (5,316)	\$ 229,786
Net income	—	—	—	4,321	—	4,321
Other comprehensive income	—	—	—	—	2	2
Cash dividends paid (\$0.20 per share)	—	—	—	(1,842)	—	(1,842)
Share-based compensation	—	(38)	—	—	—	(38)
Allocation of 12,233 ESOP shares	—	273	122	—	—	395
Repurchase of 28,702 shares of company common stock	(1)	(954)	—	—	—	(955)
Exercise of 54,976 options for common stock	1	954	—	—	—	955
Balances at March 31, 2017	\$ 98	\$ 72,149	\$ (5,750)	\$ 171,441	\$ (5,314)	\$ 232,624
Balances at December 31, 2017	\$ 99	\$ 73,050	\$ (5,383)	\$ 172,782	\$ (5,694)	\$ 234,854
Net income	—	—	—	4,820	—	4,820
Other comprehensive loss	—	—	—	—	(49)	(49)
Reclassification of deferred taxes	—	—	—	1,135	(1,135)	—
Cash dividends paid (\$0.20 per share)	—	—	—	(1,881)	—	(1,881)
Share-based compensation	—	67	—	—	—	67
Allocation of 12,233 ESOP shares	—	253	123	—	—	376
Repurchase of 199,236 shares of company common stock	(2)	(6,125)	—	—	—	(6,127)
Exercise of 18,008 options for common stock	—	312	—	—	—	312
Balances at March 31, 2018	\$ 97	\$ 67,557	\$ (5,260)	\$ 176,856	\$ (6,878)	\$ 232,372

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 4,820	\$ 4,321
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	9	71
Depreciation and amortization	314	243
Deferred income tax expense (benefit)	(367)	367
Amortization of fees, discounts, and premiums	(136)	(129)
Origination of loans held for sale	(4,129)	(8,098)
Proceeds from sales of loans held for sale	4,575	8,011
Gain on sale of loans, net	(43)	(63)
Net gain on sale of real estate owned	(4)	—
Gain on sale of investment securities held to maturity	—	(95)
ESOP expense	376	395
Share-based compensation expense	67	(38)
Increase in accrued interest receivable	(41)	(34)
Net increase in bank-owned life insurance	(215)	(226)
Net increase in prepaid expenses and other assets	(37)	(304)
Net increase (decrease) in accounts payable and accrued expenses	(1,769)	161
Net decrease in advance payments by borrowers for taxes and insurance	(2,729)	(2,188)
Net decrease in income taxes receivable	1,558	122
Net increase in income taxes payable	134	1,712
Net cash from operating activities	2,383	4,228
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(14,983)	—
Principal repayments on investment securities held to maturity	10,495	14,162
Principal repayments on investment securities available for sale	49	—
Proceeds from sale of investment securities held to maturity	—	1,589
Loan originations, net of principal repayments on loans receivable		