

Territorial Bancorp Inc.
Form 10-Q
November 07, 2014
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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 September 30, 2014

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 or former address, 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, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Non-accelerated filer

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 .

Indicate the number of shares outstanding of each of the Issuer's classes of common stock as of the latest practicable date.

9,969,600 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of October 31, 2014.

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Balance Sheets (Unaudited)****(Dollars in thousands, except share data)**

	September 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 64,723	\$ 75,365
Investment securities held to maturity, at amortized cost (fair value of \$592,470 and \$598,007 at September 30, 2014 and December 31, 2013, respectively)	589,079	613,436
Federal Home Loan Bank stock, at cost	11,352	11,689
Federal Reserve Bank stock, at cost	2,904	
Loans held for sale	2,602	2,210
Loans receivable, net	925,484	856,542
Accrued interest receivable	4,450	4,310
Premises and equipment, net	5,844	6,056
Bank-owned life insurance	41,039	40,243
Deferred income taxes receivable	6,468	5,075
Prepaid expenses and other assets	2,432	1,978
Total assets	\$ 1,656,377	\$ 1,616,904
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	\$ 1,327,254	\$ 1,288,709
Advances from the Federal Home Loan Bank	15,000	15,000
Securities sold under agreements to repurchase	72,000	72,000
Accounts payable and accrued expenses	21,370	23,933
Current income taxes payable	1,366	1,414
Advance payments by borrowers for taxes and insurance	2,301	3,708
Total liabilities	1,439,291	1,404,764
Stockholders Equity:		
Preferred stock, \$.01 par value; authorized 50,000,000 shares, no shares issued or outstanding		
Common stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 9,969,600 and 10,051,377 shares at September 30, 2014 and December 31, 2013, respectively	100	101
Additional paid-in capital	75,371	77,340
Unearned ESOP shares	(6,973)	(7,340)
Retained earnings	152,295	145,826
Accumulated other comprehensive loss	(3,707)	(3,787)

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Total stockholders' equity	217,086	212,140
Total liabilities and stockholders' equity	\$ 1,656,377	\$ 1,616,904

See accompanying notes to consolidated financial statements.

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Income (Unaudited)****(Dollars in thousands, except per share data)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest and dividend income:				
Investment securities	\$ 4,895	\$ 4,775	\$ 15,055	\$ 13,847
Loans	10,020	9,267	29,320	27,696
Other investments	75	49	153	213
Total interest and dividend income	14,990	14,091	44,528	41,756
Interest expense:				
Deposits	1,138	1,031	3,332	3,225
Advances from the Federal Home Loan Bank	67	67	199	235
Securities sold under agreements to repurchase	346	422	1,032	1,370
Total interest expense	1,551	1,520	4,563	4,830
Net interest income	13,439	12,571	39,965	36,926
Provision for loan losses	23	45	188	47
Net interest income after provision for loan losses	13,416	12,526	39,777	36,879
Noninterest income:				
Service fees on loan and deposit accounts	555	598	1,578	1,667
Income on bank-owned life insurance	265	295	797	774
Gain on sale of investment securities	392	922	1,047	2,834
Gain on sale of loans	118	365	283	1,390
Other	68	143	330	329
Total noninterest income	1,398	2,323	4,035	6,994
Noninterest expense:				
Salaries and employee benefits	5,402	5,318	16,062	15,682
Occupancy	1,474	1,387	4,305	3,971
Equipment	956	853	2,775	2,576
Federal deposit insurance premiums	202	193	602	574
Other general and administrative expenses	1,045	969	2,946	3,228
Total noninterest expense	9,079	8,720	26,690	26,031
Income before income taxes	5,735	6,129	17,122	17,842
Income taxes	2,273	2,298	6,479	6,709
Net income	\$ 3,462	\$ 3,831	\$ 10,643	\$ 11,133
Basic earnings per share				
Basic earnings per share	\$ 0.38	\$ 0.40	\$ 1.16	\$ 1.13
Diluted earnings per share				
Diluted earnings per share	\$ 0.37	\$ 0.39	\$ 1.15	\$ 1.12
Cash dividends declared per common share				
Cash dividends declared per common share	\$ 0.15	\$ 0.13	\$ 0.44	\$ 0.38
Basic weighted-average shares outstanding	9,218,745	9,676,304	9,190,476	9,810,725
Diluted weighted-average shares outstanding	9,323,306	9,809,987	9,283,425	9,930,438

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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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$ 3,462	\$ 3,831	\$ 10,643	\$ 11,133
Change in unrealized loss on securities	1	3	5	21
Noncredit related gains on securities not expected to be sold	3	14	75	83
Other comprehensive income	4	17	80	104
Comprehensive income	\$ 3,466	\$ 3,848	\$ 10,723	\$ 11,237

See accompanying notes to consolidated financial statements.

Table of Contents**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 (Loss)/Income	Total Stockholders Equity
Balances at December 31, 2012	\$ 108	\$ 93,616	\$ (7,829)	\$ 137,410	\$ (4,333)	\$ 218,972
Net income				11,133		11,133
Other comprehensive income					104	104
Cash dividends declared (\$0.38 per share)				(3,896)		(3,896)
Share-based compensation	1	2,001				2,002
Allocation of 36,699 ESOP shares		478	367			845
Repurchase of 739,197 shares of company common stock	(7)	(16,564)				(16,571)
Balances at September 30, 2013	\$ 102	\$ 79,531	\$ (7,462)	\$ 144,647	\$ (4,229)	\$ 212,589
Balances at December 31, 2013	\$ 101	\$ 77,340	\$ (7,340)	\$ 145,826	\$ (3,787)	\$ 212,140
Net income				10,643		10,643
Other comprehensive income					80	80
Cash dividends declared (\$0.44 per share)				(4,174)		(4,174)
Share-based compensation	1	2,001				2,002
Allocation of 36,699 ESOP shares		410	367			777
Repurchase of 195,109 shares of company common stock	(2)	(4,380)				(4,382)
Balances at September 30, 2014	\$ 100	\$ 75,371	\$ (6,973)	\$ 152,295	\$ (3,707)	\$ 217,086

See accompanying notes to consolidated financial statements.

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Unaudited)**

(Dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 10,643	\$ 11,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	188	47
Depreciation and amortization	1,032	837
Deferred income tax benefit	(1,445)	(1,108)
Amortization of fees, discounts, and premiums	(310)	395
Origination of loans held for sale	(27,195)	(67,252)
Proceeds from sales of loans held for sale	27,086	70,181
Gain on sale of loans, net	(283)	(1,390)
Purchases of investment securities held for trading	(5,041)	
Proceeds from sale of investment securities held for trading	5,071	
Gain on sale of investment securities held for trading	(30)	
Gain on sale of investment securities held to maturity	(1,017)	(2,834)
ESOP expense	777	845
Share-based compensation expense	2,002	2,002
Increase in accrued interest receivable	(140)	(15)
Net increase in bank-owned life insurance	(796)	(774)
Net (increase) decrease in prepaid expenses and other assets	(454)	1,379
Net increase (decrease) in accounts payable and accrued expenses	(2,038)	2,255
Net decrease in advance payments by borrowers for taxes and insurance	(1,407)	(1,256)
Net decrease in income taxes payable	(48)	(244)
Net cash provided by operating activities	6,595	14,201
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(34,831)	(240,496)
Principal repayments on investment securities held to maturity	48,705	146,301
Proceeds from sale of investment securities held to maturity	11,506	42,034
Loan originations, net of principal repayments on loans receivable	(68,694)	(52,345)
Proceeds from redemption of Federal Home Loan Bank stock	337	330
Purchases of Federal Reserve Bank stock	(2,904)	
Purchases of bank-owned life insurance		(8,000)
Purchases of premises and equipment	(820)	(922)
Net cash used in investing activities	(46,701)	(113,098)

(Continued)

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Unaudited)**
(Dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from financing activities:		
Net increase in deposits	\$ 38,545	\$ 20,511
Proceeds from advances from the Federal Home Loan Bank		5,000
Repayments of advances from the Federal Home Loan Bank		(10,000)
Repayments of securities sold under agreements to repurchase		(23,000)
Purchases of Fed Funds	10	
Sales of Fed Funds	(10)	
Repurchases of company stock	(4,907)	(16,571)
Cash dividends paid	(4,174)	(3,896)
Net cash provided by (used in) financing activities	29,464	(27,956)
Net decrease in cash and cash equivalents	(10,642)	(126,853)
Cash and cash equivalents at beginning of the period	75,365	182,818
Cash and cash equivalents at end of the period	\$ 64,723	\$ 55,965
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	\$ 4,502	\$ 4,861
Income taxes	7,972	8,061
Supplemental disclosure of noncash investing activities:		
Loans transferred to real estate owned	\$	\$ 143
Investments purchased, not settled		1,096

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Territorial Bancorp Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with Territorial Bancorp Inc.'s consolidated financial statements and notes thereto filed as part of the Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

(2) Organization

On November 4, 2008, the Board of Directors of Territorial Mutual Holding Company (MHC) approved a plan of conversion and reorganization under which MHC would convert from a mutual holding company to a stock holding company. The conversion to a stock holding company was approved by the depositors and borrowers of Territorial Savings Bank and the Office of Thrift Supervision (OTS) and included the filing of a registration statement with the U.S. Securities and Exchange Commission. Upon the completion of the conversion and reorganization on July 10, 2009, Territorial Mutual Holding Company and Territorial Savings Group, Inc. ceased to exist as separate legal entities and Territorial Bancorp Inc. became the holding company for Territorial Savings Bank.

Upon completion of the conversion and reorganization, a special liquidation account was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The balance of the liquidation account at December 31, 2013 was \$17.6 million.

On June 25, 2014, Territorial Savings Bank converted from a federal savings bank to a Hawaii state-chartered savings bank. On July 10, 2014, Territorial Savings Bank became a member of the Federal Reserve System.

Table of Contents**(3) Recently Adopted Accounting Pronouncements**

In January 2014, the Financial Accounting Standards Board (FASB) amended the Receivables topic of the FASB Accounting Standards Codification (ASC). The amendment clarifies when an in substance repossession or foreclosure occurs and when a mortgage loan should be derecognized and the related real property recognized. The amendment also requires disclosures about the amount of foreclosed residential real property held and the recorded investment in mortgage loans collateralized by residential real property in the process of foreclosure. The amendment is effective for interim and annual periods beginning after December 15, 2014, with early adoption allowed. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In May 2014, the FASB amended the Revenue Recognition topic of the FASB ASC. The amendment seeks to clarify the principles for recognizing revenue as well as to develop common revenue standards for U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendment is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In June 2014, the FASB amended the Transfers and Servicing topic of the FASB ASC. The amendment modifies the accounting for certain types of repurchase transactions as well as adds new disclosure requirements for repurchase transactions. The amendment is effective for interim and annual periods beginning after December 15, 2014, with early adoption prohibited. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In August 2014, the FASB amended the Receivables topic of the FASB ASC. The amendment seeks to clarify the classification of foreclosed mortgage loans that are either fully or partially guaranteed under government programs, such as from the Federal Housing Administration (FHA) or the U.S. Department of Veterans Affairs (VA). The amendment is effective for interim and annual periods beginning after December 15, 2014. The Company does not expect the adoption of this amendment to have any effect on its consolidated financial statements.

(4) Cash and Cash Equivalents

The table below presents the balances of cash and cash equivalents:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Cash and due from banks	\$ 8,036	\$ 9,962
Interest-earning deposits in other banks	56,687	65,403
Cash and cash equivalents	\$ 64,723	\$ 75,365

Interest-earning deposits in other banks consist primarily of deposits at the Federal Reserve Bank.

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(5) **Investment Securities**

The amortized cost and fair values of investment securities are as follows:

(Dollars in thousands)	Carrying Value		Gains		Gross Unrealized Losses		Estimated Fair Value
September 30, 2014:							
Held to maturity:							
U.S. government-sponsored mortgage-backed securities	\$ 588,418	\$	13,269	\$	(9,878)	\$	591,809
Trust preferred securities	661						661
Total	\$ 589,079	\$	13,269	\$	(9,878)	\$	592,470
December 31, 2013:							
Held to maturity:							
U.S. government-sponsored mortgage-backed securities	\$ 612,899	\$	7,979	\$	(23,408)	\$	597,470
Trust preferred securities	537						537
Total	\$ 613,436	\$	7,979	\$	(23,408)	\$	598,007

The carrying and estimated fair value of investment securities at September 30, 2014 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Carrying Value		Estimated Fair Value
Held to maturity:			
Due within 5 years	\$ 7	\$	7
Due after 5 years through 10 years	61		65
Due after 10 years	589,011		592,398
Total	\$ 589,079	\$	592,470

Realized gains and losses and the proceeds from sales of securities available for sale, held to maturity and trading are shown in the table below. All sales of securities were U.S. government-sponsored mortgage-backed securities.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Proceeds from sales	\$ 4,307	\$ 13,943	\$ 16,577	\$ 43,131
Gross gains	392	922		