

TIMBERLAND BANCORP INC
Form 10-Q
August 07, 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 June 30, 2017

OR

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 000-23333

TIMBERLAND BANCORP, INC.
(Exact name of registrant as specified in its charter)
Washington 91-1863696
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington 98550
(Address of principal executive offices) (Zip Code)

(360) 533-4747
(Registrant's telephone number, including area code)

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, 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 Exchange Act).

Yes ___ No X

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

CLASS SHARES OUTSTANDING AT AUGUST 3, 2017

Common
stock, 7,358,877
\$.01 par
value

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Certifications

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

June 30, 2017 and September 30, 2016

(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited) *	September 30, 2016
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$ 17,476	\$ 16,686
Interest-bearing deposits in banks	114,964	92,255
Total cash and cash equivalents	132,440	108,941
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	41,187	53,000
Investment securities held to maturity, at amortized cost (estimated fair value \$7,912 and \$8,395)	7,244	7,511
Investment securities available for sale, at fair value	1,260	1,342
Federal Home Loan Bank of Des Moines (“FHLB”) stock	1,107	2,204
Other investments, at cost	3,000	—
Loans held for sale	3,523	3,604
Loans receivable, net of allowance for loan losses of \$9,610 and \$9,826	687,158	663,146
Premises and equipment, net	18,465	16,159
Other real estate owned (“OREO”) and other repossessed assets, net	3,417	4,117
Accrued interest receivable	2,437	2,348
Bank owned life insurance (“BOLI”)	19,127	18,721
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,781	1,573
Other assets	3,213	3,072
Total assets	\$ 931,009	\$ 891,388
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 197,527	\$ 172,283
Interest-bearing	621,291	589,251
Total deposits	818,818	761,534
FHLB borrowings	—	30,000
Other liabilities and accrued expenses	3,575	3,020
Total liabilities	822,393	794,554

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
 CONSOLIDATED BALANCE SHEETS (continued)

June 30, 2017 and September 30, 2016

(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited) *	September 30, 2016
Shareholders' equity		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	\$ —	\$ —
Common stock, \$.01 par value; 50,000,000 shares authorized; 7,354,577 shares issued and outstanding - June 30, 2017 6,943,868 shares issued and outstanding - September 30, 2016	13,223	9,961
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(463) (661
Retained earnings	96,018	87,709
Accumulated other comprehensive loss	(162) (175
Total shareholders' equity	108,616	96,834
Total liabilities and shareholders' equity	\$ 931,009	\$ 891,388

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

For the three and nine months ended June 30, 2017 and 2016

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Interest and dividend income				
Loans receivable and loans held for sale	\$9,652	\$8,257	\$27,280	\$24,992
Investment securities	69	70	207	213
Dividends from mutual funds, other investments and FHLB stock	23	22	60	83
Interest-bearing deposits in banks and CDs	421	247	1,081	649
Total interest and dividend income	10,165	8,596	28,628	25,937
Interest expense				
Deposits	549	508	1,637	1,520
FHLB borrowings	369	472	979	1,420
Total interest expense	918	980	2,616	2,940
Net interest income	9,247	7,616	26,012	22,997
Recapture of loan losses	(1,000)	—	(1,250)	—
Net interest income after recapture of loan losses	10,247	7,616	27,262	22,997
Non-interest income				
Other than temporary impairment ("OTTI") on investment securities	—	(4)	—	(27)
Adjustment for portion of OTTI transferred from other comprehensive income before income taxes	—	—	—	(1)
Net OTTI on investment securities	—	(4)	—	(28)
Service charges on deposits	1,153	989	3,348	2,898
ATM and debit card interchange transaction fees	855	778	2,448	2,187
BOLI net earnings	133	137	406	410
Gain on sales of loans, net	561	443	1,656	1,230
Escrow fees	51	64	191	153
Servicing income on loans sold	106	60	302	180
Other, net	297	282	873	750
Total non-interest income, net	3,156	2,749	9,224	7,780

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (continued)

For the three and nine months ended June 30, 2017 and 2016

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Non-interest expense				
Salaries and employee benefits	\$3,741	\$ 3,397	\$11,176	\$ 10,333
Premises and equipment	767	774	2,298	2,305
Advertising	170	192	499	590
OREO and other repossessed assets, net	4	123	22	561
ATM and debit card interchange transaction fees	375	337	1,036	990
Postage and courier	109	98	324	309
State and local taxes	176	141	484	410
Professional fees	230	202	629	449
Federal Deposit Insurance Corporation ("FDIC") insurance	99	100	319	334
Loan administration and foreclosure	20	92	113	216
Data processing and telecommunications	480	470	1,394	1,394
Deposit operations	301	232	850	638
Other	466	410	1,462	1,146
Total non-interest expense	6,938	6,568	20,606	19,675
Income before federal income taxes	6,465	3,797	15,880	11,102
Provision for federal income taxes	2,188	1,250	5,328	3,647
Net income	\$4,277	\$ 2,547	\$10,552	\$ 7,455
Net income per common share				
Basic	\$0.59	\$ 0.37	\$1.49	\$ 1.09
Diluted	\$0.58	\$ 0.36	\$1.44	\$ 1.05
Weighted average common shares outstanding				
Basic	7,269,566	6,822,608	7,088,134	6,846,373
Diluted	7,432,171	7,111,199	7,348,487	7,091,661
Dividends paid per common share	\$0.11	\$ 0.08	\$0.31	\$ 0.28

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended June 30, 2017 and 2016

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Comprehensive income				
Net income	\$4,277	\$2,547	\$10,552	\$7,455
Unrealized holding gains (losses) on investment securities available for sale, net of income taxes of \$3, \$3, (\$11) and \$2, respectively	5	6	(22) 5
Change in OTTI on investment securities held to maturity, net of income taxes:				
Adjustments related to other factors for which OTTI was previously recognized, net of income taxes of \$0, \$0, \$0 and \$6, respectively	—	—	—	10
Amount reclassified to credit loss (recorded as market loss), net of income taxes of \$0, \$0, \$0 and \$1, respectively	—	—	—	1
Accretion of OTTI on investment securities held to maturity, net of income taxes of \$5, \$4, \$18 and \$13, respectively	11	7	35	24
Total other comprehensive income, net of income taxes	16	13	13	40
Total comprehensive income	\$4,293	\$2,560	\$10,565	\$7,495

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the nine months ended June 30, 2017 and 2016

(Dollars in thousands, except per share amounts)

(Unaudited)

	Number of Shares	Amount	Unearned Shares	Retained Earnings	Accumulated Other Compre- hensive Loss	Total
	Common Stock	Common Stock	Issued to ESOP			
Balance, September 30, 2015	6,988,848	\$ 10,293	\$ (926)	\$ 80,133	\$ (313)	\$ 89,187
Net income	—	—	—	7,455	—	7,455
Other comprehensive income	—	—	—	—	40	40
Repurchase of common stock	(66,000)	(820)	—	—	—	(820)
Exercise of stock options	16,220	128	—	—	—	128
Common stock dividends (\$0.28 per common share)	—	—	—	(1,953)	—	(1,953)
Earned ESOP shares, net of income taxes	—	94	198	—	—	292
Stock option compensation expense	—	123	—	—	—	123
Balance, June 30, 2016	6,939,068	9,818	(728)	85,635	(273)	94,452
Balance, September 30, 2016	6,943,868	9,961	(661)	87,709	(175)	96,834
Net income	—	—	—	10,552	—	10,552
Other comprehensive income	—	—	—	—	13	13
Exercise of stock warrant	370,899	2,496	—	—	—	2,496
Exercise of stock options	39,810	265	—	—	—	265
Common stock dividends (\$0.31 per common share)	—	—	—	(2,243)	—	(2,243)
Earned ESOP shares, net of income taxes	—	230	198	—	—	428
Stock option compensation expense	—	271	—	—	—	271
Balance, June 30, 2017	7,354,577	\$ 13,223	\$ (463)	\$ 96,018	\$ (162)	\$ 108,616

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended June 30, 2017 and 2016

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$10,552	\$7,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of loan losses	(1,250)	—
Depreciation	946	998
Earned ESOP shares	198	198
Stock option compensation expense	118	114
Stock option tax effect less excess tax benefit	22	5
Gain on sales of OREO and other repossessed assets, net	(53)	(47)
Provision for OREO losses	42	394
(Gain) loss on sales/dispositions of premises and equipment, net	(3)	4
BOLI net earnings	(406)	(410)
Gain on sales of loans, net	(1,656)	(1,230)
Loans originated for sale	(54,805)	(41,353)
Proceeds from sales of loans	56,542	40,749
Increase in deferred loan origination fees	80	40
Net OTTI on investment securities	—	28
Amortization of MSRs	369	428
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	(326)	(151)
Net cash provided by operating activities	10,370	7,222
Cash flows from investing activities		
Net decrease (increase) in CDs held for investment	11,813	(3,824)
Proceeds from maturities and prepayments of investment securities held to maturity	387	388
Proceeds from maturities and prepayments of investment securities available for sale	49	37
Purchase of FHLB stock	(103)	(105)
Redemption of FHLB stock	1,200	—
Purchase of other investments	(3,000)	—
Increase in loans receivable, net	(23,566)	(43,452)
Additions to premises and equipment	(3,249)	(372)
Capitalized improvements to OREO	—	(142)
Proceeds from sales of OREO and other repossessed assets	1,435	3,210
Net cash used in investing activities	(15,034)	(44,260)

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the nine months ended June 30, 2017 and 2016

(In thousands)

(Unaudited)

	Nine Months Ended	
	June 30,	
	2017	2016
Cash flows from financing activities		
Net increase in deposits	\$57,284	\$36,469
Repayment of FHLB borrowings	(30,000)	—
ESOP tax effect	230	94
Proceeds from exercise of stock options	265	128
Stock option excess tax benefit	131	4
Proceeds from exercise of stock warrant	2,492	—
Issuance of common stock	4	—
Repurchase of common stock	—	(820)
Payment of dividends	(2,243)	(1,953)
Net cash provided by financing activities	28,163	33,922
Net increase in cash and cash equivalents	23,499	(3,116)
Cash and cash equivalents		
Beginning of period	108,941	92,289
End of period	\$132,440	\$89,173
Supplemental disclosure of cash flow information		
Income taxes paid	\$5,376	\$3,450
Interest paid	2,701	2,924
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	\$724	\$323
Other comprehensive income related to investment securities	13	40
See notes to unaudited consolidated financial statements		

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: The accompanying unaudited consolidated financial statements for Timberland Bancorp, Inc. (“Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2016 (“2016 Form 10-K”). The unaudited consolidated results of operations for the nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2017.

(b) Principles of Consolidation: The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank (“Bank”), and the Bank’s wholly-owned subsidiary, Timberland Service Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, “Timberland Bank.”

(d) The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the June 30, 2017 presentation with no change to net income or total shareholders’ equity as previously reported.

(2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and were as follows as of June 30, 2017 and September 30, 2016 (dollars in thousands):

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017			