

BAR HARBOR BANKSHARES

Form 10-Q

November 06, 2018

Table of Contents

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, 2018

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: 001-13349

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine

(State or other jurisdiction of incorporation or organization) 01-0393663 (I.R.S. Employer Identification No.)

PO Box 400

82 Main Street, Bar Harbor, ME

(Address of principal executive offices)

04609-0400

(Zip Code)

Registrant's telephone number, including area code: (207) 288-3314

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, if any, every Interactive Data File required to be submitted 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 definition of "large accelerated filer," "accelerated filer," "smaller reporting company", or "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

The Registrant had 15,509,803 shares of common stock, par value \$2.00 per share, outstanding as of November 2, 2018.

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES
FORM 10-Q

INDEX

Page

PART I. FINANCIAL INFORMATIONItem 1. Consolidated Financial Statements (unaudited)

Consolidated Balance Sheets as of September 30, 2018 and
December 31, 2017 4

Consolidated Statements of Income for the Three and Nine Months
Ended September 30, 2018 and 2017 5

Consolidated Statements of Comprehensive Income for the Three
and Nine Months Ended September 30, 2018 and 2017 6

Consolidated Statements of Changes in Shareholders' Equity for
the Nine Months Ended September 30, 2018 and 2017 7

Consolidated Statements of Cash Flows for the Nine Months
Ended September 30, 2018 and 2017 8

Notes to Unaudited Consolidated Interim Financial Statements

Note 1 Basis of Presentation 9
Note 2 Securities Available for Sale 14
Note 3 Loans 18
Note 4 Allowance for Loan Losses 34
Note 5 Borrowed Funds 41
Note 6 Deposits 43
Note 7 Capital Ratios and Shareholders' Equity 44
Note 8 Earnings per Share 49
Note 9 Derivative Financial Instruments and Hedging Activities 50
Note 10 Fair Value Measurements 53
Note 11 Non-Interest Income 59
Note 12 Subsequent Events 62

Item 2. Management's Discussion and Analysis of Financial Condition and
Results of Operations 63

Forward-Looking Statements 64
Selected Financial Data 65
Consolidated Loan and Deposit Analysis 67
Average Balances and Average Yields/Rates 68
Non-GAAP Financial Measures 70
Reconciliation of Non-GAAP Financial Measures 71
Financial Summary 73

Table of Contents

<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>80</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>82</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>82</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>82</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>83</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>83</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>83</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>83</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>84</u>
<u>Signatures</u>		<u>85</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	\$ 53,154	\$ 34,262
Interest-bearing deposit with the Federal Reserve Bank	19,420	56,423
Total cash and cash equivalents	72,574	90,685
Securities available for sale, at fair value	712,658	717,242
Federal Home Loan Bank stock	34,154	38,105
Total securities	746,812	755,347
Commercial real estate	840,018	826,746
Commercial and industrial	385,814	379,423
Residential real estate	1,140,519	1,155,682
Consumer	117,239	123,762
Total loans	2,483,590	2,485,613
Less: Allowance for loan losses	(13,487) (12,325)
Net loans	2,470,103	2,473,288
Premises and equipment, net	47,621	47,708
Other real estate owned	68	122
Goodwill	100,085	100,085
Other intangible assets	7,690	8,383
Cash surrender value of bank-owned life insurance	73,316	57,997
Deferred tax assets, net	11,527	7,180
Other assets	31,196	24,389
Total assets	\$ 3,560,992	\$ 3,565,184
Liabilities		
Demand and other non-interest bearing deposits	\$ 372,358	\$ 349,055
NOW deposits	471,326	466,610
Savings deposits	354,908	364,799
Money market deposits	254,142	305,275
Time deposits	937,615	866,346
Total deposits	2,390,349	2,352,085
Senior borrowings	739,224	786,688
Subordinated borrowings	42,988	43,033
Total borrowings	782,212	829,721
Other liabilities	30,746	28,737
Total liabilities	3,203,307	3,210,543
(continued)		
Shareholders' equity		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 16,428,388 and 16,428,388 shares at September 30, 2018 and December 31, 2017, respectively	32,857	32,857
Additional paid-in capital	187,284	186,702

Edgar Filing: BAR HARBOR BANKSHARES - Form 10-Q

Retained earnings	162,008	144,977	
Accumulated other comprehensive loss	(19,688) (4,554)
Less: 919,710 and 985,532 shares of treasury stock at September 30, 2018 and December 31, 2017, respectively	(4,776) (5,341)
Total shareholders' equity	357,685	354,641	
Total liabilities and shareholders' equity	\$ 3,560,992	\$ 3,565,184	

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

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Interest and dividend income				
Loans	\$26,212	\$24,661	\$77,272	\$70,081
Securities and other	5,972	5,402	17,407	15,832
Total interest and dividend income	32,184	30,063	94,679	85,913
Interest expense				
Deposits	5,478	3,177	13,868	7,926
Borrowings	4,237	3,408	12,192	9,327
Total interest expense	9,715	6,585	26,060	17,253
Net interest income	22,469	23,478	68,619	68,660
Provision for loan losses	643	660	2,208	2,191
Net interest income after provision for loan losses	21,826	22,818	66,411	66,469
Non-interest income				
Trust and investment management fee income	2,952	3,040	9,036	9,228
Insurance brokerage service income	—	329	—	1,020
Customer service fees	2,490	2,638	7,061	6,402
Gain on sales of securities, net	—	19	—	19
Bank-owned life insurance income	505	380	1,328	1,165
Other income	1,179	554	3,060	1,631
Total non-interest income	7,126	6,960	20,485	19,465
Non-interest expense				
Salaries and employee benefits	10,331	9,617	31,695	30,065
Occupancy and equipment	3,366	2,700	9,364	8,195
Loss on premises and equipment, net	—	(1)	—	94
Outside services	456	907	1,597	2,220
Professional services	223	428	1,016	1,357
Communication	217	382	701	1,040
Amortization of intangible assets	207	212	621	603
Acquisition, conversion and other expenses	70	346	619	5,917
Other expenses	3,036	2,995	9,830	8,972
Total non-interest expense	17,906	17,586	55,443	58,463
Income before income taxes	11,046	12,192	31,453	27,471
Income tax expense	2,076	3,575	6,136	8,085
Net income	\$8,970	\$8,617	\$25,317	\$19,386
Earnings per share:				
Basic	\$0.58	\$0.56	\$1.64	\$1.27
Diluted	\$0.58	\$0.56	\$1.63	\$1.27
Weighted average common shares outstanding:				
Basic	15,503	15,420	15,478	15,098
Diluted	15,580	15,511	15,564	15,204

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

5

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months		Nine Months	
	Ended		Ended September	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income	\$8,970	\$8,617	\$25,317	\$19,386
Other comprehensive (loss) income, before tax:				
Changes in unrealized loss on securities available for sale	(5,850)	512	(19,639)	5,119
Changes in unrealized loss on derivative hedges	299	(84)	1,179	(805)
Changes in unrealized loss on pension	—	5	41	45
Income taxes related to other comprehensive (loss) income :				
Changes in unrealized loss on securities available for sale	1,291	(192)	4,565	(1,839)
Changes in unrealized loss on derivative hedges	(81)	31	(290)	373
Changes in unrealized loss on pension	—	(2)	(10)	(2)
Total other comprehensive (loss) income	(4,341)	270	(14,154)	2,891
Total comprehensive income	\$4,629	\$8,887	\$11,163	\$22,277

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

Table of ContentsBAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2016	\$ 13,577	\$ 23,027	\$ 130,489	\$ (4,326)	\$(6,027)	\$ 156,740
Comprehensive income:						
Net income	—	—	19,386	—	—	19,386
Other comprehensive income	—	—	—	2,891	—	2,891
Total comprehensive income	—	—	19,386	2,891	—	22,277
Cash dividends declared (\$0.56 per share)	—	—	(8,624)	—	—	(8,624)
Acquisition of Lake Sunapee Bank Group	8,328	173,591	—	—	—	181,919
Treasury stock purchased (9,603 shares)	—	—	—	—	(282)	(282)
Net issuance (80,448 shares) to employee stock plans, including related tax effects	—	(265)	—	—	874	609
Three-for-two stock split	10,953	(10,968)	—	—	—	(15)
Recognition of stock based compensation	—	835	—	—	—	835
Balance at September 30, 2017	\$ 32,858	\$ 186,220	\$ 141,251	\$ (1,435)	\$(5,435)	\$ 353,459