Territorial Bancorp Inc.
Form 10-Q
November 08, 2016
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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, 2016

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)

Maryland	26-4674701
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

1132 Bishop Street, Suite 2200, Honolulu, Hawaii	96813
(Address of Principal Executive Offices)	(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, 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	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 .

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date: 9,764,169 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of October 31, 2016.

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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)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	$ 40,503	$ 65,919
Investment securities held to maturity, at amortized cost (fair value of $449,146 and $497,982 at September 30, 2016 and December 31, 2015, respectively)	432,142	493,059
Loans held for sale	2,048	2,139
Loans receivable, net	1,302,343	1,188,649
Federal Home Loan Bank stock, at cost	4,945	4,790
Federal Reserve Bank stock, at cost	3,081	3,022
Accrued interest receivable	4,752	4,684
Premises and equipment, net	4,207	4,903
Bank-owned life insurance	43,055	42,328
Current taxes receivable	737	—
Deferred income tax assets, net	8,250	9,378
Prepaid expenses and other assets	2,586	2,270
Total assets	$ 1,848,649	$ 1,821,141
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,464,479	$ 1,445,103
Advances from the Federal Home Loan Bank	69,000	69,000
Securities sold under agreements to repurchase	55,000	55,000
Accounts payable and accrued expenses	26,805	25,178
Current taxes payable	1,651	2,095
Advance payments by borrowers for taxes and insurance	3,296	5,124
Total liabilities	1,620,231	1,601,500
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 9,764,169 and 9,659,685 shares at September 30, 2016 and December 31, 2015, respectively	97	96
Additional paid-in capital	71,400	70,118
Unearned ESOP shares	(5,994)	(6,361)
Retained earnings	168,071	161,024
Accumulated other comprehensive loss	(5,156)	(5,236)
Total stockholders' equity	228,418	219,641
Total liabilities and stockholders' equity	$ 1,848,649	$ 1,821,141

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans	$ 13,052	$ 11,809	$ 38,060	$ 33,761
Investment securities	3,496	4,098	11,121	12,895
Other investments	121	64	411	213
Total interest and dividend income	16,669	15,971	49,592	46,869
Interest expense:				
Deposits	1,485	1,198	4,363	3,486
Advances from the Federal Home Loan Bank	259	211	772	438
Securities sold under agreements to repurchase	220	221	656	776
Total interest expense	1,964	1,630	5,791	4,700
Net interest income	14,705	14,341	43,801	42,169
Provision for loan losses	107	71	219	366
Net interest income after provision for loan losses	14,598	14,270	43,582	41,803
Noninterest income:				
Service fees on loan and deposit accounts	493	590	1,422	1,577
Income on bank-owned life insurance	240	259	727	770
Gain on sale of investment securities	60	—	250	476
Gain on sale of loans	114	201	304	440
Other	96	138	320	419
Total noninterest income	1,003	1,188	3,023	3,682
Noninterest expense:				
Salaries and employee benefits	5,265	5,596	15,947	15,759
Occupancy	1,432	1,483	4,285	4,348
Equipment	865	1,025	2,683	2,923
Federal deposit insurance premiums	144	214	596	634
Other general and administrative expenses	939	1,048	3,181	3,449
Total noninterest expense	8,645	9,366	26,692	27,113
Income before income taxes	6,956	6,092	19,913	18,372
Income taxes	2,792	2,406	7,928	7,323
Net income	$ 4,164	$ 3,686	$ 11,985	$ 11,049

Basic earnings per share	$ 0.46	$ 0.41	$ 1.32	$ 1.22
Diluted earnings per share	$ 0.45	$ 0.40	$ 1.29	$ 1.19
Cash dividends declared per common share	$ 0.18	$ 0.17	$ 0.54	$ 0.49
Basic weighted-average shares outstanding	9,102,837	9,085,725	9,065,892	9,086,481
Diluted weighted-average shares outstanding	9,325,506	9,301,500	9,280,260	9,250,835

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,	
	2016	2015	2016	2015
Net income	$ 4,164	$ 3,686	$ 11,985	$ 11,049
Change in unfunded pension liability	—	—	(21)	(64)
Change in unrealized loss on securities	4	8	10	24
Change in noncredit related loss on trust preferred securities	45	(7)	91	101
Other comprehensive income, net of tax	49	1	80	61
Comprehensive income	$ 4,213	$ 3,687	$ 12,065	$ 11,110

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, 2014	$ 99	$ 75,229	$ (6,851)	$ 153,289	$ (5,388)	$ 216,378
Net income	—	—	—	11,049	—	11,049
Other comprehensive income	—	—	—	—	61	61
Cash dividends declared ($0.49 per share)	—	—	—	(4,553)	—	(4,553)
Share-based compensation	1	2,416	—	—	—	2,417
Allocation of 36,699 ESOP shares	—	499	367	—	—	866
Repurchase of 334,976 shares of company common stock	(3)	(7,866)	—	—	—	(7,869)
Exercise of 1,000 options for common stock	—	17	—	—	—	17
Balances at September 30, 2015	$ 97	$ 70,295	$ (6,484)	$ 159,785	$ (5,327)	$ 218,366
Balances at December 31, 2015	$ 96	$ 70,118	$ (6,361)	$ 161,024	$ (5,236)	$ 219,641
Net income	—	—	—	11,985	—	11,985
Other comprehensive income	—	—	—	—	80	80
Cash dividends declared ($0.54 per share)	—	—	—	(4,938)	—	(4,938)
Share-based compensation	1	1,778	—	—	—	1,779
Allocation of 36,699 ESOP shares	—	612	367	—	—	979
Repurchase of 100,758 shares of company common stock	(1)	(2,724)	—	—	—	(2,725)
Exercise of 93,100 options for common stock	1	1,616	—	—	—	1,617
Balances at September 30, 2016	$ 97	$ 71,400	$ (5,994)	$ 168,071	$ (5,156)	$ 228,418

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)

	Nine Months Ended September 30, 2016		2015	
Cash flows from operating activities:				
Net income	$	11,985	$	11,049
Adjustments to reconcile net income to net cash from operating activities:				
Provision for loan losses		219		366
Depreciation and amortization		886		985
Deferred income tax expense (benefit)		1,041		(1,152)
Amortization of fees, discounts, and premiums		(604)		(374)
Origination of loans held for sale		(39,336)		(45,452)
Proceeds from sales of loans held for sale		38,844		46,459
Gain on sale of loans, net		(304)		(440)
Net gain on sale of real estate owned		—		(12)
Gain on sale of investment securities held to maturity		(250)		(476)
Net loss on disposal of premises and equipment		—		4
ESOP expense		979		866
Share-based compensation expense		1,779		2,417
Increase in accrued interest receivable		(66)		(306)
		(727)		(769)

Net increase in bank-owned life insurance		
Net increase in prepaid expenses and other assets	(316)	(573)
Net increase in accounts payable and accrued expenses	1,558	3,819
Net decrease in advance payments by borrowers for taxes and insurance	(1,828)	(822)
Net increase in income taxes receivable	(737)	(1,523)
Net increase (decrease) in income taxes payable	(444)	650
Net cash from operating activities	12,679	14,716
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(2,523)	(10,300)
Principal repayments on investment securities held to maturity	60,077	69,966
Proceeds from sale of investment securities held to maturity	3,923	5,083
Loan originations, net of principal repayments on loans receivable	(112,498)	(194,900)
Purchases of Federal Home Loan Bank stock	(275)	(2,920)
Proceeds from redemption of Federal Home Loan Bank stock	120	9,564
Purchases of Federal Reserve Bank stock	(59)	(64)
Proceeds from sale of real estate owned	—	204
	(190)	(416)

Purchases of premises and equipment		
Net cash from investing activities	(51,425)	(123,783)

(Continued)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from financing activities:		
Net increase in deposits	$ 19,376	$ 53,318
Proceeds from advances from the Federal Home Loan Bank	3,000	115,000
Repayments of advances from the Federal Home Loan Bank	(3,000)	(66,000)
Proceeds from securities sold under agreements to repurchase	—	30,000
Repayments of securities sold under agreements to repurchase	—	(47,000)
Purchases of Fed Funds	10	10
Sales of Fed Funds	(10)	(10)
Proceeds from issuance of common stock	566	17
Repurchases of common stock	(1,674)	(7,309)
Cash dividends paid	(4,938)	(4,553)
Net cash from financing activities	13,330	73,473
Net decrease in cash and cash equivalents	(25,416)	(35,594)
Cash and cash equivalents at beginning of the period	65,919	75,060
Cash and cash equivalents at end of the period	$ 40,503	$ 39,466
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 5,770	$ 4,780
Income taxes	8,068	8,932
Supplemental disclosure of noncash investing and financing activities:		
Company stock acquired through swap and net settlement transactions	$ 1,051	$ —
Loans transferred to real estate owned	—	192

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 the Company's consolidated financial statements and notes thereto filed as part of the Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments necessary for a fair presentation have been made and consist only of normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

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(2) Organization

On July 10, 2009, Territorial Savings Bank completed a conversion from a mutual holding company to a stock holding company. As part of the conversion, Territorial Mutual Holding Company and Territorial Savings Group, Inc., the former holding companies for Territorial Savings Bank, 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, 2015 was $13.5 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.

(3) Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) amended the Revenue Recognition topic of the FASB Accounting Standards Codification (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. In August 2015, the FASB deferred the effective date of the amendment by one year. However, entities may still choose to adopt the amendment as of the original effective date. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In April 2015, the FASB amended the Intangibles – Goodwill and Other topic of the FASB ASC. The amendment adds guidance to help entities evaluate the accounting for fees paid in cloud computing arrangements. The amendment is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company adopted this amendment on January 1, 2016, and the adoption did not have a material effect on its consolidated financial statements.

In January 2016, the FASB amended the Financial Instruments – Overall topic of the FASB ASC. The amendment addresses several aspects of recognition, measurement, presentation and disclosure of financial instruments. Included are: (a) a requirement to measure equity investments at fair value, with changes in fair value recognized in net income, (b) a simplification of the impairment assessment of equity investments without readily determinable fair values, (c) the elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet, and (d) a requirement to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In February 2016, the FASB amended the Leases topic of the FASB ASC. The primary effects of the amendment will be to recognize lease assets and lease liabilities on the balance sheet and to disclose certain information about leasing arrangements. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements.

In March 2016, the FASB amended the Compensation – Stock Compensation topic of the FASB ASC. The amendment seeks to simplify several areas of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification of transactions on the statement of cash flows. The amendment is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements.

In June 2016, the FASB amended various sections of the FASB ASC related to the accounting for credit losses on financial instruments. The primary areas affecting the Company will be in the accounting for loans receivable and investments held to maturity. The amendment changes the threshold for recognizing losses from “probable” to “expected” and may result in increases in the Company’s allowances for loan and investment losses. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effects that the adoption of this amendment will have 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, 2016	December 31, 2015
Cash and due from banks	$ 9,391	$ 10,318
Interest-earning deposits in other banks	31,112	55,601
Cash and cash equivalents	$ 40,503	$ 65,919

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)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016:				
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 431,076	$ 17,228	$ (224)	$ 448,080
Trust preferred securities	1,066	—	—	1,066
Total	$ 432,142	$ 17,228	$ (224)	$ 449,146
December 31, 2015:				
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 492,143	$ 11,092	$ (6,169)	$ 497,066
Trust preferred securities	916	—	—	916
Total	$ 493,059	$ 11,092	$ (6,169)	$ 497,982

The amortized cost and estimated fair value of investment securities at September 30, 2016 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)	Amortized Cost	Estimated Fair Value
Held-to-maturity:		
Due within 5 years	$ 25	$ 27
Due after 5 years through 10 years	52	52
Due after 10 years	432,065	449,067
Total	$ 432,142	$ 449,146

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

	Three Months	Nine Months Ended

	Ended September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Proceeds from sales	$ 801	$ —	$ 3,923	$ 5,083
Gross gains	60	—	250	476
Gross losses	—	—	—	—

During the three months ended September 30, 2016, the Company received proceeds of $801,000 from the sale of $741,000 of held-to-maturity mortgage-backed securities, resulting in gross realized gains of $60,000. The Company did not sell any held-to-maturity mortgage-backed securities during the three months ended September 30, 2015. During the nine months ended September 30, 2016 and 2015, the Company received proceeds of $3.9 million and $5.0 million, respectively, from the sale of $3.7 million and $4.6 million, respectively, of held-to-maturity mortgage-backed securities, resulting in gross realized gains of $250,000 and $415,000, respectively. The sale of these mortgage-backed securities, for which the Company had already collected a substantial portion of the outstanding purchased principal (at least 85%), is in accordance with the Investments – Debt and Equity Securities topic of the FASB ASC and does not taint management's assertion of intent to hold remaining securities in the held-to-maturity portfolio to maturity.

During the nine months ended September 30, 2015, the Company received proceeds of $61,000 from the sale of one of the trust preferred securities the Company owned, PreTSL XXIV. The Company previously wrote off the entire book value of this security when it incurred an other-than-temporary impairment charge in prior years. The trust preferred security sold was classified in the held-to-maturity portfolio. Since the credit rating of this security was

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downgraded in accordance with the Investments – Dept and Equity Securities topic of the FASB ASC, the sale of this security does not taint management's assertion of intent to hold remaining securities in the held-to-maturity portfolio to maturity.

Investment securities with amortized costs of $224.7 million and $241.4 million at September 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities which were in an unrealized loss position at September 30, 2016 and December 31, 2015. The Company does not intend to sell these securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

	Less Than 12 Months		12 Months or Longer		Total		
Description of securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
(Dollars in thousands)							
September 30, 2016							
Mortgage-backed securities	$ —	$ —	$ 25,627	$ 224	10	$ 25,627	$ 224
December 31, 2015							
Mortgage-backed securities	$ 142,810	$ 3,939	$ 53,142	$ 2,230	43	$ 195,952	$ 6,169

Mortgage-Backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by increases in market interest rates subsequent to purchase. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2016 and December 31, 2015.

Trust Preferred Securities. At September 30, 2016, the Company owned one trust preferred security, PreTSL XXIII. The trust preferred security represents an investment in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. This security is classified in the Company's held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only six transactions have occurred over the past 57 months in the same tranche of securities that we own and no new issues of pooled trust preferred securities have occurred since 2007. We used a discounted cash flow model to determine whether this security is other-than-temporarily impaired. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates, estimated deferral and default rates on collateral, and estimated cash flows.

Based on the Company's review, the Company's investment in PreTSL XXIII did not incur additional impairment during the nine months ended September 30, 2016.

PreTSL XXIII has an amortized cost of $1.1 million at September 30, 2016. The difference between the amortized cost of $1.1 million and the remaining cost basis of $1.1 million is reported as accumulated other comprehensive loss and is related to noncredit factors.

It is reasonably possible that the fair value of the trust preferred security could decline in the near term if the overall economy and the financial condition of some of the issuers deteriorate further and the liquidity of this security remains low. As a result, there is a risk that the Company's remaining cost basis of $1.1 million on the trust preferred security could be credit-related other-than-temporarily impaired in the near term. The impairment, if any, could be material to the Company's consolidated statements of income.

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The table below provides a cumulative roll forward of credit losses recognized in earnings for debt securities held and not intended to be sold:

(Dollars in thousands)	2016	2015
Balance at January 1,	$ 2,403	$ 5,885
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Credit losses on debt securities which were sold	—	(3,482)
Balance at September 30,	$ 2,403	$ 2,403

The table below shows the components of accumulated other comprehensive loss, net of taxes, resulting from other-than-temporarily impaired securities:

	September 30,	
(Dollars in thousands)	2016	2015
Noncredit losses on other-than-temporarily impaired securities, net of taxes	$ 56	$ 183

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 1,256,841	$ 1,145,904
Multi-family residential	9,627	9,834
Construction, commercial and other	22,137	19,288
Home equity loans and lines of credit	15,309	15,333
Total real estate loans	1,303,914	1,190,359
Other loans:		
Loans on deposit accounts	243	304
Consumer and other loans	3,846	4,239

Total other loans	4,089	4,543
Less:		
Net unearned fees and discounts	(3,298)	(4,087)
Allowance for loan losses	(2,362)	(2,166)
Total unearned fees, discounts and allowance for loan losses	(5,660)	(6,253)
Loans receivable, net	$ 1,302,343	$ 1,188,649

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The table below presents the activity in the allowance for loan losses by portfolio segment:

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended September 30, 2016:						
Balance, beginning of period	$ 1,444	$ 567	$ 3	$ 56	$ 206	$ 2,276
Provision (reversal of allowance) for loan losses	133	(87)	(1)	54	8	107
	1,577	480	2	110	214	2,383
Charge-offs	(33)	—	—	(5)	—	(38)
Recoveries	15	—	—	2	—	17
Net charge-offs	(18)	—	—	(3)	—	(21)
Balance, end of period	$ 1,559	$ 480	$ 2	$ 107	$ 214	$ 2,362
Nine months ended September 30, 2016:						
Balance, beginning of period	$ 1,380	$ 517	$ 3	$ 72	$ 194	$ 2,166
Provision (reversal of allowance) for loan losses	190	(37)	(1)	47	20	219
	1,570	480	2	119	214	2,385
Charge-offs	(33)	—	—	(23)	—	(56)
Recoveries	22	—	—	11	—	33
Net charge-offs	(11)	—	—	(12)	—	(23)
Balance, end of period	$ 1,559	$ 480	$ 2	$ 107	$ 214	$ 2,362

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended September 30, 2015:						
Balance, beginning of period	$ 1,243	$ 407	$ 3	$ 101	$ 240	$ 1,994
Provision (reversal of allowance) for loan losses	109	—	—	(20)	(18)	71
	1,352	407	3	81	222	2,065
Charge-offs	—	—	—	(10)	—	(10)
Recoveries	—	3	1	3	—	7
Net recoveries (charge-offs)	—	3	1	(7)	—	(3)
Balance, end of period	$ 1,352	$ 410	$ 4	$ 74	$ 222	$ 2,062

Nine months ended September 30, 2015:						
Balance, beginning of period	$ 413	$ 977	$ 5	$ 263	$ 33	$ 1,691
Provision (reversal of allowance) for loan losses	936	(577)	(18)	(164)	189	366
	1,349	400	(13)	99	222	2,057
Charge-offs	—	—	—	(35)	—	(35)
Recoveries	3	10	17	10	—	40
Net recoveries (charge-offs)	3	10	17	(25)	—	5
Balance, end of period	$ 1,352	$ 410	$ 4	$ 74	$ 222	$ 2,062

During the three months ended September 30, 2016, the Company changed the look-back period that is used to calculate the historical loss rates from five to seven years. The look-back period was extended to seven years because the longer look-back period is considered to be more representative of an entire economic cycle. The seven year look-back period will include loan charge-offs and recoveries from the recession and the subsequent economic recovery. The change in the look-back period did not have a material effect on the allowance for loan losees.

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During the nine months ended September 30, 2016, the Company increased the loan loss provisions for residential mortgage loans primarily because of the growth of this segment of the loan portfolio and the concentration of loans in Hawaii. The Company also reduced the loan loss provisions on construction, commercial and other mortgage loans based on continued limited loss experience. The loan loss provision on consumer and other loans rose primarily because of an increase in the historical loss rate which occurred when the look-back period was changed from five to seven years. The allocation of a portion of the allowance from one category of loans does not preclude its availability to absorb losses in other loan categories.

Management considers the allowance for loan losses at September 30, 2016 to be at an appropriate level to provide for probable losses that can be reasonably estimated based on general and specific conditions at that date. While the Company uses the best information it has available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. To the extent actual outcomes differ from the estimates, additional provisions for credit losses may be required that would reduce future earnings. In addition, as an integral part of their examination process, the bank regulators periodically review the allowance for loan losses and may require the Company to increase the allowance based on their analysis of information available at the time of their examination.

The table below presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method:

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
September 30, 2016:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,559	480	2	107	214	2,362
Total ending allowance balance	$ 1,559	$ 480	$ 2	$ 107	$ 214	$ 2,362
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 5,878	$ —	$ 159	$ —	$ —	$ 6,037
Collectively evaluated for impairment	1,257,362	22,051	15,157	4,098	—	1,298,668
Total ending loan balance	$ 1,263,240	$ 22,051	$ 15,316	$ 4,098	$ —	$ 1,304,705

December 31, 2015:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,380	517	3	72	194	2,166
Total ending allowance balance	$ 1,380	$ 517	$ 3	$ 72	$ 194	$ 2,166
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 6,486	$ —	$ 124	$ 9	$ —	$ 6,619
Collectively evaluated for impairment	1,145,259	19,175	15,216	4,546	—	1,184,196
Total ending loan balance	$ 1,151,745	$ 19,175	$ 15,340	$ 4,555	$ —	$ 1,190,815

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The table below presents the balance of impaired loans individually evaluated for impairment by class of loans:

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance
September 30, 2016:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 5,878	$ 6,752
Home equity loans and lines of credit	159	205
Total	$ 6,037	$ 6,957
December 31, 2015:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 6,486	$ 7,307
Home equity loans and lines of credit	124	163
Consumer and other	9	9
Total	$ 6,619	$ 7,479

The table below presents the average recorded investment and interest income recognized on impaired loans by class of loans:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
2016:				
With no related allowance recorded:				
One- to four-family residential mortgages	$ 5,936	$ 19	$ 6,000	$ 57
Home equity loans and lines of credit	162	—	163	—
Total	$ 6,098	$ 19	$ 6,163	$ 57
2015:				
With no related allowance recorded:				
One- to four-family residential mortgages	$ 6,515	$ 16	$ 6,586	$ 52
Home equity loans and lines of credit	126	—	129	—
Total	$ 6,641	$ 16	$ 6,715	$ 52

There were no loans individually evaluated for impairment with a related allowance for loan loss as of September 30, 2016 or December 31, 2015. Loans individually evaluated for impairment do not have an allocated allowance for loan loss because they were written down to fair value at the time of impairment.

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The table below presents the aging of loans and accrual status by class of loans:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual Loans	Loans More Than 90 Days Past Due and Still Accruing
September 30, 2016:								
One- to four-family residential mortgages	$ 461	$ 451	$ 1,448	$ 2,360	$ 1,251,275	$ 1,253,635	$ 4,689	$ —
Multi-family residential mortgages	—	—	—	—	9,605	9,605	—	—
Construction, commercial and other mortgages	—	—	—	—	22,051	22,051	—	—
Home equity loans and lines of credit	35	—	49	84	15,232	15,316	159	—
Loans on deposit accounts	—	—	—	—	243	243	—	—
Consumer and other	1	—	—	1	3,854	3,855	—	—
Total	$ 497	$ 451	$ 1,497	$ 2,445	$ 1,302,260	$ 1,304,705	$ 4,848	$ —
December 31, 2015:								
One- to four-family residential mortgages	$ 1,354	$ —	$ 1,615	$ 2,969	$ 1,138,966	$ 1,141,935	$ 5,282	$ —
Multi-family residential mortgages	—	—	—	—	9,810	9,810	—	—
Construction, commercial and other mortgages	—	—	—	—	19,175	19,175	—	—
Home equity loans and lines of credit	—	—	—	—	15,340	15,340	124	—
Loans on deposit accounts	—	—	—	—	304	304	—	—
Consumer and other	4	1	10	15	4,236	4,251	9	—
Total	$ 1,358	$ 1	$ 1,625	$ 2,984	$ 1,187,831	$ 1,190,815	$ 5,415	$ —

The Company primarily uses the aging of loans and accrual status to monitor the credit quality of its loan portfolio. When a mortgage loan becomes seriously delinquent (90 days or more contractually past due), it displays weaknesses that may result in a loss. As a loan becomes more delinquent, the likelihood of the borrower repaying the loan decreases and the loan becomes more collateral-dependent. A mortgage loan becomes collateral-dependent when the proceeds for repayment can be expected to come only from the sale or operation of the collateral and not from borrower repayments. Generally, appraisals are obtained after a loan becomes collateral-dependent or is four months delinquent. The carrying value of collateral-dependent loans is adjusted to the fair value of the collateral less selling costs. Any commercial real estate, commercial, construction or equity loan that has a loan balance in excess of a specified amount is also periodically reviewed to determine whether the loan exhibits any weaknesses and is performing in accordance with its contractual terms.

The Company had 20 nonaccrual loans with a book value of $4.8 million at September 30, 2016 and 23 nonaccrual loans with a book value of $5.4 million as of December 31, 2015. The Company collected interest on nonaccrual loans of $149,000 and $170,000 during the nine months ended September 30, 2016 and 2015, respectively, but due to regulatory requirements, the Company recorded the interest as a reduction of principal. The Company would have recognized additional interest income of $211,000 and $231,000 during the nine months ended September 30, 2016 and 2015, had the loans been accruing interest. The Company did not have any loans more than 90 days past due and still accruing interest as of September 30, 2016 and December 31, 2015.

There were no loans modified in a troubled debt restructuring during the nine months ended September 30, 2016 or 2015. There were no new troubled debt restructurings within the past 12 months that subsequently defaulted.

The Company had 14 troubled debt restructurings totaling $3.1 million as of September 30, 2016 that were considered to be impaired. This total included 13 one- to four-family residential mortgage loans totaling $3.0 million and one home equity loan for $111,000. Five of the loans, totaling $1.2 million, are performing in accordance with their restructured terms and accruing interest at September 30, 2016. Eight of the loans, totaling $1.7 million, are performing in accordance with their restructured terms but not accruing interest at September 30, 2016. One of the loans, for $149,000, was more than 149 days delinquent and not accruing interest as of September 30, 2016. The Company had 15 troubled debt restructurings totaling $3.4 million as of December 31, 2015 that were considered to be impaired. This total included 14 one- to four-family residential mortgage loans totaling $3.3 million and one home equity loan for

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$120,000. Four of the loans, totaling $885,000, were performing in accordance with their restructured terms and accruing interest at December 31, 2015. Nine of the loans, totaling $2.0 million, were performing in accordance with their restructured terms but not accruing interest at December 31, 2015. One of the loans, for $318,000, was 59 days delinquent and accruing interest at December 31, 2015. One of the loans, for $149,000, was more than 149 days delinquent and not accruing interest as of December 31, 2015. Restructurings include deferrals of interest and/or principal payments and temporary or permanent reductions in interest rates due to the financial difficulties of the borrowers. At September 30, 2016, we had no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of September 30, 2016 or December 31, 2015. There were four one- to four-family residential mortgage loans totaling $702,000 in the process of foreclosure as of September 30, 2016, and four one- to four-family residential mortgage loans totaling $747,000 in the process of foreclosure as of December 31, 2015.

Nearly all of our real estate loans are collateralized by real estate located in the State of Hawaii. Loan-to-value ratios on these real estate loans generally do not exceed 80% at the time of origination.

During the nine months ended September 30, 2016 and 2015, the Company sold $38.6 million and $46.2 million, respectively, of mortgage loans held for sale and recognized gains of $304,000 and $440,000, respectively. The Company had five loans held for sale totaling $2.0 million at September 30, 2016 and six loans held for sale totaling $2.1 million at December 31, 2015.

The Company serviced loans for others of $43.6 million at September 30, 2016 and $51.8 million at December 31, 2015. Of these amounts, $2.3 million and $2.8 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at September 30, 2016 and December 31, 2015, respectively. The amount of contractually specified servicing fees earned for the nine-month periods ended September 30, 2016 and 2015 was $99,000 and $117,000, respectively. The amount of contractually specified servicing fees earned for the three-month periods ended September 30, 2016 and 2015 was $31,000 and $37,000, respectively. The fees are reported in service fees on loan and deposit accounts in the consolidated statements of income.

(7) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are treated as financings and the obligations to repurchase the identical securities sold are reflected as a liability with the securities collateralizing the agreements classified as an asset. Securities sold under agreements to repurchase are summarized as follows:

	September 30, 2016			December 31, 2015		
(Dollars in thousands)	Repurchase Liability	Weighted Average Rate		Repurchase Liability	Weighted Average Rate	
Maturing:						
1 year or less	$ —	—	%	$ —	—	%
Over 1 year to 2 years	25,000	1.46		25,000	1.46	
Over 2 years to 3 years	20,000	1.66		—	—	
Over 3 years to 4 years	10,000	1.65		25,000	1.66	
Over 4 years to 5 years	—	—		5,000	1.65	
Total	$ 55,000	1.57	%	$ 55,000	1.57	%

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Below is a summary comparing the carrying value and fair value of securities pledged to secure repurchase agreements, the repurchase liability, and the amount at risk at September 30, 2016. The amount at risk is the greater of the carrying value or fair value over the repurchase liability and refers to the potential loss to the Company if the secured lender fails to return the security at the maturity date of the agreement. All the agreements to repurchase are with JP Morgan Securities and the securities pledged are mortgage-backed securities issued and guaranteed by U.S. government-sponsored enterprises. The repurchase liability cannot exceed 90% of the fair value of securities pledged. In the event of a decline in the fair value of securities pledged to less than the required amount due to market conditions or principal repayments, the Company is obligated to pledge additional securities or other suitable collateral to cure the deficiency.

(Dollars in thousands)	Carrying Value of Securities	Fair Value of Securities	Repurchase Liability	Amount at Risk	Weighted Average Months to Maturity
Maturing:					
Over 90 days	$ 59,319	$ 61,171	$ 55,000	$ 6,171	23

(8) Offsetting of Financial Liabilities

Securities sold under agreements to repurchase are subject to a right of offset in the event of default. See note 7, Securities Sold Under Agreements to Repurchase, for additional information.

(Dollars in thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Gross Amount Not Offset in the Balance Sheet: Financial Instruments	Gross Amount Not Offset in the Balance Sheet: Cash Collateral Pledged	Net Amount
September 30, 2016:						
Securities sold under agreements to repurchase	$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ —
December 31, 2015:						
Securities sold under agreements to repurchase	$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ —

(9) Employee Benefit Plans

The Company has a noncontributory defined benefit pension plan (Pension Plan) that covers most employees with at least one year of service. Effective December 31, 2008, under approved changes to the Pension Plan, there were no further accruals of benefits for any participants and benefits will not increase with any additional years of service. Net periodic benefit cost, subsequent to December 31, 2008, has not been significant and is not disclosed in the table below.

The Company also sponsors a Supplemental Employee Retirement Plan (SERP), a noncontributory supplemental retirement benefit plan, which covers certain current and former employees of the Company for amounts in addition to those provided under the Pension Plan.

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The components of net periodic benefit cost were as follows:

(Dollars in thousands)	SERP Three Months Ended September 30, 2016	2015	SERP Nine Months Ended September 30, 2016	2015
Net periodic benefit cost for the period:				
Service cost	$ 15	$ 21	$ 44	$ 63
Interest cost	32	31	98	93
Expected return on plan assets	—	—	—	—
Amortization of prior service cost	—	—	—	—
Recognized actuarial loss	—	—	—	—
Recognized curtailment loss	—	—	—	—
Net periodic benefit cost	$ 47	$ 52	$ 142	$ 156

(10) Employee Stock Ownership Plan

Effective January 1, 2009, Territorial Savings Bank adopted an Employee Stock Ownership Plan (ESOP) for eligible employees. The ESOP borrowed $9.8 million from the Company and used those funds to acquire 978,650 shares, or 8%, of the total number of shares issued by the Company in its initial public offering. The shares were acquired at a price of $10.00 per share.

The loan is secured by the shares purchased with the loan proceeds and will be repaid by the ESOP over the 20-year term of the loan with funds from Territorial Savings Bank’s contributions to the ESOP and dividends payable on the shares. The interest rate on the ESOP loan is an adjustable rate equal to the prime rate, as published in The Wall Street Journal. The interest rate adjusts annually and will be the prime rate on the first business day of the calendar year.

Shares purchased by the ESOP are held by a trustee in an unallocated suspense account, and shares are released annually from the suspense account on a pro-rata basis as principal and interest payments are made by the ESOP to the Company. The trustee allocates the shares released among participants on the basis of each participant’s proportional share of compensation relative to all participants. As shares are committed to be released from the suspense account, Territorial Savings Bank reports compensation expense based on the average fair value of shares released with a corresponding credit to stockholders' equity. The shares committed to be released are considered outstanding for earnings per share computations. Compensation expense recognized for the three months ended September 30, 2016 and 2015 amounted to $283,000 and $266,000, respectively. Compensation expense recognized for the nine months ended September 30, 2016 and 2015 amounted to $804,000 and $729,000, respectively.

Shares held by the ESOP trust were as follows:

	September 30, 2016	December 31, 2015
Allocated shares	361,061	325,677
Unearned shares	599,426	636,125
Total ESOP shares	960,487	961,802
Fair value of unearned shares, in thousands	$ 17,180	$ 17,646

The ESOP restoration plan is a nonqualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the ESOP's benefit formula. The supplemental cash payments consist of payments representing shares that cannot be allocated to the participants under the ESOP due to IRS limitations imposed on tax-qualified plans. We accrue for these benefits over the period during which employees provide services to earn these benefits. For the three months ended September 30, 2016 and 2015, we accrued $122,000 and $91,000, respectively, for the ESOP restoration plan. For the nine months ended September 30, 2016 and 2015, we accrued $244,000 and $194,000, respectively, for the ESOP restoration plan.

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(11) Share-Based Compensation

On August 19, 2010, Territorial Bancorp Inc. adopted the 2010 Equity Incentive Plan, which provides for awards of stock options and restricted stock to key officers and outside directors. In accordance with the Compensation – Stock Compensation topic of the FASB ASC, the cost of the 2010 Equity Incentive Plan is based on the fair value of the awards on the grant date. The fair value of restricted stock is based on the closing price of the Company's stock on the grant date. The fair value of stock options is estimated using a Black-Scholes option pricing model using assumptions for dividend yield, stock price volatility, risk-free interest rate and option term. These assumptions are based on our judgments regarding future events, are subjective in nature, and cannot be determined with precision. The cost of the awards will be recognized on a straight-line basis over the three, five- or six-year vesting period during which participants are required to provide services in exchange for the awards.

The Company recognized compensation expense, measured as the fair value of the share-based award on the date of grant, on a straight-line basis over the vesting period. Share-based compensation is recorded in the statement of income as a component of salaries and employee benefits with a corresponding increase in shareholders' equity. The table below presents information on compensation expense and the related tax benefit for all share-based awards:

	For the Three Months Ended September 30,	For the Nine Months Ended September 30,