Territorial Bancorp Inc.
Form 10-Q
May 09, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2018

or

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

For transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

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, former address and formal fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)
Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No .

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

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

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

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

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

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

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

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

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

See accompanying notes to consolidated financial statements.

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 4,820	$ 4,321
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	9	71
Depreciation and amortization	314	243
Deferred income tax expense (benefit)	(367)	367
Amortization of fees, discounts, and premiums	(136)	(129)
Origination of loans held for sale	(4,129)	(8,098)
Proceeds from sales of loans held for sale	4,575	8,011
Gain on sale of loans, net	(43)	(63)
Net gain on sale of real estate owned	(4)	—
Gain on sale of investment securities held to maturity	—	(95)
ESOP expense	376	395
Share-based compensation expense	67	(38)
Increase in accrued interest receivable	(41)	(34)
Net increase in bank-owned life insurance	(215)	(226)
Net increase in prepaid expenses and other assets	(37)	(304)
Net increase (decrease) in accounts payable and accrued expenses	(1,769)	161
Net decrease in advance payments by borrowers for taxes and insurance	(2,729)	(2,188)
Net decrease in income taxes receivable	1,558	122
Net increase in income taxes payable	134	1,712
Net cash from operating activities	2,383	4,228
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(14,983)	—
Principal repayments on investment securities held to maturity	10,495	14,162
Principal repayments on investment securities available for sale	49	—
Proceeds from sale of investment securities held to maturity	—	1,589
Loan originations, net of principal repayments on loans receivable	(16,008)	(31,158)
Purchases of Federal Home Loan Bank stock	(252)	(68)
Proceeds from redemption of Federal Home Loan Bank stock	468	—
Purchases of Federal Reserve Bank stock	(3)	(8)
Proceeds from sale of real estate owned	50	—
Purchases of premises and equipment	(181)	(759)
Net cash from investing activities	(20,365)	(16,242)

(Continued)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2018	2017
Cash flows from financing activities:		
Net increase in deposits	$ 67,877	$ 55,706
Proceeds from advances from the Federal Home Loan Bank	2,500	—
Repayments of advances from the Federal Home Loan Bank	(11,700)	—
Repurchases of common stock	(5,815)	—
Cash dividends paid	(1,857)	(1,842)
Net cash from financing activities	51,005	53,864
Net increase in cash and cash equivalents	33,023	41,850
Cash and cash equivalents at beginning of the period	32,089	61,273
Cash and cash equivalents at end of the period	$ 65,112	$ 103,123
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 2,590	$ 2,003
Income taxes	434	429
Supplemental disclosure of noncash investing and financing activities:		
Company stock acquired through stock swap and net settlement transactions	$ 312	$ 955
Loans transferred to real estate owned	46	—
Dividends declared, not yet paid	24	—

See accompanying notes to consolidated financial statements.

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, 2017. 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, 2017 was $11.0 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 Company reviewed all revenue sources to determine if the sources are in scope for this guidance. Net interest income from financial assets and liabilities are explicitly excluded from the scope of the amendment. The Company's overall assessment of key in-scope revenue sources include service charges on deposit accounts, rental income from safe deposit boxes and commissions on insurance and annuity sales. Based on the Company's analysis of these revenue sources, including the amount of revenue, the timing of services rendered and timing of payment for these services, there is no material change in the timing of revenue recognition under the amendment. The Company adopted this amendment on January 1, 2018, using the modified retrospective approach. Since there was no material impact on the timing of revenue recognition, no adjustment to beginning retained earnings was deemed necessary. See Note 14, Revenue Recognition, for further information.

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 of 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 Company adopted this amendment as of January 1, 2018, and there was no material effect on its consolidated financial statements.

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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 has several lease agreements for branch locations and equipment that will require recognition on the consolidated balance sheets upon adoption of the amendment. The Company will continue to evaluate 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 amendment changes the threshold for recognizing losses from a “probable” to an “expected” model. The new model is referred to as the current expected credit loss model and applies to loans, leases, held-to-maturity investments, loan commitments and financial guarantees. The amendment requires the measurement of all expected credit losses for financial assets as of the reporting date (including historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures that will help financial statement users understand the estimates and judgments used in estimating credit losses and evaluating the credit quality of an organization’s portfolio. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company will apply the amendment’s provisions as a cumulative-effect adjustment to retained earnings at the beginning of the first period the amendment is effective. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements by gathering the information that is necessary to make the calculations required by the amendment. This may result in increased credit losses on financial instruments recorded in the consolidated financial statements.

In March 2017, the FASB amended the Compensation – Retirement Benefits topic of the FASB ASC. The amendment requires the service cost component of net benefit cost to be reported in the same line item as other compensation costs arising from employee services. It also requires the other components of net benefit cost to be reported in the income statement separately from the service cost component. The Company adopted this amendment on January 1, 2018, and there was no material effect on its consolidated financial statements.

In February 2018, the FASB amended the Income Statement – Reporting Comprehensive Income topic of the FASB ASC. Prior to the adoption of the amendment, deferred taxes previously included in accumulated other comprehensive income were not allowed to be adjusted for changes in tax rates. This amendment allows the reclassification of the tax effects resulting from the change in the federal corporate tax rate in the Tax Cuts and Jobs Act, which was passed in December 2017, from accumulated other comprehensive income to retained earnings. The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any period for which financial statements have not yet been issued. The Company adopted this amendment during the first quarter of 2018 with the reclassification of $1.1 million of deferred taxes from accumulated other comprehensive income to retained earnings.

(4) Cash and Cash Equivalents

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Cash and due from banks	$ 8,779	$ 9,114
Interest-earning deposits in other banks	56,333	22,975
Cash and cash equivalents	$ 65,112	$ 32,089

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

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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
March 31, 2018:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 2,821	$ —	$ (88)	$ 2,733
Total	$ 2,821	$ —	$ (88)	$ 2,733
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 409,026	$ 2,935	$ (10,083)	$ 401,878
Trust preferred securities	259	522	—	781
Total	$ 409,285	$ 3,457	$ (10,083)	$ 402,659
December 31, 2017:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 2,870	$ —	$ (19)	$ 2,851
Total	$ 2,870	$ —	$ (19)	$ 2,851
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 404,365	$ 6,056	$ (4,603)	$ 405,818
Trust preferred securities	427	418	—	845
Total	$ 404,792	$ 6,474	$ (4,603)	$ 406,663

The amortized cost and estimated fair value of investment securities by maturity date at March 31, 2018 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
Available-for-sale:		
Due within 5 years	$ —	$ —
Due after 5 years through 10 years	—	—
Due after 10 years	2,821	2,733
Total	$ 2,821	$ 2,733
Held-to-maturity:		

Due within 5 years	$ 8	$ 8
Due after 5 years through 10 years	79	80
Due after 10 years	409,198	402,571
Total	$ 409,285	$ 402,659

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

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Proceeds from sales	$ —	$ 1,589
Gross gains	—	95
Gross losses	—	—

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.

Investment securities with amortized costs of $324.1 million and $287.2 million at March 31, 2018 and December 31, 2017, respectively, were pledged to secure deposits made by state and local governments, 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 March 31, 2018 and December 31, 2017. The Company does not intend to sell held-to-maturity and available-for-sale 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)							
March 31, 2018:							
Available-for-sale:							
U.S. government-sponsored mortgage-backed securities	$ 2,733	$ 88	$ —	$ —	1	$ 2,733	$ 88
Held-to-maturity:							
U.S. government-sponsored	$ 144,421	$ 2,618	$ 133,086	$ 7,465	78	$ 277,507	$ 10,083

mortgage-backed securities							
December 31, 2017:							
Available-for-sale:							
U.S. government-sponsored mortgage-backed securities	$ 2,851	$ 19	$ —	$ —	1	$ 2,851	$ 19
Held-to-maturity:							
U.S. government-sponsored mortgage-backed securities	$ 41,163	$ 299	$ 140,200	$ 4,304	49	$ 181,363	$ 4,603

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 March 31, 2018 and December 31, 2017.

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Trust Preferred Securities. At March 31, 2018, the Company owned one trust preferred security, PreTSL XXIII. PreTSL XXIII has an amortized cost and a remaining cost basis of $259,000 at March 31, 2018. 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 75 months in the same tranche of securities that we own and no new issuances 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 three months ended March 31, 2018 and there is no accumulated other comprehensive loss related to noncredit factors.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Balance at the beginning of the period	$ 2,403	$ 2,403
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Credit losses on debt securities which were sold	—	—
Balance at the end of the period	$ 2,403	$ 2,403

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	March 31, 2018	December 31, 2017
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 1,459,221	$ 1,444,625
Multi-family residential	10,703	10,799
Construction, commercial and other	23,601	21,787
Home equity loans and lines of credit	12,876	12,882
Total real estate loans	1,506,401	1,490,093
Other loans:		
Loans on deposit accounts	227	274
Consumer and other loans	4,160	4,340
Total other loans	4,387	4,614
Less:		
Net unearned fees and discounts	(3,176)	(3,188)
Allowance for loan losses	(2,554)	(2,548)
Total unearned fees, discounts and allowance for loan losses	(5,730)	(5,736)
Loans receivable, net	$ 1,505,058	$ 1,488,971

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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 March 31, 2018:						
Balance, beginning of period	$ 1,721	$ 539	$ 1	$ 55	$ 232	$ 2,548
Provision (reversal of provision) for loan losses	(1)	(9)	—	(3)	22	9
	1,720	530	1	52	254	2,557
Charge-offs	—	—	—	(5)	—	(5)
Recoveries	—	—	—	2	—	2
Net charge-offs	—	—	—	(3)	—	(3)
Balance, end of period	$ 1,720	$ 530	$ 1	$ 49	$ 254	$ 2,554

(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 March 31, 2017:						
Balance, beginning of period	$ 1,594	$ 519	$ 2	$ 115	$ 222	$ 2,452
Provision (reversal of provision) for loan losses	(11)	45	(1)	23	15	71
	1,583	564	1	138	237	2,523
Charge-offs	(11)	—	—	(5)	—	(16)
Recoveries	31	—	—	2	—	33
Net recoveries (charge-offs)	20	—	—	(3)	—	17
Balance, end of period	$ 1,603	$ 564	$ 1	$ 135	$ 237	$ 2,540

Management considers the allowance for loan losses at March 31, 2018 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.

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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
March 31, 2018:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,720	530	1	49	254	2,554
Total ending allowance balance	$ 1,720	$ 530	$ 1	$ 49	$ 254	$ 2,554
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 3,370	$ —	$ 160	$ —	$ —	$ 3,530
Collectively evaluated for impairment	1,463,444	23,518	12,720	4,400	—	1,504,082
Total ending loan balance	$ 1,466,814	$ 23,518	$ 12,880	$ 4,400	$ —	$ 1,507,612
December 31, 2017:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,721	539	1	55	232	2,548
Total ending allowance balance	$ 1,721	$ 539	$ 1	$ 55	$ 232	$ 2,548
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 4,977	$ —	$ 165	$ —	$ —	$ 5,142
Collectively evaluated for impairment	1,447,326	21,701	12,722	4,628	—	1,486,377
Total ending loan balance	$ 1,452,303	$ 21,701	$ 12,887	$ 4,628	$ —	$ 1,491,519

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
March 31, 2018:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 3,370	$ 3,952
Home equity loans and lines of credit	160	227
Total	$ 3,530	$ 4,179
December 31, 2017:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 4,977	$ 5,897
Home equity loans and lines of credit	165	228
Total	$ 5,142	$ 6,125

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

	For the Three Months Ended March 31,	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized
2018:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 3,393	$ 13
Home equity loans and lines of credit	162	—
Total	$ 3,555	$ 13
2017:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 4,525	$ 17
Home equity loans and lines of credit	183	—
Total	$ 4,708	$ 17

There were no loans individually evaluated for impairment with a related allowance for loan loss as of March 31, 2018 or December 31, 2017. 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.

The Company had 13 nonaccrual loans with a book value of $2.6 million at March 31, 2018 and 17 nonaccrual loans with a book value of $4.2 million as of December 31, 2017. The Company collected interest on nonaccrual loans of $30,000 and $38,000 during the three months ended March 31, 2018 and 2017, 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 $45,000 and $59,000 during the three months ended March 31, 2018 and 2017, respectively, 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 March 31, 2018 and December 31, 2017.

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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
March 31, 2018:								
One- to four-family residential mortgages	$ 680	$ —	$ 976	$ 1,656	$ 1,454,472	$ 1,456,128	$ 2,459	$ —
Multi-family residential mortgages	—	—	—	—	10,686	10,686	—	—
Construction, commercial and other mortgages	—	—	—	—	23,518	23,518	—	—
Home equity loans and lines of credit	—	—	41	41	12,839	12,880	160	—
Loans on deposit accounts	—	—	—	—	227	227	—	—
Consumer and other	14	3	—	17	4,156	4,173	—	—
Total	$ 694	$ 3	$ 1,017	$ 1,714	$ 1,505,898	$ 1,507,612	$ 2,619	$ —
December 31, 2017:								
One- to four-family residential mortgages	$ —	$ 1,207	$ 1,589	$ 2,796	$ 1,438,725	$ 1,441,521	$ 4,062	$ —
Multi-family residential mortgages	—	—	—	—	10,782	10,782	—	—
Construction, commercial and other mortgages	—	—	—	—	21,701	21,701	—	—
Home equity loans and lines of credit	—	—	41	41	12,846	12,887	165	—
Loans on deposit accounts	—	—	—	—	274	274	—	—
Consumer and other	4	—	—	4	4,350	4,354	—	—
Total	$ 4	$ 1,207	$ 1,630	$ 2,841	$ 1,488,678	$ 1,491,519	$ 4,227	$ —

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.

There were no loans modified in a troubled debt restructuring during the three months ended March 31, 2018 or 2017. There were no new troubled debt restructurings within the 12 months ended March 31, 2018 that subsequently defaulted.

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The table below summarizes troubled debt restructurings by class of loans:

(Dollars in thousands)	Number of Loans	Accrual Status	Number of Loans	Nonaccrual Status	Total
March 31, 2018:					
One- to four-family residential mortgages	4	$ 911	5	$ 1,051	$ 1,962
Home equity loans and lines of credit	—	—	1	89	89
Total	4	$ 911	6	$ 1,140	$ 2,051
December 31, 2017:					
One- to four-family residential mortgages	4	$ 915	5	$ 1,074	$ 1,989
Home equity loans and lines of credit	—	—	1	92	92
Total	4	$ 915	6	$ 1,166	$ 2,081

One of the restructured loans, for $149,000, was more than 149 days delinquent and not accruing interest as of March 31, 2018 and December 31, 2017. 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 March 31, 2018, we had no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of March 31, 2018 or December 31, 2017. There were two one- to four-family residential mortgage loans totaling $585,000 and one home equity loan for $41,000 in the process of foreclosure as of March 31, 2018, and three one- to four-family residential mortgage loans totaling $650,000 and one home equity loan for $41,000 in the process of foreclosure as of December 31, 2017.

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 three months ended March 31, 2018 and 2017, the Company sold $4.5 million and $8.0 million, respectively, of mortgage loans held for sale and recognized gains of $43,000 and $63,000, respectively. The Company did not have any loans held for sale at March 31, 2018. The Company had one loan held for sale for $403,000 at December 31, 2017.

The Company serviced loans for others of $33.7 million at March 31, 2018 and $35.5 million at December 31, 2017. Of these amounts, $1.5 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at March 31, 2018 and December 31, 2017. The amount of contractually specified servicing fees earned for the three-month periods ended March 31, 2018 and 2017 was $23,000 and $28,000, 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:

(Dollars in thousands)	March 31, 2018 Repurchase Liability	March 31, 2018 Weighted Average Rate	December 31, 2017 Repurchase Liability	December 31, 2017 Weighted Average Rate
Maturing:				
1 year or less	$ 20,000	1.66 %	$ —	— %
Over 1 year to 2 years	10,000	1.65	25,000	1.66
Over 2 years to 3 years	—	—	5,000	1.65
Total	$ 30,000	1.66 %	$ 30,000	1.66 %

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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 March 31, 2018. 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	$ 38,712	$ 37,994	$ 30,000	$ 8,712	14

(8) Offsetting of Financial Liabilities

The following table presents our securities sold under agreements to repurchase that 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	Cash Collateral Pledged	Net Amount
March 31, 2018:						
Securities sold under agreements to repurchase	$ 30,000	$ —	$ 30,000	$ 30,000	$ —	$ —
December 31, 2017:						
Securities sold under agreements to repurchase	$ 30,000	$ —	$ 30,000	$ 30,000	$ —	$ —

(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.

The components of net periodic benefit cost were as follows:

	SERP Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Net periodic benefit cost for the period:		
Service cost	$ 20	$ 10
Interest cost	37	35
Expected return on plan assets	—	—
Amortization of prior service cost	—	—
Recognized actuarial loss	—	—
Recognized curtailment loss	—	—
Net periodic benefit cost	$ 57	$ 45

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The components of net periodic benefit cost other than the service cost component are included in other general and administrative expenses in the consolidated statements of income. In prior years, these amounts were included in salaries and employee benefits along with the service cost component. The prior year amounts in the consolidated statements of income have been adjusted for comparability purposes. The Company used the amounts disclosed in prior years to estimate the amount of the required adjustment.

(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 March 31, 2018 and 2017 amounted to $376,000 and $321,000, respectively.

Shares held by the ESOP trust were as follows:

	March 31,	December 31,

	2018	2017
Allocated shares	410,145	397,912
Unearned shares	526,028	538,261
Total ESOP shares	936,173	936,173
Fair value of unearned shares, in thousands	$ 15,602	$ 16,616

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 March 31, 2018 and 2017, we accrued $95,000 and $117,000, respectively, for the ESOP restoration plan.

(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

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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:

(In thousands)	Three Months Ended March 31, 2018	2017
Compensation expense	$ 67	$ 9
Income tax benefit	18	4

Shares of our common stock issued under the 2010 Equity Incentive Plan shall come from authorized shares. The maximum number of shares that will be awarded under the plan will be 1,862,637 shares.

Stock Options

The table below presents the stock option activity for the three months ended March 31, 2018 and 2017:

	Options	Weighted Average Exercise Price	Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2017	411,543	$ 17.48	2.73	$ 5,509
Granted	—	—	—	—
Exercised	18,008	17.36	—	237
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at March 31, 2018	393,535	$ 17.49	2.48	$ 4,789
Options outstanding at December 31, 2016	706,430	$ 17.43	3.70	$ 10,884
Granted	—	—	—	—
Exercised	54,976	17.36	—	874

Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at March 31, 2017	651,454	$ 17.44	3.46	$ 8,945
Options vested and exercisable at March 31, 2018	392,335	$ 17.46	2.47	$ 4,785

The following summarizes certain stock option activity of the Company:

	For the Three Months Ended March 31,	
(In thousands)	2018	2017
Intrinsic value of stock options exercised	$ 237	$ 874
Proceeds received from stock options exercised	313	955
Tax benefits realized from stock options exercised	42	307
Total fair value of stock options that vested	—	—

During the three months ended March 31, 2018, we issued 7,772 shares of common stock, net, in exchange for 18,008 stock options and 10,236 shares of common stock. Pursuant to the provisions of our equity incentive plan, optionees are permitted to use the value of our common stock they own in a stock swap transaction or net settlement to pay the exercise price of stock options.

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As of March 31, 2018, the Company had $2,000 of unrecognized compensation costs related to the stock option plan that will be amortized over a three-year vesting period.

Restricted Stock

Restricted stock awards are accounted for as fixed grants using the fair value of the Company’s stock at the time of grant. Unvested restricted stock may not be disposed of or transferred during the vesting period. Restricted stock carries the right to receive dividends, although dividends attributable to restricted stock are retained by the Company until the shares vest, at which time they are paid to the award recipient.

The table below presents the restricted stock activity:

	Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	10,804	