Territorial Bancorp Inc.
Form 10-Q
August 08, 2017
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended June 30, 2017

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: 9,830,438 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of July 31, 2017.

Table of Contents

TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 47,888	$ 61,273
Investment securities available for sale	2,943	—
Investment securities held to maturity, at amortized cost (fair value of $397,933 and $407,922 at June 30, 2017 and December 31, 2016, respectively)	395,556	407,656
Loans held for sale	1,166	1,601
Loans receivable, net	1,404,472	1,335,987
Federal Home Loan Bank stock, at cost	5,013	4,945
Federal Reserve Bank stock, at cost	3,103	3,095
Accrued interest receivable	4,769	4,732
Premises and equipment, net	5,127	4,327
Bank-owned life insurance	43,747	43,294
Income taxes receivable	—	122
Deferred income tax assets, net	7,535	7,905
Prepaid expenses and other assets	2,796	2,625
Total assets	$ 1,924,115	$ 1,877,562
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities:		
Deposits	$ 1,532,557	$ 1,493,200
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	23,924	23,258
Income taxes payable	2,208	1,616
Advance payments by borrowers for taxes and insurance	5,959	5,702
Total liabilities	1,688,648	1,647,776
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 9,830,438 and 9,778,974 shares at June 30, 2017 and December 31, 2016, respectively	98	98
Additional paid-in capital	72,433	71,914
Unearned ESOP shares	(5,627)	(5,872)
Retained earnings	173,892	168,962
Accumulated other comprehensive loss	(5,329)	(5,316)
Total stockholders' equity	235,467	229,786
Total liabilities and stockholders' equity	$ 1,924,115	$ 1,877,562

See accompanying notes to consolidated financial statements.

1

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest income:				
Loans	$ 13,527	$ 12,647	$ 27,040	$ 25,008
Investment securities	3,078	3,750	6,159	7,625
Other investments	172	146	359	290
Total interest income	16,777	16,543	33,558	32,923
Interest expense:				
Deposits	1,775	1,470	3,426	2,878
Advances from the Federal Home Loan Bank	261	256	515	513
Securities sold under agreements to repurchase	217	218	433	436
Total interest expense	2,253	1,944	4,374	3,827
Net interest income	14,524	14,599	29,184	29,096
Provision (reversal of provision) for loan losses	(123)	84	(52)	112
Net interest income after provision (reversal of provision) for loan losses	14,647	14,515	29,236	28,984
Noninterest income:				
Service fees on loan and deposit accounts	507	473	1,063	929
Income on bank-owned life insurance	227	240	453	487
Gain on sale of investment securities	186	190	281	190
Gain on sale of loans	63	129	126	190
Other	76	102	158	224
Total noninterest income	1,059	1,134	2,081	2,020
Noninterest expense:				
Salaries and employee benefits	4,935	5,256	10,053	10,682
Occupancy	1,461	1,433	2,910	2,853
Equipment	882	912	1,748	1,818
Federal deposit insurance premiums	148	227	296	452
Other general and administrative expenses	1,328	1,160	2,454	2,242
Total noninterest expense	8,754	8,988	17,461	18,047
Income before income taxes	6,952	6,661	13,856	12,957
Income taxes	2,651	2,624	5,234	5,136
Net income	$ 4,301	$ 4,037	$ 8,622	$ 7,821

Basic earnings per share	$ 0.46	$ 0.44	$ 0.93	$ 0.85
Diluted earnings per share	$ 0.45	$ 0.43	$ 0.90	$ 0.83
Cash dividends paid per common share	$ 0.20	$ 0.18	$ 0.40	$ 0.36
Basic weighted-average shares outstanding	9,255,739	9,059,515	9,235,553	9,047,217
Diluted weighted-average shares outstanding	9,539,757	9,345,262	9,539,543	9,323,432

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$ 4,301	$ 4,037	$ 8,622	$ 7,821
Change in unfunded pension liability	—	—	—	(21)
Change in unrealized loss on securities	(15)	4	(13)	6
Change in noncredit related loss on trust preferred securities	—	44	—	46
Other comprehensive income (loss), net of tax	(15)	48	(13)	31
Comprehensive income	$ 4,286	$ 4,085	$ 8,609	$ 7,852

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2015	$ 96	$ 70,118	$ (6,361)	$ 161,024	$ (5,236)	$ 219,641
Net income	—	—	—	7,821	—	7,821
Other comprehensive income	—	—	—	—	31	31
Cash dividends paid ($0.36 per share)	—	—	—	(3,292)	—	(3,292)
Share-based compensation	—	1,323	—	—	—	1,323
Allocation of 24,466 ESOP shares	—	393	244	—	—	637
Repurchase of 57,903 shares of company common stock	(1)	(1,509)	—	—	—	(1,510)
Exercise of 61,340 options for common stock	1	1,064	—	—	—	1,065
Balances at June 30, 2016	$ 96	$ 71,389	$ (6,117)	$ 165,553	$ (5,205)	$ 225,716
Balances at December 31, 2016	$ 98	$ 71,914	$ (5,872)	$ 168,962	$ (5,316)	$ 229,786
Net income	—	—	—	8,622	—	8,622
Other comprehensive loss	—	—	—	—	(13)	(13)
Cash dividends paid ($0.40 per share)	—	—	—	(3,692)	—	(3,692)
Share-based compensation	—	(11)	—	—	—	(11)
Allocation of 24,466 ESOP shares	—	530	245	—	—	775
Repurchase of 59,430 shares of company common stock	(1)	(1,924)	—	—	—	(1,925)
Exercise of 110,894 options for common stock	1	1,924	—	—	—	1,925
Balances at June 30, 2017	$ 98	$ 72,433	$ (5,627)	$ 173,892	$ (5,329)	$ 235,467

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 8,622	$ 7,821
Adjustments to reconcile net income to net cash from operating activities:		
Provision (reversal of provision) for loan losses	(52)	112
Depreciation and amortization	513	595
Deferred income tax expense	379	349
Amortization of fees, discounts, and premiums	(235)	(397)
Origination of loans held for sale	(16,006)	(23,084)
Proceeds from sales of loans held for sale	16,568	24,173
Gain on sale of loans, net	(126)	(190)
Gain on sale of investment securities held to maturity	(281)	(190)
ESOP expense	775	637
Share-based compensation (benefit) expense	(11)	1,323
Increase in accrued interest receivable	(37)	(128)
Net increase in bank-owned life insurance	(453)	(487)
Net increase in prepaid expenses and other assets	(171)	(134)
Net increase in accounts payable and accrued expenses	666	9
Net increase in advance payments by borrowers for taxes and insurance	257	191
Net decrease in income taxes receivable	122	—
Net increase (decrease) in income taxes payable	592	(135)
Net cash from operating activities	11,122	10,465
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(19,908)	(2,523)
Purchases of investment securities available for sale	(2,970)	—
Principal repayments on investment securities held to maturity	27,245	35,608
Proceeds from sale of investment securities held to maturity	5,053	3,122
Loan originations, net of principal repayments on loans receivable	(68,203)	(69,581)
Purchases of Federal Home Loan Bank stock	(483)	(155)
Proceeds from redemption of Federal Home Loan Bank stock	415	—
Purchases of Federal Reserve Bank stock	(8)	(40)
Purchases of premises and equipment	(1,313)	(91)
Net cash from investing activities	(60,172)	(33,660)

(Continued)

5

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2017	2016
Cash flows from financing activities:		
Net increase in deposits	$ 39,357	$ 24,651
Proceeds from advances from the Federal Home Loan Bank	10,375	—
Repayments of advances from the Federal Home Loan Bank	(10,375)	—
Proceeds from exercise of stock options	—	566
Repurchases of common stock	—	(771)
Cash dividends paid	(3,692)	(3,292)
Net cash from financing activities	35,665	21,154
Net decrease in cash and cash equivalents	(13,385)	(2,041)
Cash and cash equivalents at beginning of the period	61,273	65,919
Cash and cash equivalents at end of the period	$ 47,888	$ 63,878
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 4,308	$ 3,819
Income taxes	4,212	4,922
Supplemental disclosure of noncash investing and financing activities:		
Company stock repurchased, not settled	$ —	$ 240
Company stock acquired through swap and net settlement transactions	1,925	499

See accompanying notes to consolidated financial statements.

Table of Contents

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, 2016. 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.

.

(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, 2016 was $12.2 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 plans to adopt this amendment effective January 1, 2018. The Company does not expect the adoption of this amendment to have an effect on most items of income, including interest income and most categories of noninterest income. The Company is still studying the effects that this amendment will have on certain items of noninterest income, such as commissions earned from insurance and investment sales. However, the Company does not expect that there will be 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 will continue to evaluate the effects that the adoption of this amendment will have 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 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 March 2016, the FASB amended the Compensation – Stock Compensation topic of the FASB ASC. The amendment includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of the amendment require companies to record all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement rather than as an adjustment to additional paid-in capital. In addition, the amendments requires that excess tax benefits should be reported as an operating activity on the statement of cash flows and increases the amount an employer can withhold for taxes for share-based compensation awards. The amendment is effective for annual periods beginning after December 15, 2016. The Company adopted this amendment effective January 1, 2017. The adoption of this amendment has resulted in increased volatility to income tax expense related to excess tax benefits and tax deficiencies for share-based compensation. The amount of tax benefits or deficiencies recognized in income tax expense depends on the number of options exercised and the difference in the stock prices at the exercise and grant dates. For the six months ended June 30, 2017, the Company recognized $392,000 of tax benefits related to the exercise of stock options.

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 amendment is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company has performed a preliminary evaluation and does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

Table of Contents

(4) Cash and Cash Equivalents

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

(Dollars in thousands)	June 30, 2017	December 31, 2016
Cash and due from banks	$ 9,820	$ 9,043
Interest-earning deposits in other banks	38,068	52,230
Cash and cash equivalents	$ 47,888	$ 61,273

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

(5) Investment Securities

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

	Amortized	Gross Unrealized		Estimated
(Dollars in thousands)	Cost	Gains	Losses	Fair Value
June 30, 2017:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 2,970	$ —	$ (27)	$ 2,943
Total	$ 2,970	$ —	$ (27)	$ 2,943
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 394,800	$ 7,061	$ (4,937)	$ 396,924
Trust preferred securities	756	253	—	1,009
Total	$ 395,556	$ 7,314	$ (4,937)	$ 397,933
December 31, 2016:				
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 406,498	$ 7,285	$ (7,024)	$ 406,759
Trust preferred securities	1,158	5	—	1,163
Total	$ 407,656	$ 7,290	$ (7,024)	$ 407,922

The amortized cost and estimated fair value of investment securities at June 30, 2017 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are allocated using the

Table of Contents

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	2,970	2,943
Total	$ 2,970	$ 2,943
Held-to-maturity:		
Due within 5 years	$ 15	$ 15
Due after 5 years through 10 years	41	41
Due after 10 years	395,500	397,877
Total	$ 395,556	$ 397,933

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Proceeds from sales	$ 3,464	$ 3,122	$ 5,053	$ 3,122
Gross gains	186	190	281	190
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 $264.3 million and $239.9 million at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016. The Company does not intend to sell held-to-maturity 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)							
June 30, 2017							
Mortgage-backed securities	$ 147,913	$ 3,853	$ 22,097	$ 1,111	49	$ 170,010	$ 4,964
December 31, 2016							
Mortgage-backed securities	$ 179,741	$ 5,599	$ 23,402	$ 1,425	50	$ 203,143	$ 7,024

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

Table of Contents

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 June 30, 2017 and December 31, 2016.

Trust Preferred Securities. At June 30, 2017, the Company owned one trust preferred security, PreTSL XXIII. PreTSL XXIII has an amortized cost and a remaining cost basis of $756,000 at June 30, 2017. 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 66 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 six months ended June 30, 2017 and there is no accumulated other comprehensive loss 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 $756,000 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.

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

	Six Months Ended June 30,	
(Dollars in thousands)	2017	2016
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

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

	June 30,	
(Dollars in thousands)	2017	2016
Noncredit losses on other-than-temporarily impaired securities, net of taxes	$ —	$ 101

Table of Contents

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 1,359,149	$ 1,289,364
Multi-family residential	9,399	9,551
Construction, commercial and other	22,693	23,346
Home equity loans and lines of credit	13,846	14,805
Total real estate loans	1,405,087	1,337,066
Other loans:		
Loans on deposit accounts	303	204
Consumer and other loans	4,752	4,360
Total other loans	5,055	4,564
Less:		
Net unearned fees and discounts	(3,213)	(3,191)
Allowance for loan losses	(2,457)	(2,452)
Total unearned fees, discounts and allowance for loan losses	(5,670)	(5,643)
Loans receivable, net	$ 1,404,472	$ 1,335,987

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 June 30, 2017:						
Balance, beginning of period	$ 1,603	$ 564	$ 1	$ 135	$ 237	$ 2,540
Provision (reversal of provision) for loan losses	(45)	(8)	—	(78)	8	(123)
	1,558	556	1	57	245	2,417
Charge-offs	—	—	—	(7)	—	(7)
Recoveries	44	—	—	3	—	47
Net recoveries (charge-offs)	44	—	—	(4)	—	40
Balance, end of period	$ 1,602	$ 556	$ 1	$ 53	$ 245	$ 2,457

Six months ended June 30, 2017:						
Balance, beginning of period	$ 1,594	$ 519	$ 2	$ 115	$ 222	$ 2,452
Provision (reversal of provision) for loan losses	(56)	37	(1)	(55)	23	(52)
	1,538	556	1	60	245	2,400
Charge-offs	(11)	—	—	(12)	—	(23)
Recoveries	75	—	—	5	—	80
Net recoveries (charge-offs)	64	—	—	(7)	—	57
Balance, end of period	$ 1,602	$ 556	$ 1	$ 53	$ 245	$ 2,457

12

Table of Contents

(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 June 30, 2016:						
Balance, beginning of period	$ 1,398	$ 509	$ 3	$ 75	$ 198	$ 2,183
Provision (reversal of provision) for loan losses	39	58	—	(21)	8	84
	1,437	567	3	54	206	2,267
Charge-offs	—	—	—	(4)	—	(4)
Recoveries	7	—	—	6	—	13
Net recoveries	7	—	—	2	—	9
Balance, end of period	$ 1,444	$ 567	$ 3	$ 56	$ 206	$ 2,276
Six months ended June 30, 2016:						
Balance, beginning of period	$ 1,380	$ 517	$ 3	$ 72	$ 194	$ 2,166
Provision (reversal of provision) for loan losses	57	50	—	(7)	12	112
	1,437	567	3	65	206	2,278
Charge-offs	—	—	—	(18)	—	(18)
Recoveries	7	—	—	9	—	16
Net recoveries (charge-offs)	7	—	—	(9)	—	(2)
Balance, end of period	$ 1,444	$ 567	$ 3	$ 56	$ 206	$ 2,276

During the three and six months ended June 30, 2017, there were reversals of loan loss provisions of $123,000 and $52,000, respectively, due to the improving credit quality of the loan portfolio and a reduction in loan losses.

In 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 includes 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 losses.

Management considers the allowance for loan losses at June 30, 2017 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.

Table of Contents

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
June 30, 2017:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,602	556	1	53	245	2,457
Total ending allowance balance	$ 1,602	$ 556	$ 1	$ 53	$ 245	$ 2,457
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 4,171	$ —	$ 175	$ —	$ —	$ 4,346
Collectively evaluated for impairment	1,361,239	22,601	13,676	5,067	—	1,402,583
Total ending loan balance	$ 1,365,410	$ 22,601	$ 13,851	$ 5,067	$ —	$ 1,406,929
December 31, 2016:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,594	519	2	115	222	2,452
Total ending allowance balance	$ 1,594	$ 519	$ 2	$ 115	$ 222	$ 2,452
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 5,587	$ —	$ 156	$ 1	$ —	$ 5,744
Collectively evaluated for impairment	1,290,209	23,256	14,656	4,574	—	1,332,695
Total ending loan balance	$ 1,295,796	$ 23,256	$ 14,812	$ 4,575	$ —	$ 1,338,439

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
June 30, 2017:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 4,171	$ 5,002
Home equity loans and lines of credit	175	230
Total	$ 4,346	$ 5,232
December 31, 2016:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 5,587	$ 6,469
Home equity loans and lines of credit	156	204
Consumer and other	1	1
Total	$ 5,744	$ 6,674

Table of Contents

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

(Dollars in thousands)	For the Three Months Ended June 30, Average Recorded Investment	Interest Income Recognized	For the Six Months Ended June 30, Average Recorded Investment	Interest Income Recognized
2017:				
With no related allowance recorded:				
One- to four-family residential mortgages	$ 4,205	$ 18	$ 4,239	$ 31
Home equity loans and lines of credit	178	—	180	—
Total	$ 4,383	$ 18	$ 4,419	$ 31
2016:				
With no related allowance recorded:				
One- to four-family residential mortgages	$ 6,123	$ 18	$ 6,157	$ 38
Home equity loans and lines of credit	165	—	165	—
Total	$ 6,288	$ 18	$ 6,322	$ 38

There were no loans individually evaluated for impairment with a related allowance for loan loss as of June 30, 2017 or December 31, 2016. 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 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
June 30, 2017:								
One- to four-family residential mortgages	$ 212	$ —	$ 788	$ 1,000	$ 1,355,030	$ 1,356,030	$ 3,247	$ —

Multi-family residential mortgages	—	—	—	—	9,380	9,380	—	—
Construction, commercial and other mortgages	—	—	—	—	22,601	22,601	—	—
Home equity loans and lines of credit	—	—	41	41	13,810	13,851	175	—
Loans on deposit accounts	—	—	—	—	303	303	—	—
Consumer and other	1	3	—	4	4,760	4,764	—	—
Total	$ 213	$ 3	$ 829	$ 1,045	$ 1,405,884	$ 1,406,929	$ 3,422	$ —
December 31, 2016:								
One- to four-family residential mortgages	$ 185	$ 133	$ 1,358	$ 1,676	$ 1,284,590	$ 1,286,266	$ 4,402	$ —
Multi-family residential mortgages	—	—	—	—	9,530	9,530	—	—
Construction, commercial and other mortgages	—	—	—	—	23,256	23,256	—	—
Home equity loans and lines of credit	16	35	49	100	14,712	14,812	156	—
Loans on deposit accounts	—	—	—	—	204	204	—	—
Consumer and other	3	—	1	4	4,367	4,371	1	—
Total	$ 204	$ 168	$ 1,408	$ 1,780	$ 1,336,659	$ 1,338,439	$ 4,559	$ —

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

Table of Contents

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 16 nonaccrual loans with a book value of $3.4 million at June 30, 2017 and 19 nonaccrual loans with a book value of $4.6 million as of December 31, 2016. The Company collected interest on nonaccrual loans of $87,000 and $106,000 during the six months ended June 30, 2017 and 2016, 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 $114,000 and $151,000 during the six months ended June 30, 2017 and 2016, 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 June 30, 2017 and December 31, 2016.

There were no loans modified in a troubled debt restructuring during the six months ended June 30, 2017 or 2016. There were no new troubled debt restructurings within the past 12 months that subsequently defaulted.

The Company had 10 troubled debt restructurings totaling $2.1 million as of June 30, 2017 that were considered to be impaired. This total included nine one- to four-family residential mortgage loans totaling $2.0 million and one home equity loan for $100,000. Four of the loans, totaling $924,000, are performing in accordance with their restructured terms and accruing interest at June 30, 2017. Five of the loans, totaling $1.1 million, are performing in accordance with their restructured terms but not accruing interest at June 30, 2017. One of the loans, for $149,000, was more than 149 days delinquent and not accruing interest as of June 30, 2017. The Company had 13 troubled debt restructurings totaling $2.9 million as of December 31, 2016 that were considered to be impaired. This total included 12 one- to four-family residential mortgage loans totaling $2.8 million and one home equity loan for $107,000. Five of the loans, totaling $1.2 million, were performing in accordance with their restructured terms and accruing interest at December 31, 2016. Seven of the loans, totaling $1.6 million, were performing in accordance with their restructured terms but not accruing interest at December 31, 2016. One of the loans, for $149,000, was more than 149 days delinquent and not accruing interest as of December 31, 2016. 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 June 30, 2017, we had no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of June 30, 2017 or December 31, 2016. There were three one- to four-family residential mortgage loans totaling $346,000 in the process of foreclosure as of June 30, 2017, and four one- to four-family residential mortgage loans totaling $702,000 in the process of foreclosure as of December 31, 2016.

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 six months ended June 30, 2017 and 2016, the Company sold $16.6 million and $24.1 million, respectively, of mortgage loans held for sale and recognized gains of $126,000 and $190,000, respectively. The Company had two loans held for sale totaling $1.2 million at June 30, 2017 and five loans held for sale totaling $1.6 million at December 31, 2016.

The Company serviced loans for others of $38.8 million at June 30, 2017 and $41.5 million at December 31, 2016. Of these amounts, $2.0 million and $2.2 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at June 30, 2017 and December 31, 2016, respectively. The amount of contractually specified servicing fees earned for the six-month periods ended June 30, 2017 and 2016 was $54,000 and $67,000, respectively. The amount of contractually specified servicing fees earned for the three-month periods ended June 30, 2017 and 2016 was $26,000 and $33,000, respectively. The fees are reported in service fees on loan and deposit accounts in the consolidated statements of income.

Table of Contents

(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)	June 30, 2017 Repurchase Liability	June 30, 2017 Weighted Average Rate	December 31, 2016 Repurchase Liability	December 31, 2016 Weighted Average Rate
Maturing:				
1 year or less	$ 25,000	1.46 %	$ 25,000	1.46 %
Over 1 year to 2 years	20,000	1.66	—	—
Over 2 years to 3 years	10,000	1.65	25,000	1.66
Over 3 years to 4 years	—	—	5,000	1.65
Total	$ 55,000	1.57 %	$ 55,000	1.57 %

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 June 30, 2017. 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	$ 58,513	$ 58,591	$ 55,000	$ 3,591	14

(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	Cash Collateral Pledged	Net Amount
June 30, 2017:						
Securities sold under agreements to repurchase	$ 55,000	$ —	$ 55,000	$ 55,000	$ —	$ —
December 31, 2016:						
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.

Table of Contents

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 June 30,		SERP Six Months Ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Net periodic benefit cost for the period:				
Service cost	$ 10	$ 15	$ 20	$ 29
Interest cost				