Territorial Bancorp Inc.
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2015

or

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

For transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

Maryland	**26-4674701**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
1132 Bishop Street, Suite 2200, Honolulu, Hawaii	**96813**
(Address of Principal Executive Offices)	(Zip Code)

(808) 946-1400
Registrant s telephone number, including area code

Not Applicable
(Former name or former address, if changed since last report)

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

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 x No o.

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

9,719,600 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of April 30, 2015.

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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, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$ 45,774	$ 75,060
Investment securities held to maturity, at amortized cost (fair value of $569,832 and $586,710 at March 31, 2015 and December 31, 2014, respectively)	552,461	572,922
Federal Home Loan Bank stock, at cost	11,112	11,234
Federal Reserve Bank stock, at cost	2,949	2,925
Loans held for sale	2,910	1,048
Loans receivable, net	1,038,922	968,212
Accrued interest receivable	4,583	4,436
Premises and equipment, net	5,445	5,629
Bank-owned life insurance	41,558	41,303
Deferred income taxes receivable	7,486	7,254
Prepaid expenses and other assets	2,190	1,874
Total assets	$ 1,715,390	$ 1,691,897
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	$ 1,381,461	$ 1,359,679
Advances from the Federal Home Loan Bank	27,000	15,000
Securities sold under agreements to repurchase	60,000	72,000
Accounts payable and accrued expenses	26,857	24,098
Investment purchases pending settlement	1,166	
Current income taxes payable	1,051	826
Advance payments by borrowers for taxes and insurance	2,710	3,916
Total liabilities	1,500,245	1,475,519
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 9,720,959 and 9,919,064 shares at March 31, 2015 and December 31, 2014, respectively	97	99
Additional paid-in capital	71,806	75,229
Unearned ESOP shares	(6,728)	(6,851)
Retained earnings	155,318	153,289
Accumulated other comprehensive loss	(5,348)	(5,388)

Total stockholders equity		215,145		216,378
Total liabilities and stockholders equity	$	1,715,390	$	1,691,897

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, 2015		Three Months Ended March 31, 2014	
Interest and dividend income:				
Investment securities	$	4,523	$	5,074
Loans		10,686		9,540
Dividends on FHLB stock		3		3
Other investments		76		40
Total interest and dividend income		15,288		14,657
Interest expense:				
Deposits		1,134		1,091
Advances from the Federal Home Loan Bank		70		66
Securities sold under agreements to repurchase		312		343
Total interest expense		1,516		1,500
Net interest income		13,772		13,157
Provision for loan losses		194		9
Net interest income after provision for loan losses		13,578		13,148
Noninterest income:				
Service fees on loan and deposit accounts		460		499
Income on bank-owned life insurance		255		268
Gain on sale of investment securities		236		346
Gain on sale of loans		129		79
Other		166		166
Total noninterest income		1,246		1,358
Noninterest expense:				
Salaries and employee benefits		5,099		5,363
Occupancy		1,437		1,422
Equipment		945		914
Federal deposit insurance premiums		209		199
Other general and administrative expenses		1,214		966
Total noninterest expense		8,904		8,864
Income before income taxes		5,920		5,642
Income taxes		2,394		2,180
Net income	$	3,526	$	3,462
Basic earnings per share	$	0.39	$	0.38
Diluted earnings per share	$	0.38	$	0.37
Cash dividends declared per common share	$	0.16	$	0.14
Basic weighted-average shares outstanding		9,120,720		9,187,540
Diluted weighted-average shares outstanding		9,319,814		9,380,160

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, 2015	Three Months Ended March 31, 2014
Net income	$ 3,526	$ 3,462
Change in unrealized loss on securities	9	3
Noncredit related gains on securities not expected to be sold	31	72
Other comprehensive income, net of tax	40	75
Comprehensive income	$ 3,566	$ 3,537

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 (Loss)/Income	Total Stockholders Equity
Balances at December 31, 2013	$ 101	$ 77,340	$ (7,340)	$ 145,826	$ (3,787)	$ 212,140
Net income				3,462		3,462
Other comprehensive income					75	75
Cash dividends declared ($0.14 per share)				(1,329)		(1,329)
Share-based compensation		660				660
Allocation of 12,233 ESOP shares		151	122			273
Repurchase of 170,994 shares of company common stock	(2)	(3,885)				(3,887)
Balances at March 31, 2014	$ 99	$ 74,266	$ (7,218)	$ 147,959	$ (3,712)	$ 211,394
Balances at December 31, 2014	$ 99	$ 75,229	$ (6,851)	$ 153,289	$ (5,388)	$ 216,378
Net income				3,526		3,526
Other comprehensive income					40	40
Cash dividends declared ($0.16 per share)				(1,497)		(1,497)
Share-based compensation		738				738
Allocation of 12,233 ESOP shares		145	123			268
Repurchase of 198,105 shares of company common stock	(2)	(4,306)				(4,308)
Balances at March 31, 2015	$ 97	$ 71,806	$ (6,728)	$ 155,318	$ (5,348)	$ 215,145

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net income	$ 3,526	$ 3,462
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	194	9
Depreciation and amortization	339	328
Deferred income tax benefit	(258)	(707)
Amortization of fees, discounts, and premiums	(73)	(106)
Origination of loans held for sale	(15,324)	(8,590)
Proceeds from sales of loans held for sale	13,335	9,862
Gain on sale of loans, net	(129)	(79)
Purchases of investment securities held for trading		(5,041)
Proceeds from sale of investment securities held for trading		5,071
Gain on sale of investment securities held for trading		(30)
Gain on sale of investment securities held to maturity	(236)	(316)
ESOP expense	268	273
Share-based compensation expense	738	660
Increase in accrued interest receivable	(147)	(109)
Net increase in bank-owned life insurance	(255)	(267)
Net increase in prepaid expenses and other assets	(316)	(325)
Net increase (decrease) in accounts payable and accrued expenses	3,125	(2,326)
Net decrease in advance payments by borrowers for taxes and insurance	(1,206)	(1,291)
Net increase (decrease) in income taxes payable	225	(608)
Net cash from operating activities	3,806	(130)
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(1,204)	(27,926)
Principal repayments on investment securities held to maturity	20,510	14,419
Proceeds from sale of investment securities held to maturity	2,580	3,724
Loan originations, net of principal repayments on loans receivable	(70,532)	(15,943)
Proceeds from redemption of Federal Home Loan Bank stock	122	110
Purchases of Federal Reserve Bank stock	(24)	
Purchases of premises and equipment	(155)	(330)
Net cash from investing activities	(48,703)	(25,946)

(Continued)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from financing activities:		
Net increase in deposits	$ 21,782	$ 28,599
Proceeds from advances from the Federal Home Loan Bank	22,000	
Repayments of advances from the Federal Home Loan Bank	(10,000)	
Proceeds from securities sold under agreements to repurchase	25,000	
Repayments of securities sold under agreements to repurchase	(37,000)	
Repurchases of common stock	(4,674)	(4,412)
Cash dividends paid	(1,497)	(1,329)
Net cash from financing activities	15,611	22,858
Net decrease in cash and cash equivalents	(29,286)	(3,218)
Cash and cash equivalents at beginning of the period	75,060	75,365
Cash and cash equivalents at end of the period	$ 45,774	$ 72,147
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 1,532	$ 1,467
Income taxes	2,350	3,495
Supplemental disclosure of noncash investing and financing activities:		
Investments purchased, not yet settled	$ 1,166	
Company stock repurchased, not yet settled	366	

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Territorial Bancorp Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with Territorial Bancorp Inc. s consolidated financial statements and notes thereto filed as part of the Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

(2) Organization

On November 4, 2008, the Board of Directors of Territorial Mutual Holding Company (MHC) approved a plan of conversion and reorganization under which MHC would convert from a mutual holding company to a stock holding company. The conversion to a stock holding company was approved by the depositors and borrowers of Territorial Savings Bank and the Office of Thrift Supervision (OTS) and included the filing of a registration statement with the U.S. Securities and Exchange Commission. Upon the completion of the conversion and reorganization on July 10, 2009, Territorial Mutual Holding Company and Territorial Savings Group, Inc. 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, 2014 was $15.2 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 Adopted Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) amended the Receivables topic of the FASB Accounting Standards Codification (ASC). The amendment clarifies when an in substance repossession or foreclosure occurs and when a mortgage loan should be derecognized and the related real property recognized. The amendment also requires disclosures about the amount of foreclosed residential real property held and the recorded investment in mortgage loans collateralized by residential real property in the process of foreclosure. The amendment was effective for interim and annual periods beginning after December 15, 2014. The Company adopted this amendment on January 1, 2015, and the adoption did not have a material effect on its consolidated financial statements.

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In May 2014, the FASB amended the Revenue Recognition topic of the FASB 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. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In June 2014, the FASB amended the Transfers and Servicing topic of the FASB ASC. The amendment modifies the accounting for certain types of repurchase transactions as well as adds new disclosure requirements for repurchase transactions. The amendment was effective for interim and annual periods beginning after December 15, 2014, with early adoption prohibited. The Company adopted this amendment on January 1, 2015, and the adoption did not have a material effect on its consolidated financial statements. See Footnote 8, Securities Sold Under Agreements to Repurchase.

In August 2014, the FASB amended the Receivables topic of the FASB ASC. The amendment seeks to clarify the classification of foreclosed mortgage loans that are either fully or partially guaranteed under government programs, such as from the Federal Housing Administration (FHA) or the U.S. Department of Veterans Affairs (VA). The amendment was effective for interim and annual periods beginning after December 15, 2014. The Company adopted this amendment on January 1, 2015, and the adoption did not have any effect on its consolidated financial statements.

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

(4) Cash and Cash Equivalents

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

(Dollars in thousands)	March 31, 2015	December 31, 2014
Cash and due from banks	$ 10,388	$ 10,803
Interest-earning deposits in other banks	35,386	64,257
Cash and cash equivalents	$ 45,774	$ 75,060

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

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(5) Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	$ 551,720	$ 19,718	$ (2,347)	$ 569,091
Trust preferred securities	741			741
Total	$ 552,461	$ 19,718	$ (2,347)	$ 569,832
December 31, 2014:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	$ 572,232	$ 18,078	$ (4,290)	$ 586,020
Trust preferred securities	690			690
Total	$ 572,922	$ 18,078	$ (4,290)	$ 586,710

The amortized cost and estimated fair value of investment securities at March 31, 2015 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Held to maturity:		
Due within 5 years	$ 46	$ 48
Due after 5 years through 10 years	9	10
Due after 10 years	552,406	569,774
Total	$ 552,461	$ 569,832

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

	For the Three Months Ended March 31,	
(Dollars in thousands)	2015	2014
Proceeds from sales	$ 2,580	$ 8,795
Gross gains	236	346
Gross losses		

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During the three months ended March 31, 2015, the Company received proceeds of $2.6 million from the sale of $2.3 million of held-to-maturity debt securities, resulting in gross realized gains of $236,000. During the three months ended March 31, 2014, the Company received proceeds of $3.7 million from the sale of $3.4 million of held-to-maturity debt securities, resulting in gross realized gains of $316,000. The sale of these securities, for which the Company had already collected a substantial portion of the outstanding principal (at least 85%), is in accordance with the Investments - Debt and Equity Securities topic of the FASB ASC and will not affect the historical cost basis used to account for the remaining securities in the held-to-maturity portfolio.

Investment securities with amortized costs of $264.0 million and $270.2 million at March 31, 2015 and December 31, 2014, 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 March 31, 2015 and December 31, 2014. The Company does not intend to sell these securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

	Less Than 12 Months		12 Months or Longer			Total	
Description of Securities (Dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
March 31, 2015:							
Mortgage-backed securities	$ 120,990	$ 1,030	$ 57,955	$ 1,317	33	$ 178,945	$ 2,347
December 31, 2014:							
Mortgage-backed securities	$ 12,717	$ 65	$ 183,349	$ 4,225	37	$ 196,066	$ 4,290

Mortgage-Backed Securities. The unrealized losses on the Company s investment in mortgage-backed securities were caused by increases in market interest rates. 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, 2015 and December 31, 2014.

In March 2015, the Company purchased a $1.2 million Ginnie Mae mortgage-backed security for settlement in April 2015. This security purchase was recorded on the trade date at the expected settlement amount.

Trust Preferred Securities. At March 31, 2015, the Company owns two trust preferred securities, PreTSL XXIII and XXIV. The trust preferred securities represent investments in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. Both of these securities are classified in the Company s held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only five transactions have occurred over the past 39 months in the same tranche of securities owned by the Company. The Company used a discounted cash flow model to determine whether these securities are

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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 trust preferred securities did not incur additional impairment during the quarter ending March 31, 2015.

PreTSL XXIV has an amortized cost of $0 at March 31, 2015. PreTSL XXIII has an amortized cost of $741,000 at March 31, 2015. The difference between the amortized cost of $741,000 and the remaining cost basis of $1.1 million is reported as other comprehensive loss and is related to noncredit factors.

It is reasonably possible that the fair values of the trust preferred securities could decline in the near term if the overall economy and the financial condition of some of the issuers continue to deteriorate and the liquidity of these securities remains low. As a result, there is a risk that the Company s remaining cost basis of $1.1 million on its trust preferred securities could be credit-related other-than-temporarily impaired in the near term. The impairment 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:

(Dollars in thousands)		**2015**		**2014**
Balance at January 1,	$	5,885	$	5,885
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized				
Balance at March 31,	$	5,885	$	5,885

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

		March 31,		
(Dollars in thousands)		**2015**		**2014**
Noncredit losses on other-than-temporarily impaired securities, net of taxes	$	253	$	304

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(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 995,241	$ 926,074
Multi-family residential	9,826	8,920
Construction, commercial, and other	19,092	18,415
Home equity loans and lines of credit	16,225	15,992
Total real estate loans	1,040,384	969,401
Other loans:		
Loans on deposit accounts	245	441
Consumer and other loans	4,166	4,173
Total other loans	4,411	4,614
Less:		
Net unearned fees and discounts	(4,001)	(4,112)
Allowance for loan losses	(1,872)	(1,691)
Total unearned fees, discounts and allowance for loan losses	(5,873)	(5,803)
Loans receivable, net	$ 1,038,922	$ 968,212

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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, 2015:						
Balance, beginning of period	$ 413	$ 977	$ 5	$ 263	$ 33	$ 1,691
Provision (reversal of allowance) for loan losses	698	(435)	(2)	(99)	32	194
	1,111	542	3	164	65	1,885
Charge-offs				(19)		(19)
Recoveries		1	1	4		6
Net charge-offs		1	1	(15)		(13)
Balance, end of period	$ 1,111	$ 543	$ 4	$ 149	$ 65	$ 1,872
Three months ended March 31, 2014:						
Balance, beginning of period	$ 376	$ 799	$ 10	$ 229	$ 72	$ 1,486
Provision (reversal of allowance) for loan losses	58	24	(4)	(65)	(4)	9
	434	823	6	164	68	1,495
Charge-offs				(17)		(17)
Recoveries			1	6		7
Net charge-offs			1	(11)		(10)
Balance, end of period	$ 434	$ 823	$ 7	$ 153	$ 68	$ 1,485

During the three months ended March 31, 2015, the Company increased the loan loss provisions for residential mortgage loans based on the growth of this segment of the loan portfolio and the concentration of loans in Hawaii. The Company also reduced the loan loss provisions on construction, commercial and other mortgage loans and consumer and other loans based on a continued limited loss experience. The allocation of a portion of the allowance from one category of loans does not preclude its availability to absorb losses in other loan categories.

Management considers the allowance for loan losses at March 31, 2015 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 and the Hawaii Department of Financial Institutions 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, 2015:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$	$	$	$	$	$
Collectively evaluated for impairment	1,111	543	4	149	65	1,872
Total ending allowance balance	$ 1,111	$ 543	$ 4	$ 149	$ 65	$ 1,872
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 6,179	$	$ 132	$	$	$ 6,311
Collectively evaluated for impairment	994,906	19,063	16,099	4,415		1,034,483
Total ending loan balance	$ 1,001,085	$ 19,063	$ 16,231	$ 4,415	$	$ 1,040,794
December 31, 2014:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$	$	$	$	$	$
Collectively evaluated for impairment	413	977	5	263	33	1,691
Total ending allowance balance	$ 413	$ 977	$ 5	$ 263	$ 33	$ 1,691
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 6,158	$	$ 296	$ 4	$	$ 6,458
Collectively evaluated for impairment	924,732	18,399	15,702	4,612		963,445
Total ending loan balance	$ 930,890	$ 18,399	$ 15,998	$ 4,616	$	$ 969,903

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

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance
March 31, 2015:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 6,179	$ 6,845
Home equity loans and lines of credit	132	162
Total	$ 6,311	$ 7,007
December 31, 2014:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 6,158	$ 6,775
Home equity loans and lines of credit	296	324
Consumer and other	4	4
Total	$ 6,458	$ 7,103

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
2015:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 6,216	$ 30
Home equity loans and lines of credit	134	
Total	$ 6,350	$ 30
2014:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 7,248	$ 32
Home equity loans and lines of credit	158	
Total	$ 7,406	$ 32

There were no loans individually evaluated for impairment with a related allowance for loan loss as of March 31, 2015 or December 31, 2014. Loans individually evaluated for impairment do not have an allocated allowance for loan loss because they are written down to fair value.

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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, 2015:								
One- to four-family residential mortgages	$ 894	$ 580	$ 842	$ 2,316	$ 988,974	$ 991,290	$ 4,183	$
Multi-family residential mortgages					9,795	9,795		
Construction, commercial and other mortgages					19,063	19,063		
Home equity loans and lines of credit	83			83	16,148	16,231	132	
Loans on deposit accounts					245	245		
Consumer and other	2			2	4,168	4,170		
Total	$ 979	$ 580	$ 842	$ 2,401	$ 1,038,393	$ 1,040,794	$ 4,315	$
December 31, 2014:								
One- to four-family residential mortgages	$ 1,040	$ 736	$ 593	$ 2,369	$ 919,624	$ 921,993	$ 4,153	$
Multi-family residential mortgages					8,897	8,897		
Construction, commercial and other mortgages					18,399	18,399		
Home equity loans and lines of credit			161	161	15,837	15,998	296	
Loans on deposit accounts					440	440		
Consumer and other	7	1	4	12	4,164	4,176	4	
Total	$ 1,047	$ 737	$ 758	$ 2,542	$ 967,361	$ 969,903	$ 4,453	$

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 five months delinquent. The carrying value of collateral-dependent loans is adjusted to the fair value of the collateral less selling costs. Any commercial real estate, commercial, construction or equity loan that has a loan balance in excess of a specified amount is also periodically reviewed to determine whether the loan exhibits any weaknesses and is performing in accordance with its contractual terms.

The Company had 17 nonaccrual loans with a book value of $4.3 million at March 31, 2015 and 18 nonaccrual loans with a book value of $4.5 million as of December 31, 2014. The Company collected interest on nonaccrual loans of $50,000 and $52,000 during the three months ended March 31, 2015 and 2014, respectively, but due to regulatory requirements, the Company recorded the interest as a reduction

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of principal. The Company would have recognized additional interest income of $66,000 and $70,000 during the three months ended March 31, 2015 and 2014, 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, 2015 or December 31, 2014.

There were no loans modified in a troubled debt restructuring during the three months ended March 31, 2015 or 2014. There were no new troubled debt restructurings within the past 12 months that subsequently defaulted.

The Company had 17 troubled debt restructurings totaling $4.5 million as of March 31, 2015 that were considered to be impaired. This total included 16 one- to four-family residential mortgage loans totaling $4.4 million and one home equity loan for $132,000. Six of the loans, totaling $2.0 million, were performing in accordance with their restructured terms and accruing interest at March 31, 2015. Nine of the loans, totaling $2.2 million, were performing in accordance with their restructured terms but not accruing interest at March 31, 2015. Two of the loans, totaling $342,000, are delinquent and not accruing interest at March 31, 2015. The Company had 17 troubled debt restructurings totaling $4.6 million as of December 31, 2014 that were considered to be impaired. This total included 16 one- to four-family residential mortgage loans totaling $4.4 million and one home equity loan for $135,000. Six of the loans, totaling $2.0 million, were performing in accordance with their restructured terms and accruing interest at December 31, 2014. Nine of the loans, totaling $2.2 million, were performing in accordance with their restructured terms but not accruing interest at December 31, 2014. Two of the loans, totaling $343,000, are delinquent and not accruing interest at December 31, 2014. 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. We have no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of March 31, 2015 and 2014. There were three one- to four-family residential mortgage loans totaling $691,000 in process of foreclosure as of March 31, 2015, and three one- to four-family residential mortgage loans totaling $1.0 million in process of foreclosure as of March 31, 2014.

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, 2015 and 2014, the Company sold $13.3 million and $9.9 million, respectively, of mortgage loans held for sale and recognized gains of $129,000 and $79,000, respectively. The Company had nine loans held for sale totaling $2.9 million at March 31, 2015 and six loans held for sale totaling $1.0 million at December 31, 2014.

The Company serviced loans for others of $59.0 million at March 31, 2015 and $60.5 million at December 31, 2014. Of these amounts, $2.9 million and $3.0 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at March 31, 2015 and December 31, 2014, respectively. The amount of contractually specified servicing fees earned for the three-month periods ended March 31, 2015 and 2014 was $41,000 and $47,000, respectively. The fees are reported in service fees on loan and deposit accounts in the consolidated statements of income.

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(7) Advances from the Federal Home Loan Bank

The FHLB advances are secured by a blanket pledge on the Bank s assets not otherwise pledged. At March 31, 2015 and 2014, the Company had available additional unused FHLB advances of approximately $396.0 million and $389.2 million, respectively.

Advances outstanding consisted of the following:

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	**Amount**	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**
Due within one year	$	%	$ 10,000	2.06%
Due over 3 years to 4 years	27,000	1.57	5,000	1.20
Total	$ 27,000	1.57%	$ 15,000	1.77%

(8) 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 dollar amount of securities underlying the agreements remaining in the asset accounts. Securities sold under agreements to repurchase are summarized as follows:

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	**Repurchase Liability**	**Weighted Average Rate**	**Repurchase Liability**	**Weighted Average Rate**
Maturing:				
1 year or less	$ 10,000	1.94%	$ 47,000	2.11%
Over 2 years to 3 years	25,000	1.46	25,000	1.46
Over 3 years to 4 years	20,000	1.66		
Over 4 years to 5 years	5,000	1.65		
Total	$ 60,000	1.62%	$ 72,000	1.88%

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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, 2015. The amount at risk is the greater of the carrying value or fair value over the repurchase liability. 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	$ 76,542	$ 78,232	$ 60,000	$ 18,232	34

(9) Offsetting of Financial Liabilities

Securities sold under agreements to repurchase are subject to a conditional right of offset in the event of default. See Footnote 8, Securities Sold Under Agreements to Repurchase, for additional information.

				Gross Amount Not Offset in the Balance Sheet		
(Dollars in thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
March 31, 2015:						
Securities sold under agreements to repurchase	$ 60,000	$	$ 60,000	$ 60,000	$	$
December 31, 2014:						
Securities sold under agreements to repurchase	$ 72,000	$	$ 72,000	$ 72,000	$	$

(10) Employee Benefit Plans

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

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

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The components of net periodic benefit cost were as follows:

	SERP Three Months Ended March 31,	
(Dollars in thousands)	**2015**	**2014**
Net periodic benefit cost for the period		
Service cost	$ 21	$ 25
Interest cost	31	30
Expected return on plan assets		
Amortization of prior service cost		
Recognized actuarial loss		
Recognized curtailment loss		
Net periodic benefit cost	$ 52	$ 55

(11) 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, 2015 and 2014 amounted to $222,000 and $240,000, respectively.

Shares held by the ESOP trust were as follows:

	March 31, 2015	**December 31, 2014**
Allocated shares	295,614	283,381
Unearned shares	672,824	685,057
Total ESOP shares	968,438	968,438

Fair value of unearned shares, in thousands	$ 15,986	$ 14,763

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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 employee stock ownership plan 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, 2015 and 2014, we accrued $64,000 and $74,000, respectively, for the ESOP restoration plan.

(12) Share-Based Compensation

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

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

	For the Three Months Ended March 31,	
(In thousands)	**2015**	**2014**
Compensation expense	$ 660	$ 660
Income tax benefit	265	313

Shares of our common stock issued under the 2010 Equity Incentive Plan shall be authorized but unissued shares. The maximum number of shares that will be awarded under the plan will be 1,712,637 shares.

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Stock Options

The table below presents the stock option activity for the three months ended March 31, 2015 and 2014:

	Options		Weighted Average Exercise Price	Remaining Contractual Life (Years)		Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2014	832,954	$	17.38	5.68	$	3,471
Granted						
Exercised						
Forfeited						
Expired						
Options outstanding at March 31, 2015	832,954	$	17.38	5.43	$	5,312
Options outstanding at December 31, 2013	832,954	$	17.38	6.68	$	4,845
Granted						
Exercised						
Forfeited						
Expired						
Options outstanding at March 31, 2014	832,954	$	17.38	6.43	$	3,512
Options vested and exercisable at March 31, 2015	555,097	$	17.38	5.43	$	3,541

No stock options vested during the three months ended March 31, 2015 or 2014.

As of March 31, 2015, the Company had $1.0 million of unrecognized compensation costs related to the stock option plan. The cost of the stock option plan is being amortized over the five- to six-year vesting period.

Restricted Stock Awards

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 awards may not be disposed of or transferred during the vesting period. Restricted stock awards carry with them the right to receive dividends.

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The table below presents the restricted stock award activity:

	Restricted Stock Awards		Weighted Average Grant Date Fair Value
Nonvested at December 31, 2014	226,733	$	17.39
Granted			
Vested			
Forfeited			
Nonvested at March 31, 2015	226,733	$	17.39
Nonvested at December 31, 2013	340,065	$	17.39
Granted			
Vested			
Forfeited			
Nonvested at March 31, 2014	340,065	$	17.39

As of March 31, 2015, the Company had $2.8 million of unrecognized compensation cost related to restricted stock awards. The cost of the restricted stock awards is being amortized over the five- or six-year vesting period.

(13) Earnings Per Share

The table below presents the information used to compute basic and diluted earnings per share:

	Three Months Ended March 31,			
(Dollars in thousands, except share data)		**2015**		**2014**
Net income	$	3,526	$	3,462
Weighted-average number of shares used in:				
Basic earnings per share		9,120,720		9,187,540
Dilutive common stock equivalents:				
Stock options and restricted stock units		199,094		192,620
Diluted earnings per share		9,319,814		9,380,160
Net income per common share, basic	$	0.39	$	0.38
Net income per common share, diluted	$	0.38	$	0.37

We have two forms of our outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive non-forfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings. The computed basic and diluted earnings per share presented are substantially equivalent using both the two-class and the treasury stock methods of calculating earnings per share.

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(14) Accumulated Other Comprehensive Loss

The table below presents the changes in the components of accumulated other comprehensive loss, net of taxes:

(Dollars in thousands)		Unfunded Pension Liability	Noncredit Related Losses on Securities Not Expected to Be Sold	Unrealized Loss on Securities		Total
Balances at December 31, 2014	$	5,032	284	72	$	5,388
Other comprehensive income, net of taxes			(31)	(9)		(40)
Amounts reclassified from accumulated other comprehensive loss						
Net current period other comprehensive income			(31)	(9)		(40)
Balances at March 31, 2015	$	5,032	253	63	$	5,348
Balances at December 31, 2013	$	3,338	376	73	$	3,787
Other comprehensive income, net of taxes			(72)	(3)		(75)
Amounts reclassified from accumulated other comprehensive loss						
Net current period other comprehensive income			(72)	(3)		(75)
Balances at March 31, 2014	$	3,338	304	70	$	3,712

The table below presents the tax effect on each component of other comprehensive loss:

	March 31,											
	2015						2014					
(Dollars in thousands)		Pretax Amount		Tax		After Tax Amount		Pretax Amount		Tax		After Tax Amount
Unfunded pension liability	$		$		$		$		$		$	
Noncredit related losses on securities not expected to be sold		(51)		20		(31)		(118)		46		(72)
Unrealized loss on securities		(15)		6		(9)		(5)		2		(3)
Total	$	(66)	$	26	$	(40)	$	(123)	$	48	$	(75)

(15) Fair Value of Financial Instruments

In accordance with the Fair Value Measurements and Disclosures topic of the FASB ASC, the Company groups its financial assets and liabilities at fair value into three levels based on the markets in which the financial assets and liabilities are traded and the reliability of the assumptions used to determine fair value as follows:

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- Level 1 Valuation is based upon quoted prices (unadjusted) for identical assets or liabilities traded in active markets. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect management s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques that require the use of significant judgment or estimation.

In accordance with the Fair Value Measurements and Disclosures topic, the Company bases its fair values on the price that it would expect to receive if an asset were sold or the price that it would expect to pay to transfer a liability in an orderly transaction between market participants at the measurement date. Also as required, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company uses fair value measurements to determine fair value disclosures. Investment securities held for sale and derivatives are recorded at fair value on a recurring basis. From time to time, the Company may be required to record other financial assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans and investments, and mortgage servicing assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or fair value accounting or write-downs of individual assets.

Cash and Cash Equivalents, Accrued Interest Receivable, Accounts Payable and Accrued Expenses, Investment Purchases Pending Settlement, Current Income Taxes Payable, and Advance Payments by Borrowers for Taxes and Insurance. The carrying amount approximates fair value because of the short maturity of these instruments.

Investment Securities. The estimated fair values of U.S. government-sponsored mortgage-backed securities are considered Level 2 inputs because the valuation for investment securities utilized pricing models that varied based on asset class and included trade, bid and other observable market information.

The trust preferred securities represent investments in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. The trust preferred securities market is considered to be inactive as only five transactions have occurred over the past 39 months in the same tranche of securities we own and no new issues of pooled trust preferred securities have occurred since 2007. The fair value of our trust preferred securities was determined using a discounted cash flow model. Our model used a discount rate equal to three-month LIBOR plus 20.00% and provided a fair value estimate of $20.93 per $100 of par value for PreTSL XXIII.

The discounted cash flow analysis included a review of all issuers within the pool. The fair value of the trust preferred securities are classified as Level 3 inputs because they are based on discounted cash flow models.

FHLB Stock. FHLB stock, which is redeemable for cash at par value, is reported at its par value.

FRB Stock. FRB stock, which is redeemable for cash at par value, is reported at its par value.

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Loans. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of loans is not based on the concept of exit price.

Loans Held for Sale. The fair value of loans held for sale is determined based on the prices quoted in the secondary market for similar loans.

Deposits. The fair value of checking and Super NOW savings accounts, passbook accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting future cash flows using the rates currently offered for deposits with similar remaining maturities.

Advances From the FHLB and Securities Sold Under Agreements to Repurchase. Fair value is estimated by discounting future cash flows using the rates currently offered to the Company for debt with similar remaining maturities.

Interest Rate Contracts. The Company may enter into interest rate lock commitments with borrowers on loans intended to be sold. To manage interest rate risk on the lock commitments, the Company may also enter into forward loan sale commitments. The interest rate lock commitments and forward loan sale commitments are treated as derivatives and are recorded at their fair value determined by referring to prices quoted in the secondary market for similar contracts. Interest rate contracts that are classified as assets are included with prepaid expenses and other assets on the consolidated balance sheet while interest rate contracts that are classified as liabilities are included with accounts payable and accrued expenses.

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The estimated fair values of the Company s financial instruments are as follows:

(Dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
March 31, 2015					
Assets					
Cash and cash equivalents	$ 45,774	$ 45,774	$ 45,774	$	$
Investment securities held to maturity	552,461	569,832		569,091	741
FHLB stock	11,112	11,112		11,112	
FRB stock	2,949	2,949		2,949	
Loans held for sale	2,910	2,978		2,978	
Loans receivable, net	1,038,922	1,070,980			1,070,980
Accrued interest receivable	4,583	4,583	4,583		
Interest rate contracts	113	113		113	
Liabilities					
Deposits	1,381,461	1,382,097	1,158,355		223,742
Advances from the Federal Home Loan Bank	27,000	27,312		27,312	
Securities sold under agreements to repurchase	60,000	60,607		60,607	
Accounts payable and accrued expenses (excluding interest rate contracts)	26,756	26,756	26,756		
Interest rate contracts	101	101		101	
Investment purchases pending settlement	1,116	1,116	1,116		
Current income taxes payable	1,051	1,051	1,051		
Advance payments by borrowers for taxes and insurance	2,710	2,710	2,710		
December 31, 2014					
Assets					
Cash and cash equivalents	$ 75,060	$ 75,060	$ 75,060	$	$
Investment securities held to maturity	572,922	586,710		586,020	690
FHLB stock	11,234				