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

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, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 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)

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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.

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(2) Organization

On July 10, 2009, Territorial Savings Bank completed a conversion from a mutual holding company to a stock holding company. As part of the conversion, Territorial Mutual Holding Company and Territorial Savings Group, Inc., the former holding companies for Territorial Savings Bank, ceased to exist as separate legal entities, and Territorial Bancorp Inc. became the holding company for Territorial Savings Bank. Upon completion of the conversion and reorganization, a special "liquidation account" was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The balance of the liquidation account at December 31, 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

Table of Contents

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:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated 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

9

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

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	35	33	70	66
Expected return on plan assets	—	—	—	—
Amortization of prior service cost	—	—	—	—
Recognized actuarial loss	—	—	—	—
Recognized curtailment loss	—	—	—	—
Net periodic benefit cost	$ 45	$ 48	$ 90	$ 95

(10) Employee Stock Ownership Plan

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

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

Shares purchased by the ESOP are held by a trustee in an unallocated suspense account, and shares are released annually from the suspense account on a pro-rata basis as principal and interest payments are made by the ESOP to the Company. The trustee allocates the shares released among participants on the basis of each participant's proportional share of compensation relative to all participants. As shares are committed to be released from the suspense account, Territorial Savings Bank reports compensation expense based on the average fair value of shares released with a corresponding credit to stockholders' equity. The shares committed to be released are considered outstanding for earnings per share computations. Compensation expense recognized for the three months ended June 30, 2017 and 2016 amounted to $305,000 and $259,000, respectively. Compensation expense recognized for the six months ended June 30, 2017 and 2016 amounted to $626,000 and $521,000, respectively.

Shares held by the ESOP trust were as follows:

	June 30, 2017	December 31, 2016
Allocated shares	397,463	372,997
Unearned shares	562,727	587,193
Total ESOP shares	960,190	960,190
Fair value of unearned shares, in thousands	$ 17,551	$ 19,283

The ESOP restoration plan is a nonqualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the ESOP's benefit formula. The supplemental cash payments consist of payments representing shares that cannot be allocated to the participants under the ESOP due to IRS

Table of Contents

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 June 30, 2017 we reversed $53,000 for the ESOP restoration plan and for the three months ended June 30, 2016 we accrued $45,000 for the ESOP restoration plan. For the six months ended June 30, 2017 and 2016, we accrued $64,000 and $121,000, respectively, for the ESOP restoration plan.

(11) Share-Based Compensation

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Compensation expense	$ 28	$ 661	$ 37	$ 1,323
Income tax benefit	11	266	15	531

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

Table of Contents

Stock Options

The table below presents the stock option activity for the six months ended June 30, 2017 and 2016:

	Options	Weighted Average Exercise Price	Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2016	706,430	$ 17.43	3.70	$ 10,884
Granted	—	—	—	—
Exercised	110,894	17.36	—	1,670
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at June 30, 2017	595,536	$ 17.45	3.21	$ 8,185
Options outstanding at December 31, 2015	832,300	$ 17.42	4.70	$ 8,588
Granted	—	—	—	—
Exercised	61,340	17.36	—	539
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at June 30, 2016	770,960	$ 17.43	4.20	$ 6,972
Options vested and exercisable at June 30, 2017	593,136	$ 17.41	3.19	$ 8,173

There were no options that vested in the three or six months ended June 30, 2017 or 2016.

The following summarizes certain stock option activity of the Company:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Intrinsic value of stock options exercised	$ 797	$ 400	$ 1,670	$ 539
Proceeds received from stock options exercised	971	782	1,925	1,065
Tax benefits realized from stock options exercised	287	57	594	95
Total fair value of stock options that vested	—	—	—	—

During the six months ended June 30, 2017, we issued 51,464 shares of common stock, net, in exchange for 110,894 stock options and 59,430 shares of common stock. Pursuant to the provisions of our equity incentive plan, optionees are permitted to use the value of our common stock they own in a stock swap transaction or net settlement to pay the exercise price of stock options.

As of June 30, 2017, the Company had $5,000 of unrecognized compensation costs related to the stock option plan that will be amortized over a three-year vesting period.

Restricted Stock

Restricted stock are accounted for as fixed grants using the fair value of the Company’s stock at the time of grant. Unvested restricted stock may not be disposed of or transferred during the vesting period. Restricted stock carry with them the right to receive dividends.

Table of Contents

The table below presents the restricted stock activity:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value	
Nonvested at December 31, 2016	2,400	$	26.23
Granted	9,604		29.53
Vested	—		—
Forfeited	—		—
Nonvested at June 30, 2017	12,004	$	28.87
Nonvested at December 31, 2015	114,542	$	17.67
Granted	—		—
Vested	—		—
Forfeited	—		—
Nonvested at June 30, 2016	114,542	$	17.67

During the three months ended June 30, 2017, the Company issued 9,604 shares of restricted stock to certain members of executive management under the 2010 Equity Incentive Plan. The fair value of the restricted stock is based on the value of the Company's stock on the date of grant. Restricted stock will vest over three years from the date of grant.

As of June 30, 2017, the Company had $310,000 of unrecognized compensation costs related to restricted stock.

During the three months ended June 30, 2017, the Company issued 11,525 of performance-based restricted stock units (PRSUs) to certain members of executive management under the 2010 Equity Incentive Plan. These PRSUs will vest in the first quarter of 2020 after our Compensation Committee determines whether a performance condition that compares the Company's return on average equity to the SNL Bank Index is achieved. Depending on the Company's performance, the actual number of these PRSUs that are issued at the end of the vesting period can vary between 0% to 150% of the target award. For the PRSUs, an estimate is made of the number of shares expected to vest based on the probability that the performance criteria will be achieved to determine the amount of compensation expense to be recognized. This estimate is re-evaluated quarterly and total compensation expense is adjusted for any change in the current period.

The table below presents the PRSUs that will vest on a performance condition:

	Restricted Stock Units Based on a Performance Condition	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2016	—	$ —
Granted	11,525	29.53
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2017	11,525	$ 29.53

The fair value of these PRSUs is based on the fair value of the Company's stock on the date of grant. As of June 30, 2017, the Company had $219,000 of unrecognized compensation costs related to these PRSUs. Performance will be measured over a three-year performance period and will be cliff vested.

During the three months ended June 30, 2017, the Company issued 2,881 of PRSUs to certain members of executive management under the 2010 Equity Incentive Plan. These PRSUs will vest in the first quarter of 2020 after our Compensation Committee determines whether a market condition that compares the Company's total stock return to the SNL Bank Index is achieved. The number of shares that will be expensed will not be adjusted for performance. The

Table of Contents

fair value of these PRSUs is based on a Monte Carlo valuation of the Company's stock on the date of grant. The assumptions which were used in the Monte Carlo valuation of the PRSUs are:

Grant date: May 25, 2017

Performance period: January 1, 2017 to December 31, 2019

2.60 year risk-free rate on grant date: 1.40%

December 31, 2016 closing price: $32.84

Closing stock price on the date of grant: $29.53

Annualized volatility (based on 2.60 year historical volatility as of the grant date): 15.7%

Annual dividend preceding the grant date: $0.80

The table below presents the PRSUs that will vest on a market condition:

	Restricted Stock Units Based on a Market Condition	Monte Carlo Valuation of the Company's Stock
Nonvested at December 31, 2016	—	$ —
Granted	2,881	24.44
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2017	2,881	$ 24.44

As of June 30, 2017, the Company had $45,000 of unrecognized compensation costs related to the PRSUs that are based on a market condition. Performance will be measured over a three-year performance period and will be cliff vested.

(12) Earnings Per Share

Holders of unvested restricted stock receive nonforfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings. Unvested restricted stock awards that contain nonforfeitable rights to dividends or dividend equivalents are considered to be participating securities in the earnings per share computation using the two-class method. Under the two-class method, earnings are allocated to common shareholders and participating securities according to their respective rights to earnings.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Net income	$ 4,301	$ 4,037	$ 8,622	$ 7,821
Income allocated to participating securities	(4)	(50)	(7)	(98)
Net income available to common shareholders	$ 4,297	$ 3,987	$ 8,615	$ 7,723
Weighted-average number of shares used in:				
Basic earnings per share	9,255,739	9,059,515	9,235,553	9,047,217
Dilutive common stock equivalents:				
Stock options and restricted stock units	284,018	285,747	303,990	276,215
Diluted earnings per share	9,539,757	9,345,262	9,539,543	9,323,432
Net income per common share, basic	$ 0.46	$ 0.44	$ 0.93	$ 0.85
Net income per common share, diluted	$ 0.45	$ 0.43	$ 0.90	$ 0.83

Table of Contents

(13) Other Comprehensive Income and Loss

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

(Dollars in thousands)	Unfunded Pension Liability	Noncredit Related Loss on Trust Preferred Securities	Unrealized Loss on Securities	Total
Three months ended June 30, 2017				
Balances at beginning of period	$ 5,284	$ —	$ 30	$ 5,314
Other comprehensive loss, net of taxes	—	—	15	15
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive loss	—	—	15	15
Balances at end of period	$ 5,284	$ —	$ 45	$ 5,329
Three months ended June 30, 2016				
Balances at beginning of period	$ 5,065	$ 145	$ 43	$ 5,253
Other comprehensive income, net of taxes	—	(44)	(4)	(48)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive income	—	(44)	(4)	(48)
Balances at end of period	$ 5,065	$ 101	$ 39	$ 5,205
Six months ended June 30, 2017				
Balances at beginning of period	$ 5,284	$ —	$ 32	$ 5,316
Other comprehensive loss, net of taxes	—	—	13	13
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive loss	—	—	13	13
Balances at end of period	$ 5,284	$ —	$ 45	$ 5,329
Six months ended June 30, 2016				
Balances at beginning of period	$ 5,044	$ 147	$ 45	$ 5,236
Other comprehensive loss (income), net of taxes	21	(46)	(6)	(31)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive loss (income)	21	(46)	(6)	(31)
Balances at end of period	$ 5,065	$ 101	$ 39	$ 5,205

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

Three Months Ended June 30,

(Dollars in thousands)	2017 Pretax Amount	Tax	After Tax Amount	2016 Pretax Amount	Tax	After Tax Amount
Unfunded pension liability	$ —	$ —	$ —	$ —	$ —	$ —
Noncredit related loss on trust preferred securities	—	—	—	(73)	29	(44)
Unrealized loss on securities	25	(10)	15	(6)	2	(4)
Total	$ 25	$ (10)	$ 15	$ (79)	$ 31	$ (48)

Table of Contents

	Six Months Ended June 30,					
	2017			2016		
(Dollars in thousands)	Pretax Amount	Tax	After Tax Amount	Pretax Amount	Tax	After Tax Amount
Unfunded pension liability	$ —	$ —	$ —	$ —	$ 21	$ 21
Noncredit related loss on trust preferred securities	—	—	—	(76)	30	(46)
Unrealized loss on securities	22	(9)	13	(10)	4	(6)
Total	$ 22	$ (9)	$ 13	$ (86)	$ 55	$ (31)

(14) 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 valued 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:

· 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 and Accrued Interest Payable. 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 six transactions have occurred over the past 66 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%.

Table of Contents

The discounted cash flow analysis includes 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.

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.

Table of Contents

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
June 30, 2017					
Assets					
Cash and cash equivalents	$ 47,888	$ 47,888	$ 47,888	$ —	$ —
Investment securities available for sale	2,943	2,943	—	2,943	—
Investment securities held to maturity	395,556	397,933	—	396,924	1,009
Loans held for sale	1,166	1,180	—	1,180	—
Loans receivable, net	1,404,472	1,418,793	—	—	1,418,793
FHLB stock	5,013	5,013	—	5,013	—
FRB stock	3,103	3,103	—	3,103	—
Accrued interest receivable	4,769	4,769	8	1,031	3,730
Interest rate contracts	5	5	—	5	—
Liabilities					
Deposits	1,532,557	1,532,299	—	1,270,810	261,489
Advances from the Federal Home Loan Bank	69,000	68,949	—	68,949	—
Securities sold under agreements to repurchase	55,000	55,007	—	55,007	—
Accrued interest payable	284	284	—	172	112
Interest rate contracts	5	5	—	5	—
December 31, 2016					
Assets					
Cash and cash equivalents	$ 61,273	$ 61,273	$ 61,273	$ —	$ —
Investment securities held to maturity	407,656	407,922	—	406,759	1,163
Loans held for sale	1,601	1,601	—	1,601	—
Loans receivable, net	1,335,987	1,352,137	—	—	1,352,137
FHLB stock	4,945	4,945	—	4,945	—
FRB stock	3,095	3,095	—	3,095	—
Accrued interest receivable	4,732	4,732	10	1,064	3,658
Interest rate contracts	104	104	—	104	—
Liabilities					
Deposits	1,493,200	1,493,094	—	1,257,157	235,937
Advances from the Federal Home Loan Bank	69,000	69,068	—	69,068	—
Securities sold under agreements to repurchase	55,000	55,123	—	55,123	—
Accrued interest payable	218	218	—	172	46

Interest rate contracts	104	104	—	104	—

At June 30, 2017 and December 31, 2016, neither the commitment fees received on commitments to extend credit nor the fair value thereof was material to the consolidated financial statements of the Company.

Table of Contents

The table below presents the balance of assets and liabilities measured at fair value on a recurring basis:

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
June 30, 2017				
Interest rate contracts — assets	$ —	$ 5	$ —	$ 5
Interest rate contracts — liabilities	—	(5)	—	(5)
Available-for-sale investments	2,943	—	—	2,943
December 31, 2016				
Interest rate contracts — assets	$ —	$ 104	$ —	$ 104
Interest rate contracts — liabilities	—	(104)	—	(104)

The fair value of interest rate contracts was determined by referring to prices quoted in the secondary market for similar contracts. The fair value of available-for-sale investments was determined using quoted market prices.

The table below presents the balance of assets measured at fair value on a nonrecurring basis as of June 30, 2017 and December 31, 2016 and the related gains and losses for the six months ended June 30, 2017 and the year ended December 31, 2016:

(Dollars in thousands)	Fair Value Adjustment Date	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
June 30, 2017						
Impaired loans	3/31/2017	$ —	$ 87	$ —	$ 87	$ (11)
December 31, 2016						
Trust preferred securities	9/30/2016	$ —	$ —	$ 1,066	$ 1,066	$ 242
Mortgage servicing assets	6/30/2016	—	—	341	341	(49)
Impaired loans	8/31/2016	—	64	—	64	(33)
Loans held for sale	12/31/2016	—	1,601	—	1,601	(1)

The fair value of trust preferred securities is determined using a discounted cash flow model. The assumptions used in the discounted cash flow model are discussed above. Gains and losses on trust preferred securities that are credit related are included in net other-than-temporary impairment losses in the consolidated statements of income. Gains and losses on trust preferred securities that are not credit related are included in other comprehensive income in the consolidated statements of comprehensive income. Mortgage servicing assets are valued using a discounted cash flow model. Assumptions used in the model include mortgage prepayment speeds, discount rates and cost of servicing. Losses on mortgage servicing assets are included in service fees on loan and deposit accounts in the consolidated statements of income. The fair value of impaired loans is determined using the value of collateral less estimated selling costs. Gains and losses on impaired loans are included in the provision for loan losses in the consolidated statements of income. The fair value of loans held for sale is determined based on the prices quoted in the secondary market for similar loans. Losses on loans held for sale are included in gain on sale of loans in the consolidated statements of income.

Table of Contents

The table below presents the significant unobservable inputs for Level 3 nonrecurring fair value measurements:

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Value
December 31, 2016:				
Trust preferred securities	$ 1,066	Discounted cash flow	Discount rate	Three-month LIBOR plus 20.00%
Mortgage servicing assets	341	Discounted cash flow	Discount rate	10.50%
			Prepayment speed (PSA)	158.4 - 203.5
			Annual cost to service (per loan)	$ 65

(15) Subsequent Events

On June 28, 2017, the Board of Directors of Territorial Bancorp Inc. announced a special cash dividend of $0.10 per share of common stock. The dividend was paid on July 26, 2017 to stockholders of record as of July 12, 2017.

On July 27, 2017, the Board of Directors of Territorial Bancorp Inc. declared a quarterly cash dividend of $0.20 per share of common stock. The dividend is expected to be paid on August 24, 2017 to stockholders of record as of August 10, 2017.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. forward-looking statements include, but are not limited to:

· statements of our goals, intentions and expectations;

· statements regarding our business plans, prospects, growth and operating strategies;

· statements regarding the asset quality of our loan and investment portfolios; and

· estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. You should not place undue reliance on such statements. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this Quarterly Report.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

· general economic conditions, either internationally, nationally or in our market areas, that are worse than expected;

· competition among depository and other financial institutions;

· inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- fluctuations in the demand for loans;
- significant increases in loan losses;

Table of Contents

· success in introducing new products and services;

· failure or breaches of IT security systems;

· ability to retain management team;

· changes in our financial condition or results of operations that reduce capital available to pay dividends; and

· changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Overview

We have historically operated as a traditional thrift institution. The significant majority of our assets consist of long-term, fixed-rate residential mortgage loans and mortgage-backed securities, which we have funded primarily with deposit accounts, securities sold under agreements to repurchase and Federal Home Loan Bank advances. This has resulted in our being particularly vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets.

We have continued our focus on originating one- to four-family residential real estate loans. Our emphasis on conservative loan underwriting has resulted in continued low levels of nonperforming assets. Our nonperforming assets, which can include nonaccrual loans and real estate owned, totaled \$3.4 million, or 0.18% of total assets at June 30, 2017, compared to \$4.6 million, or 0.24% of total assets at December 31, 2016. As of June 30, 2017, nonperforming assets consisted of 16 mortgage loans totaling \$3.4 million. Our nonperforming loans and loss experience has enabled us to maintain a relatively low allowance for loan losses in relation to other peer institutions and correspondingly resulted in low levels of provisions for loan losses. We reversed \$52,000 of loan loss provisions for the six months ended June 30, 2017 and recorded a \$112,000 loss provision for the six months ended June 30, 2016.

Other than our loans for the construction of one- to four-family residential homes, we do not offer “interest only” mortgage loans (where the borrower pays only interest for an initial period, after which the loan converts to a fully amortizing loan) on one- to four-family residential properties. We also do not offer loans that provide for negative amortization of principal, such as “Option ARM” loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer “subprime loans” (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as nonconforming loans having less than full documentation). We also do not own any private label mortgage-backed securities that are collateralized by Alt-A, low or no documentation or subprime mortgage loans.

We sold $16.6 million and $24.1 million of fixed-rate mortgage loans for the six months ended June 30, 2017 and 2016, respectively. Long-term, fixed-rate borrowings remained constant for the six months ended June 30, 2017 and 2016.

Our investments in mortgage-backed securities have been issued by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. These agencies guarantee the payment of principal and interest on our mortgage-backed securities. We do not own any preferred stock issued by Fannie Mae or Freddie Mac. As of June 30, 2017 and December 31, 2016, we owned $397.8 million and $406.5 million, respectively, of mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae.

Table of Contents

Critical Accounting Policies

There are no material changes to the critical accounting policies disclosed in Territorial Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.

Comparison of Financial Condition at June 30, 2017 and December 31, 2016

Assets. At June 30, 2017, our assets were $1.924 billion, an increase of $46.6 million, or 2.5%, from $1.878 billion at December 31, 2016. The increase in assets was primarily the result of a $68.5 million increase in total loans receivable, which was partially offset by a $13.4 million decrease in cash and cash equivalents and a $9.2 million decrease in investment securities.

Cash and Cash Equivalents. Cash and cash equivalents were $47.9 million at June 30, 2017, a decrease of $13.4 million since December 31, 2016. The decrease in cash and cash equivalents was primarily caused by a $68.1 million increase in total loans, which was offset by a $39.4 million increase in deposits and a $9.2 million decrease in investment securities.

Loans. Total loans, including $1.2 million of loans held for sale, were $1.406 billion at June 30, 2017, or 73.1% of total assets. During the six months ended June 30, 2017, the loan portfolio, including loans held for sale, increased by $68.1 million, or 5.1%. The increase in the loan portfolio primarily occurred as the production of new one- to four-family residential loans exceeded principal repayments and loan sales.

Securities. At June 30, 2017, our securities portfolio totaled $398.5 million, or 20.7% of total assets. During the six months ended June 30, 2017, the securities portfolio decreased by $9.2 million, or 2.2%. The decrease in the securities portfolio is due to repayments and sales. During the six months ended June 30, 2017, $20.0 million and $2.9 million of securities were purchased for the held-to-maturity and available-for-sale portfolios, respectively.

At June 30, 2017, none of the underlying collateral consisted of subprime or Alt-A (traditionally defined as nonconforming loans having less than full documentation) loans.

At June 30, 2017, we owned a trust preferred security with an amortized cost of $756,000. This security represents an investment in a pool of debt obligations primarily issued by holding companies of Federal Deposit Insurance Corporation-insured financial institutions.

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 we own and no new issues of pooled trust preferred securities have occurred since 2007. We use 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 our review, our investment in the trust preferred security did not incur additional impairment during the six months ended June 30, 2017.

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 our 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 our consolidated statements of income.

Deposits. Deposits were $1.533 billion at June 30, 2017, an increase of $39.4 million, or 2.6%, since December 31, 2016. The growth in deposits was primarily due to an increase of $25.7 million in certificates of deposit and an increase of $14.0 million in savings accounts during the six months ended June 30, 2017. The increase in certificates of deposit is primarily due to an $11.2 million increase in public deposits and $7.0 million in new accounts at the new Keeaumoku branch.

Table of Contents

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank and funds borrowed under securities sold under agreements to repurchase. During the six months ended June 30, 2017, total borrowings remained constant at $124.0 million. We have not required any additional borrowings to fund our operations. Instead, we have primarily funded our operations with additional deposits, proceeds from loan sales and principal repayments on loans and mortgage-backed securities.

Stockholders' Equity. Total stockholders' equity increased to $235.5 million at June 30, 2017 from $229.8 million at December 31, 2016. The increase in stockholders' equity occurred as our net income for the year exceeded dividends paid to stockholders.

Average Balances and Yields

The following tables set forth average balance sheets, average yields and rates, and certain other information at and for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to interest income.