

Territorial Bancorp Inc.  
Form 10-Q  
November 08, 2013  
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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 September 30, 2013**

**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)

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**Maryland**  
(State or Other Jurisdiction of Incorporation)

**26-4674701**  
(I.R.S. Employer Identification No.)

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

**96813**  
(Zip Code)

**(808) 946-1400**

Registrant's telephone number, including area code

**Not Applicable**

(Former name or former address, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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

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

10,180,383 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of October 31, 2013.



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**TERRITORIAL BANCORP INC.**

Form 10-Q Quarterly Report

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	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 55,965	\$ 182,818
Investment securities held to maturity, at amortized cost (fair value of \$605,857 and \$584,125 at September 30, 2013 and December 31, 2012, respectively)	607,435	554,673
Federal Home Loan Bank stock, at cost	11,798	12,128
Loans held for sale	681	2,220
Loans receivable, net	827,946	774,876
Accrued interest receivable	4,382	4,367
Premises and equipment, net	5,141	5,056
Real estate owned	143	
Bank-owned life insurance	39,951	31,177
Deferred income taxes receivable	4,619	3,580
Investment receivable	1,096	
Prepaid expenses and other assets	2,353	3,732
<b>Total assets</b>	<b>\$ 1,561,510</b>	<b>\$ 1,574,627</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Liabilities:		
Deposits	\$ 1,258,358	\$ 1,237,847
Advances from the Federal Home Loan Bank	15,000	20,000
Securities sold under agreements to repurchase	47,000	70,000
Accounts payable and accrued expenses	25,272	23,017
Current income taxes payable	908	1,152
Advance payments by borrowers for taxes and insurance	2,383	3,639
<b>Total liabilities</b>	<b>1,348,921</b>	<b>1,355,655</b>
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 10,180,383 and 10,806,248 shares at September 30, 2013 and December 31, 2012, respectively	102	108
Additional paid-in capital	79,531	93,616
Unearned ESOP shares	(7,462)	(7,829)

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Retained earnings	144,647	137,410
Accumulated other comprehensive loss	(4,229)	(4,333)
Total stockholders' equity	212,589	218,972
Total liabilities and stockholders' equity	\$ 1,561,510	\$ 1,574,627

See accompanying notes to consolidated financial statements.

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Income (Unaudited)**  
**(Dollars in thousands, except per share data)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
<b>Interest and dividend income:</b>				
Investment securities	\$ 4,775	\$ 5,551	\$ 13,847	\$ 18,360
Loans	9,267	9,187	27,696	27,326
Dividends on FHLB stock	3		3	
Other investments	46	88	210	259
Total interest and dividend income	14,091	14,826	41,756	45,945
<b>Interest expense:</b>				
Deposits	1,031	1,492	3,225	4,644
Advances from the Federal Home Loan Bank	67	105	235	313
Securities sold under agreements to repurchase	422	629	1,370	2,364
Total interest expense	1,520	2,226	4,830	7,321
Net interest income	12,571	12,600	36,926	38,624
Provision for loan losses	45	167	47	172
Net interest income after provision for loan losses	12,526	12,433	36,879	38,452
<b>Noninterest income:</b>				
Service fees on loan and deposit accounts	598	444	1,667	1,474
Income on bank-owned life insurance	295	239	774	706
Gain on sale of investment securities	922	429	2,834	729
Gain on sale of loans	365	669	1,390	1,516
Other	143	141	329	346
Total noninterest income	2,323	1,922	6,994	4,771
<b>Noninterest expense:</b>				
Salaries and employee benefits	5,318	5,202	15,682	15,416
Occupancy	1,387	1,316	3,971	3,930
Equipment	853	800	2,576	2,423
Federal deposit insurance premiums	193	192	574	574
Loss on extinguishment of debt		123		321
Other general and administrative expenses	969	964	3,228	3,069
Total noninterest expense	8,720	8,597	26,031	25,733
Income before income taxes	6,129	5,758	17,842	17,490
Income taxes	2,298	2,111	6,709	6,457
Net income	\$ 3,831	\$ 3,647	\$ 11,133	\$ 11,033
<b>Basic earnings per share</b>				
Basic earnings per share	\$ 0.40	\$ 0.36	\$ 1.13	\$ 1.09
Diluted earnings per share	\$ 0.39	\$ 0.36	\$ 1.12	\$ 1.08
Cash dividends declared per common share	\$ 0.13	\$ 0.11	\$ 0.38	\$ 0.32
Basic weighted-average shares outstanding	9,676,304	10,052,630	9,810,725	10,126,371
Diluted weighted-average shares outstanding	9,809,987	10,199,400	9,930,438	10,205,408

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)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 3,831	\$ 3,647	\$ 11,133	\$ 11,033
Change in unrealized loss on securities	3	8	21	18
Noncredit related gains on securities not expected to be sold	14	177	83	177
Other comprehensive income	17	185	104	195
Comprehensive income	\$ 3,848	\$ 3,832	\$ 11,237	\$ 11,228

See accompanying notes to consolidated financial statements.

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Stockholders Equity  
and Comprehensive Income (Unaudited)  
(Dollars in thousands)**

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders Equity
Balances at December 31, 2011	\$ 110	\$ 97,640	\$ (8,319)	\$ 128,300	\$ (3,770)	\$ 213,961
Net income				11,033		11,033
Other comprehensive income					195	195
Cash dividends declared				(3,418)		(3,418)
Share-based compensation	1	2,016				2,017
Allocation of 36,699 ESOP shares		438	367			805
Repurchase of 275,186 shares of company common stock	(2)	(5,890)				(5,892)
Exercise of 41,275 options on common stock		716				716
Balances at September 30, 2012	\$ 109	\$ 94,920	\$ (7,952)	\$ 135,915	\$ (3,575)	\$ 219,417
Balances at December 31, 2012	\$ 108	\$ 93,616	\$ (7,829)	\$ 137,410	\$ (4,333)	\$ 218,972
Net income				11,133		11,133
Other comprehensive income					104	104
Cash dividends declared				(3,896)		(3,896)
Share-based compensation	1	2,001				2,002
Allocation of 36,699 ESOP shares		478	367			845
Repurchase of 739,197 shares of company common stock	(7)	(16,564)				(16,571)
Balances at September 30, 2013	\$ 102	\$ 79,531	\$ (7,462)	\$ 144,647	\$ (4,229)	\$ 212,589

See accompanying notes to consolidated financial statements.

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Unaudited)**  
**(Dollars in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,133	\$ 11,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	47	172
Depreciation and amortization	837	852
Deferred income tax benefit	(1,108)	(516)
Amortization of fees, discounts, and premiums	395	53
Origination of loans held for sale	(67,252)	(75,184)
Proceeds from sales of loans held for sale	70,181	75,899
Gain on sale of loans, net	(1,390)	(1,516)
Net gain on sale of real estate owned		(43)
Gain on sale of investment securities held to maturity	(2,834)	(729)
ESOP expense	845	805
Share-based compensation expense	2,002	2,016
Excess tax benefits from share-based compensation		(54)
(Increase) decrease in accrued interest receivable	(15)	104
Net increase in bank-owned life insurance	(774)	(706)
Net (increase) decrease in prepaid expenses and other assets	1,379	(186)
Net increase in accounts payable and accrued expenses	2,255	342
Net decrease in income taxes payable	(244)	(2,967)
Net cash provided by operating activities	15,457	9,375
<b>Cash flows from investing activities:</b>		
Purchases of investment securities held to maturity	(240,496)	(111,467)
Principal repayments on investment securities held to maturity	146,301	160,668
Proceeds from sale of investment securities held to maturity	42,034	9,983
Loan originations, net of principal repayments on loans receivable	(52,345)	(57,911)
Proceeds from redemption of Federal Home Loan Bank stock	330	110
Purchases of bank-owned life insurance	(8,000)	
Proceeds from sale of real estate owned		451
Purchases of premises and equipment	(922)	(484)
Net cash provided by (used in) investing activities	(113,098)	1,350

*(Continued)*

Table of Contents**TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows (Unaudited)**  
**(Dollars in thousands)**

	Nine Months Ended September 30,	
	2013	2012
<b>Cash flows from financing activities:</b>		
Net increase in deposits	\$ 20,511	\$ 60,411
Proceeds from advances from the Federal Home Loan Bank	5,000	100
Repayments of advances from the Federal Home Loan Bank	(10,000)	(100)
Repayments of securities sold under agreements to repurchase	(23,000)	(38,300)
Purchases of Fed Funds		10
Sales of Fed Funds		(10)
Net decrease in advance payments by borrowers for taxes and insurance	(1,256)	(969)
Excess tax benefits from share-based compensation		54
Proceeds from issuance of common stock		717
Repurchases of company stock	(16,571)	(5,892)
Cash dividends paid	(3,896)	(3,418)
Net cash provided by (used in) financing activities	(29,212)	12,603
Net increase (decrease) in cash and cash equivalents	(126,853)	23,328
Cash and cash equivalents at beginning of the period	182,818	131,937
Cash and cash equivalents at end of the period	\$ 55,965	\$ 155,265
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for:		
Interest on deposits and borrowings	\$ 4,861	\$ 7,478
Income taxes	8,061	9,940
<b>Supplemental disclosure of noncash investing activities:</b>		
Loans transferred to real estate owned	\$ 143	\$ 176
Investments purchased, not settled	1,096	1,136

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. 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, 2012. 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 approved a plan of conversion and reorganization under which the Company 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. A total of 12,233,125 shares were issued in the conversion at \$10 per share, raising \$122.3 million of gross proceeds. \$3.7 million of conversion expenses were offset against the gross proceeds. Territorial Bancorp Inc. s common stock began trading on the NASDAQ Global Select Market under the symbol TBNK on July 13, 2009.

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 liquidation account will be reduced annually to the extent that eligible account holders and supplemental eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder s or supplemental eligible account holder s interest in the liquidation account. In the event of a complete liquidation of Territorial Savings Bank, and only in such event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

**(3) Recently Adopted Accounting Pronouncements**

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In June 2011, the Financial Accounting Standards Board (FASB) amended the Comprehensive Income topic of the FASB Accounting Standards Codification (ASC). The amendment eliminated the option of presenting components of other comprehensive income as part of the statement of changes in stockholders' equity. Nonowner changes in stockholders' equity must be presented either in a continuous statement of comprehensive income or in two separate but consecutive statements. The amendment was effective for interim or annual periods beginning after December 15, 2011, with early

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adoption permitted. In December 2011, the FASB deferred the effective date of the part of this amendment requiring reclassifications out of accumulated other comprehensive income to be shown on the face of the financial statements to allow time for further deliberation. Until final reporting requirements were effective, previous disclosure requirements would remain in effect. The Company adopted this amendment on January 1, 2012, and other than the location of disclosures related to other comprehensive income, the adoption did not have a material effect on its consolidated financial statements. In February 2013, the FASB finalized the reporting requirements for reclassifications out of accumulated other comprehensive income. When an amount reclassified out of accumulated other comprehensive income is required to be reported in net income in its entirety, the effect on income statement items must be disclosed. When an amount reclassified out of accumulated other comprehensive income is not required to be reported in net income in its entirety in the same period, cross references to other required disclosures providing information about the transaction are required. This amendment was effective for reporting periods beginning after December 15, 2012. The Company adopted this amendment on January 1, 2013 and the adoption did not have a material effect on its consolidated financial statements.

In December 2011, the FASB amended the Balance Sheet topic of the FASB ASC. The amendment requires disclosures about the gross and net information related to instruments and transactions eligible for offset in the statement of financial position. The disclosures are meant to assist users of financial statements to more easily compare information that is presented based on the differing offsetting requirements of U.S. generally accepted accounting principles and International Financial Reporting Standards. In January 2013, the FASB issued a clarification that stated the amendment applies only to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendment was effective for interim and annual periods beginning on or after January 1, 2013. The Company adopted this amendment on January 1, 2013 and the adoption did not 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)	September 30, 2013	December 31, 2012
Cash and due from banks	\$ 9,636	\$ 10,574
Interest-earning deposits in other banks	46,329	172,244
Cash and cash equivalents	\$ 55,965	\$ 182,818

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)	Carrying value		Gains		Gross unrealized Losses		Estimated fair value
<b>September 30, 2013:</b>							
Held to maturity:							
U.S. government-sponsored mortgage-backed securities	\$ 606,876	\$	13,038	\$	(14,616)	\$	605,298
Trust preferred securities	559						559
<b>Total</b>	<b>\$ 607,435</b>	<b>\$</b>	<b>13,038</b>	<b>\$</b>	<b>(14,616)</b>	<b>\$</b>	<b>605,857</b>
<b>December 31, 2012:</b>							
Held to maturity:							
U.S. government-sponsored mortgage-backed securities	\$ 554,252	\$	29,706	\$	(254)	\$	583,704
Trust preferred securities	421						421
<b>Total</b>	<b>\$ 554,673</b>	<b>\$</b>	<b>29,706</b>	<b>\$</b>	<b>(254)</b>	<b>\$</b>	<b>584,125</b>

The carrying and estimated fair value of investment securities at September 30, 2013 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)	Carrying value		Estimated fair value
Held to maturity:			
Due within 5 years	\$ 1,195	\$	1,203
Due after 5 years through 10 years	427		458
Due after 10 years	605,813		604,196
<b>Total</b>	<b>\$ 607,435</b>	<b>\$</b>	<b>605,857</b>

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

(Dollars in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Proceeds from sales	\$ 13,943	\$ 5,424	\$ 43,131	\$ 9,983
Gross gains	922	429	2,834	729
Gross losses				





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During the three months ended September 30, 2013 and 2012, all sales were related to \$13.0 million and \$5.0 million, respectively, of held-to-maturity debt securities. During the nine months ended September 30, 2013 and 2012, all sales were related to \$40.3 million and \$9.3 million, respectively, of held-to-maturity debt securities. 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 Investment 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 carrying values of \$247.3 million and \$221.3 million at September 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities which were in an unrealized loss position at September 30, 2013 and December 31, 2012. 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.

Description of securities (Dollars in thousands)	Less than 12 months		12 months or longer		Number of securities	Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses		Fair value	Unrealized losses
September 30, 2013:							
Mortgage-backed securities	\$ 273,380	\$ 14,417	\$ 3,785	\$ 199	48	\$ 277,165	\$ 14,616
December 31, 2012:							
Mortgage-backed securities	\$ 32,921	\$ 253	\$ 47	\$ 1	21	\$ 32,968	\$ 254

**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 amortized cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2013 and December 31, 2012.

**Trust Preferred Securities.** At September 30, 2013, 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 Bank's held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only three transactions have occurred over the past 21 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 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.



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Based on the Company's review, the Company's investment in trust preferred securities did not incur additional impairment during the quarter ending September 30, 2013.

PreTSL XXIV has a book value of \$0. PreTSL XXIII has a book value of \$559,000. The difference between the book value of \$559,000 and the remaining amortized cost basis of \$1.1 million is reported as other comprehensive loss and is related to noncredit factors such as the trust preferred securities market being inactive.

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 amortized 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)	2013		2012	
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 September 30,	\$	5,885	\$	5,885

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

(Dollars in thousands)	September 30,			
	2013	2012	2013	2012
Noncredit losses on other-than-temporarily impaired securities, net of taxes	\$	362	\$	502

Table of Contents**(6) Loans Receivable and Allowance for Loan Losses**

The components of loans receivable are as follows:

(Dollars in thousands)	September 30, 2013	December 31, 2012
Real estate loans:		
First mortgages:		
One- to four-family residential	\$ 795,739	\$ 741,334
Multi-family residential	4,918	6,888
Construction, commercial, and other	13,626	13,819
Home equity loans and lines of credit	15,493	15,202
Total real estate loans	829,776	777,243
Other loans:		
Loans on deposit accounts	351	493
Consumer and other loans	4,425	3,988
Total other loans	4,776	4,481
Less:		
Net unearned fees and discounts	(4,939)	(5,176)
Allowance for loan losses	(1,667)	(1,672)
	(6,606)	(6,848)
Loans receivable, net	\$ 827,946	\$ 774,876

The activity in the allowance for loan losses on loans receivable is as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance, beginning of period	\$ 1,622	\$ 1,457	\$ 1,672	\$ 1,541
Provision for loan losses	45	167	47	172
	1,667	1,624	1,719	1,713
Charge-offs	(68)	(137)	(205)	(273)
Recoveries	68	8	153	55
Net charge-offs		(129)	(52)	(218)
Balance, end of period	\$ 1,667	\$ 1,495	\$ 1,667	\$ 1,495

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

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended						
September 30, 2013:						
Balance, beginning of period	\$ 513	\$ 813	\$ 35	\$ 125	\$ 136	\$ 1,622
Provision (reversal of allowance) for loan losses	(16)	14	(1)	44	4	45
	497	827	34	169	140	1,667
Charge-offs	(13)			(55)		(68)
Recoveries	49	11	1	7		68
Net charge-offs	36	11	1	(48)		
Balance, end of period	\$ 533	\$ 838	\$ 35	\$ 121	\$ 140	\$ 1,667
Nine months ended September 30, 2013:						
Balance, beginning of period	\$ 590	\$ 818	\$ 35	\$ 107	\$ 122	\$ 1,672
Provision (reversal of allowance) for loan losses	(84)	9	(7)	111	18	47
	506	827	28	218	140	1,719
Charge-offs	(94)			(111)		(205)
Recoveries	121	11	7	14		153
Net charge-offs	27	11	7	(97)		(52)
Balance, end of period	\$ 533	\$ 838	\$ 35	\$ 121	\$ 140	\$ 1,667

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended						
September 30, 2012:						
Balance, beginning of period	\$ 552	\$ 641	\$ 35	\$ 107	\$ 122	\$ 1,457
Provision for loan losses	157		2	8		167
	709	641	37	115	122	1,624
Charge-offs	(125)		(2)	(10)		(137)
Recoveries	6			2		8
Net charge-offs	(119)		(2)	(8)		(129)
Balance, end of period	\$ 590	\$ 641	\$ 35	\$ 107	\$ 122	\$ 1,495
Nine months ended September 30, 2012:						
Balance, beginning of period	\$ 631	\$ 285	\$ 258	\$ 291	\$ 76	\$ 1,541
Provision (reversal of allowance) for loan losses	151	364	(222)	(167)	46	172
	782	649	36	124	122	1,713
Charge-offs	(233)	(8)	(3)	(29)		(273)
Recoveries	41		2	12		55
Net charge-offs	(192)	(8)	(1)	(17)		(218)
Balance, end of period	\$ 590	\$ 641	\$ 35	\$ 107	\$ 122	\$ 1,495



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In 2012, the Company enhanced its methodology for reviewing its loan portfolio when calculating the allowance for loan losses. The modification consisted of additional segmentation of the residential mortgage loan portfolio by items such as year of origination, loan-to-value ratios, owner or nonowner occupancy status and the purpose of the loan (purchase, cash-out refinance, no cash-out refinance or construction). The allowance for loan loss for each segment of the loan portfolio is determined by calculating the historical loss of each segment for a two- to three-year look-back period and adding a qualitative adjustment for the following factors:

- Changes in lending policies and procedures;
- Changes in economic trends;
- Changes in types of loans in the loan portfolio;
- Changes in experience and ability of personnel in the loan origination and loan servicing departments;
- Changes in the number and amount of delinquent loans and classified assets;
- Changes in our internal loan review system;
- Changes in the value of underlying collateral for collateral dependent loans;
- Changes in any concentrations of credit; and
- External factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio.

The Company also revised the qualitative factors that were used to determine the allowance for loan losses on construction, commercial and other mortgage loans, home equity loans and lines of credit and consumer and other loans. As a result of these modifications, the Company increased the portion of the allowance for loan losses attributable to construction, commercial and other mortgage loans and decreased the portion of the allowance for loan losses attributable to residential mortgages. The allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The unallocated allowance is established for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

Management considers the allowance for loan losses at September 30, 2013 to be at an appropriate level to provide for probable losses that can be reasonably estimated based on general and specific conditions. 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 Office of the Comptroller of the Currency will periodically review the allowance for loan losses. The Office of the Comptroller of the Currency 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	Total
September 30, 2013:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	\$	\$	\$	\$	\$	\$
Collectively evaluated for impairment	533	838	35	121	140	1,667
Total ending allowance balance	\$ 533	\$ 838	\$ 35	\$ 121	\$ 140	\$ 1,667
Loans:						
Ending loan balance:						
Individually evaluated for impairment	\$ 7,425	\$	\$ 162	\$	\$	\$ 7,587
Collectively evaluated for impairment	788,309	13,602	15,339	4,776		822,026
Total ending loan balance	\$ 795,734	\$ 13,602	\$ 15,501	\$ 4,776	\$	\$ 829,613
December 31, 2012:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	\$	\$	\$	\$	\$	\$
Collectively evaluated for impairment	590	818	35	107	122	1,672
Total ending allowance balance	\$ 590	\$ 818	\$ 35	\$ 107	\$ 122	\$ 1,672
Loans:						
Ending loan balance:						
Individually evaluated for impairment	\$ 6,775	\$	\$ 160	\$	\$	\$ 6,935
Collectively evaluated for impairment	736,297	13,784	15,051	4,481		769,613
Total ending loan balance	\$ 743,072	\$ 13,784	\$ 15,211	\$ 4,481	\$	\$ 776,548

The table below presents the balance of impaired loans and the related amount of allocated loan loss allowances:

(Dollars in thousands)

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	September 30, 2013	December 31, 2012
Loans with no allocated allowance for loan losses	\$ 7,587	\$ 6,935
Loans with allocated allowance for loan losses		
Total impaired loans	\$ 7,587	\$ 6,935
Amount of allocated loan loss allowance	\$	\$

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

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance
September 30, 2013:		
With no related allowance recorded:		
One- to four-family residential mortgages	\$ 7,425	\$ 7,721
Home equity loans and lines of credit	162	165
<b>Total</b>	<b>\$ 7,587</b>	<b>\$ 7,886</b>
December 31, 2012:		
With no related allowance recorded:		
One- to four-family residential mortgages	\$ 6,775	\$ 7,175
Home equity loans and lines of credit	160	165
<b>Total</b>	<b>\$ 6,935</b>	<b>\$ 7,340</b>

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 September 30,		For the Nine Months Ended September 30,	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
2013:				
With no related allowance recorded:				
One- to four-family residential mortgages	\$ 7,440	\$ 33	\$ 7,477	\$ 98
Home equity loans and lines of credit	162		161	
<b>Total</b>	<b>\$ 7,602</b>	<b>\$ 33</b>	<b>\$ 7,638</b>	<b>\$ 98</b>
2012:				
With no related allowance recorded:				
One- to four-family residential mortgages	\$ 7,084	\$ 69	\$ 7,114	\$ 153
Home equity loans and lines of credit	159	2	158	5
<b>Total</b>	<b>\$ 7,243</b>	<b>\$ 71</b>	<b>\$ 7,272</b>	<b>\$ 158</b>

There were no loans individually evaluated for impairment with a related allowance for loan loss as of September 30, 2013 or December 31, 2012. 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 Days Past Due	59 Days Past Due	60 Days Past Due	89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual Loans	Loans More Than 90 Days Past Due and Still Accruing			
September 30, 2013:													
One- to four-family residential mortgages	\$	1,296	\$		\$	1,230	\$	788,317	\$	790,843	\$	5,160	\$
Multi-family residential mortgages							4,891	4,891					
Construction, commercial and other mortgages							13,602	13,602					
Home equity loans and lines of credit							15,501	15,501	162				
Loans on deposit accounts							351	351					
Consumer and other		13		1		14	4,411	4,425					
<b>Total</b>	\$	1,309	\$	1	\$	1,230	\$	827,073	\$	829,613	\$	5,322	\$
December 31, 2012:													
One- to four-family residential mortgages	\$	2,298	\$										