

Territorial Bancorp Inc.
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended June 30, 2016

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)

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Maryland 26-4674701
(State or Other Jurisdiction of Incorporation) (I.R.S. Employer Identification No.)

1132 Bishop Street, Suite 2200, Honolulu, Hawaii 96813
(Address of Principal Executive Offices) (Zip Code)

(808) 946-1400

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, 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 Accelerated filer
Non-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 .

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 9,663,122 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of July 31, 2016.

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	June 30, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$ 63,878	\$ 65,919
Investment securities held to maturity, at amortized cost (fair value of \$474,058 and \$497,982 at June 30, 2016 and December 31, 2015, respectively)	455,991	493,059
Loans held for sale	353	2,139
Loans receivable, net	1,259,339	1,188,649
Federal Home Loan Bank stock, at cost	4,945	4,790
Federal Reserve Bank stock, at cost	3,062	3,022
Accrued interest receivable	4,812	4,684
Premises and equipment, net	4,399	4,903
Bank-owned life insurance	42,815	42,328
Deferred income tax assets, net	8,974	9,378
Prepaid expenses and other assets	2,404	2,270
Total assets	\$ 1,850,972	\$ 1,821,141
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	\$ 1,469,754	\$ 1,445,103
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	24,227	25,178
Current income taxes payable	1,960	2,095
Advance payments by borrowers for taxes and insurance	5,315	5,124
Total liabilities	1,625,256	1,601,500
Stockholders' Equity:		
Preferred stock, \$.01 par value; authorized 50,000,000 shares, no shares issued or outstanding	—	—
	96	96

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Common stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 9,663,122 and 9,659,685 shares at June 30, 2016 and December 31, 2015, respectively		
Additional paid-in capital	71,389	70,118
Unearned ESOP shares	(6,117)	(6,361)
Retained earnings	165,553	161,024
Accumulated other comprehensive loss	(5,205)	(5,236)
Total stockholders' equity	225,716	219,641
Total liabilities and stockholders' equity	\$ 1,850,972	\$ 1,821,141

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Interest and dividend income:				
Loans	\$ 12,647	\$ 11,266	\$ 25,008	\$ 21,952
Investment securities	3,750	4,274	7,625	8,797
Other investments	146	70	290	149
Total interest and dividend income	16,543	15,610	32,923	30,898
Interest expense:				
Deposits	1,470	1,154	2,878	2,288
Advances from the Federal Home Loan Bank	256	157	513	227
Securities sold under agreements to repurchase	218	243	436	555
Total interest expense	1,944	1,554	3,827	3,070
Net interest income	14,599	14,056	29,096	27,828
Provision for loan losses	84	101	112	295
Net interest income after provision for loan losses	14,515	13,955	28,984	27,533
Noninterest income:				
Service fees on loan and deposit accounts	473	527	929	987
Income on bank-owned life insurance	240	256	487	511
Gain on sale of investment securities	190	240	190	476
Gain on sale of loans	129	110	190	239
Other	102	115	224	281
Total noninterest income	1,134	1,248	2,020	2,494
Noninterest expense:				
Salaries and employee benefits	5,256	5,064	10,682	10,163
Occupancy	1,433	1,428	2,853	2,865
Equipment	912	953	1,818	1,898
Federal deposit insurance premiums	227	211	452	420
Other general and administrative expenses	1,160	1,187	2,242	2,401
Total noninterest expense	8,988	8,843	18,047	17,747
Income before income taxes	6,661	6,360	12,957	12,280
Income taxes	2,624	2,523	5,136	4,917
Net income	\$ 4,037	\$ 3,837	\$ 7,821	\$ 7,363

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Basic earnings per share	\$ 0.45	\$ 0.42	\$ 0.86	\$ 0.81
Diluted earnings per share	\$ 0.43	\$ 0.41	\$ 0.84	\$ 0.79
Cash dividends declared per common share	\$ 0.18	\$ 0.16	\$ 0.36	\$ 0.32
Basic weighted-average shares outstanding	9,059,515	9,053,383	9,047,217	9,086,865
Diluted weighted-average shares outstanding	9,345,262	9,307,988	9,323,432	9,314,776

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 4,037	\$ 3,837	\$ 7,821	\$ 7,363
Change in unfunded pension liability	—	(64)	(21)	(64)
Change in unrealized loss on securities	4	7	6	16
Change in noncredit related loss on trust preferred securities	44	77	46	108
Other comprehensive income, net of tax	48	20	31	60
Comprehensive income	\$ 4,085	\$ 3,857	\$ 7,852	\$ 7,423

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2014	\$ 99	\$ 75,229	\$ (6,851)	\$ 153,289	\$ (5,388)	\$ 216,378
Net income	—	—	—	7,363	—	7,363
Other comprehensive income	—	—	—	—	60	60
Cash dividends declared (\$0.32 per share)	—	—	—	(2,979)	—	(2,979)
Share-based compensation	—	1,328	—	—	—	1,328
Allocation of 24,466 ESOP shares	—	308	245	—	—	553
Repurchase of 199,464 shares of company common stock	(2)	(4,337)	—	—	—	(4,339)
Balances at June 30, 2015	\$ 97	\$ 72,528	\$ (6,606)	\$ 157,673	\$ (5,328)	\$ 218,364
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 declared (\$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

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 7,821	\$ 7,363
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan losses	112	295
Depreciation and amortization	595	666
Deferred income tax expense (benefit)	349	(1,354)
Amortization of fees, discounts, and premiums	(397)	(204)
Origination of loans held for sale	(23,084)	(28,108)
Proceeds from sales of loans held for sale	24,173	28,684
Gain on sale of loans, net	(190)	(239)
Gain on sale of investment securities held to maturity	(190)	(476)
ESOP expense	637	553
Share-based compensation expense	1,323	1,328
Increase in accrued interest receivable	(128)	(151)
Net increase in bank-owned life insurance	(487)	(511)
Net increase in prepaid expenses and other assets	(134)	(212)

Net increase (decrease) in accounts payable and accrued expenses	9	3,197
Net increase in advance payments by borrowers for taxes and insurance	191	761
Net increase (decrease) in income taxes payable	(135)	1,821
Net cash from operating activities	10,465	13,413
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(2,523)	(6,671)
Principal repayments on investment securities held to maturity	35,608	49,390
Proceeds from sale of investment securities held to maturity	3,122	5,083
Loan originations, net of principal repayments on loans receivable	(69,581)	(142,545)
Purchases of FHLB stock	(155)	(1,600)
Proceeds from redemption of FHLB stock	—	8,524
Purchases of Federal Reserve Bank stock	(40)	(46)
Purchases of premises and equipment	(91)	(351)
Net cash from investing activities	(33,660)	(88,216)

(Continued)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Cash flows from financing activities:		
Net increase in deposits	\$ 24,651	\$ 13,700
Proceeds from advances from the Federal Home Loan Bank	—	82,000
Repayments of advances from the Federal Home Loan Bank	—	(40,000)
Proceeds from securities sold under agreements to repurchase	—	30,000
Repayments of securities sold under agreements to repurchase	—	(42,000)
Proceeds from exercise of stock options	566	—
Repurchases of common stock	(771)	(4,728)
Cash dividends paid	(3,292)	(2,979)
Net cash from financing activities	21,154	35,993
Net decrease in cash and cash equivalents	(2,041)	(38,810)
Cash and cash equivalents at beginning of the period	65,919	75,060
Cash and cash equivalents at end of the period	\$ 63,878	\$ 36,250
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	\$ 3,819	\$ 3,149
Income taxes	4,922	4,450
Supplemental disclosure of noncash investing and financing activities:		
Company stock repurchased, not settled	\$ 240	\$ —
Company stock acquired through swap transactions	499	—
Company stock repurchased prior year, settled current year	—	389
Loans transferred to real estate owned	—	192

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Territorial Bancorp Inc. (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with 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, 2015. In the opinion of management, all adjustments necessary for a fair presentation have been made and consist only of normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

(2) Organization

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

Upon completion of the conversion and reorganization, a special “liquidation account” was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The balance of the liquidation account at December 31, 2015 was \$13.5 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 does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In April 2015, the FASB amended the Intangibles – Goodwill and Other topic of the FASB ASC. The amendment adds guidance to help entities evaluate the accounting for fees paid in cloud computing arrangements. The amendment is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company adopted this amendment on January 1, 2016, and the adoption did not have a material effect on its consolidated financial statements.

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In January 2016, the FASB amended the Financial Instruments – Overall topic of the FASB ASC. The amendment addresses several aspects of recognition, measurement, presentation and disclosure of financial instruments. Included are: (a) a requirement to measure equity investments at fair value, with changes in fair value recognized in net income, (b) a simplification of the impairment assessment of equity investments without readily determinable fair values, (c) the elimination of the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost on the balance sheet, and (d) a requirement to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of this amendment to have a material effect 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 is currently evaluating 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 seeks to simplify several areas of accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification of transactions on the statement of cash flows. The amendment is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In June 2016, the FASB amended various sections of the FASB ASC related to the accounting for credit losses on financial instruments. The primary area affecting the Company will be in the accounting for loans receivable. The amendment changes the threshold for recognizing losses from “probable” to “expected” and may result in an increase in the Company’s allowance for loan losses. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements.

(4) Cash and Cash Equivalents

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

	December
June 30,	31,

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(Dollars in thousands)	2016	2015
Cash and due from banks	\$ 9,579	\$ 10,318
Interest-earning deposits in other banks	54,299	55,601
Cash and cash equivalents	\$ 63,878	\$ 65,919

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

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(5) Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
June 30, 2016:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	\$ 454,999	\$ 18,313	\$ (246)	\$ 473,066
Trust preferred securities	992	—	—	992
Total	\$ 455,991	\$ 18,313	\$ (246)	\$ 474,058
December 31, 2015:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	\$ 492,143	\$ 11,092	\$ (6,169)	\$ 497,066
Trust preferred securities	916	—	—	916
Total	\$ 493,059	\$ 11,092	\$ (6,169)	\$ 497,982

The amortized cost and estimated fair value of investment securities at June 30, 2016 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Held to maturity:		
Due within 5 years	\$ 30	\$ 31
Due after 5 years through 10 years	—	—
Due after 10 years	455,961	474,027
Total	\$ 455,991	\$ 474,058

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

Three Months Ended	Six Months Ended
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(Dollars in thousands)	June 30,		June 30,	
	2016	2015	2016	2015
Proceeds from sales	\$ 3,122	\$ 2,503	\$ 3,122	\$ 5,083
Gross gains	190	240	190	476
Gross losses	—	—	—	—

During the three months ended June 30, 2016 and 2015, the Company received proceeds of \$3.1 million and \$2.4 million, respectively, from the sale of \$2.9 million and \$2.3 million, respectively, of held-to-maturity mortgage-backed securities, resulting in gross realized gains of \$190,000 and \$179,000, respectively. During the six months ended June 30, 2016 and 2015, the Company received proceeds of \$3.1 million and \$5.0 million, respectively, from the sale of \$2.9 million and \$4.6 million, respectively, of held-to-maturity mortgage-backed securities, resulting in gross realized gains of \$190,000 and \$415,000, respectively. 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.

During the three months ended June 30, 2015, the Company received proceeds of \$61,000 from the sale of one of the trust preferred securities the Company owned, PreTSL XXIV. The Company previously wrote off the entire book value of this security when it incurred an other-than-temporary impairment charge in prior years. The trust preferred security sold was classified in the held-to-maturity portfolio. Since the credit rating of this security was downgraded, in

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accordance with the Investments – Debt and Equity Securities topic of the FASB ASC, the sale of this security 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 \$235.2 million and \$241.4 million at June 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015. 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		Total Number of Securities	Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			
June 30, 2016							
Mortgage-backed securities	\$ 1,421	\$ 1	\$ 33,499	\$ 245	13	\$ 34,920	\$ 246
December 31, 2015							
Mortgage-backed securities	\$ 142,810	\$ 3,939	\$ 53,142	\$ 2,230	43	\$ 195,952	\$ 6,169

Mortgage-Backed Securities. The unrealized losses on the Company’s investment in mortgage-backed securities were caused by increases in market interest rates subsequent to purchase. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2016 and December 31, 2015.

Trust Preferred Securities. At June 30, 2016, the Company owned one trust preferred security, PreTSL XXIII. 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.

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The trust preferred securities market is considered to be inactive as only six transactions have occurred over the past 54 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, 2016.

PreTSL XXIII has an amortized cost of \$992,000 at June 30, 2016. The difference between the amortized cost of \$992,000 and the remaining cost basis of \$1.1 million is reported as accumulated other comprehensive loss and is 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 \$1.1 million 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.

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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)	2016	2015
Balance at January 1,	\$ 2,403	\$ 5,885
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized	—	—
Credit losses on debt securities which were sold	—	(3,482)
Balance at June 30,	\$ 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:

(Dollars in thousands)	June 30,	
	2016	2015
Noncredit losses on other-than-temporarily impaired securities, net of taxes	\$ 101	\$ 176

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Real estate loans:		
First mortgages:		
One- to four-family residential	\$ 1,209,594	\$ 1,145,904
Multi-family residential	9,701	9,834
Construction, commercial and other	25,445	19,288
Home equity loans and lines of credit	16,077	15,333
Total real estate loans	1,260,817	1,190,359
Other loans:		
Loans on deposit accounts	310	304
Consumer and other loans	4,088	4,239

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Total other loans	4,398	4,543
Less:		
Net unearned fees and discounts	(3,600)	(4,087)
Allowance for loan losses	(2,276)	(2,166)
Total unearned fees, discounts and allowance for loan losses	(5,876)	(6,253)
Loans receivable, net	\$ 1,259,339	\$ 1,188,649

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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 June 30, 2016:						
Balance, beginning of period	\$ 1,398	\$ 509	\$ 3	\$ 75	\$ 198	\$ 2,183
Provision (reversal of allowance) 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 allowance) 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
Three months ended June 30, 2015:						
Balance, beginning of period	\$ 1,111	\$ 543	\$ 4	\$ 149	\$ 65	\$ 1,872
Provision (reversal of allowance) for loan losses	129	(142)	(16)	(45)	175	101
	1,240	401	(12)	104	240	1,973
Charge-offs	—	—	—	(6)	—	(6)
Recoveries	3	6	15	3	—	27
Net recoveries (charge-offs)	3	6	15	(3)	—	21
Balance, end of period	\$ 1,243	\$ 407	\$ 3	\$ 101	\$ 240	\$ 1,994

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Six months ended June 30, 2015:

Balance, beginning of period	\$ 413	\$ 977	\$ 5	\$ 263	\$ 33	\$ 1,691
Provision (reversal of allowance) for loan losses	827	(577)	(18)	(144)	207	295
	1,240	400	(13)	119	240	1,986
Charge-offs	—	—	—	(25)	—	(25)
Recoveries	3	7	16	7	—	33
Net recoveries (charge-offs)	3	7	16	(18)	—	8
Balance, end of period	\$ 1,243	\$ 407	\$ 3	\$ 101	\$ 240	\$ 1,994

During the six months ended June 30, 2016, the Company increased the loan loss provisions for residential mortgage loans based on the growth of this segment of the loan portfolio and the concentration of loans in Hawaii. The Company also increased the loan loss provisions on construction, commercial and other mortgage loans based on the growth of this segment of the loan portfolio. The loan loss provision on consumer and other loans declined because of a continued limited loss experience in this segment of the loan portfolio. The allocation of a portion of the allowance from one category of loans does not preclude its availability to absorb losses in other loan categories.

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Management considers the allowance for loan losses at June 30, 2016 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.

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, 2016:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	1,444	567	3	56	206	2,276
Total ending allowance balance	\$ 1,444	\$ 567	\$ 3	\$ 56	\$ 206	\$ 2,276
Loans:						
Ending loan balance:						
Individually evaluated for impairment	\$ 6,089	\$ —	\$ 163	\$ —	\$ —	\$ 6,252
Collectively evaluated for impairment	1,209,698	25,335	15,921	4,409	—	1,255,363
Total ending loan balance	\$ 1,215,787	\$ 25,335	\$ 16,084	\$ 4,409	\$ —	\$ 1,261,615
December 31, 2015:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively evaluated for impairment	1,380	517	3	72	194	2,166
Total ending allowance balance	\$ 1,380	\$ 517	\$ 3	\$ 72	\$ 194	\$ 2,166

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Loans:

Ending loan balance:

Individually evaluated for
impairment

\$ 6,486	\$ —	\$ 124	\$ 9	\$ —	\$ 6,619
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Collectively evaluated for
impairment

1,145,259	19,175	15,216	4,546	—	1,184,196
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Total ending loan balance

\$ 1,151,745	\$ 19,175	\$ 15,340	\$ 4,555	\$ —	\$ 1,190,815
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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
June 30, 2016:		
With no related allowance recorded:		
One- to four-family residential mortgages	\$ 6,089	\$ 6,991
Home equity loans and lines of credit	163	206
Total	\$ 6,252	\$ 7,197
December 31, 2015:		
With no related allowance recorded:		
One- to four-family residential mortgages	\$ 6,486	\$ 7,307
Home equity loans and lines of credit	124	163
Consumer and other	9	9
Total	\$ 6,619	\$ 7,479

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		For the Six Months Ended June 30, Average Recorded Investment	
	Interest Income Recognized	Interest Income Recognized	Interest Income Recognized	Interest Income Recognized
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
2015:				
With no related allowance recorded:				
One- to four-family residential mortgages	\$ 6,331	\$ 17	\$ 6,366	\$ 36
Home equity loans and lines of credit	131	—	132	—
Total	\$ 6,462	\$ 17	\$ 6,498	\$ 36

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There were no loans individually evaluated for impairment with a related allowance for loan loss as of June 30, 2016 or December 31, 2015. 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.

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The table below presents the aging of loans and accrual status by class of loans:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual Loans	Loans More Than 90 Days Past Due and Still Accruing
June 30, 2016:								
One- to four-family residential mortgages	\$ 91	\$ 945	\$ 1,793	\$ 2,829	\$ 1,203,280	\$ 1,206,109	\$ 4,895	\$ —
Multi-family residential mortgages	—	—	—	—	9,678	9,678	—	—
Construction, commercial and other mortgages	—	—	—	—	25,335	25,335	—	—
Home equity loans and lines of credit	35	—	42	77	16,007	16,084	163	—
Loans on deposit accounts	—	—	—	—	310	310	—	—
Consumer and other	1	—	—	1	4,098	4,099	—	—
Total	\$ 127	\$ 945	\$ 1,835	\$ 2,907	\$ 1,258,708	\$ 1,261,615	\$ 5,058	\$ —
December 31, 2015:								
One- to four-family residential mortgages	\$ 1,354	\$ —	\$ 1,615	\$ 2,969	\$ 1,138,966	\$ 1,141,935	\$ 5,282	\$ —
Multi-family residential mortgages	—	—	—	—	9,810	9,810	—	—
Construction, commercial and other mortgages	—	—	—	—	19,175	19,175	—	—
Home equity loans and lines of credit	—	—	—	—	15,340	15,340	124	—
Loans on deposit accounts	—	—	—	—	304	304	—	—
Consumer and other	4	1	10	15	4,236	4,251	9	—
Total	\$ 1,358	\$ 1	\$ 1,625	\$ 2,984	\$ 1,187,831	\$ 1,190,815	\$ 5,415	\$ —

The Company primarily uses the aging of loans and accrual status to monitor the credit quality of its loan portfolio. When a mortgage loan becomes seriously delinquent (90 days or more contractually past due), it displays weaknesses that may result in a loss. As a loan becomes more delinquent, the likelihood of the borrower repaying the loan decreases and the loan becomes more collateral-dependent. A mortgage loan becomes collateral-dependent when the proceeds for repayment can be expected to come only from the sale or operation of the collateral and not from

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

The Company had 22 nonaccrual loans with a book value of \$5.1 million at June 30, 2016 and 23 nonaccrual loans with a book value of \$5.4 million as of December 31, 2015. The Company collected interest on nonaccrual loans of \$106,000 and \$105,000 during the six months ended June 30, 2016 and 2015, 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 \$151,000 during each of the six months ended June 30, 2016 and 2015, 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, 2016 and December 31, 2015.

There were no loans modified in a troubled debt restructuring during the six months ended June 30, 2016 or 2015. There were no new troubled debt restructurings within the past 12 months that subsequently defaulted.

The Company had 15 troubled debt restructurings totaling \$3.3 million as of June 30, 2016 that were considered to be impaired. This total included 14 one- to four-family residential mortgage loans totaling \$3.2 million and one home equity loan for \$114,000. Five of the loans, totaling \$1.2 million, are performing in accordance with their restructured terms and accruing interest at June 30, 2016. Nine of the loans, totaling \$2.0 million, are performing in accordance with their restructured terms but not accruing interest at June 30, 2016. One of the loans, for \$149,000, was more than 149 days delinquent and not accruing interest as of June 30, 2016. The Company had 15 troubled debt restructurings totaling \$3.4 million as of December 31, 2015 that were considered to be impaired. This total included 14 one- to four-family residential mortgage loans totaling \$3.3 million and one home equity loan for \$120,000. Four of the loans, totaling

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\$885,000, were performing in accordance with their restructured terms and accruing interest at December 31, 2015. Nine of the loans, totaling \$2.0 million, were performing in accordance with their restructured terms but not accruing interest at December 31, 2015. One of the loans, for \$318,000, was 59 days delinquent and accruing interest at December 31, 2015. One of the loans, for \$149,000, was more than 149 days delinquent and not accruing interest as of December 31, 2015. 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, 2016, we had no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of June 30, 2016 or December 31, 2015. There were five one- to four-family residential mortgage loans totaling \$1.1 million in the process of foreclosure as of June 30, 2016, and four one- to four-family residential mortgage loans totaling \$747,000 in the process of foreclosure as of December 31, 2015.

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, 2016 and 2015, the Company sold \$24.1 million and \$28.6 million, respectively, of mortgage loans held for sale and recognized gains of \$190,000 and \$239,000, respectively. The Company had one loan held for sale of \$353,000 at June 30, 2016 and six loans held for sale totaling \$2.1 million at December 31, 2015.

The Company serviced loans for others of \$46.8 million at June 30, 2016 and \$51.8 million at December 31, 2015. Of these amounts, \$2.7 million and \$2.8 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at June 30, 2016 and December 31, 2015, respectively. The amount of contractually specified servicing fees earned for the six-month periods ended June 30, 2016 and 2015 was \$67,000 and \$80,000, respectively. The amount of contractually specified servicing fees earned for the three-month periods ended June 30, 2016 and 2015 was \$33,000 and \$39,000, respectively. The fees are reported in service fees on loan and deposit accounts in the consolidated statements of income.

(7) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are treated as financings and the obligations to repurchase the identical securities sold are reflected as a liability with the securities collateralizing the agreements classified as an asset. Securities sold under agreements to repurchase are summarized as follows:

(Dollars in thousands)	June 30, 2016		December 31, 2015	
	Repurchase Liability	Weighted Average Rate	Repurchase Liability	Weighted Average Rate
Maturing:				
1 year or less	\$ —	— %	\$ —	— %
Over 1 year to 2 years	25,000	1.46	25,000	1.46
Over 2 years to 3 years	20,000	1.66	—	—
Over 3 years to 4 years	10,000	1.65	25,000	1.66
Over 4 years to 5 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, 2016. 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

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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	\$ 61,983	\$ 63,914	\$ 55,000	\$ 8,914	26

(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	Liabilities Presented in the Balance Sheet	Net Amount of Gross Amount Not Offset in the Balance Sheet	Cash Collateral Pledged	Net Amount
June 30, 2016:						
Securities sold under agreements to repurchase	\$ 55,000	\$ —	\$ 55,000	\$ 55,000	\$ —	\$ —
December 31, 2015:						
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.

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, 2016		SERP Six Months Ended June 30, 2015	
(Dollars in thousands)				
Net periodic benefit cost for the period:				
Service cost	\$ 15	\$ 21	\$ 29	\$ 42
Interest cost	33	31	66	62
Expected return on plan assets	—	—	—	—
Amortization of prior service cost	—	—	—	—
Recognized actuarial loss	—	—	—	—
Recognized curtailment loss	—	—	—	—
Net periodic benefit cost	\$ 48	\$ 52	\$ 95	\$ 104

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(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, 2016 and 2015 amounted to \$259,000 and \$241,000, respectively. Compensation expense recognized for the six months ended June 30, 2016 and 2015 amounted to \$521,000 and \$463,000, respectively.

Shares held by the ESOP trust were as follows:

	June 30, 2016	December 31, 2015
Allocated shares	348,828	325,677
Unearned shares	611,659	636,125
Total ESOP shares	960,487	961,802
Fair value of unearned shares, in thousands	\$ 16,191	\$ 17,646

The ESOP restoration plan is a nonqualified plan that provides supplemental benefits to certain executives who are prevented from receiving the full benefits contemplated by the ESOP's benefit formula. The supplemental cash payments consist of payments representing shares that cannot be allocated to the participants under the ESOP due to IRS limitations imposed on tax-qualified plans. We accrue for these benefits over the period during which employees

provide services to earn these benefits. For the three months ended June 30, 2016 and 2015, we accrued \$45,000 and \$40,000, respectively, for the ESOP restoration plan. For the six months ended June 30, 2016 and 2015, we accrued \$121,000 and \$104,000, 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

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income as a component of salaries and employee benefits with a corresponding increase in shareholders' equity. The table below presents information on compensation expense and the related tax benefit for all share-based awards:

	For the Three		For the Six	
	Months Ended		Months Ended	
(In thousands)	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Compensation expense	\$ 661	\$ 667	\$ 1,323	\$ 1,328
Income tax benefit	266	268	531	533

Shares of our common stock issued under the 2010 Equity Incentive Plan shall be authorized but unissued shares. On May 26, 2016, the shareholders approved an amendment to the 2010 Equity Incentive Plan increasing the maximum number of shares which can be awarded under the plan by 150,000 shares to 1,862,637 shares.

Stock Options

The table below presents the stock option activity for the six months ended June 30, 2016 and 2015:

	Options	Weighted Average Exercise Price	Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2015	832,300	\$ 17.42	4.70	\$ 8,588
Granted	—	—	—	—
Exercised	61,340	17.36	4.24	539
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at June 30, 2016	770,960	\$ 17.43	4.20	\$ 6,972
Options outstanding at December 31, 2014	832,954	\$ 17.38	5.68	\$ 3,471
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at June 30, 2015	832,954	\$ 17.38	5.18	\$ 5,728
Options vested and exercisable at June 30, 2016	631,686	\$ 17.38	4.18	\$ 5,739

There were 45,070 stock options exercised during the three months ended June 30, 2016 and 61,340 stock options exercised during the six months ended June 30, 2016. There were no stock options exercised during the three or six months ended June 30, 2015.

The following summarizes certain stock option activity of the Company:

(In thousands)	For the Three		For the Six	
	Months	Months	Months	Months
	Ended	Ended	Ended	Ended
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
Intrinsic value of stock options exercised	\$ 400	\$ —	\$ 539	\$ —
Proceeds received from stock options exercised	782	—	1,065	—
Tax benefits realized from stock options exercised	57	—	95	—
Total fair value of stock options that vested	—	—	—	—

During the six months ended June 30, 2016, we issued 9,797 shares of common stock in exchange for 28,800 stock options and 19,003 common shares. Pursuant to the provisions of our equity incentive plan, optionees are

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permitted to use the value of our common stock they own in a stock swap transaction to pay the exercise price of stock options.

No stock options vested during the six months ended June 30, 2016 or 2015.

As of June 30, 2016, the Company had \$128,000 of unrecognized compensation costs related to the stock option plan. The cost of the stock option plan is being amortized over the three-, five- or six-year vesting period.

Restricted Stock Awards

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

The table below presents the restricted stock award activity:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2015	114,542	\$ 17.67
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2016	114,542	\$ 17.67
Nonvested at December 31, 2014	226,733	\$ 17.39
Granted	—	—
Vested	—	—
Forfeited	—	—
Nonvested at June 30, 2015	226,733	\$ 17.39

As of June 30, 2016, the Company had \$396,000 of unrecognized compensation costs related to restricted stock awards. The cost of the restricted stock awards is being amortized over the three-, five- or six-year vesting period.

(12) Earnings Per Share

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

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net income	\$ 4,037	\$ 3,837	\$ 7,821	\$ 7,363
Weighted-average number of shares used in:				
Basic earnings per share	9,059,515	9,053,383	9,047,217	9,086,865
Dilutive common stock equivalents:				
Stock options and restricted stock units	285,747	254,605	276,215	227,911
Diluted earnings per share	9,345,262	9,307,988	9,323,432	9,314,776
Net income per common share, basic	\$ 0.45	\$ 0.42	\$ 0.86	\$ 0.81
Net income per common share, diluted	\$ 0.43	\$ 0.41	\$ 0.84	\$ 0.79

We have two forms of our outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive nonforfeitable dividends at the same rate as common shareholders

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and they both share equally in undistributed earnings. The computed basic and diluted earnings per share presented are substantially equivalent using both the two-class and the treasury stock methods of calculating earnings per share.

(13) Other Comprehensive Loss

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

	Noncredit Related Loss on Trust Preferred	Unrealized Loss on
Unfunded Pension		

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(Dollars in thousands)	Liability	Securities	Securities	Total
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
Three months ended June 30, 2015				
Balances at beginning of period	\$ 5,032	\$ 253	\$ 63	\$ 5,348
Other comprehensive loss (income), net of taxes	64	(77)	(7)	(20)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive loss (income)	64	(77)	(7)	(20)
Balances at end of period	\$ 5,096	\$ 176	\$ 56	\$ 5,328
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
Six months ended June 30, 2015				
Balances at beginning of period	\$ 5,032	\$ 284	\$ 72	\$ 5,388
Other comprehensive loss (income), net of taxes	64	(108)	(16)	(60)
Amounts reclassified from accumulated other comprehensive loss	—	—	—	—
Net current period other comprehensive loss (income)	64	(108)	(16)	(60)
Balances at end of period	\$ 5,096	\$ 176	\$ 56	\$ 5,328

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

(Dollars in thousands)	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		After Tax Amount
	Pretax Amount	Tax	Pretax Amount	Tax	
Unfunded pension liability	\$ —	\$ —	\$ —	\$ 106	\$ (42)
Noncredit related loss on trust preferred securities	(73)	29	(44)	(128)	51
Unrealized loss on securities	(6)	2	(4)	(12)	5
Total	\$ (79)	\$ 31	\$ (48)	\$ (34)	\$ 14

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(Dollars in thousands)	Six Months Ended June 30,					
	2016			2015		
	Pretax Amount	Tax	After Tax Amount	Pretax Amount	Tax	After Tax Amount
Unfunded pension liability	\$ —	\$ 21	\$ 21	\$ 106	\$ (42)	\$ 64
Noncredit related loss on trust preferred securities	(76)	30	(46)	(179)	71	(108)
Unrealized loss on securities	(10)	4	(6)	(27)	11	(16)
Total	\$ (86)	\$ 55	\$ (31)	\$ (100)	\$ 40	\$ (60)

(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 54 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%.

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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.

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

(Dollars in thousands)	Carrying Amount	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
June 30, 2016					
Assets					
Cash and cash equivalents	\$ 63,878	\$ 63,878	\$ 63,878	\$ —	\$ —
Investment securities held to maturity	455,991	474,058	—	473,066	992
Loans held for sale	353	370	—	370	—
Loans receivable, net	1,259,339	1,306,902	—	—	1,306,902
FHLB stock	4,945	4,945	—	4,945	—
FRB stock	3,062	3,062	—	3,062	—
Accrued interest receivable	4,812	4,812	6	1,205	3,601
Interest rate contracts	142	142	—	142	—
Liabilities					
Deposits	1,469,754	1,471,549	—	1,244,651	226,898
Advances from the Federal Home Loan Bank	69,000	70,032	—	70,032	—
Securities sold under agreements to repurchase	55,000	55,808	—	55,808	—
Accrued interest payable	245	245	—	2	243
Interest rate contracts	111	111	—	111	—
December 31, 2015					
Assets					
Cash and cash equivalents	\$ 65,919	\$ 65,919	\$ 65,919	\$ —	\$ —
Investment securities held to maturity	493,059	497,982	—	497,066	916
Loans held for sale	2,139	2,205	—	2,205	—
Loans receivable, net	1,188,649	1,208,300	—	—	1,208,300
FHLB stock	4,790	4,790	—	4,790	—
FRB stock	3,022	3,022	—	3,022	—
Accrued interest receivable	4,684	4,684	5	1,310	3,369
Interest rate contracts	71	71	—	71	—
Liabilities					
Deposits	1,445,103	1,445,484	—	1,221,069	224,415
Advances from the Federal Home Loan Bank	69,000	69,191	—	69,191	—
Securities sold under agreements to repurchase	55,000	55,280	—	55,280	—
Accrued interest payable	237	237	—	—	237
Interest rate contracts	77	77	—	77	—

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At June 30, 2016 and December 31, 2015, 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.

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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, 2016				
Interest rate contracts — assets	\$ —	\$ 142	\$ —	\$ 142
Interest rate contracts — liabilities	—	(111)	—	(111)
December 31, 2015				
Interest rate contracts — assets	\$ —	\$ 71	\$ —	\$ 71
Interest rate contracts — liabilities	—	(77)	—	(77)

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

The table below presents the balance of assets measured at fair value on a nonrecurring basis as of June 30, 2016 and December 31, 2015 and the related gains and losses for the six months ended June 30, 2016 and the year ended December 31, 2015:

(Dollars in thousands)	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
June 30, 2016					
Trust preferred securities	\$ —	\$ —	\$ 992	\$ 992	\$ 76
Mortgage servicing assets	—	—	341	341	(49)
December 31, 2015					
Trust preferred securities	\$ —	\$ —	\$ 916	\$ 916	\$ 226

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.

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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
June 30, 2016:				
Trust preferred securities	\$ 992	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)	166.3 – 361.3
			Annual cost to service (per loan, in dollars)	\$ 65
December 31, 2015:				
Trust preferred securities	\$ 916	Discounted cash flow	Discount rate	Three-month LIBOR plus 20.00%

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(15) Subsequent Events

On July 29, 2016, the Board of Directors of Territorial Bancorp Inc. declared a quarterly cash dividend of \$0.18 per share of common stock. The dividend is expected to be paid on August 26, 2016 to stockholders of record as of August 12, 2016.

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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. 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;

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- 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;
- 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.

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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 totaled \$5.1 million, or 0.27% of total assets at June 30, 2016, compared to \$5.4 million, or 0.30% of total assets at December 31, 2015. As of June 30, 2016, nonperforming assets consisted primarily of 20 mortgage loans totaling \$5.1 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. Our provisions for loan losses were \$112,000 and \$295,000 for the six months ended June 30, 2016 and 2015, respectively.

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 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.

Our operations in recent years have been affected by our efforts to manage our interest rate risk position. For the six months ended June 30, 2016, we sold \$24.1 million of fixed-rate mortgage loans while long-term, fixed-rate borrowings remained constant. For the six months ended June 30, 2015, we sold \$28.6 million of fixed rate mortgage loans and obtained \$30 million of long-tem, fixed-rate borrowings.

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Our investments in mortgage-backed securities and collateralized mortgage obligations 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, 2016, our borrowing capacity at the Federal Home Loan Bank was \$578.5 million compared to \$555.1 million at December 31, 2015.

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, 2015.

Comparison of Financial Condition at June 30, 2016 and December 31, 2015

Assets. At June 30, 2016, our assets were \$1.851 billion, an increase of \$29.8 million, or 1.6%, from \$1.821 billion at December 31, 2015. The increase in assets was primarily the result of a \$68.9 million increase in loans receivable and loans held for sale, which was partially offset by a \$37.1 million decrease in investment securities.

Cash and Cash Equivalents. Cash and cash equivalents were \$63.9 million at June 30, 2016, a decrease of \$2.0 million since December 31, 2015. The decrease in cash and cash equivalents was primarily caused by funding a \$68.9

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million increase in total loans and the payment of \$3.3 million of common stock dividends. These decreases were offset by a \$24.7 million increase in deposits, a \$37.1 million decrease in investment securities and \$7.8 million of net income.

Loans. Total loans, including \$353,000 of loans held for sale, were \$1.260 billion at June 30, 2016, or 68.1% of total assets. During the six months ended June 30, 2016, the loan portfolio, including loans held for sale, increased by \$68.9 million, or 5.8%. 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, 2016, our securities portfolio totaled \$456.0 million, or 24.6% of total assets. During the six months ended June 30, 2016, the securities portfolio decreased by \$37.1 million, or 7.5%. The decrease in the securities portfolio occurred as repayments and sales exceeded the amount of securities purchased.

At June 30, 2016, all of such securities were classified as held-to-maturity and 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, 2016, we owned a trust preferred security with an amortized cost of \$992,000. 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 54 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, 2016.

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 \$1.1 million 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 \$1.470 billion at June 30, 2016, an increase of \$24.7 million, or 1.7%, since December 31, 2015. The growth in deposits was primarily due to increases of \$16.5 million in savings accounts and \$4.4 million in non-interest bearing checking accounts during the six months ended June 30, 2016.

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, 2016, total borrowings remained constant at \$124.0 million. We have not required any other 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.

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.

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	For the Three Months Ended June 30, 2016				2015			
	Average Outstanding Balance	Interest	Yield/Rate (1)		Average Outstanding Balance	Interest	Yield/Rate (1)	
	(Dollars in thousands)							
Interest-earning assets:								
Loans:								
Real estate loans:								
First mortgage:								
One- to four-family residential (2)	\$ 1,187,545	\$ 12,027	4.05	%	\$ 1,023,897	\$ 10,706	4.18	%
Multi-family residential	9,720	113	4.65		9,818	115	4.69	
Construction, commercial and other	23,971	275	4.59		17,891	203	4.54	
Home equity loans and lines of credit	15,798	171	4.33		16,125	182	4.51	
Other loans	4,445	61	5.49		4,349	60	5.52	
Total loans	1,241,479	12,647	4.07		1,072,080	11,266	4.20	
Investment securities:								
U.S. government sponsored mortgage-backed securities (2)	468,948	3,750	3.20		539,712	4,274	3.17	
Trust preferred securities	920	—	—		744	—	—	
Total securities	469,868	3,750	3.19		540,456	4,274	3.16	
Other	75,154	146	0.78		54,082	70	0.52	
Total interest-earning assets	1,786,501	16,543	3.70		1,666,618	15,610	3.75	
Non-interest-earning assets	68,708				66,135			
Total assets	\$ 1,855,209				\$ 1,732,753			
Interest-bearing liabilities:								
Savings accounts	\$ 1,016,115	1,033	0.41	%	\$ 958,379	892	0.37	%
Certificates of deposit	231,944	426	0.73		219,437	253	0.46	
Money market accounts	2,208	2	0.36		876	1	0.46	
Checking and Super NOW accounts	172,785	9	0.02		154,842	8	0.02	

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Total interest-bearing deposits	1,423,052	1,470	0.41		1,333,534	1,154	0.35
Federal Home Loan Bank advances	69,000	256	1.48		41,615	157	1.51
Securities sold under agreements to repurchase	55,000	218	1.59		60,001	243	1.62
Total interest-bearing liabilities	1,547,052	1,944	0.50		1,435,150	1,554	0.43
Non-interest-bearing liabilities	82,089				79,547		
Total liabilities	1,629,141				1,514,697		
Stockholders' equity	226,068				218,056		
Total liabilities and stockholders' equity	\$ 1,855,209				\$ 1,732,753		
Net interest income		\$ 14,599				\$ 14,056	
Net interest rate spread (3)			3.20	%			3.32
Net interest-earning assets (4)	\$ 239,449				\$ 231,468		
Net interest margin (5)			3.27	%			3.37
Interest-earning assets to interest-bearing liabilities	115.48	%			116.13	%	

(1) Annualized.

(2) Average balance includes loans or investments available for sale, as applicable.

(3) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by average total interest-earning assets.

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	For the Six Months Ended June 30, 2016				2015			
	Average Outstanding Balance (Dollars in thousands)	Interest	Yield/Rate (1)		Average Outstanding Balance	Interest	Yield/Rate (1)	
Interest-earning assets:								
Loans:								
Real estate loans:								
First mortgage:								
One- to four-family residential (2)	\$ 1,171,385	\$ 23,807	4.06	%	\$ 988,225	\$ 20,806	4.21	%
Multi-family residential	9,754	228	4.68		9,496	227	4.78	
Construction, commercial and other	22,354	517	4.63		18,617	427	4.59	
Home equity loans and lines of credit	15,657	335	4.28		16,018	373	4.66	
Other loans	4,488	121	5.39		4,374	119	5.44	
Total loans	1,223,638	25,008	4.09		1,036,730	21,952	4.23	
Investment securities:								
U.S. government sponsored mortgage-backed securities (2)	477,638	7,625	3.19		551,452	8,797	3.19	
Trust preferred securities	918							