

Territorial Bancorp Inc.
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended March 31, 2015

or

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.

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

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TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

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Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****TERRITORIAL BANCORP INC. AND SUBSIDIARIES****Consolidated Balance Sheets (Unaudited)****(Dollars in thousands, except share data)**

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 45,774	\$ 75,060
Investment securities held to maturity, at amortized cost (fair value of \$569,832 and \$586,710 at March 31, 2015 and December 31, 2014, respectively)	552,461	572,922
Federal Home Loan Bank stock, at cost	11,112	11,234
Federal Reserve Bank stock, at cost	2,949	2,925
Loans held for sale	2,910	1,048
Loans receivable, net	1,038,922	968,212
Accrued interest receivable	4,583	4,436
Premises and equipment, net	5,445	5,629
Bank-owned life insurance	41,558	41,303
Deferred income taxes receivable	7,486	7,254
Prepaid expenses and other assets	2,190	1,874
Total assets	\$ 1,715,390	\$ 1,691,897
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	\$ 1,381,461	\$ 1,359,679
Advances from the Federal Home Loan Bank	27,000	15,000
Securities sold under agreements to repurchase	60,000	72,000
Accounts payable and accrued expenses	26,857	24,098
Investment purchases pending settlement	1,166	
Current income taxes payable	1,051	826
Advance payments by borrowers for taxes and insurance	2,710	3,916
Total liabilities	1,500,245	1,475,519
Stockholders Equity:		
Preferred stock, \$.01 par value; authorized 50,000,000 shares, no shares issued or outstanding		
Common stock, \$.01 par value; authorized 100,000,000 shares; issued and outstanding 9,720,959 and 9,919,064 shares at March 31, 2015 and December 31, 2014, respectively	97	99
Additional paid-in capital	71,806	75,229
Unearned ESOP shares	(6,728)	(6,851)
Retained earnings	155,318	153,289
Accumulated other comprehensive loss	(5,348)	(5,388)

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

See accompanying notes to consolidated financial statements.

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

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

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See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

(Continued)

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

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

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

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

(2) Organization

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

Upon completion of the conversion and reorganization, a special liquidation account was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The balance of the liquidation account at December 31, 2014 was \$15.2 million.

On June 25, 2014, Territorial Savings Bank converted from a federal savings bank to a Hawaii state-chartered savings bank. On July 10, 2014, Territorial Savings Bank became a member of the Federal Reserve System.

(3) Recently Adopted Accounting Pronouncements

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

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In May 2014, the FASB amended the Revenue Recognition topic of the FASB ASC. The amendment seeks to clarify the principles for recognizing revenue as well as to develop common revenue standards for U.S. generally accepted accounting principles and International Financial Reporting Standards. The amendment is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

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

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

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

(4) Cash and Cash Equivalents

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

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

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

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(5) **Investment Securities**

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

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

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

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

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

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

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

Investment securities with amortized costs of \$264.0 million and \$270.2 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities which were in an unrealized loss position at March 31, 2015 and December 31, 2014. The Company does not intend to sell these securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

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
March 31, 2015:							
Mortgage-backed securities	\$ 120,990	\$ 1,030	\$ 57,955	\$ 1,317	33	\$ 178,945	\$ 2,347
December 31, 2014:							
Mortgage-backed securities	\$ 12,717	\$ 65	\$ 183,349	\$ 4,225	37	\$ 196,066	\$ 4,290

Mortgage-Backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by increases in market interest rates. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of March 31, 2015 and December 31, 2014.

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

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

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

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other-than-temporarily impaired. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates, estimated deferral and default rates on collateral, and estimated cash flows.

Based on the Company's review, the Company's investment in trust preferred securities did not incur additional impairment during the quarter ending March 31, 2015.

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

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

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

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

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

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

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

The components of loans receivable are as follows:

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

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

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

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

Management considers the allowance for loan losses at March 31, 2015 to be at an appropriate level to provide for probable losses that can be reasonably estimated based on general and specific conditions at that date. While the Company uses the best information it has available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. To the extent actual outcomes differ from the estimates, additional provisions for credit losses may be required that would reduce future earnings. In addition, as an integral part of their examination process, the bank regulators and the Hawaii Department of Financial Institutions periodically review the allowance for loan losses and may require the Company to increase the allowance based on their analysis of information available at the time of their examination.

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The table below presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method:

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
March 31, 2015:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	\$	\$	\$	\$	\$	\$
Collectively evaluated for impairment	1,111					