Territorial Bancorp Inc.
Form 10-K/A
March 21, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

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

For the Fiscal Year Ended December 31, 2017

OR

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

For the transition period from to

Commission File Number: 001-34403

Territorial Bancorp Inc.

(Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Maryland<br>(State or Other Jurisdiction of<br>Incorporation or Organization) | 26-4674701<br>(I.R.S. Employer<br>Identification Number) |
| 1132 Bishop Street, Suite 2200, Honolulu, Hawaii<br>(Address of Principal Executive Office) | 96813<br>(Zip Code) |

(808) 946-1400

(Registrant's Telephone Number including area code)

Securities Registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share

(Title of Class)

The NASDAQ Stock Market LLC

(Name of exchange on which registered)

Securities Registered Under Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of 15(d) of the Act. YES NO

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 reports), and (2) has been subject to such 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided persuant to Section 13(a) of the Exchange Act

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

The aggregate value of the voting common equity held by nonaffiliates of the registrant, computed by reference to the closing price of the registrant's shares of common stock as of June 30, 2017 ($31.19) was $266.0 million.

As of February 28, 2018, there were 9,731,022 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TERRITORIAL BANCORP INC.

FORM 10-K/A

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EXPLANATORY NOTE

Territorial Bancorp Inc. (the “Company”) is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K to re-file Item 8 of Part II of the Form 10-K, to include the signature and final date of the Report of Independent Registered Public Accounting Firm, which were inadvertently omitted from the previous filing.

PART II

ITEM 8.Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of

Territorial Bancorp, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Territorial Bancorp, Inc. and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework 2013 issued by COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the

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transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Moss Adams LLP

Portland, Oregon

March 15, 2018

We have served as the Company's auditor since 2015.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Dollars in thousands, except share data)

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 32,089 | $ 61,273 |
| Investment securities available for sale | 2,851 | — |
| Investment securities held to maturity, at amortized cost (fair value of $406,663 and $407,922 at December 31, 2017 and December 31, 2016, respectively) | 404,792 | 407,656 |
| Loans held for sale | 403 | 1,601 |
| Loans receivable, net | 1,488,971 | 1,335,987 |
| Federal Home Loan Bank stock, at cost | 6,541 | 4,945 |
| Federal Reserve Bank stock, at cost | 3,103 | 3,095 |
| Accrued interest receivable | 5,142 | 4,732 |
| Premises and equipment, net | 5,721 | 4,327 |
| Bank-owned life insurance | 44,201 | 43,294 |
| Income taxes receivable | 1,571 | 122 |
| Deferred income tax assets, net | 4,609 | 7,905 |
| Prepaid expenses and other assets | 3,852 | 2,625 |
| Total assets | $ 2,003,846 | $ 1,877,562 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities: | | |
| Deposits | $ 1,597,295 | $ 1,493,200 |
| Advances from the Federal Home Loan Bank | 107,200 | 69,000 |
| Securities sold under agreements to repurchase | 30,000 | 55,000 |
| Accounts payable and accrued expenses | 26,390 | 23,258 |
| Income taxes payable | 1,483 | 1,616 |
| Advance payments by borrowers for taxes and insurance | 6,624 | 5,702 |
| Total liabilities | 1,768,992 | 1,647,776 |
| | | |
| Stockholders' Equity: | | |
| Preferred stock, $0.01 par value; authorized 50,000,000 shares, no shares issued or outstanding | — | — |
| Common stock, $0.01 par value; authorized 100,000,000 shares; issued and outstanding 9,915,058 and 9,778,974 shares at December 31, 2017 and December 31, 2016, respectively | 99 | 98 |
| Additional paid-in capital | 73,050 | 71,914 |
| Unearned ESOP shares | (5,383) | (5,872) |

| | | |
|---|---|---|
| Retained earnings | 172,782 | 168,962 |
| Accumulated other comprehensive loss | (5,694) | (5,316) |
| Total stockholders' equity | 234,854 | 229,786 |
| Total liabilities and stockholders' equity | $ 2,003,846 | $ 1,877,562 |

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended December 31, 2017, 2016 and 2015

(Dollars in thousands, except per share data)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest income: | | | |
| Loans | $ 55,144 | $ 51,168 | $ 45,903 |
| Investment securities | 12,526 | 14,365 | 16,873 |
| Other investments | 663 | 540 | 316 |
| Total interest income | 68,333 | 66,073 | 63,092 |
| Interest expense: | | | |
| Deposits | 7,666 | 5,933 | 4,821 |
| Advances from the Federal Home Loan Bank | 1,105 | 1,035 | 697 |
| Securities sold under agreements to repurchase | 818 | 876 | 997 |
| Total interest expense | 9,589 | 7,844 | 6,515 |
| Net interest income | 58,744 | 58,229 | 56,577 |
| Provision for loan losses | 52 | 310 | 455 |
| Net interest income after provision for loan losses | 58,692 | 57,919 | 56,122 |
| Noninterest income: | | | |
| Service fees on loan and deposit accounts | 1,962 | 1,960 | 2,161 |
| Income on bank-owned life insurance | 907 | 966 | 1,026 |
| Gain on sale of investment securities | 431 | 370 | 701 |
| Gain on sale of loans | 199 | 406 | 503 |
| Other | 347 | 392 | 520 |
| Total noninterest income | 3,846 | 4,094 | 4,911 |
| Noninterest expense: | | | |
| Salaries and employee benefits | 21,614 | 20,591 | 21,497 |
| Occupancy | 5,937 | 5,749 | 5,809 |
| Equipment | 3,614 | 3,566 | 3,894 |
| Federal deposit insurance premiums | 605 | 743 | 857 |
| Other general and administrative expenses | 4,704 | 4,230 | 4,442 |
| Total noninterest expense | 36,474 | 34,879 | 36,499 |
| Income before income taxes | 26,064 | 27,134 | 24,534 |
| Income taxes | 11,102 | 10,787 | 9,786 |

| | | | |
|---|---|---|---|
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |
| | | | |
| Basic earnings per share | $ 1.61 | $ 1.78 | $ 1.59 |
| Diluted earnings per share | $ 1.57 | $ 1.74 | $ 1.56 |
| Cash dividends declared per common share | $ 1.20 | $ 0.92 | $ 0.76 |
| Basic weighted-average shares outstanding | 9,273,783 | 9,093,385 | 9,073,015 |
| Diluted weighted-average shares outstanding | 9,532,724 | 9,311,975 | 9,263,267 |

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

(Dollars in thousands)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |
| Change in unfunded pension liability | (373) | (240) | (12) |
| Change in unrealized loss on securities | (5) | 13 | 27 |
| Change in noncredit related loss on trust preferred securities | — | 147 | 137 |
| Other comprehensive income (loss), net of tax | (378) | (80) | 152 |
| Comprehensive income | $ 14,584 | $ 16,267 | $ 14,900 |

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 2017, 2016 and 2015

(Dollars in thousands, except 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 | — | — | — | 14,748 | — | 14,748 |
| Other comprehensive income | — | — | — | — | 152 | 152 |
| Cash dividends paid ($0.76 per share) | — | — | — | (7,013) | — | (7,013) |
| Share-based compensation | 1 | 3,085 | — | — | — | 3,086 |
| Allocation of 48,932 ESOP shares | — | 720 | 490 | — | — | 1,210 |
| Repurchase of 373,711 shares of company common stock | (4) | (8,933) | — | — | — | (8,937) |
| Exercise of 1,000 options for common stock | — | 17 | — | — | — | 17 |
| Balances at December 31, 2015 | $ 96 | $ 70,118 | $ (6,361) | $ 161,024 | $ (5,236) | $ 219,641 |
| Net income | — | — | — | 16,347 | — | 16,347 |
| Other comprehensive loss | — | — | — | — | (80) | (80) |
| Cash dividends paid ($0.92 per share) | — | — | — | (8,409) | — | (8,409) |
| Share-based compensation | 1 | 2,041 | — | — | — | 2,042 |
| Allocation of 48,932 ESOP shares | — | 864 | 489 | — | — | 1,353 |
| Repurchase of 118,723 shares of company common stock | (1) | (3,293) | — | — | — | (3,294) |
| Exercise of 125,870 options for common stock | 2 | 2,184 | — | — | — | 2,186 |
| Balances at December 31, 2016 | $ 98 | $ 71,914 | $ (5,872) | $ 168,962 | $ (5,316) | $ 229,786 |
| Net income | — | — | — | 14,962 | — | 14,962 |
| Other comprehensive loss | — | — | — | — | (378) | (378) |
| Cash dividends paid ($1.20 per share) | — | — | — | (11,142) | — | (11,142) |
| Share-based compensation | — | 106 | — | — | — | 106 |
| Allocation of 48,932 ESOP shares | — | 1,040 | 489 | — | — | 1,529 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Repurchase of 160,003 shares of company common stock | (2) | (5,127) | — | — | — | (5,129) |
| Exercise of 294,887 options for common stock | 3 | 5,117 | — | — | — | 5,120 |
| Balances at December 31, 2017 | $ 99 | $ 73,050 | $ (5,383) | $ 172,782 | $ (5,694) | $ 234,854 |

See accompanying notes to consolidated financial statements.

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015
(Dollars in thousands)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |
| Adjustments to reconcile net income to net cash from operating activities: | | | |
| Provision for loan losses | 52 | 310 | 455 |
| Depreciation and amortization | 1,129 | 1,139 | 1,296 |
| Deferred income tax expense (benefit) | 3,436 | 1,490 | (2,223) |
| Amortization of fees, discounts, and premiums | (478) | (715) | (492) |
| Origination of loans held for sale | (23,665) | (49,157) | (57,337) |
| Proceeds from sales of loans held for sale | 25,063 | 49,207 | 56,493 |
| Gain on sale of loans, net | (199) | (406) | (503) |
| Net gain on sale of real estate owned | — | — | (12) |
| Gain on sale of investment securities held to maturity | (431) | (370) | (701) |
| Net loss on disposal of premises and equipment | 24 | — | 4 |
| ESOP expense | 1,529 | 1,353 | 1,210 |
| Share-based compensation expense | 106 | 2,042 | 3,086 |
| Increase in accrued interest receivable | (410) | (48) | (248) |
| Net increase in bank-owned life insurance | (907) | (966) | (1,025) |
| Net increase in prepaid expenses and other assets | (1,227) | (355) | (366) |
| Net increase (decrease) in accounts payable and accrued expenses | 2,604 | (1,081) | 249 |
| Net increase in advance payments by borrowers for taxes and insurance | 922 | 578 | 1,208 |
| Net increase in income taxes receivable | (1,449) | (122) | — |
| Net increase (decrease) in income taxes payable | (133) | (479) | 1,269 |
| Net cash from operating activities | 20,928 | 18,767 | 17,111 |
| Cash flows from investing activities: | | | |
| Purchases of investment securities held to maturity | (56,899) | (3,803) | (11,606) |
| Purchases of investment securities available for sale | (2,970) | — | — |
| Principal repayments on investment securities held to maturity | 52,831 | 83,234 | 85,802 |
| Principal repayments on investment securities available for sale | 99 | — | — |
| Proceeds from sale of investment securities held to maturity | 7,446 | 5,462 | 7,718 |
| Loan originations, net of principal repayments on loans receivable | (152,631) | (146,095) | (220,215) |
| Purchases of Federal Home Loan Bank stock | (5,929) | (1,075) | (3,120) |
| Proceeds from redemption of Federal Home Loan Bank stock | 4,333 | 920 | 9,564 |

| | | | |
|---|---|---|---|
| Purchases of Federal Reserve Bank stock | (8) | (73) | (97) |
| Proceeds from sale of real estate owned | — | — | 204 |
| Purchases of premises and equipment | (2,547) | (563) | (604) |
| Net cash from investing activities | (156,275) | (61,993) | (132,354) |

(Continued)

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TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015
(Dollars in thousands)

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net increase in deposits | $ 104,095 | $ 48,097 | $ 85,424 |
| Proceeds from advances from the Federal Home Loan Bank | 144,525 | 23,000 | 120,000 |
| Repayments of advances from the Federal Home Loan Bank | (106,325) | (23,000) | (66,000) |
| Proceeds from securities sold under agreements to repurchase | — | — | 30,000 |
| Repayments of securities sold under agreements to repurchase | (25,000) | — | (47,000) |
| Purchases of Fed Funds | 10 | 10 | 10 |
| Sales of Fed Funds | (10) | (10) | (10) |
| Proceeds from exercise of stock options | — | 566 | 17 |
| Repurchases of common stock | (9) | (1,674) | (9,326) |
| Cash dividends paid | (11,123) | (8,409) | (7,013) |
| Net cash from financing activities | 106,163 | 38,580 | 106,102 |
| Net decrease in cash and cash equivalents | (29,184) | (4,646) | (9,141) |
| Cash and cash equivalents at beginning of the period | 61,273 | 65,919 | 75,060 |
| Cash and cash equivalents at end of the period | $ 32,089 | $ 61,273 | $ 65,919 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for: | | | |
| Interest on deposits and borrowings | $ 9,231 | $ 7,863 | $ 6,648 |
| Income taxes | 9,319 | 9,645 | 10,324 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Company stock acquired through stock swap and net settlement transactions | $ 5,120 | $ 1,620 | $ — |
| Loans transferred to real estate owned | — | — | 192 |
| Investments purchased, not settled | — | — | 1,200 |
| Investments purchased prior period, settled current period | — | 1,200 | — |
| Company stock repurchased prior period, settled current period | — | — | 389 |
| Dividends declared, not yet paid | 19 | — | — |

See accompanying notes to consolidated financial statements.

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(1)Organization

On July 10, 2009, Territorial Savings Bank completed a conversion from a mutual holding company to a stock holding company. As part of the conversion, Territorial Mutual Holding Company and Territorial Savings Group, Inc., the former holding companies for Territorial Savings Bank, ceased to exist as separate legal entities, and Territorial Bancorp Inc. became the holding company for Territorial Savings Bank. Upon completion of the conversion and reorganization, a special "liquidation account" was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The balance of the liquidation account at December 31, 2017 was $11.0 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.

(2)Summary of Significant Accounting Policies

(a) Description of Business

Territorial Bancorp Inc. (the Company), through its wholly-owned subsidiary, Territorial Savings Bank (the Bank), provides loan and deposit products and services primarily to individual customers through 29 branches located throughout Hawaii. We deal primarily in residential mortgage loans in the State of Hawaii. The Company's earnings depend primarily on its net interest income, which is the difference between the interest income earned on interest-earning assets (loans receivable and investments) and the interest expense incurred on interest-bearing liabilities (deposit liabilities and borrowings). Deposits traditionally have been the principal source of the Bank's funds for use in lending, meeting liquidity requirements, and making investments. The Company also derives funds from receipt of interest and principal repayments on outstanding loans receivable and investments, borrowings from the Federal Home Loan Bank (FHLB), securities sold under agreements to repurchase, and proceeds from issuance of common stock.

(b) Principles of Consolidation

The consolidated financial statements include the accounts and results of operations of Territorial Bancorp Inc. and Territorial Savings Bank and its wholly-owned subsidiaries, Territorial Real Estate Co., Inc. and Territorial Financial Services, Inc. Significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

Cash and cash equivalents includes cash and due from banks, interest-bearing deposits in other banks, federal funds sold, and short-term, highly liquid investments with original maturities of three months or less.

(d) Investment Securities

The Company classifies and accounts for its investment securities as follows: (1) held-to-maturity debt securities in which the Company has the positive intent and ability to hold to maturity are reported at amortized cost; (2) trading securities that are purchased for the purpose of selling in the near term are reported at fair value, with unrealized gains and losses included in current earnings; and (3) available-for-sale securities not classified as either held-to-maturity or trading securities are reported at fair value, with unrealized gains and losses excluded from current earnings and reported as a separate component of equity.

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At December 31, 2017, the Company classified all of its investments, except $2.9 million of securities, as held-to-maturity. At December 31, 2016, the Company classified all of its investments as held-to-maturity.

A decline in the market value of any available-for-sale or held-to-maturity security below cost, that is deemed to be other than temporary, results in an impairment to reduce the carrying amount to fair value. To determine whether impairment is other than temporary, the Company considers the type of the investment, the cause of the decline in value and the amount and duration of the decline in value. It also considers whether it has the intent and ability not to sell and would not be required to sell for a sufficient period of time to recover the remaining amortized cost basis.

Gains or losses on the sale of investment securities are computed using the specific-identification method. The Company amortizes premiums and accretes discounts associated with investment securities using the interest method over the contractual life of the respective investment security. Such amortization and accretion is included in the interest income line item in the consolidated statements of income. Interest income is recognized when earned.

(e) Loans Receivable

This policy applies to all loan classes. Loans receivable are stated at the principal amount outstanding, less the allowance for loan losses, loan origination fees and costs, and commitment fees. Interest on loans receivable is accrued as earned. The Company has a policy of placing loans on a nonaccrual basis when 90 days or more contractually delinquent or when, in the opinion of management, collection of all or part of the principal balance appears doubtful. For nonaccrual loans, the Company records payments received as a reduction in principal. The Company, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, if the loan is considered to be collateral dependent, based on the fair value of the collateral less estimated costs to sell. Impairment losses are written off against the allowance for loan losses. For nonaccrual impaired loans, the Company records payments received as a reduction in principal. A nonaccrual loan may be restored to an accrual basis when principal and interest payments are current and full payment of principal and interest is expected.

(f) Loans Held for Sale

Loans held for sale are stated at the lower of aggregate cost or market value. Net fees and costs of originating loans held for sale are deferred and are included in the basis for determining the gain or loss on sales of loans held for sale.

(g) Deferred Loan Origination Fees and Unearned Loan Discounts

Loan origination and commitment fees and certain direct loan origination costs are being deferred, and the net amount is recognized over the life of the related loan as an adjustment to yield. Net deferred loan fees are amortized using the interest method over the contractual term of the loan, adjusted for actual prepayments. Net unamortized fees on loans paid in full are recognized as a component of interest income.

(h) Real Estate Owned

Real estate owned is valued at the time of foreclosure at fair value, less estimated cost to sell, thereby establishing a new cost basis. The Company obtains appraisals based on recent comparable sales to assist management in estimating the fair value of real estate owned. Subsequent to acquisition, real estate owned is valued at the lower of cost or fair value, less estimated cost to sell. Declines in value are charged to expense through a direct write-down of the asset. Costs related to holding real estate are charged to expense while costs related to development and improvements are capitalized.

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Gains from the sale of real estate owned, if any, are recognized when title has passed, minimum down payment requirements are met, the terms of any notes received are such as to satisfy continuing investment requirements, and the Company is relieved of any requirements for continued involvement with the properties. If the minimum down payment or the continuing investment is not adequate to meet the criteria specified in the Property, Plant and Equipment topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Company will defer income recognition and account for such sales using alternative methods, such as installment, deposit, or cost recovery.

(i) Allowance for Loan Losses

The Company maintains an allowance adequate to cover Management's estimate of probable loan losses as of the balance sheet date. The Company's allowance for loan losses is maintained at a level considered adequate to provide for losses that can be estimated based upon specific and general conditions. All loan losses are charged, and all recoveries are credited, to the allowance for loan losses. Additions to the allowance for loan losses are provided by charges to income based on various factors, which, in the Company's judgment, deserve current recognition in estimating probable losses. Charge-offs to the allowance are made when management determines that collectability of all or a portion of a loan is doubtful and available collateral is insufficient to repay the loan.

General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired, in accordance with the Receivables topic of the FASB ASC. The portfolio is grouped into similar risk characteristics, primarily loan type and loan-to-value ratio. The Company applies an estimated loss rate to each loan group. The loss rates applied are based upon its loss experience adjusted, as appropriate, for environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses the Company has established, which could have a material negative effect on its financial results.

Residential mortgage loans represent the largest segment of the Company's loan portfolio. All of the residential mortgage loans are secured by a first mortgage on residential real estate in Hawaii and consist primarily of fixed-rate mortgage loans which have been underwritten to Freddie Mac and Fannie Mae guidelines and have similar risk characteristics. The loan loss allowance is determined by first calculating the historical loss rate for this segment of the portfolio. The loss rate may be adjusted for qualitative and environmental factors. The allowance for loan loss is calculated by multiplying the adjusted loss rate by the total loans in this segment of the portfolio.

The adjustments to historical loss experience are based on an evaluation of several qualitative and environmental factors, including:

- changes in lending policies and procedures, including changes in underwriting standards and collections, charge-off and recovery practices;

- changes in international, national, and local economic trends;

- changes in the types of loans in the loan portfolio;

- changes in the experience and ability of personnel in the mortgage loan origination and loan servicing departments;

- changes in the number and amount of delinquent loans and classified assets;

- changes in the type and volume of loans being originated;

- changes in the value of underlying collateral for collateral dependent loans;

- changes in any concentration of credit; and

- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio.

The Company also uses historical loss rates adjusted for qualitative and environmental factors to establish loan loss allowances for the following portfolio segments:

- home equity loans and lines of credit; and
- consumer and other loans.

The Company has a limited loss experience for the construction, commercial and other mortgage segment of the loan portfolio. The loan loss allowance on this portfolio segment is determined using the loan loss rate of other financial institutions in the State of Hawaii. The allowance for loan loss is calculated by multiplying the loan loss rate of other financial institutions in the state by the total loans in this segment of the Company’s loan portfolio.

The allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. In addition, the unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

While the Company uses the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the bank regulators will periodically review the allowance for loan losses. The bank regulators may require the Company to increase the allowance based on their analysis of information available at the time of their examination.

(j) Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control is surrendered. Control is surrendered when the assets have been isolated from the Company, the transferee obtains the right to pledge or exchange the assets without constraint, and the Company does not maintain effective control over the transferred assets. Mortgage loans sold for cash are accounted for as sales as the above criteria have been met.

Mortgage loans may also be packaged into securities that are issued and guaranteed by U.S. government-sponsored enterprises or a U.S. government agency. The Company receives 100% of the mortgage-backed securities issued. Securitizations are not accounted for as sales and no gain or loss is recognized. The mortgage-backed securities received in securitizations are valued at amortized cost and classified as held-to-maturity.

Mortgage loan transfers accounted for as sales and securitizations are without recourse, except for normal representations and warranties provided in sales transactions, and the Company may retain the related rights to service the loans.  The retained servicing rights create mortgage servicing assets that are accounted for in accordance with the Transfers and Servicing topic of the FASB ASC.  Mortgage servicing assets are initially valued at fair value and subsequently at the lower of cost or fair value and are amortized in proportion to and over the period of estimated net servicing income.  The Company uses a discounted cash flow model to determine the fair value of retained mortgage servicing rights. Prior to 2010, we retained the servicing rights on residential mortgage loans sold.  In 2010, we began selling loans primarily on a servicing-released basis.

(k)  Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is principally computed on the straight-line method over the estimated useful lives of the respective assets. The estimated useful life of buildings and improvements is 30 years, furniture, fixtures, and equipment is 3 to 10 years, and automobiles are 3 years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

(l) Income Taxes

The Company files consolidated federal income tax and consolidated state franchise tax returns.

Deferred tax assets and liabilities are recognized using the asset and liability method of accounting for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We establish income tax contingency reserves for potential tax liabilities related to uncertain tax positions. A liability for income tax uncertainties would be recorded for unrecognized tax benefits related to uncertain tax positions where it is more likely than not that the position will be sustained upon examination by a taxing authority.

As of December 31, 2017 and 2016, the Company had not recognized a liability for income tax uncertainties in the accompanying consolidated balance sheets because Management concluded that the Company does not have uncertain tax positions.

The Company recognizes interest and penalties related to tax liabilities in other interest expense and other general and administrative expenses, respectively, in the consolidated statements of income.

Tax years 2014 to 2016 currently remain subject to examination by the Internal Revenue Service and by the Department of Taxation of the State of Hawaii.

(m) Impairment of Long-Lived Assets

Long-lived assets, such as premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(n) Pension Plan

Pension benefit costs (returns) are charged (credited) to salaries and employee benefits expense, and the corresponding prepaid (accrued) pension cost is recorded in prepaid expenses and other assets or accounts payable and accrued expenses in the consolidated balance sheets. The Company’s policy is to fund pension costs in amounts that will not be less than the minimum funding requirements of the Employee Retirement Income Security Act of 1974 and will not exceed the maximum tax-deductible amounts. The Company generally funds at least the net periodic pension cost, subject to limits and targeted funded status as determined with the consulting actuary.

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(o) Supplemental Employee Retirement Plan (SERP)

The SERP is a noncontributory supplemental retirement plan covering certain current and former employees of the Company. Benefits in the SERP plan are paid after retirement, in addition to the benefits provided by the Pension Plan. The Company accrues SERP costs over the estimated period until retirement by charging salaries and employee benefits expense in the consolidated statements of income, with a corresponding credit to accounts payable and accrued expenses in the consolidated balance sheets.

(p) Employee Stock Ownership Plan (ESOP)

The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of stockholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings; dividends on unearned ESOP shares reduce debt and accrued interest.

(q) Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of shares outstanding plus the dilutive effect of stock options and restricted stock. ESOP shares not committed to be released are not considered outstanding.

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

(r) Common Stock Repurchase Program

In 2016, 2014, 2013, 2011 and 2010, the Company adopted common stock repurchase programs in which shares repurchased reduce the amount of shares issued and outstanding. The repurchased shares may be reissued in connection with share-based compensation plans and for general corporate purposes. As of December 31, 2017 and 2016, the Company had accumulated repurchases of 3,138,153 of the total 3,374,253 shares authorized by the Board of Directors.  There were no shares repurchased as part of our common stock repurchase program during 2017.  During 2016, shares were repurchased at an average cost of $25.96.

(s)  Bank-Owned Life Insurance

The Company's investment in bank-owned life insurance is based on cash surrender value.  The Company invests in bank-owned life insurance to provide a funding source for benefit plan obligations. Bank-owned life insurance also generally provides noninterest income that is nontaxable. Federal regulations generally limit the investment in bank-owned life insurance to 25% of the Bank's Tier 1 capital plus the allowance for loan losses.  At December 31, 2017, this limit was $55.4 million and the Company had invested $44.2 million in bank-owned life insurance at that date.

(t)  Use of Estimates

The preparation of the consolidated financial statements requires management to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the allowance for loan losses; valuation of certain investment securities and determination as to whether declines in fair value below amortized cost are other than temporary; valuation

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allowances for deferred income tax assets; mortgage servicing assets; and assets and obligations related to employee benefit plans. Accordingly, actual results could differ from those estimates.

(u) Recently Issued Accounting Pronouncements

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 Company has reviewed all revenue sources to determine if the sources are in scope for this guidance. Net interest income from financial assets and liabilities are explicitly excluded from the scope of the amendment. The Company's overall assessment of key in-scope revenue sources include service charges on deposit accounts, rental income from safe deposit boxes and commissions on insurance and annuity sales. The guidance will not have a significant impact on the Company's revenue recognition for these key in-scope revenue sources. The Company adopted this amendment effective January 1, 2018, under the modified retrospective approach.

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. Since the Company does not own any equity securities subject to the amendment in its investment portfolio, the amendment will not have a material impact on its consolidated financial statements. The Company will continue to evaluate the effects that the use of exit prices will have on its fair value disclosures. The amendment is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.

In February 2016, the FASB amended the Leases topic of the FASB ASC. The primary effects of the amendment will be to recognize lease assets and lease liabilities on the balance sheet and to disclose certain information about leasing arrangements. The amendment is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company has several lease agreements for branch locations and equipment that will require recognition on the consolidated balance sheets upon adoption of the amendment. The Company will continue to evaluate the effects that the adoption of this amendment will have on its consolidated financial statements.

In March 2016, the FASB amended the Compensation – Stock Compensation topic of the FASB ASC. The amendment includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of the amendment require companies to record all excess tax benefits and tax deficiencies as income tax benefit or expense in the income statement rather than as an adjustment to additional paid-in capital. In addition, the amendment requires that excess tax benefits should be reported as an operating activity on the statement of cash flows and increases the amount an employer can withhold for taxes for share-based compensation awards. The amendment is effective for annual periods beginning after December 15, 2016. The Company adopted this amendment effective January 1, 2017. The adoption of this amendment has resulted in increased volatility to income tax expense related to excess tax benefits and tax deficiencies for share-based compensation. The amount of tax benefits or deficiencies recognized in income tax expense depends on the number of options exercised and the difference in the stock prices at the exercise and grant dates. For the year ended December 31, 2017, the Company recognized in earnings $1.0 million of tax benefits related to the exercise of stock options.

In June 2016, the FASB amended various sections of the FASB ASC related to the accounting for credit losses on financial instruments. The amendment changes the threshold for recognizing losses from a “probable” to an “expected” model. The new model is referred to as the current expected credit loss model

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and applies to loans, leases, held-to-maturity investments, loan commitments and financial guarantees. The amendment requires the measurement of all expected credit losses for financial assets as of the reporting date (including historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures that will help financial statement users understand the estimates and judgments used in estimating credit losses and evaluating the credit quality of an organization's portfolio. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company will apply the amendment's provisions as a cumulative-effect adjustment to retained earnings at the beginning of the first period the amendment is effective. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements by gathering the information that is necessary to make the calculations required by the amendment. This may result in increased credit losses on financial instruments recorded in the consolidated financial statements.

In March 2017, the FASB amended the Compensation – Retirement Benefits topic of the FASB ASC. The amendment requires the service cost component of net benefit cost to be reported in the same line item as other compensation costs arising from employee services. It also requires the other components of net benefit cost to be reported in the income statement separately from the service cost component. The amendment is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company does not expect the adoption of this amendment to have a material effect on its consolidated financial statements.

In February 2018, the FASB amended the Income Statement – Reporting Comprehensive Income topic of the FASB ASC. Existing accounting standards require that the tax effects of tax rate changes on deferred taxes be recorded in current income. Deferred taxes previously included in accumulated other comprehensive income are not allowed to be adjusted and may not reflect current tax rates. This amendment allows the reclassification from accumulated other comprehensive income to retained earnings the tax effects resulting from the Tax Cuts and Jobs Act passed in December 2017. The amendment is effective for fiscal years beginning after December 15, 2018, with early adoption permitted in any period for which financial statements have not yet been issued. The Company expects to adopt this amendment during the first quarter of 2018 with the reclassification of $1.1 million of deferred taxes between accumulated other comprehensive income and retained earnings.

(3)Cash and Cash Equivalents

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

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Cash and due from banks | $ 9,114 | $ 9,043 |

| | | |
|---|---|---|
| Interest-earning deposits in other banks | 22,975 | 52,230 |
| Cash and cash equivalents | $ 32,089 | $ 61,273 |

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

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(4)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 |
|---|---|---|---|---|
| December 31, 2017: | | | | |
| Available-for-sale: | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 2,870 | $ — | $ (19) | $ 2,851 |
| Total | $ 2,870 | $ — | $ (19) | $ 2,851 |
| | | | | |
| Held-to-maturity: | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 404,365 | $ 6,056 | $ (4,603) | $ 405,818 |
| Trust preferred securities | 427 | 418 | — | 845 |
| Total | $ 404,792 | $ 6,474 | $ (4,603) | $ 406,663 |
| | | | | |
| December 31, 2016: | | | | |
| Held-to-maturity: | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 406,498 | $ 7,285 | $ (7,024) | $ 406,759 |
| Trust preferred securities | 1,158 | 5 | — | 1,163 |
| Total | $ 407,656 | $ 7,290 | $ (7,024) | $ 407,922 |

The amortized cost and estimated fair value of investment securities by maturity date at December 31, 2017 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 |
|---|---|---|
| Available-for-sale: | | |
| Due within 5 years | $ — | $ — |
| Due after 5 years through 10 years | — | — |
| Due after 10 years | 2,870 | 2,851 |
| Total | $ 2,870 | $ 2,851 |
| | | |
| Held-to-maturity: | | |
| Due within 5 years | $ 10 | $ 11 |
| Due after 5 years through 10 years | 71 | 71 |
| Due after 10 years | 404,711 | 406,581 |
| Total | $ 404,792 | $ 406,663 |

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

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Proceeds from sales | $ 7,446 | $ 5,462 | $ 7,718 |
| Gross gains | 431 | 370 | 701 |
| Gross losses | — | — | — |

The sale of these mortgage-backed securities, for which the Company had already collected a substantial portion of the outstanding purchased principal (at least 85%), is in accordance with the Investments – Debt and Equity Securities topic of the FASB ASC and does not taint management's assertion of intent to hold remaining securities in the held-to-maturity portfolio to maturity.

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In 2015, the Company recognized a gross realized gain 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 accordance with the Investment-Debt and Equity Securities topic of the FASB ASC, the sale of this security does not taint management's intent to hold the remaining securities in the held-to-maturity portfolio.

Investment securities with amortized costs of $287.2 million and $239.9 million at December 31, 2017 and 2016, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities, which were in an unrealized loss position at December 31, 2017 and 2016. The Company does not intend to sell held-to-maturity and available-for-sale securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

| | Less Than 12 Months | | 12 Months or Longer | | Total | | |
|---|---|---|---|---|---|---|---|
| Description of securities | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses |
| (Dollars in thousands) | | | | | | | |
| December 31, 2017: | | | | | | | |
| Available-for-sale: | | | | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 2,851 | $ 19 | $ — | $ — | 1 | $ 2,851 | $ 19 |
| Held-to-maturity: | | | | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 41,163 | $ 299 | $ 140,200 | $ 4,304 | 49 | $ 181,363 | $ 4,603 |
| December 31, 2016: | | | | | | | |
| Held-to-maturity: | | | | | | | |
| U.S. government-sponsored mortgage-backed securities | $ 179,741 | $ 5,599 | $ 23,402 | $ 1,425 | 50 | $ 203,143 | $ 7,024 |

Mortgage-Backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by increases in market interest rates subsequent to purchase. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, 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 December 31, 2017.

Trust Preferred Securities. At December 31, 2017, the Company owned one trust preferred security, PreTSL XXIII. PreTSL XXIII has an amortized cost and a remaining cost basis of $427,000 at December 31, 2017. The trust preferred security represents an investment in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. This security is classified in the Company's held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only six transactions have occurred over the past 72 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.

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Based on the Company’s review, the Company’s investment in PreTSL XXIII did not incur additional impairment during the years ended December 31, 2017, 2016 and 2015 and there is no accumulated other comprehensive loss related to noncredit factors.

It is reasonably possible that the fair value of the trust preferred security could decline in the near term if the overall economy and the financial condition of some of the issuers deteriorate further and the liquidity of this security remains low. As a result, there is a risk that the Company’s remaining cost basis of $427,000 on the trust preferred security could be credit-related other-than-temporarily impaired in the near term. The impairment, if any, could be material to the Company’s consolidated statements of income.

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

| (Dollars in thousands) | 2017 | 2016 |
|---|---|---|
| Balance at January 1, | $ 2,403 | $ 2,403 |
| Credit losses on debt securities for which other-than-temporary impairment was not previously recognized | — | — |
| Credit losses on debt securities which were sold | — | — |
| Balance at December 31, | $ 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:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Noncredit losses on other-than-temporarily impaired securities, net of taxes | $ — | $ — |

(5)Federal Home Loan Bank Stock

The Bank, as a member of the FHLB system, is required to obtain and hold shares of capital stock in the FHLB. At December 31, 2017 and 2016, the Bank met such requirement. At December 31, 2017 and 2016, the Bank owned $6.5 million and $4.9 million, respectively, of capital stock of the FHLB Des Moines.

The Company evaluated its investment in the stock of the FHLB Des Moines for impairment. Based on the Company's evaluation of the underlying investment, including the long-term nature of the investment and the liquidity position of the FHLB Des Moines, the Company did not consider its FHLB stock other-than-temporarily impaired.

(6)Federal Reserve Bank Stock

The Bank, as a member of the Federal Reserve System, is required to hold shares of capital stock of the FRB of San Francisco equal to six percent of capital and surplus of the Bank.  At December 31, 2017 and 2016, the Bank met such requirement.  At December 31, 2017 and 2016, the Bank owned $3.1 million of capital stock of the FRB of San Francisco.

The Company evaluated its investment in the stock of the FRB of San Francisco for impairment.  Based on the Company's evaluation of the underlying investment, including the long-term nature of the investment and the liquidity position of the FRB of San Francisco, the Company did not consider its FRB stock other-than-temporarily impaired.

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(7)Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

| (Dollars in thousands) | December 31, 2017 | 2016 |
|---|---|---|
| Real estate loans: | | |
| First mortgages: | | |
| One- to four-family residential | $ 1,444,625 | $ 1,289,364 |
| Multi-family residential | 10,799 | 9,551 |
| Construction, commercial and other | 21,787 | 23,346 |
| Home equity loans and lines of credit | 12,882 | 14,805 |
| Total real estate loans | 1,490,093 | 1,337,066 |
| Other loans: | | |
| Loans on deposit accounts | 274 | 204 |
| Consumer and other loans | 4,340 | 4,360 |
| Total other loans | 4,614 | 4,564 |
| Less: | | |
| Net unearned fees and discounts | (3,188) | (3,191) |
| Allowance for loan losses | (2,548) | (2,452) |
| Total unearned fees, discounts and allowance for loan losses | (5,736) | (5,643) |
| Loans receivable, net | $ 1,488,971 | $ 1,335,987 |

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

| (Dollars in thousands) | Residential Mortgage | Construction, Commercial and Other Mortgage Loans | Home Equity Loans and Lines of Credit | Consumer and Other | Unallocated | Totals |
|---|---|---|---|---|---|---|
| 2017: | | | | | | |
| Balance, beginning of year | $ 1,594 | $ 519 | $ 2 | $ 115 | $ 222 | $ 2,452 |
| Provision (reversal of provision) for loan losses | 63 | 20 | (1) | (40) | 10 | 52 |
| | 1,657 | 539 | 1 | 75 | 232 | 2,504 |
| Charge-offs | (11) | — | — | (26) | — | (37) |
| Recoveries | 75 | — | — | 6 | — | 81 |
| Net recoveries (charge-offs) | 64 | — | — | (20) | — | 44 |
| Balance, end of year | $ 1,721 | $ 539 | $ 1 | $ 55 | $ 232 | $ 2,548 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2016: | | | | | | |
| Balance, beginning of year | $ 1,380 | $ 517 | $ 3 | $ 72 | $ 194 | $ 2,166 |
| Provision (reversal of provision) for loan losses | 223 | 1 | (1) | 59 | 28 | 310 |
| | 1,603 | 518 | 2 | 131 | 222 | 2,476 |
| Charge-offs | (33) | — | — | (28) | — | (61) |
| Recoveries | 24 | 1 | — | 12 | — | 37 |
| Net recoveries (charge-offs) | (9) | 1 | — | (16) | — | (24) |
| Balance, end of year | $ 1,594 | $ 519 | $ 2 | $ 115 | $ 222 | $ 2,452 |
| 2015: | | | | | | |
| Balance, beginning of year | $ 413 | $ 977 | $ 5 | $ 263 | $ 33 | $ 1,691 |
| Provision (reversal of allowance) for loan losses | 964 | (471) | (49) | (150) | 161 | 455 |
| | 1,377 | 506 | (44) | 113 | 194 | 2,146 |
| Charge-offs | — | — | — | (53) | — | (53) |
| Recoveries | 3 | 11 | 47 | 12 | — | 73 |
| Net recoveries (charge-offs) | 3 | 11 | 47 | (41) | — | 20 |
| Balance, end of year | $ 1,380 | $ 517 | $ 3 | $ 72 | $ 194 | $ 2,166 |

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In 2016, the Company changed the look-back period that is used to calculate the historical loss rate from five to seven years. The look-back period was extended to seven years because the longer look-back period is considered to be more representative of an entire economic cycle. The seven year look-back period includes loan charge-offs and recoveries related to the recession and the subsequent economic recovery. The change in the look-back period did not have a material effect on the allowance for loan losses.

The allowance for loan loss for each segment of the loan portfolio is generally determined by calculating the historical loss of each segment in the look-back period and adding a qualitative adjustment for the following factors:

- changes in lending policies and procedures, including changes in underwriting standards and collections, charge-off and recovery practices;
- changes in international, national, and local economic trends;
- changes in the types of loans in the loan portfolio;
- changes in the experience and ability of personnel in the mortgage loan origination and loan servicing departments;
- changes in the number and amount of delinquent loans and classified assets;
- changes in the type and volume of loans being originated;
- changes in the value of underlying collateral for collateral dependent loans;
- changes in any concentration of credit; and
- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio.

The allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories. The unallocated allowance is established for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

Management considers the allowance for loan losses at December 31, 2017 to be at an appropriate level to provide for probable losses that can be reasonably estimated based on general and specific conditions at that date. While the Company uses the best information it has available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. To the extent actual outcomes differ from the estimates, additional provisions for credit losses may be required that would reduce future earnings. In addition, as an integral part of their examination process, the bank regulators periodically review the allowance for loan losses and may require the Company to increase the allowance based on their analysis of information available at the time of their examination.

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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 |
|---|---|---|---|---|---|---|
| December 31, 2017: | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance: | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated for impairment | 1,721 | 539 | 1 | 55 | 232 | 2,548 |
| Total ending allowance balance | $ 1,721 | $ 539 | $ 1 | $ 55 | $ 232 | $ 2,548 |
| Loans: | | | | | | |
| Ending loan balance: | | | | | | |
| Individually evaluated for impairment | $ 4,977 | $ — | $ 165 | $ — | $ — | $ 5,142 |
| Collectively evaluated for impairment | 1,447,326 | 21,701 | 12,722 | 4,628 | — | 1,486,377 |
| Total ending loan balance | $ 1,452,303 | $ 21,701 | $ 12,887 | $ 4,628 | $ — | $ 1,491,519 |
| December 31, 2016: | | | | | | |
| Allowance for loan losses: | | | | | | |
| Ending allowance balance: | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ — | $ — | $ — | $ — |
| Collectively evaluated for impairment | 1,594 | 519 | 2 | 115 | 222 | 2,452 |
| Total ending allowance balance | $ 1,594 | $ 519 | $ 2 | $ 115 | $ 222 | $ 2,452 |
| Loans: | | | | | | |
| Ending loan balance: | | | | | | |
| Individually evaluated for impairment | $ 5,587 | $ — | $ 156 | $ 1 | $ — | $ 5,744 |
| Collectively evaluated for impairment | 1,290,209 | 23,256 | 14,656 | 4,574 | — | 1,332,695 |
| Total ending loan balance | $ 1,295,796 | $ 23,256 | $ 14,812 | $ 4,575 | $ — | $ 1,338,439 |

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

| (Dollars in thousands) | Recorded Investment | Unpaid Principal Balance |
|---|---|---|
| December 31, 2017: | | |
| With no related allowance recorded: | | |
| One- to four-family residential mortgages | $ 4,977 | $ 5,897 |
| Home equity loans and lines of credit | 165 | 228 |
| Total | $ 5,142 | $ 6,125 |
| | | |
| December 31, 2016: | | |
| With no related allowance recorded: | | |
| One- to four-family residential mortgages | $ 5,587 | $ 6,469 |
| Home equity loans and lines of credit | 156 | 204 |
| Consumer and other | 1 | 1 |
| Total | $ 5,744 | $ 6,674 |

The table below presents the average recorded investment and interest income recognized on impaired loans by class of loans:

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| (Dollars in thousands) | Average Recorded Investment | Interest Income Recognized |
|---|---|---|
| 2017: | | |
| With no related allowance recorded: | | |
| One- to four-family residential mortgages | $ 5,112 | $ 58 |
| Home equity loans and lines of credit | 175 | — |
| Consumer and other | — | — |
| Total | $ 5,287 | $ 58 |
| | | |
| 2016: | | |
| With no related allowance recorded: | | |
| One- to four-family residential mortgages | $ 5,743 | $ 72 |
| Home equity loans and lines of credit | 161 | — |
| Consumer and other | 1 | — |
| Total | $ 5,905 | $ 72 |
| | | |
| 2015: | | |
| With no related allowance recorded: | | |
| One- to four-family residential mortgages | $ 6,642 | $ 71 |
| Home equity loans and lines of credit | 131 | — |
| Consumer and other | 9 | — |
| Total | $ 6,782 | $ 71 |

There were no loans individually evaluated for impairment with a related allowance for loan loss as of December 31, 2017, 2016 or 2015. Loans individually evaluated for impairment do not have an allocated allowance for loan loss because they are written down to fair value at the time of impairment.

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

| (Dollars in thousands) | 30 - 59 Days Past Due | 60 - 89 Days Past Due | 90 Days or Greater Past Due | Total Past Due | Loans Not Past Due | Total Loans | Nonaccrual Loans | Loans More Than 90 Days Past Due and Still Accruing |
|---|---|---|---|---|---|---|---|---|
| December 31, 2017: | | | | | | | | |
| One- to four-family residential mortgages | $ — | $ 1,207 | $ 1,589 | $ 2,796 | $ 1,438,725 | $ 1,441,521 | $ 4,062 | $ — |
| Multi-family residential mortgages | — | — | — | — | 10,782 | 10,782 | — | — |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Construction, commercial and other mortgages | — | — | — | — | 21,701 | 21,701 | — | — |
| Home equity loans and lines of credit | — | — | 41 | 41 | 12,846 | 12,887 | 165 | — |
| Loans on deposit accounts | — | — | — | — | 274 | 274 | — | — |
| Consumer and other | 4 | — | — | 4 | 4,350 | 4,354 | — | — |
| Total | $ 4 | $ 1,207 | $ 1,630 | $ 2,841 | $ 1,488,678 | $ 1,491,519 | $ 4,227 | $ — |
| December 31, 2016: | | | | | | | | |
| One- to four-family residential mortgages | $ 185 | $ 133 | $ 1,358 | $ 1,676 | $ 1,284,590 | $ 1,286,266 | $ 4,402 | $ — |
| Multi-family residential mortgages | — | — | — | — | 9,530 | 9,530 | — | — |
| Construction, commercial and other mortgages | — | — | — | — | 23,256 | 23,256 | — | — |
| Home equity loans and lines of credit | 16 | 35 | 49 | 100 | 14,712 | 14,812 | 156 | — |
| Loans on deposit accounts | — | — | — | — | 204 | 204 | — | — |
| Consumer and other | 3 | — | 1 | 4 | 4,367 | 4,371 | 1 | — |
| Total | $ 204 | $ 168 | $ 1,408 | $ 1,780 | $ 1,336,659 | $ 1,338,439 | $ 4,559 | $ — |

The Company primarily uses the aging of loans and accrual status to monitor the credit quality of its loan portfolio. When a mortgage loan becomes seriously delinquent (90 days or more contractually past due), it displays weaknesses that may result in a loss. As a loan becomes more delinquent, the likelihood of the borrower repaying the loan decreases and the loan becomes more collateral-dependent. A mortgage loan becomes collateral-dependent when the proceeds for repayment can be expected to come only from the sale or operation of

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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 17 nonaccrual loans with a book value of $4.2 million at December 31, 2017 and 19 nonaccrual loans with a book value of $4.6 million as of December 31, 2016. The Company collected interest on nonaccrual loans of $179,000, $195,000 and $233,000 during 2017, 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 $240,000, $268,000 and $312,000 during 2017, 2016, and 2015, respectively, had the loans been accruing interest. The Company did not have any loans more than 90 days past due and still accruing interest as of December 31, 2017, 2016 or 2015.

There were no loans modified in a troubled debt restructuring during the year ended December 31, 2017 or 2016. There were no new troubled debt restructurings within the past 12 months that subsequently defaulted.

The table below summarizes troubled debt restucturings by class of loans:

| (Dollars in thousands) | Number of Loans | Accrual Status | Number of Loans | Nonaccrual Status | Total |
|---|---|---|---|---|---|
| December 31, 2017: | | | | | |
| One- to four-family residential mortgages | 4 | $ 915 | 5 | $ 1,074 | $ 1,989 |
| Home equity loans and lines of credit | — | — | 1 | 92 | 92 |
| Total | 4 | $ 915 | 6 | $ 1,166 | $ 2,081 |
| | | | | | |
| December 31, 2016: | | | | | |
| One- to four-family residential mortgages | 5 | $ 1,185 | 7 | $ 1,629 | $ 2,814 |
| Home equity loans and lines of credit | — | — | 1 | 107 | 107 |
| Total | 5 | $ 1,185 | 8 | $ 1,736 | $ 2,921 |

One of the restructured loans, for $149,000, was more than 149 days delinquent and not accruing interest as of December 31, 2017 and 2016. Restructurings include deferrals of interest and/or principal payments and temporary or permanent reductions in interest rates due to the financial difficulties of the borrowers. At December 31, 2017, we have no commitments to lend any additional funds to these borrowers.

The Company had no real estate owned as of December 31, 2017 or 2016. There were three one- to four-family residential mortgage loans totaling $650,000 and one home equity loan for $41,000 in the process of foreclosure as of December 31, 2017. There were three one-to four-family residential mortgage loans totaling $660,000 and one home equity loan for $42,000 in the process of foreclosure as of December 31, 2016.

Nearly all of our real estate loans are collateralized by real estate located in the State of Hawaii. Loan-to-value ratios on these real estate loans generally do not exceed 80% at the time of origination.

During the years ended December 31, 2017, 2016 and 2015, the Company sold $25.0 million, $48.9 million and $56.2 million, respectively, of mortgage loans held for sale and recognized gains of $199,000, $406,000, and $503,000, respectively. The Company had one loan held for sale for $403,000 at December 31, 2017 and five loans held for sale totaling $1.6 million at December 31, 2016.

The Company serviced loans for others of $35.5 million, $41.5 million and $51.8 million at December 31, 2017, 2016, and 2015, respectively. Of these amounts, $1.5 million, $2.2 million, and $2.8 million relate to securitizations for which the Company continues to hold the related mortgage-backed securities at December 31, 2017, 2016, and 2015, respectively. The amount of contractually specified servicing fees earned was $105,000,

$128,000 and $153,000 for 2017, 2016, and 2015, respectively. The fees are reported in service fees on loan and deposit accounts in the consolidated statements of income.

In the normal course of business, the Company has made loans to certain directors and executive officers under terms which management believes are consistent with the Company's general lending policies. Loans to directors and executive officers amounted to $890,000 at December 31, 2017 and $1.4 million at December 31, 2016.

(8)Accrued Interest Receivable

The components of accrued interest receivable are as follows:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Investment securities | $ 1,045 | $ 1,064 |
| Loans receivable | 4,090 | 3,658 |
| Interest-bearing deposits | 7 | 10 |
| Total | $ 5,142 | $ 4,732 |

(9)Mortgage Servicing Assets

Mortgage servicing assets are created when the Company sells mortgage loans and retains the rights to service the loans. Mortgage servicing assets are accounted for in accordance with the Transfers and Servicing topic of the FASB ASC and are initially valued at fair value and subsequently at the lower of cost or fair value. We amortize mortgage servicing assets in proportion to and over the period of estimated net servicing income. All servicing assets are grouped into categories based on the interest rate and original term of the loan sold. Mortgage servicing assets related to loan sales are recorded as a gain on sale of loans and totaled $3,000 and $0 for the years ended December 31, 2017 and 2016, respectively.

The table below presents the changes in our mortgage servicing assets:

| (Dollars in thousands) | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | $ 307 | $ 426 |
| Additions | 3 | — |
| Impairments | — | (49) |
| Amortization | (47) | (70) |
| Balance at end of year | $ 263 | $ 307 |

The table below presents the gross carrying values, accumulated amortization, and net carrying values of our mortgage servicing assets:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Gross carrying value | $ 1,310 | $ 1,307 |
| Accumulated amortization | (1,047) | (1,000) |
| Net carrying value | $ 263 | $ 307 |

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The estimated amortization expense for our mortgage servicing assets for the next five years and all years thereafter are as follows:

| (Dollars in thousands) | |
|---|---|
| 2018 | $ 48 |
| 2019 | 32 |
| 2020 | 26 |
| 2021 | 22 |
| 2022 | 20 |
| Thereafter | 115 |
| Total | $ 263 |

The Company uses a discounted cash flow model to determine the fair value of retained mortgage servicing assets. The discounted cash flow model is also used to assess impairment of servicing assets. Impairments are recorded as adjustments to amortization expense and included in service fees on loan and deposit accounts in the statements of income. Critical assumptions used in the discounted cash flow model include mortgage prepayment speeds, discount rates and cost of servicing.

Prepayment speed may be affected by economic factors such as home price appreciation, market interest rates, the availability of other loan products to our borrowers and customer payment patterns. Prepayment speeds include the impact of all borrower prepayments, including full payoffs, additional principal payments and the impact of loans paid off due to foreclosure liquidations. As market interest rates decline, prepayment speeds will generally increase as customers refinance existing mortgage loans under more favorable interest rate terms and future cash flows will generally decline resulting in a potential reduction, or impairment, to the fair value of the mortgage servicing assets. Alternatively, an increase in market interest rates may cause a decrease in prepayment speeds and therefore an increase in the fair value of mortgage servicing assets.

The table below presents the fair values and key assumptions used in determining the fair values of our mortgage servicing assets as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Fair value, beginning of year (in thousands) | $ 368 | $ 441 |
| Fair value, end of year (in thousands) | 311 | 368 |
| | | |
| Weighted average discount rate | 10.50% | 10.50% |
| Weighted average prepayment speed assumption (PSA prepayment speed) | 173.3 | 159.2 |
| Annual cost to service (per loan) | $ 70 | $ 65 |

The PSA prepayment model assumes increasing prepayment rates for the first 30 months of a loan's term and constant prepayment rates thereafter.

(10)Interest Rate Lock and Forward Loan Sale Commitments

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 values in prepaid expenses and other assets or in accounts payable and accrued expenses. Changes in fair value are recorded in current earnings. At December 31, 2017, interest rate locks and forward loan sale commitments on loans held for sale amounted to $2.5 million and $2.9 million, respectively.

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The table below presents the location of assets and liabilities related to derivatives:

| (Dollars in thousands) | Location on Balance Sheet | Asset Derivatives Fair Value at December 31, 2017 | 2016 | Liability Derivatives Fair Value at December 31, 2017 | 2016 |
|---|---|---|---|---|---|
| Interest rate contracts | Prepaid expenses and other assets | $ 8 | $ 104 | $ — | $ — |
| Interest rate contracts | Accounts payable and accrued expenses | — | — | 8 | 104 |
| Total derivatives | | $ 8 | $ 104 | $ 8 | $ 104 |

The table below presents the location of gains and losses related to derivatives:

| (Dollars in thousands) | Location of Loss on Statement of Income | 2017 | 2016 |
|---|---|---|---|
| Interest rate contracts | Gain on sale of loans | $ — | $ 6 |

(11)Premises and Equipment

Premises and equipment are as follows:

| (Dollars in thousands) | December 31, 2017 | 2016 |
|---|---|---|
| Land | $ 585 | $ 585 |
| Buildings and improvements | 1,301 | 1,045 |
| Leasehold improvements | 13,915 | 13,005 |
| Furniture, fixtures and equipment | 5,727 | 5,261 |
| Automobiles | 115 | 115 |
| | 21,643 | 20,011 |
| Less accumulated depreciation and amortization | (15,962) | (16,066) |
| | 5,681 | 3,945 |
| Construction in progress | 40 | 382 |
| Total | $ 5,721 | $ 4,327 |

Depreciation expense was $1.1 million, $1.1 million and $1.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

(12) Deposits

Deposit accounts by type are summarized with their respective weighted-average interest rates as follows:

| | December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| (Dollars in thousands) | Amount | Rate | Amount | Rate |
| Non-interest bearing | $ 49,725 | - % | $ 47,703 | - % |
| Savings accounts | 1,040,248 | 0.46 | 1,022,159 | 0.41 |
| Certificates of deposit | 312,225 | 1.34 | 236,043 | 0.96 |
| Money market | 5,578 | 0.43 | 3,406 | 0.44 |
| Checking and Super NOW | 189,519 | 0.02 | 183,889 | 0.02 |
| Total | $ 1,597,295 | 0.56 % | $ 1,493,200 | 0.43 % |

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The maturity of certificate of deposit accounts at December 31, 2017 is as follows (dollars in thousands):

| | |
|---|---|
| Maturing in: | |
| 2018 | $ 165,706 |
| 2019 | 70,272 |
| 2020 | 31,423 |
| 2021 | 20,458 |
| 2022 | 24,366 |
| Total | $ 312,225 |

Certificates of deposit with balances greater than or equal to $250,000 totaled $192.8 mllion and $141.6 million at December 31, 2017 and 2016, respectively. Deposit accounts in the Bank are insured by the FDIC, generally up to a maximum of $250,000 per account owner.

Interest expense by type of deposit is as follows:

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Savings | $ 4,445 | $ 4,162 | $ 3,670 |
| Certificates of deposit and money market | 3,182 | 1,734 | 1,118 |
| Checking and Super NOW | 39 | 37 | 33 |
| Total | $ 7,666 | $ 5,933 | $ 4,821 |

At December 31, 2017 and 2016, overdrawn deposit accounts totaled $22,000 and have been reclassified as loans in the consolidated balance sheets.

(13)Advances from the Federal Home Loan Bank

Federal Home Loan Bank advances are secured by a blanket pledge on the Bank’s assets not otherwise pledged. Our credit line with the FHLB Des Moines is equal to 35% of the Bank’s total assets and as of December 31, 2017 and 2016, we had the capacity to borrow an additional $579.4 million and $577.9 million, respectively.

Advances outstanding consisted of the following:

| | December 31, 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Amount | Weighted Average Rate | | Amount | Weighted Average Rate | |
| Due within one year | $ 46,200 | 1.39 | % | $ — | — | % |
| Due over 1 year to 2 years | 31,000 | 1.79 | | 37,000 | 1.33 | |
| Due over 2 years to 3 years | 15,000 | 1.85 | | 22,000 | 1.66 | |
| Due over 3 years to 4 years | 15,000 | 2.32 | | 10,000 | 1.66 | |
| Total | $ 107,200 | 1.70 | % | $ 69,000 | 1.49 | % |

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(14) 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:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Repurchase Liability | Weighted Average Rate | | Repurchase Liability | Weighted Average Rate | |
| Maturing: | | | | | | |
| 1 year or less | $ — | — | % | $ 25,000 | 1.46 | % |
| Over 1 year to 2 years | 25,000 | 1.66 | | — | — | |
| Over 2 years to 3 years | 5,000 | 1.65 | | 25,000 | 1.66 | |
| Over 3 years to 4 years | — | — | | 5,000 | 1.65 | |
| Total | $ 30,000 | 1.66 | % | $ 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 December 31, 2017. The amount at risk is the greater of the carrying value or fair value over the repurchase liability and refers to the potential loss to the Company if the secured lender fails to return the security at the maturity date of the agreement. All the agreements to repurchase are with JP Morgan Securities and the securities pledged are mortgage-backed securities issued and guaranteed by U.S. government sponsored enterprises. The repurchase liability cannot exceed 90% of the fair value of securities pledged. In the event of a decline in the fair value of securities pledged to less than the required amount due to market conditions or principal repayments, the Company is obligated to pledge additional securities or other suitable collateral to cure the deficiency.

| (Dollars in thousands) | Carrying Value of Securities | Fair Value of Securities | Repurchase Liability | Amount at Risk | Weighted Average Months to Maturity |
|---|---|---|---|---|---|
| Maturing: | | | | | |
| Over 90 days | $ 39,834 | $ 39,986 | $ 30,000 | $ 9,986 | 17 |

(15)Offsetting of Financial Liabilities

Securities sold under agreements to repurchase are subject to a right of offset in the event of default. See Note 14, Securities Sold Under Agreements to Repurchase, for additional information.

| (Dollars in thousands) | Gross Amount of Recognized Liabilities | Gross Amount Offset in the Balance Sheet | Net Amount of Liabilities Presented in the Balance Sheet | Gross Amount Not Offset in the Balance Sheet Financial Instruments | Cash Collateral Pledged | Net Amount |
|---|---|---|---|---|---|---|
| December 31, 2017: | | | | | | |
| Securities sold under agreements to repurchase | $ 30,000 | $ — | $ 30,000 | $ 30,000 | $ — | $ — |
| December 31, 2016: | | | | | | |
| Securities sold under agreements to repurchase | $ 55,000 | $ — | $ 55,000 | $ 55,000 | $ — | $ — |

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(16)Income Taxes

Allocation of federal and state income taxes between current and deferred provisions is as follows:

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current | | | |
| Federal | $ 6,219 | $ 7,487 | $ 10,176 |
| State | 1,447 | 1,810 | 1,833 |
| | 7,666 | 9,297 | 12,009 |
| Deferred | | | |
| Federal | 3,273 | 1,339 | (2,147) |
| State | 163 | 151 | (76) |
| | 3,436 | 1,490 | (2,223) |
| Total | $ 11,102 | $ 10,787 | $ 9,786 |

The federal statutory corporate tax rate for the years ended December 31, 2017, 2016 and 2015 was 35%. A reconciliation of the tax provision based on the statutory corporate rate on pretax income and the provision for taxes as shown in the accompanying consolidated statements of income is as follows:

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income tax expense at statutory rate | $ 9,123 | $ 9,497 | $ 8,587 |
| Income tax effect of: | | | |
| Other tax-exempt income | (317) | (338) | (359) |
| Share-based compensation | 2 | 68 | 87 |
| State income taxes, net of federal income tax benefits | 1,104 | 1,057 | 1,104 |
| Tax benefit from the exercise of stock options (1) | (1,046) | — | — |
| Write-down of deferred income taxes (2) | 2,054 | — | — |
| Other | 182 | 503 | 367 |
| Total income tax expense | $ 11,102 | $ 10,787 | $ 9,786 |
| Effective income tax rate | 42.59 % | 39.75 % | 39.89 % |

(1) Starting in 2017 a new accounting standard requires that any excess tax benefits resulting from the exercise of stock options be recognized in income tax expense. Prior to the adoption of the new standard, the excess tax benefits were recorded as additional paid-in-capital.

(2) Income tax expense for 2017 included a $2.1 million write-down of deferred income tax assets that resulted when the federal corporate tax rate was lowered from 35% to 21% due to the Tax Cuts and Jobs Act.

The components of income taxes payable (receivable) are as follows:

| (Dollars in thousands) | December 31, 2017 | 2016 |
|---|---|---|
| Current taxes payable (receivable): | | |
| Federal | $ (1,571) | $ (122) |
| State | 1,483 | 1,616 |
| | $ (88) | $ 1,494 |
| Deferred taxes receivable: | | |
| Federal | $ (3,178) | $ (6,350) |
| State | (1,431) | (1,555) |
| | $ (4,609) | $ (7,905) |

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

| | December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Deferred tax assets: | | |
| Premises and equipment | $ 966 | $ 1,737 |
| Hawaii franchise tax | 440 | 560 |
| Unfunded pension liability | 1,229 | 1,550 |
| Allowance for loan losses | 678 | 969 |
| Impaired asset write-down | 724 | 1,020 |
| Employee benefit plans | 2,580 | 3,785 |
| Equity incentive plan | 420 | 1,330 |
| Unrealized losses on securities available-for-sale | 17 | 21 |
| Deferred compensation | 453 | 744 |
| Other | 137 | 215 |
| | 7,644 | 11,931 |
| Deferred tax liabilities: | | |
| Net deferred loan fees | 2,676 | 3,566 |
| FHLB stock dividends | 126 | 196 |
| Prepaid expense | 163 | 143 |
| Premiums on loans sold | 70 | 121 |
| | 3,035 | 4,026 |
| Net deferred tax assets | $ 4,609 | $ 7,905 |

Deferred tax assets and liabilities at December 31, 2017 and 2016 were calculated using federal corporate tax rates of 21% and 35%, respectively. The corporate tax rate was lowered to 21% due to the Tax Cuts and Jobs Act of 2017. The lower tax rate caused a $2.1 million increase in income tax expense and write down of deferred income tax assets.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced. There was no valuation allowance for deferred tax assets as of December 31, 2017 and 2016.

(17)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. The benefits are based on years of service and the employees' compensation during the service period. The Company's policy is to accrue the actuarially determined pension costs and to fund pension costs within regulatory guidelines. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other comprehensive income (AOCI) beginning in 2006 and amortized to net periodic benefit cost over future periods using the corridor method. The Company believes that the assumptions utilized in recording its obligations under the plan are reasonable based on its experience and market conditions.

On November 4, 2008, the Board of Directors approved changes to the Company's defined benefit pension plan. Effective December 31, 2008, there are no further accrual of benefits for any participants and benefits do not

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increase with any additional years of service. Employees already enrolled in the Pension Plan as of December 31, 2008 will be 100% vested if they have at least five years of service. For employees with less than five years of service, vesting would occur at the employee's five-year anniversary date.

In addition, the Company 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 following table sets forth the status of the Pension Plan and SERP at the dates indicated:

| | Pension Plan | | SERP | |
|---|---|---|---|---|
| | December 31, | | | |
| (Dollars in thousands) | 2017 | 2016 | 2017 | 2016 |
| Accumulated benefit obligation at end of year | $ 19,314 | $ 17,496 | $ 9,242 | $ 9,044 |
| Change in projected benefit obligation: | | | | |
| Benefit obligation at beginning of year | $ 17,496 | $ 17,321 | $ 9,044 | $ 8,891 |
| Service cost | 193 | 194 | 75 | 38 |
| Interest cost | 763 | 752 | 140 | 132 |
| Actuarial loss (gain) | 1,670 | (90) | — | — |
| Benefits paid | (808) | (681) | (17) | (17) |
| Benefit obligation at end of year | 19,314 | 17,496 | 9,242 | 9,044 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 14,804 | 13,140 | — | — |
| Actual return on plan assets | 1,931 | 345 | — | — |
| Employer contributions | — | 2,000 | 17 | 17 |
| Benefits paid | (808) | (681) | (17) | (17) |
| Fair value of plan assets at end of year | 15,927 | 14,804 | — | — |
| Funded status at end of year | $ (3,387) | $ (2,692) | $ (9,242) | $ (9,044) |
| Amounts recognized in the consolidated balance sheets: | | | | |
| Accounts payable and accrued expenses - liability | $ (3,387) | $ (2,692) | $ (9,242) | $ (9,044) |
| Amounts recognized in accumulated other comprehensive loss: | | | | |
| Net actuarial loss | $ 9,096 | $ 8,582 | $ — | $ — |
| Prior service cost | 149 | 154 | — | — |
| Accumulated other comprehensive loss, before tax | $ 9,245 | $ 8,736 | $ — | $ — |

The following table sets forth the changes recognized in accumulated other comprehensive loss for the years indicated:

| | Pension Plan Year Ended December 31, | |
|---|---|---|
| (Dollars in thousands) | 2017 | 2016 |
| Accumulated other comprehensive loss at beginning of year, before tax | $ 8,736 | $ 8,375 |
| Actuarial net loss arising during the period | 764 | 580 |
| Amortizations (recognized in net periodic benefit cost): | | |
| Actuarial loss | (250) | (214) |
| Prior service cost | (5) | (5) |
| Total recognized in other comprehensive loss | 509 | 361 |
| Accumulated other comprehensive loss at end of year, before tax | $ 9,245 | $ 8,736 |

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For the years ended December 31, 2017 and 2016, the following weighted average assumptions were used to determine benefit obligations at the end of the year:

| | Pension Plan | | SERP | |
|---|---|---|---|---|
| | Year Ended December 31, | | | |
| | 2017 | 2016 | 2017 | 2016 |
| Assumptions used to determine the year-end benefit obligations: | | | | |
| Discount rate | 3.70 % | 4.30 % | 5.04 % | 5.05 % |
| Rate of compensation increase | N/A | N/A | 5.00 % | 5.00 % |

The Company does not expect any plan assets to be returned to the Company during calendar year 2018.

The dates used to determine retirement measurements for the Pension Plan were December 31, 2017 and 2016.

The Company's investment strategy for the defined benefit retirement plan is to maintain a consistent rate of return with primary emphasis on capital appreciation and secondary emphasis on income to enhance the purchasing power of the plan's assets over the long-term and to preserve capital. The investment policy establishes a target allocation for each asset class that is reviewed periodically and rebalanced when considered appropriate. Normal target allocations at December 31, 2017 were 55% domestic equity securities, 10% international equity securities and 35% bonds. Equity securities primarily include stocks, investment in exchange traded funds and large-cap, mid-cap and small-cap mutual funds. Bonds include U.S. Treasuries, mortgage-backed securities and corporate bonds of companies in diversified industries. Other types of investments include money market funds and savings accounts opened with the Company.

As of December 31, 2017 and 2016, the Pension Plan's assets measured at fair value were classified as follows:

| | | Fair Value of Measurements at Report Date Using: | | |
|---|---|---|---|---|
| (Dollars in thousands) | Total Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2017: | | | | |
| Cash | $ 846 | $ 846 | $ — | $ — |
| Equities | 11,814 | 11,814 | — | — |
| Mutual funds (1) | 3,267 | 3,267 | — | — |

| | | | | |
|---|---|---|---|---|
| Total | $ 15,927 | $ 15,927 | $ — | $ — |
| | | | | |
| December 31, 2016: | | | | |
| Cash | $ 1,839 | $ 1,839 | $ — | $ — |
| Equities | 9,794 | 9,794 | — | — |
| Mutual funds (1) | 3,171 | 3,171 | — | — |
| Total | $ 14,804 | $ 14,804 | $ — | $ — |

(1) This category includes mutual funds that invest in equities and bonds. The mutual fund managers have the ability to change the amounts invested in equities and bonds depending on their investment outlook.

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Estimated future benefit payments reflecting expected future service at December 31, 2017 are as follows:

| (Dollars in thousands) | Pension Plan | SERP |
|---|---|---|
| 2018 | $ 954 | $ 17 |
| 2019 | 1,007 | 6,488 |
| 2020 | 1,039 | 150 |
| 2021 | 1,092 | 2,320 |
| 2022 | 1,133 | 144 |
| 2023 - 2027 | 5,794 | 665 |
| Total | $ 11,019 | $ 9,784 |

For the years ended December 31, 2017, 2016, and 2015, the following weighted average assumptions were used to determine net periodic benefit cost for the fiscal years shown:

| | Pension Plan Year Ended December 31, | | | SERP | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Assumptions used to determine the net periodic benefit cost: | | | | | | |
| Discount rate | 4.30 % | 4.40 % | 4.10 % | 5.03 % | 5.05 % | 5.06 % |
| Expected return on plan assets | 7.25 | 7.50 | 7.50 | N/A | N/A | N/A |
| Rate of compensation increase | N/A | N/A | N/A | 5.00 | 5.00 | 5.00 |

The components of net periodic benefit cost were as follows:

| | Pension Plan Year Ended December 31, | | | SERP | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Net periodic benefit cost for the year: | | | | | | |
| Service cost | $ 193 | $ 194 | $ 120 | $ 75 | $ 38 | $ 29 |
| Interest cost | 763 | 752 | 722 | 140 | 132 | 125 |
| Expected return on plan assets | (1,026) | (1,015) | (976) | — | — | — |
| Amortization of prior service cost | 5 | 5 | — | — | — | — |
| Recognized actuarial loss | 250 | 214 | 215 | — | — | — |
| Recognized curtailment loss | — | — | — | — | — | — |
| Net periodic benefit cost | $ 185 | $ 150 | $ 81 | $ 215 | $ 170 | $ 154 |

The estimated prior service cost and net actuarial loss that will be amortized from AOCI into net periodic pension benefit cost in 2018 are $5,000 and $249,000, respectively.

The expected return on plan assets is based on the weighted-average long-term rates of return for the types of assets held in the plan. The expected return on plan assets is adjusted when there is a change in the expected long-term rate of return or in the composition of assets held in the plan.  The discount rate is based on the return of high-quality fixed-income investments that can be used to fund the benefit payments under the Company’s defined benefit plan.

The Company does not expect to make any contributions to the defined benefit pension plan in 2018.  The Company expects to make a $17,000 contribution to the SERP in 2018 to cover actual benefit payments.

The Company also has a 401(k) defined contribution plan and profit sharing plan covering all employees after one year of service. The 401(k) plan provides for employer matching contributions, as determined by the Company, based on a percentage of employees’ contributions subject to a maximum amount defined in the plan agreement. The Company’s 401(k) matching contributions, based on 5% of employees’ contributions for 2017, 2016 and 2015, amounted to $57,000, $57,000, and $56,000, respectively. The Company contributes to the profit sharing plan an amount determined by the Board of Directors. No contributions were made to the profit sharing plan for years ended December 31, 2017, 2016 and 2015.

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(18)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 years ended December 31, 2017 and 2016 amounted to $1.8 million and $1.1 million, respectively.

Shares held by the ESOP trust were as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Allocated shares | 397,912 | 372,997 |
| Unearned shares | 538,261 | 587,193 |
| Total ESOP shares | 936,173 | 960,190 |
| Fair value of unearned shares, in thousands | $ 16,616 | $ 19,283 |

The ESOP restoration plan is a non-qualified 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 years ended December 31, 2017 and 2016, we accrued $341,000 and $454,000, respectively, for the ESOP restoration plan.

(19)Share-Based Compensation

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

The Company recognized compensation expense, measured as the fair value of the share-based award on the date of grant, on a straight-line basis over the vesting period. Share-based compensation is recorded in the statement of income as a component of salaries and employee benefits with a corresponding increase in stockholders'

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equity. The table below presents information on compensation expense and the related tax benefit for all share-based awards:

| (In thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Compensation expense | $ 153 | $ 1,789 | $ 2,670 |
| Income tax benefit | 42 | 718 | 1,072 |

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

Stock Options

The table below presents the stock option activity of the Company:

| | Options | Weighted Average Exercise Price | Remaining Contractual Life (years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Options outstanding at December 31, 2014 | 832,954 | $ 17.38 | 5.68 | $ 3,471 |
| Granted | 3,600 | 26.23 | 9.67 | |
| Exercised | 1,000 | 17.36 | | 8 |
| Forfeited | 3,254 | 17.36 | | |
| Expired | — | | | |
| Options outstanding at December 31, 2015 | 832,300 | $ 17.42 | 4.70 | $ 8,588 |
| Granted | — | | | |
| Exercised | 125,870 | 17.36 | | 1,378 |
| Forfeited | — | | | |
| Expired | — | | | |
| Options outstanding at December 31, 2016 | 706,430 | $ 17.43 | 3.70 | $ 10,884 |
| Granted | — | | | |
| Exercised | 294,887 | 17.36 | | 4,345 |
| Forfeited | — | | | |
| Expired | — | | | |
| Options outstanding at December 31, 2017 | 411,543 | $ 17.48 | 2.73 | $ 5,509 |
| Options vested and exercisable at December 31, 2017 | 410,343 | $ 17.46 | 2.71 | $ 5,503 |

The following summarizes certain stock option activity of the Company:

| (In thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Intrinsic value of stock options exercised | $ 4,345 | $ 1,378 | $ 8 |
| Proceeds received from stock options exercised | 5,119 | 2,186 | 17 |
| Tax benefits realized from stock options exercised | 1,601 | 368 | 3 |
| Total fair value of stock options that vested | 37 | 4,495 | 3,854 |

During the year ended December 31, 2017, the Company issued 135,210 shares of common stock in exchange for 294,887 stock options and 159,677 common shares. Pursuant to the provisions of our equity incentive plan, optionees are permitted to use the value of common stock they own in a stock swap transaction or use a net settlement method to pay the exercise price of stock options.

As of December 31, 2017, the Company had $3,000 of unrecognized compensation costs related to the stock option plan. The cost of the stock option plan is being amortized over a three-year vesting period.

Restricted Stock

Restricted stock is accounted for as a fixed grant using the fair value of the Company's stock at the time of grant. Unvested restricted stock may not be disposed of or transferred during the vesting period. Restricted stock carries

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the right to receive dividends, although dividends attributable to restricted stock may be retained by the Company until the shares vest, at which time they are paid to the award recipient.

The table below presents the restricted stock activity:

| | Restricted Stock | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested at December 31, 2014 | 226,733 | $ 17.39 |
| Granted | 3,600 | 26.33 |
| Vested | 113,332 | 17.39 |
| Forfeited | 2,459 | 17.36 |
| Nonvested at December 31, 2015 | 114,542 | $ 17.67 |
| Granted | — | — |
| Vested | 112,142 | 17.49 |
| Forfeited | — | — |
| Nonvested at December 31, 2016 | 2,400 | $ 26.23 |
| Granted | 9,604 | 29.53 |
| Vested | 1,200 | 26.23 |
| Forfeited | — | — |
| Nonvested at December 31, 2017 | 10,804 | $ 29.16 |

During the year ended December 31, 2017, the Company issued 9,604 shares of restricted stock to certain members of executive management under the 2010 Equity Incentive Plan.  The fair value of the restricted stock is based on the value of the Company's stock on the date of grant.  Restricted stock will vest over three years from the date of the grant.

As of December 31, 2017, the Company had $246,000 of unrecognized compensation costs related to restricted stock.

During the year ended December 31, 2017, the Company issued 11,525 of performance-based restricted stock units (PRSUs) to certain members of executive management under the 2010 Equity Incentive Plan.  These PRSUs will vest in the first quarter of 2020 after our Compensation Committee determines whether a performance condition that compares the Company's return on average equity to the SNL Bank Index is achieved.  Depending on the Company's performance, the actual number of these PRSUs that are issued at the end of the vesting period can vary between 0% to 150% of the target award.  For the PRSUs, an estimate is made of the number of shares expected to vest based on the probability that the performance criteria will be achieved to determine the amount of compensation expense to be recognized.  This estimate is re-evaluated quarterly and total compensation expense is adjusted for any change in the current period.

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

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

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The fair value of these PRSUs is based on the fair value of the Company's stock on the date of grant. As of December 31, 2017, the Company had $194,000 of unrecognized compensation costs related to these PRSUs. Performance will be measured over a three-year period and will be cliff vested.

During the year ended December 31, 2017, the Company issued 2,881 of PRSUs to certain members of executive management under the 2010 Equity Incentive Plan. These PRSUs will vest in the first quarter of 2020 after our Compensation Committee determines whether a market condition that compares the Company's total stock return to the SNL Bank Index is achieved. The number of shares that will be expensed will not be adjusted for performance. The fair value of these PRSUs is based on a Monte Carlo valuation of the Company's stock on the date of grant. The assumptions which were used in the Monte Carlo valuation of the PRSUs are:

Grant date: May 25, 2017

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

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

December 31, 2016 closing price: $32.84

Closing stock price on date of grant: $29.53

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

Annual dividend preceeding the grant date: $0.80

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

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

As of December 31, 2017, the Company had $37,000 of unrecognized compensation costs related to the PRSUs that are based on a market condition.  Performance will be measured over a three-year period and will be cliff vested.

## (20)Earnings Per Share

Holders of unvested restricted stock receive nonforfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings.  Unvested resticted stock awards that contain nonforfeitable rights to dividends or dividend equivalents are considered to be participating securities in the earnings per share

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computation using the two-class method. Under the two-class method, earnings are allocated to common shareholders and participating securities according to their respective rights to earnings.

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

| | For the Year Ended December 31, | | |
|---|---|---|---|
| (Dollars in thousands, except per share data) | 2017 | 2016 | 2015 |
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |
| Income allocated to participating securities | (27) | (126) | (297) |
| Net income available to common shareholders | $ 14,935 | $ 16,221 | $ 14,451 |
| | | | |
| Weighted-average number of shares used in: | | | |
| Basic earnings per share | 9,273,783 | 9,093,385 | 9,073,015 |
| Dilutive common stock equivalents: | | | |
| Stock options and restricted stock units | 258,941 | 218,590 | 190,252 |
| Diluted earnings per share | 9,532,724 | 9,311,975 | 9,263,267 |
| | | | |
| Net income per common share, basic | $ 1.61 | $ 1.78 | $ 1.59 |
| Net income per common share, diluted | $ 1.57 | $ 1.74 | $ 1.56 |

(21)Other Comprehensive Loss

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

| (Dollars in thousands) | Unfunded Pension Liability | Noncredit Related Loss on Trust Preferred Securities | Unrealized Loss on Securities | Total |
|---|---|---|---|---|
| December 31, 2017: | | | | |
| Balances at beginning of year | $ 5,284 | $ — | $ 32 | $ 5,316 |

| | | | | |
|---|---|---|---|---|
| Other comprehensive loss, net of taxes | 373 | — | 5 | 378 |
| Amounts reclassified from accumulated other comprehensive loss | — | — | — | — |
| Net current period other comprehensive loss | 373 | — | 5 | 378 |
| Balances at end of year | $ 5,657 | $ — | $ 37 | $ 5,694 |
| | | | | |
| December 31, 2016: | | | | |
| Balances at beginning of year | $ 5,044 | $ 147 | $ 45 | $ 5,236 |
| Other comprehensive loss (income), net of taxes | 240 | (147) | (13) | 80 |
| Amounts reclassified from accumulated other comprehensive loss | — | — | — | — |
| Net current period other comprehensive loss (income) | 240 | (147) | (13) | 80 |
| Balances at end of year | $ 5,284 | $ — | $ 32 | $ 5,316 |
| | | | | |
| December 31, 2015: | | | | |
| Balances at beginning of year | $ 5,032 | $ 284 | $ 72 | $ 5,388 |
| Other comprehensive loss (income), net of taxes | 12 | (137) | (27) | (152) |
| Amounts reclassified from accumulated other comprehensive loss | — | — | — | — |
| Net current period other comprehensive loss (income) | 12 | (137) | (27) | (152) |
| Balances at end of year | $ 5,044 | $ 147 | $ 45 | $ 5,236 |

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

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2015 | | |
| (Dollars in thousands) | Pretax Amount | Tax | After Tax Amount | Pretax Amount | Tax | After Tax Amount | Pretax Amount | Tax | After Tax Amount |
| Unfunded pension liability | $ 509 | $ (136) | $ 373 | $ 361 | $ (121) | $ 240 | $ 20 | $ (8) | $ 12 |
| Noncredit related loss on trust preferred securities | — | — | — | (242) | 95 | (147) | (226) | 89 | (137) |
| Unrealized loss on securities | 9 | (4) | 5 | (22) | 9 | (13) | (45) | 18 | (27) |
| Total | $ 518 | $ (140) | $ 378 | $ 97 | $ (17) | $ 80 | $ (251) | $ 99 | $ (152) |

(22)Commitments

(a) Loan Commitments

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on an individual basis. The Company's policy is to require suitable collateral, primarily real estate, to be provided by customers prior to disbursement of approved loans. At December 31, 2017 and 2016, the Company had loan commitments aggregating to $15.5 million (interest rates from 2.875% to 4.125%) and $50.5 million (interest rates from 2.500% to 4.625%), respectively, primarily consisting of fixed-rate residential first mortgage loans. In addition to commitments to originate loans, at December 31, 2017 and 2016, the Company had $27.2 million and $28.6 million, respectively, in unused lines of credit to borrowers.

(b) Lease Commitments

The Company leases a majority of its premises under operating leases expiring on various dates through 2029. Total rental expense comprised minimum rentals of $3.0 million, $2.9 million, and $2.9 million for the years ended December 31, 2017, 2016, and 2015, respectively.

At December 31, 2017, future minimum rental commitments under all noncancelable operating leases are as follows:

| (Dollars in thousands) | |
|---|---|
| 2018 | $ 2,809 |
| 2019 | 2,353 |
| 2020 | 1,919 |
| 2021 | 1,463 |
| 2022 | 1,293 |
| Thereafter | 4,557 |
| Total | $ 14,394 |

Certain leases are renegotiable during the period of the lease or have renewal options at the expiration of the lease term. The majority of lease agreements relates to real estate and generally provides that the Company pay taxes, maintenance, insurance, and certain other operating expenses applicable to the leased premises.

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In addition, the Company leases to a tenant certain property that it owns. Future minimum rental income for this noncancelable lease is as follows:

| (Dollars in thousands) | |
|---|---|
| 2018 | $ 110 |
| 2019 | 110 |
| 2020 | 110 |
| 2021 | 110 |
| 2022 | — |
| Thereafter | — |
| Total | $ 440 |

Rental income comprised of minimum rentals for 2017, 2016, and 2015 was approximately $110,000 each year.

(c) Reserve Requirements

The Company is required by the Federal Reserve Bank to maintain reserves based on the amount of deposits held. The reserve requirement at December 31, 2017 and 2016 was $12.8 million and $10.7 million, respectively, and the Company met such requirements.

(23)Regulatory Capital and Supervision

Territorial Savings Bank and the Company are subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. Effective January 1, 2015, the well capitalized threshold for Tier 1 risk-based capital was increased from 6.0% to 8.0% and a new capital standard, common equity tier 1 risk-based capital, was implemented with a 6.5% ratio requirement for a financial institution to be considered well capitalized. Additionally, effective January 1, 2015, consolidated regulatory capital requirements identical to those applicable to the subsidiary depository institutions became applicable to savings and loan holding companies over $1.0 billion in assets, such as the Company. The capital requirements become fully-phased in on January 1, 2019. At December 31, 2017, Territorial Savings Bank and the Company exceeded all of the fully-phased in regulatory capital requirements and are considered to be “well capitalized” under regulatory guidelines.

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The table below present the fully-phased in capital required to be considered “well-capitalized” as a percentage of total and risk-weighted assets and the percentage and the total amount of capital maintained for Territorial Savings Bank and the Company at December 31, 2017 and 2016:

| (Dollars in thousands) | Required Ratio | Actual Amount | Actual Ratio |
|---|---|---|---|
| December 31, 2017: | | | |
| Tier 1 Leverage Capital | | | |
| Territorial Savings Bank | 5.00 % | $ 218,826 | 11.04 % |
| Territorial Bancorp Inc. | 5.00 % | $ 240,548 | 12.13 % |
| Common Equity Tier 1 Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 9.00 % | $ 218,826 | 23.31 % |
| Territorial Bancorp Inc. | 9.00 % | $ 240,548 | 25.62 % |
| Tier 1 Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 10.50 % | $ 218,826 | 23.31 % |
| Territorial Bancorp Inc. | 10.50 % | $ 240,548 | 25.62 % |
| Total Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 12.50 % | $ 221,460 | 23.59 % |
| Territorial Bancorp Inc. | 12.50 % | $ 243,182 | 25.90 % |
| December 31, 2016: | | | |
| Tier 1 Leverage Capital | | | |
| Territorial Savings Bank (2) | 9.00 % | $ 219,365 | 11.76 % |
| Territorial Bancorp Inc. | 5.00 % | $ 235,102 | 12.60 % |
| Common Equity Tier 1 Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 9.00 % | $ 219,365 | 25.30 % |
| Territorial Bancorp Inc. | 9.00 % | $ 235,102 | 27.11 % |
| Tier 1 Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 10.50 % | $ 219,365 | 25.30 % |
| Territorial Bancorp Inc. | 10.50 % | $ 235,102 | 27.11 % |
| Total Risk-Based Capital (1) | | | |
| Territorial Savings Bank | 12.50 % | $ 221,912 | 25.59 % |
| Territorial Bancorp Inc. | 12.50 % | $ 237,649 | 27.41 % |

(1) The required Common Equity Tier 1 Risk-Based Capital, Tier 1 Risk-Based Capital and Total Risk-Based Capital ratios are based on the fully-phased in capital ratios in the Basel III capital regulations plus the 2.50% capital conservation buffer that becomes effective on January 1, 2019.

(2) On July 10, 2014, Territorial Savings Bank became a member of the Federal Reserve System. As a condition of membership, Territorial Savings Bank was required to maintain a Tier 1 Leverage Capital ratio of 9.00% for three years.

Prompt Corrective Action provisions define specific capital categories based on an institution’s capital ratios. However, the regulators may impose higher minimum capital standards on individual institutions or may downgrade an institution from one capital category to a lower category because of safety and soundness concerns. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Prompt Corrective Action provisions impose certain restrictions on institutions that are undercapitalized. The restrictions imposed become increasingly more severe as an institution's capital category declines from "undercapitalized" to "critically undercapitalized."

At December 31, 2017 and 2016, the Bank's capital ratios exceeded the minimum capital thresholds for a "well-capitalized" institution. There are no conditions or events that have changed the institution's category under the capital guidelines.

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Depending on the amount of dividends to be paid, the Bank is required to either notify or make application to the Federal Reserve Bank before dividends are paid to the parent company.

(24)Contingencies

The Company is involved in various claims and legal actions arising out of the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company’s consolidated balance sheets or consolidated statements of income.

(25)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 72 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, including estimated prepayments, 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 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 |
|---|---|---|---|---|---|
| December 31, 2017 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | $ 32,089 | $ 32,089 | $ 32,089 | $ — | $ — |
| Investment securities available for sale | 2,851 | 2,851 | — | 2,851 | — |
| Investment securities held to maturity | 404,792 | 406,663 | — | 405,818 | 845 |
| Loans held for sale | 403 | 414 | — | 414 | — |
| Loans receivable, net | 1,488,971 | 1,505,097 | — | — | 1,505,097 |
| FHLB stock | 6,541 | 6,541 | — | 6,541 | — |
| FRB stock | 3,103 | 3,103 | — | 3,103 | — |
| Accrued interest receivable | 5,142 | 5,142 | 7 | 1,045 | 4,090 |
| Interest rate contracts | 8 | 8 | — | 8 | — |
| Liabilities | | | | | |
| Deposits | 1,597,295 | 1,595,992 | — | 1,285,070 | 310,922 |
| Advances from the Federal Home Loan Bank | 107,200 | 107,019 | — | 107,019 | — |
| Securities sold under agreements to repurchase | 30,000 | 29,846 | — | 29,846 | — |
| Accrued interest payable | 575 | 575 | — | 115 | 460 |
| Interest rate contracts | 8 | 8 | — | 8 | — |
| December 31, 2016 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | $ 61,273 | $ 61,273 | $ 61,273 | $ — | $ — |
| Investment securities held to maturity | 407,656 | 407,922 | — | 406,759 | 1,163 |
| Loans held for sale | 1,601 | 1,601 | — | 1,601 | — |
| Loans receivable, net | 1,335,987 | 1,352,137 | — | — | 1,352,137 |
| FHLB stock | 4,945 | 4,945 | — | 4,945 | — |
| FRB stock | 3,095 | 3,095 | — | 3,095 | — |
| Accrued interest receivable | 4,732 | 4,732 | 10 | 1,064 | 3,658 |
| Interest rate contracts | 104 | 104 | — | 104 | — |
| Liabilities | | | | | |
| Deposits | 1,493,200 | 1,493,094 | — | 1,257,157 | 235,937 |
| Advances from the Federal Home Loan Bank | 69,000 | 69,068 | — | 69,068 | — |
| Securities sold under agreements to repurchase | 55,000 | 55,123 | — | 55,123 | — |
| Accrued interest payable | 218 | 218 | — | 172 | 46 |
| Interest rate contracts | 104 | 104 | — | 104 | — |

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

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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 |
|---|---|---|---|---|
| December 31, 2017 | | | | |
| Interest rate contracts — assets | $ — | $ 8 | $ — | $ 8 |
| Interest rate contracts — liabilities | — | (8) | — | (8) |
| Available-for-sale investments | — | 2,851 | — | 2,851 |
| December 31, 2016 | | | | |
| Interest rate contracts — assets | $ — | $ 104 | $ — | $ 104 |
| Interest rate contracts — liabilities | — | (104) | — | (104) |

The fair value of interest rate contracts was determined by referring to prices quoted in the secondary market for similar contracts. The fair value of available-for-sale investments was determined using pricing models that consider bid and ask prices and prices at which similar securities traded.

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

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

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

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

(26)Parent Company Only

Presented below are the condensed balance sheet, statement of income, and statement of cash flows for Territorial Bancorp Inc.

Condensed Balance Sheet

| (Dollars in thousands) | December 31, 2017 | 2016 |
|---|---|---|
| Assets | | |
| Cash | $ 20,093 | $ 15,288 |
| Investment in Territorial Savings Bank | 213,132 | 214,050 |
| Receivable from Territorial Savings Bank | 1,539 | 373 |
| Prepaid expenses and other assets | 141 | 81 |
| Total assets | $ 234,905 | $ 229,792 |
| Liabilities and Equity | | |

| | | |
|---|---|---|
| Other liabilities | $ 51 | $ 6 |
| Equity | 234,854 | 229,786 |
| Total liabilities and equity | $ 234,905 | $ 229,792 |

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Condensed Statement of Income

| (Dollars in thousands) | For the Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Interest and dividend income: | | | |
| Dividends from Territorial Savings Bank | $ 16,200 | $ 7,500 | $ 14,000 |
| Interest-earning deposit with Territorial Savings Bank | 49 | 34 | 29 |
| Total interest and dividend income | 16,249 | 7,534 | 14,029 |
| Noninterest expense: | | | |
| Salaries | 37 | 40 | 34 |
| Other general and administrative expenses | 989 | 745 | 829 |
| Total noninterest expense | 1,026 | 785 | 863 |
| Income before income taxes and equity in undistributed earnings in subsidiaries | 15,223 | 6,749 | 13,166 |
| Income taxes | (384) | (285) | (416) |
| Income before equity in undistributed earnings in subsidiaries | 15,607 | 7,034 | 13,582 |
| Equity in undistributed earnings of Territorial Savings Bank, net of dividends | (645) | 9,313 | 1,166 |
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |

Condensed Statement of Cash Flows

| (Dollars in thousands) | For the Year Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 14,962 | $ 16,347 | $ 14,748 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of Territorial Savings Bank, net of dividends | 645 | (9,313) | (1,166) |
| ESOP expense | 1,529 | 1,353 | 1,210 |
| Net (increase) decrease in prepaid expenses and other assets | (1,226) | 659 | 1,170 |
| Net increase (decrease) in other liabilities | 27 | (18) | (18) |
| Net cash provided by operating activities | 15,937 | 9,028 | 15,944 |
| Cash flows from investing activities: | | | |

| | | | |
|---|---|---|---|
| Investment in Territorial Savings Bank | — | — | — |
| Net cash used in investing activities | — | — | — |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | — | 566 | 17 |
| Repurchases of common stock | (9) | (1,674) | (9,326) |
| Cash dividends paid | (11,123) | (8,409) | (7,013) |
| Net cash used in financing activities | (11,132) | (9,517) | (16,322) |
| Net increase (decrease) in cash | 4,805 | (489) | (378) |
| Cash at beginning of the period | 15,288 | 15,777 | 16,155 |
| Cash at end of the period | $ 20,093 | $ 15,288 | $ 15,777 |

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(27)Unaudited Quarterly Financial Information

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | |
| 2017: | | | | | |
| Interest income | $ 16,781 | $ 16,777 | $ 17,177 | $ 17,598 | $ 68,333 |
| Interest expense | 2,121 | 2,253 | 2,518 | 2,697 | 9,589 |
| Net interest income | 14,660 | 14,524 | 14,659 | 14,901 | 58,744 |
| Provision (reversal of provision) for loan losses | 71 | (123) | 54 | 50 | 52 |
| Net interest income after provision for loan losses | 14,589 | 14,647 | 14,605 | 14,851 | 58,692 |
| Noninterest income | 1,022 | 1,059 | 909 | 856 | 3,846 |
| Noninterest expense | 8,707 | 8,754 | 8,761 | 10,252 | 36,474 |
| Income before income taxes | 6,904 | 6,952 | 6,753 | 5,455 | 26,064 |
| Income taxes | 2,583 | 2,651 | 2,580 | 3,288 | 11,102 |
| Net income | 4,321 | 4,301 | 4,173 | 2,167 | 14,962 |
| Basic earnings per share | 0.47 | 0.46 | 0.45 | 0.23 | 1.61 |
| Diluted earnings per share | 0.46 | 0.45 | 0.44 | 0.23 | 1.57 |
| Cash dividends declared per common share | 0.20 | 0.20 | 0.30 | 0.50 | 1.20 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| | (Dollars in thousands, except per share data) | | | | |
| 2016: | | | | | |
| Interest income | $ 16,380 | $ 16,543 | $ 16,669 | $ 16,481 | $ 66,073 |
| Interest expense | 1,883 | 1,944 | 1,964 | 2,053 | 7,844 |
| Net interest income | 14,497 | 14,599 | 14,705 | 14,428 | 58,229 |
| Provision for loan losses | 28 | 84 | 107 | 91 | 310 |
| Net interest income after provision for loan losses | 14,469 | 14,515 | 14,598 | 14,337 | 57,919 |
| Noninterest income | 886 | 1,134 | 1,003 | 1,071 | 4,094 |
| Noninterest expense | 9,059 | 8,988 | 8,645 | 8,187 | 34,879 |
| Income before income taxes | 6,296 | 6,661 | 6,956 | 7,221 | 27,134 |
| Income taxes | 2,512 | 2,624 | 2,792 | 2,859 | 10,787 |
| Net income | 3,784 | 4,037 | 4,164 | 4,362 | 16,347 |
| Basic earnings per share | 0.41 | 0.44 | 0.45 | 0.48 | 1.78 |
| Diluted earnings per share | 0.40 | 0.43 | 0.44 | 0.46 | 1.74 |
| Cash dividends declared per common share | 0.18 | 0.18 | 0.18 | 0.38 | 0.92 |

(28)Subsequent Events

On January 25, 2018, the Board of Directors of Territorial Bancorp Inc. declared a quarterly cash dividend of $0.20 per share of common stock.  The dividend was paid on February 22, 2018 to stockholders of record as of February 8, 2018.

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PART IV

ITEM 15.Exhibits and Financial Statement Schedules

(a)Financial Statements

The following documents are filed as part of this annual report:

(i) Reports of Independent Registered Public Accounting Firms
(ii) Consolidated Balance Sheets at December 31, 2017 and 2016
(iii) Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015
(iv) Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015
(v) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015
(vi) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015
(vii) Notes to Consolidated Financial Statements

(b)Exhibits

| | |
|---|---|
| 23 | Consent of Moss Adams LLP |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | The following financial statements from Territorial Bancorp Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017, filed on March 15, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements. |
| 101.INS | Interactive datafile XBRL Instance Document |
| 101.SCH | Interactive datafile XBRL Taxonomy Extension Schema Document |
| 101.CAL | Interactive datafile XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Interactive datafile XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Interactive datafile XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | Interactive datafile XBRL Taxonomy Extension Presentation Linkbase Document |

(c)Financial Statement Schedules

Not applicable.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TERRITORIAL BANCORP INC.

| | | |
|---|---|---|
| Date: March 21, 2018 | By: | /s/ Allan S. Kitagawa |
| | | Allan S. Kitagawa |
| | | Chairman of the Board, President and Chief Executive Officer |
| | | (Duly Authorized Representative) |