Territorial Bancorp Inc.

2021 ANNUAL REPORT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2021

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

(808) 946-1400
(Registrant's Telephone Number including area code)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock	TBNK	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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.

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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, 2021 ($25.97) was $223.1 million.

As of February 28, 2022, there were 9,315,474 shares outstanding of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2022 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

TERRITORIAL BANCORP INC.
FORM 10-K
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements, which can be identified by the use of words such as "estimate," "project," "believe," "intend," "anticipate," "plan," "seek," "expect," "will," "may" and words of similar meaning. These forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Except as may be required by law, we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

- risks, uncertainties and other factors relating to the COVID-19 pandemic, including the length of time that the pandemic continues, the imposition of any restrictions on individual or business activities; the severity and duration of the effect of the pandemic on the general economy and on the businesses of our borrowers and their ability to make payments on their obligations; the remedial actions and stimulus measures adopted by federal, state and local governments, including the effects of any vaccine mandate; and the inability of employees to work due to illness, quarantine, or government mandates;
- general economic conditions, internationally, nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities or credit markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes in monetary or fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer demand, spending, borrowing and savings habits;
- changes in accounting and auditing policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- changes in our organization, compensation and benefit plans;
- the timing and amount of revenues that we may recognize;
- the value and marketability of collateral underlying our loan portfolios;
- our ability to retain key employees;

- cyber attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data or disable our systems;
- technological changes that may be more difficult or expensive than expected;
- the ability of third-party providers to perform their obligations to us;
- the ability of the U.S. Government to manage federal debt limits;
- the effects of any federal government shutdown;
- the quality and composition of our investment portfolio;
- changes in market and other conditions that would affect our ability to repurchase our common stock;
- changes in our financial condition or results of operations that reduce capital available to pay dividends;
- the effects of climate change and societal, investor and governmental responses to climate change;
- the effects of social and governance change and societal and investor sentiment and governmental responses to social and governance matters;
- the effects of domestic and international hostilities, including terrorism; and
- changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please also see "Item 1A. Risk Factors."

PART I

ITEM 1. Business

Territorial Bancorp Inc.

Territorial Bancorp Inc. (the Company) is a Maryland corporation and owns 100% of the outstanding common stock of Territorial Savings Bank (the Bank). In 2009, we completed our initial public offering of common stock in connection with the mutual-to-stock conversion of Territorial Mutual Holding Company. Since the completion of our initial public offering, we have not engaged in any significant business activity other than owning the common stock of and having savings deposits in Territorial Savings Bank, paying dividends and repurchasing shares of our common stock. At December 31, 2021, we had consolidated assets of $2.1 billion, consolidated deposits of $1.7 billion and consolidated stockholders' equity of $256.3 million.

Our executive offices are located at 1132 Bishop Street, Suite 2200, Honolulu, Hawaii 96813. Our telephone number at this address is (808) 946-1400.

Territorial Savings Bank

Territorial Savings Bank is a Hawaii state-chartered savings bank headquartered in Honolulu, Hawaii. Territorial Savings Bank was organized in 1921, and reorganized into the mutual holding company structure in 2002. Territorial Savings Bank is currently the wholly-owned subsidiary of Territorial Bancorp Inc. In 2014, Territorial Savings Bank converted from a federal savings bank to a Hawaii state-chartered savings bank and became a member of the Federal Reserve System. We provide financial services to individuals, families and businesses through our 29 banking offices located throughout the State of Hawaii.

Territorial Savings Bank's executive offices are located at 1132 Bishop Street, Suite 2200, Honolulu, Hawaii 96813. Our telephone number at this address is (808) 946-1400.

Available Information

Territorial Bancorp Inc. is a public company, and files current, quarterly and annual reports with the Securities and Exchange Commission. These reports and any amendments to these reports are available for free on our website, www.territorialsavings.net as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Information on our website should not be considered a part of this Annual Report on Form 10-K. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov).

General

Territorial Savings Bank's business consists primarily of accepting deposits from the general public and investing those deposits, together with funds generated from operations and borrowings, in one- to four-family residential mortgage loans and investment securities. To a much lesser extent, we also originate home equity loans and lines of credit, construction, commercial and other nonresidential real estate loans, consumer loans, multi-family mortgage loans and other loans. Territorial Savings Bank offers a variety of deposit accounts, including passbook and statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and Super NOW accounts. Through our subsidiary, Territorial Financial Services, Inc., we engage in insurance agency activities. We also offer various non-deposit investments to our customers, including annuities and mutual funds, through a third-party broker-dealer.

Market Area

We conduct business from our corporate offices and from our 29 full-service branch offices located throughout the State of Hawaii.

In 2020, the State of Hawaii imposed restrictions on travel, businesses and activities to help mitigate the spread and lessen the public health impact of the COVID-19 virus in Hawaii and the state's unemployment rate suffered as a result of these restrictions. The state's unemployment rate initially rose from 2.1% in March 2020 to 21.9% in April 2020. Travel restrictions were reduced in 2021, primarily due to vaccination of residents and visitors, resulting in an increase in visitor arrivals and a decline in the state's unemployment rate to 5.7% in December 2021.

The largest sector of Hawaii's economy is the visitor industry. Hawaii's visitor industry has been severely impacted by the COVID-19 pandemic as the number of visitors to the state declined dramatically, airlines cut the number of flights to Hawaii and many businesses, such as hotels and restaurants, saw temporary or permanent closures due to COVID-19 restrictions imposed by the state. Though many of these restrictions have been lifted or relaxed, tourism and tourism spending still remain below pre-pandemic levels. The Hawaii Tourism Authority reported that total visitor spending for 2021 totaled $13.0 billion compared to $17.8 billion in 2019, the year prior to the pandemic, representing a decrease of 27.0%. Most of the visitors to the state in 2021 were from the continental United States. In 2021, there were very few visitors who came to Hawaii from other countries because these visitors would have to quarantine when they return to their home country.

Public sector construction projects continue to provide large scale projects such as renovations and expansions of airports, roads and public utilities, including the Honolulu rail project. Local leaders are proposing to increase spending on public works construction projects to help offset the negative impact of the COVID-19 pandemic on the state's economy. Private sector construction projects include several hotels, condominiums and two master planned residential subdivisions on Oahu. Residential construction is expected to continue to grow because of the strong demand for homes.

The number of single-family homes sold on the island of Oahu, the primary real estate market in Hawaii, totaled 4,526 units in 2021, an increase of 17.9% compared to sales in 2020. The median price paid on Oahu for a single-family home in December 2021 was $1,050,000, an increase of 20.7% compared to the median price in 2020. The number of condominium sales, a notable portion of the overall housing market, totaled 7,203 units in 2020, an increase of 53.1%

compared to sales in 2019. The median price paid on Oahu for condominiums in December 2021 was $485,000, an increase of 6.6% compared to the median price in 2020.

On the island of Maui, the second largest real estate market in Hawaii, sales of existing single-family homes totaled 1,378 units in 2021, a 26.1% increase compared to the number of units sold in 2020. The median price paid for a single-family home on Maui in December 2021 was $1,075,000, an increase of 26.6% compared to the median price in December 2020. The number of condominium sales totaled 2,315 units in 2021, an increase of 70.1% compared to the number of units sold in 2020. The median price paid on Maui for condominiums in December 2021 was $700,000, an 11.1% increase compared to the median price in December 2020.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, Fintech, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices, located in all four counties in the State of Hawaii. As of June 30, 2021 (the latest date for which information is publicly available), we ranked fifth in FDIC-insured deposit market share in the State of Hawaii (out of 13 banks and thrift institutions with offices in Hawaii), with a 3.0% market share. As of that date, our largest market share was in the City and County of Honolulu, where we ranked fifth in deposit market share (out of 13 banks and thrift institutions with offices in the City and County) with a 3.2% market share.

Lending Activities

Our primary lending activity is the origination of one- to four-family residential mortgage loans. To a much lesser extent, we also originate home equity loans and lines of credit, construction, commercial and other nonresidential real estate loans, consumer loans, multi-family mortgage loans and commercial business loans.

One- to Four-Family Residential Mortgage Loans. At December 31, 2021, $1.3 billion, or 97.0% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities generally up to 30 years. There has been little demand for adjustable-rate mortgage loans in our market area.

One- to four-family residential mortgage loans are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as "conforming loans." We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which was $822,375 for single-family homes located in the State of Hawaii for 2021. We also originate loans above this amount, which are referred to as "jumbo loans." These jumbo loan amounts are generally up to $1.0 million, although we originate loans above this amount. We generally originate fixed-rate jumbo loans with terms of up to 30 years. We have not originated significant amounts of adjustable-rate jumbo loans in recent years due to customer preference for fixed-rate loans in our market area. We generally underwrite jumbo loans in a manner similar to conforming loans. Jumbo loans are not uncommon in our market area.

We generally originate loans with loan-to-value ratios in excess of 80%, up to and including a loan-to-value ratio of 100%. We generally require private mortgage insurance for loans with loan-to-value ratios in excess of 80%. During the year ended December 31, 2021, we originated $4.1 million of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. We offer a variety of credit programs for low- to moderate-income and first-time home purchasers. These include our first time home purchaser program, where the borrower will receive up to a 50 basis point reduction in points charged in connection with the loan. We also originate first mortgage loans to lower-income individuals who reside in rural census tracts where the U.S. Department of Agriculture will issue a second mortgage and complete the underwriting of the loan, subject to our review before origination. We also offer both Federal Housing Administration (FHA) and Veterans Administration (VA) fixed-rate loans.

Other than our loans for the construction of one- to four-family residential mortgage loans (described under "—Nonresidential Real Estate Loans"), we currently do not originate new "interest only" mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer "subprime loans" (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as nonconforming loans having less than full documentation).

Nonresidential Real Estate Loans. Our nonresidential real estate loans consist primarily of commercial real estate loans and construction loans for residential real estate projects. These loans totaled $18.6 million, or 1.4% of our loan portfolio as of December 31, 2021. The commercial real estate properties primarily include owner-occupied light industrial properties. We generally seek to originate commercial real estate loans with initial principal balances of $1.0 million or less. Loans secured by commercial real estate totaled $9.0 million, or 0.7%, of our total loan portfolio at December 31, 2021, and consisted of nine loans outstanding with an average loan balance of approximately $997,000. All of our nonresidential real estate loans are secured by properties located in our primary market area. At December 31, 2021, our largest commercial real estate loan had a principal balance of $2.8 million and was secured by real property and improvements utilized as an office building. During the COVID-19 pandemic, this loan was modified to allow for the deferral of six months of interest to the maturity date of the loan in 2030. This loan was performing in accordance with its modified loan terms at December 31, 2021.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate loans, however, entail greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate than for residential properties.

We also originate a limited amount of construction loans to experienced developers, almost exclusively for the construction of residential real estate projects. Construction loans are also made to individuals for the construction of their personal residences. Construction loans to individuals are generally "interest-only" loans during the construction period, and convert to permanent, amortizing loans following the completion of construction. At December 31, 2021, construction loans totaled $7.1 million, or 0.5% of total loans receivable. At December 31, 2021, the additional unadvanced portion of these construction loans totaled $5.0 million.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. In the event we make a land acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. We currently do not have any land acquisition development and construction loans. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

Loan Originations, Purchases, Sales and Servicing. All mortgage loans that we originate are underwritten pursuant to our policies and procedures, which incorporate standard Freddie Mac underwriting guidelines. We originate both adjustable-rate and fixed-rate loans. However, in our market area, customer demand is primarily for fixed-rate loans. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. Most of our one- to four-family residential mortgage loan originations are

generated by our branch managers and employees located in our banking offices and our additional commissioned loan officers located in our corporate headquarters. We also advertise throughout our market area. We also receive loans from mortgage brokers, mortgage bankers and other financial institutions that work with our staff to process and close these loans. We underwrite and approve all of these loans. We also obtain mortgage loan applications and refer these applications to other financial institutions and mortgage bankers for a fee. Mortgage loan applications are referred to other financial institutions and mortgage bankers because these companies may not require a full-appraisal of the property being mortgaged as we do, may offer better loan terms and may be able to close the loan faster. In addition, we may decide to refer the loan application to another company because we do not want to add a loan with the applicable type of credit quality or collateral to our loan portfolio. In 2021, we referred $84.2 million of mortgage loans to other financial institutions and mortgage bankers and received fees of $1.1 million.

We sell loans to assist us in managing interest rate risk. We sold residential mortgage loans held for sale (all fixed-rate loans, with terms of 10 years or longer) with principal balances of $36.2 million and $43.8 million during the years ended December 31, 2021 and 2020, respectively. We had no loans classified as held for sale at December 31, 2021 and five loans totaling $2.2 million classified as held for sale at December 31, 2020.

We sell our loans without recourse, except for normal representations and warranties provided in sales transactions. We primarily sell loans on a servicing released basis where servicing is transferred to a third party at the time the loan is sold. At December 31, 2021, we were servicing loans owned by others with a principal balance of $41.3 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities. For the year ended December 31, 2021, we received servicing fees of $127,000. At December 31, 2021, substantially all of the loans serviced for Freddie Mac and Fannie Mae were performing in accordance with their contractual terms and we believe that there are no material repurchase obligations associated with these loans.

Loan Approval Procedures and Authority. Our lending activities follow written, nondiscriminatory underwriting standards and loan origination procedures established by our Board of Directors. The loan approval process is intended to assess the borrower's ability to repay the loan and value of the property that will secure the loan. To assess the borrower's ability to repay, we review the borrower's employment and credit history and information on the historical and projected income and expenses of the borrower.

Our policies and loan approval limits are established by the Board of Directors. Aggregate lending relationships in amounts up to $5.0 million can be approved by designated individual officers or officers acting together with specific lending approval authority. Relationships in excess of $5.0 million require the approval of the Loan Committee of the Board of Directors.

Territorial Savings Bank also uses automated systems to underwrite one- to four-family residential mortgage loans up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which was $822,375 in the State of Hawaii for 2021. We require appraisals of all real property securing one- to four-family residential real estate loans, and on property securing home equity loans and lines of credit. All appraisers are licensed appraisers and all third-party appraisers are approved by the Board of Directors annually.

Investments

Our Board of Directors has primary responsibility for establishing and overseeing our investment policy. The Board of Directors has delegated authority to implement the investment policy to our Investment Committee, consisting of our President and Chief Executive Officer, our Vice Chairman and Co-Chief Operating Officer, our Senior Vice President and Chief Financial Officer and our Vice President and Senior Treasury Analyst. The investment policy is reviewed at least annually by the Investment Committee, and any changes to the policy are subject to approval by the full Board of Directors. The overall objectives of the Investment Policy are to maintain a portfolio of high quality and diversified investments to maximize interest income over the long term and to minimize risk, to provide collateral for borrowings, to provide additional earnings when loan production is low, and to reduce our tax liability. The policy dictates that investment decisions give consideration to the safety of principal, liquidity requirements and potential

returns. Our Senior Vice President and Chief Financial Officer executes our securities portfolio transactions as directed by the Investment Committee. All purchase and sale transactions are reported to the Board of Directors on a monthly basis.

Our current investment policy permits investments in securities issued by the United States Government as well as mortgage-backed securities and direct obligations of Fannie Mae, Freddie Mac and Ginnie Mae. The investment policy also permits, with certain limitations, investments in certificates of deposit, bank-owned life insurance, collateralized mortgage obligations, municipal securities and stock in the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). We purchase stock in the FHLB in order to obtain services such as demand deposit accounts, certificates of deposit, security safekeeping services and borrowings in the form of advances. As a member of the Federal Reserve System, we are required to hold stock in the FRB.

Our current policies do not permit hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage-backed securities. As of December 31, 2021, we held no asset-backed securities other than mortgage-backed securities. As a state savings bank, Territorial Savings Bank is not permitted to invest in equity securities. This general restriction does not apply to Territorial Bancorp Inc.

The Investments — Debt and Equity Securities topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) requires that, at the time of purchase, we designate a security as either held-to-maturity, available-for-sale, or trading, based upon our ability and intent to hold the security until maturity. Securities in the available-for-sale and trading classifications are reported at fair market value and securities in the held-to-maturity classification are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair market value of any security has declined below its carrying value and whether such decline is other-than-temporary. If we do not have the intent to sell a security and it is not more likely than not that we will be required to sell a security, impairment occurs when the present value of the remaining cash flows is less than the remaining amortized cost basis. The difference between the present value of remaining cash flows and the remaining amortized cost basis is considered a credit loss. If a credit loss has occurred, impairment is recorded by writing down the value of a security to the present value of remaining cash flows as a charge to earnings. The difference between the book value of the security after the write down and the fair market value is considered other comprehensive loss, which is a reduction of stockholders' equity.

Our held-to-maturity securities at December 31, 2021 consisted of mortgage-backed securities with a carrying value of $636.4 million. At December 31, 2021, all of our mortgage-backed securities were issued by Fannie Mae, Freddie Mac or Ginnie Mae. At December 31, 2021, we did not have any securities classified as available-for-sale. At December 31, 2021, none of the collateral underlying our securities portfolio was considered subprime or Alt-A, and we did not hold any common or preferred stock issued by Freddie Mac or Fannie Mae as of that date. The fair values of our securities are usually based on published or securities dealers' market values.

Mortgage-backed securities are securities issued in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as "pass-through" certificates because the principal and interest of the underlying loans is "passed through" to investors, net of certain costs, including servicing and guarantee fees. Mortgage-backed securities typically are collateralized by pools of one- to four-family or multi-family mortgages. We invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The interest rate of the security is lower than the interest rates of the underlying loans to allow for payment of servicing and guarantee fees. Ginnie Mae, a United States Government agency, and government sponsored enterprises, such as Fannie Mae and Freddie Mac, either guarantee the payments or guarantee the timely payment of principal and interest to investors. Mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize public deposits and borrowings. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on our securities.

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. We also borrow from the FHLB and from securities dealers through securities sold under agreements to repurchase to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are loan and security repayments, maturing investments, retained earnings, income on other earning assets and the proceeds of loan and security sales.

Deposits. At December 31, 2021, deposits totaled $1.7 billion, or 89.7% of total liabilities. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of passbook and statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and Super NOW accounts. Historically, we have not accepted brokered deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing and products, convenient locations and quality customer service to attract and retain deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, market interest rates, liquidity requirements and our deposit growth goals.

Borrowings. Our borrowings consist of advances from the FHLB and funds borrowed from securities sold under agreements to repurchase. At December 31, 2021, our FHLB advances totaled $141.0 million, or 7.5% of total liabilities, and securities sold under agreements to repurchase totaled $10.0 million, or 0.5% of total liabilities. At December 31, 2021, we had access to additional FHLB advances of up to $800.9 million. Advances from the FHLB are secured by our investment in the common stock of the FHLB as well as by a blanket pledge on our assets not otherwise pledged. Securities sold under agreements to repurchase are secured by mortgage-backed securities.

Subsidiary Activities

Territorial Savings Bank owns 100% of the common stock of Territorial Financial Services, Inc., a Hawaii corporation that is authorized to engage in insurance activities. At December 31, 2021, Territorial Savings Bank's investment in Territorial Financial Services, Inc. was $12,000, and Territorial Financial Services, Inc. had assets of $75,000 at that date. During 2021, another subsidiary, Territorial Real Estate Co., Inc. was dissolved. Territorial Real Estate Co., Inc. was an inactive Hawaii corporation that was authorized to manage and dispose of problem real estate.

Personnel

As of December 31, 2021, we had 260 full-time employees and 11 part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

We view our employees as our most important asset. We recognize that our success depends on training and developing our employees. We provide job training and personal development opportunities by offering classes which can be attended online or in person.

We provide a competitive compensation and benefits program to help meet the needs of our employees. In addition to salaries, these programs include annual bonuses, an employee stock ownership plan, a 401(k) Plan with an employer matching and annual contribution, healthcare and insurance benefits, flexible spending accounts, paid time off, family leave and an employee assistance program.

The safety, health and wellness of our employees is a top priority. The COVID-19 pandemic presented a unique challenge with regard to maintaining customer and employee safety while continuing successful operations. During the pandemic, we implemented safety measures at our 29 branch offices and corporate headquarters that encouraged maintaining social-distancing, and where possible, we allowed some employees to work from home.

FEDERAL AND STATE TAXATION

Federal Taxation

General. Territorial Bancorp Inc. and Territorial Savings Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize material federal income tax matters and is not a comprehensive description of the tax rules applicable to Territorial Bancorp Inc. and Territorial Savings Bank.

Federal Tax. Territorial Bancorp Inc. is subject to a federal tax rate of 21.00% on its pre-tax income.

Method of Accounting. For federal income tax purposes, Territorial Bancorp Inc. currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31st for filing its consolidated federal income tax returns.

Net Operating Loss Carryovers. Prior to January 1, 2019, subject to certain limitations, a company may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. For net operating losses generated beginning January 1, 2019, there are no carry backs allowed and an unlimited carry forward period. At December 31, 2021, the Company did not have any net operating loss carry forwards for federal income tax purposes.

Corporate Dividends. We may exclude from our income 100% of dividends received from Territorial Savings Bank as a member of the same affiliated group of corporations.

Audit of Tax Returns. Territorial Bancorp Inc.'s 2011 federal income tax return was audited in 2013. The audit did not result in any material changes to the federal income tax return. Tax years 2018 to 2020 currently remain subject to examination by the IRS.

State Taxation

Territorial Bancorp Inc. and Territorial Savings Bank are subject to a franchise tax imposed under Hawaii law at a rate of 7.92% of pre-tax income. The pre-tax income to which the tax rate is applied is determined in a manner consistent with the taxable income determined for federal purposes with some adjustments. The principal adjustment to federal taxable income is the inclusion of interest received on municipal bonds in gross income for Hawaii franchise tax purposes and the exclusion of dividends received on Federal Home Loan Bank and Federal Reserve Bank stock.

Territorial Bancorp Inc.'s state franchise tax returns have not been audited in the most recent five-year period. Tax years 2018 to 2020 currently remain subject to examination by the Department of Taxation of the State of Hawaii.

SUPERVISION AND REGULATION

General

Territorial Savings Bank is a Hawaii state-chartered savings bank and a member of the Federal Reserve System. Accordingly, Territorial Savings Bank is examined and supervised by, and subject to the enforcement authority of, the Hawaii Division of Financial Institutions, as its primary state regulator, and by the Board of Governors of the Federal Reserve System, or Federal Reserve Board, as its primary federal regulator. Territorial Savings Bank is also subject to examination by the Federal Deposit Insurance Corporation, its deposit insurer, under certain circumstances. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation's Deposit Insurance Fund and depositors, and not for the protection of security holders. Under this system of state and federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. The Hawaii Division of Financial Institutions and the Federal Reserve Board examine Territorial Savings Bank and prepare reports for the consideration of the Bank's Board of Directors on any operating deficiencies. Territorial Savings Bank's relationship

with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of Territorial Savings Bank's loan documents.

Any change in these laws or regulations, whether by the Hawaii Division of Financial Institutions, the Federal Reserve Board, the Federal Deposit Insurance Corporation or Congress, could have a material adverse impact on Territorial Bancorp Inc., Territorial Savings Bank and their operations.

Territorial Bancorp Inc. maintained its status as a savings and loan holding company in connection with Territorial Savings Bank's 2014 conversion from a federal to a Hawaii savings bank charter. Accordingly, Territorial Bancorp Inc. is required to file certain reports with, is subject to examination by, and otherwise must comply with the rules and regulations of the Federal Reserve Board. Territorial Bancorp Inc. is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Certain regulatory requirements that are applicable to Territorial Savings Bank and Territorial Bancorp Inc. are described below. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on Territorial Savings Bank and Territorial Bancorp Inc. and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Banking Regulation

Capital Requirements. Federal regulations require that federally insured depository institutions meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets ratio of 8%, and a 4% Tier 1 capital to total assets leverage ratio. The current capital requirements were effective January 1, 2015 and are the result of a final rule implementing recommendations of the Basel Committee on Banking Supervision (BASEL III) and certain requirements of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests) are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of accumulated other comprehensive income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Territorial Savings Bank has chosen not to make an opt-out election. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. In assessing an institution's capital adequacy, the Federal Reserve Board takes into consideration, not only these numeric factors, but qualitative factors as well, and has the authority to establish higher capital requirements for individual institutions where deemed necessary.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

At December 31, 2021, Territorial Savings Bank's regulatory capital exceeded that required by the capital requirements.

Legislation enacted in May 2018 required federal banking agencies to establish a "community bank leverage ratio" of between 8 to 10% of average total consolidated assets for qualifying institutions with assets of less than $10 billion. Institutions with capital meeting the specified requirements and electing to follow the alternative framework are deemed to comply with the applicable regulatory capital requirements, including the risk based requirements, and are considered well-capitalized under the prompt corrective action framework discussed below. A qualifying institution may opt in and out of the community bank leverage ratio on its quarterly call report. Territorial Savings Bank did not opt into the community bank leverage ratio framework.

The federal regulators issued a final rule that set the optional community bank leverage ratio at 9%, commencing the first quarter of 2020. Persuant to the Coronavirus Aid, Relief and Economic Security Act of 2020, the community bank leverage ratio was temporarily lowered to 8% in April 2020 and was increased to 8.5% for 2021 and 9% thereafter.

Prompt Corrective Action Regulations. Under prompt corrective action regulations, the Federal Reserve Board is authorized and, under certain circumstances, required to take supervisory actions against undercapitalized member banks. The extent of supervisory action depends upon the degree of the institution's undercapitalization. For this purpose, a member bank is placed in one of the following five categories based on the bank's capital:

- well-capitalized (at least 5% leverage capital, 8% Tier 1 risk-based capital, 10% total risk-based capital and 6.5% common equity Tier 1 risk-based capital);

- adequately capitalized (at least 4% leverage capital, 6% Tier 1 risk-based capital, 8% total risk-based capital and 4.5% common equity Tier 1 risk-based capital);

- undercapitalized (less than 4% leverage capital, 6% Tier 1 risk-based capital, 8% total risk-based capital or 4.5% common equity Tier 1 risk-based capital);

- significantly undercapitalized (less than 3% leverage capital, 4% Tier 1 risk-based capital, 6% total risk-based capital or 3% common equity Tier 1 risk-based capital); and

- critically undercapitalized (equal to or less than 2% tangible capital).

At December 31, 2021, Territorial Savings Bank met the criteria for being considered "well-capitalized."

Capital Distributions. Federal Reserve member banks must receive the prior approval of the Federal Reserve Board to pay dividends: (i) if the total amount of all dividends declared during the calendar year (including the proposed dividend) exceeds the sum of the bank's net income during the calendar year and retained net income of the prior two calendar years or (ii) in an amount that would exceed the bank's undivided profits. Even if an application is not otherwise required, every savings bank that is a subsidiary of a savings and loan holding company must file a notice with the Federal Reserve Board at least 30 days before the Board of Directors declares a dividend.

The Federal Reserve Board may disapprove a notice or application if:

- the savings bank would be undercapitalized following the distribution;

- the proposed dividend raises safety and soundness concerns; or

- the dividend would violate a prohibition contained in any statute, regulation with a federal banking regulatory agency or any formal or informal enforcement action.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would be undercapitalized within the meaning of the prompt corrective action regulations.

Community Reinvestment Act and Fair Lending Laws. All institutions with Federal Deposit Insurance Corporation deposit insurance have a responsibility under the Community Reinvestment Act and related federal regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a state member bank, the Federal Reserve Board is required to assess the savings bank's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the Federal Reserve Board, as well as other federal regulatory agencies and the Department of Justice. The Community Reinvestment Act requires all Federal Deposit Insurance Corporation-insured institutions to publicly disclose their rating. Territorial Savings Bank received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

Insurance of Deposit Accounts. Territorial Savings Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. Deposit insurance per account owner is $250,000.

The Federal Deposit Insurance Corporation charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the Federal Deposit Insurance Corporation's risk-based assessment system, institutions deemed less risky pay lower assessments. Assessments for institutions of less than $10 billion of assets are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years. The assessment range (inclusive of possible adjustments) for insured institutions of less than $10 billion of total assets is 1.5 basis points to 30 basis points.

The Federal Deposit Insurance Corporation has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what insurance assessment rates will be in the future.

Federal Home Loan Bank System. Territorial Savings Bank is a member of the Federal Home Loan Bank System, which consists of eleven regional Federal Home Loan Banks. The FHLB System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the FHLB of Des Moines, Territorial Savings Bank is required to acquire and hold shares of capital stock in the FHLB. As of December 31, 2021, Territorial Savings Bank held $8.2 million of capital stock in the FHLB of Des Moines and was in compliance with this requirement.

Hawaii Banking Regulation

Authority granted by Hawaii laws includes accepting and holding deposits, borrowing from any source, making loans and extensions of credit of any kind, investing in service corporation subsidiaries engaged in activities permissible for service corporations of federal savings banks and engaging in other activities that are usual or incidental to the business of a savings bank. Hawaii law requires that at least 50% of a savings bank's loans and extensions of credit be secured by real estate. In addition, certain commercial loans are limited to 15% of the savings bank's assets and education loans are limited to 10% of assets. Federal law may limit some of the authority provided to Hawaii savings banks by Hawaii law.

Hawaii law generally limits a savings bank's capital distributions to the amount of its retained earnings.

Hawaii has a parity statute, which provides Hawaii savings banks with authority to engage in any activity permitted by federal law for federal savings banks, upon receiving the approval of the Commissioner of Financial Institutions. Territorial Savings Bank received such approval when it converted from a federal savings bank to a Hawaii savings bank.

Other Regulations

Territorial Savings Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- fair lending laws;
- Unfair or Deceptive Acts or Practices laws and regulations;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act; and
- rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of Territorial Savings Bank are further subject to the:

- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
- Check Clearing for the 21st Century Act (also known as "Check 21"), which gives "substitute checks," such as digital check images and copies made from that image, the same legal standing as the original paper check;
- USA PATRIOT Act, which requires financial institutions to, among other things, establish broadened anti-money laundering compliance programs, due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance programs are intended to supplement existing compliance requirements, also applicable to financial institutions, under the Bank Secrecy Act and the Office of Foreign Assets Control regulations; and

- Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to "opt out" of the sharing of certain personal financial information with unaffiliated third parties.

Holding Company Regulation

General. Territorial Bancorp Inc. is a nondiversified savings and loan holding company within the meaning of the Home Owners' Loan Act. As such, Territorial Bancorp Inc. is registered with the Federal Reserve Board and subject to Federal Reserve Board regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve Board has enforcement authority over Territorial Bancorp Inc. and its subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings institution.

Permissible Activities. The business activities of savings and loan holding companies are generally limited to those activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the Federal Reserve Board, and certain additional activities authorized by Federal Reserve Board regulations, unless the holding company has elected "financial holding company" status. A financial holding company may engage in activities that are financial in nature, including underwriting equity securities and insurance as well as activities that are incidental to financial activities or complementary to a financial activity. Territorial Bancorp Inc. has not elected financial holding company status. Federal law generally prohibits the acquisition of more than 5% of a class of voting stock of a company engaged in impermissible activities.

Federal law prohibits a savings and loan holding company, including Territorial Bancorp Inc., from directly or indirectly, or through one or more subsidiaries, acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the Federal Reserve Board. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve Board must consider, among other factors, the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Consolidated regulatory capital requirements identical to those applicable to the subsidiary depository institutions apply to savings and loan holding companies. However, consolidated assets of $3 billion is the threshold of the "small holding company" exception to the applicability of consolidated holding company capital requirements. Consequently, holding companies with less than $3 billion of consolidated assets, including Territorial Bancorp, Inc., are generally not subject to the requirements unless otherwise advised by the Federal Reserve Board.

Source of Strength. The Dodd-Frank Act also extended the "source of strength" doctrine to savings and loan holding companies. The Federal Reserve Board has issued regulations requiring that all bank and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Dividends and Stock Repurchases. The Federal Reserve Board has issued a policy statement regarding the payment of dividends and the repurchase of shares of common stock by bank and savings and loan holding companies. In general, the policy provides that dividends should be paid out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. Regulatory guidance provides for prior regulatory review of capital distributions in certain circumstances, such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or where the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The guidance also provides for prior consultation with supervisory staff for material increases in the amount of a company's common stock dividend. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized.

The Federal Reserve Board policy statement also provides for regulatory review prior to a holding company redeeming or repurchasing regulatory capital instruments when the holding company is experiencing financial weaknesses or redeeming or repurchasing common stock or perpetual preferred stock that would result in a net reduction in the amount of such equity instruments outstanding as of the end of a quarter compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies could affect the ability of Territorial Bancorp Inc. to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

Qualified Thrift Lender Test

Territorial Bancorp Inc. maintained its status as a savings and loan holding company in connection with Territorial Savings Bank's 2014 conversion from a federal to a Hawaii savings bank charter. In order for Territorial Bancorp Inc. to remain regulated as a savings and loan holding company (rather than a bank holding company), Territorial Savings Bank is required to continue to satisfy the same qualified thrift lender (QTL) test that was applicable to it as a federal savings bank. The QTL test requires Territorial Savings Bank to either qualify as a "domestic building and loan association," as defined by the Internal Revenue Code, or maintain at least 65% of "portfolio assets" in "qualified thrift investments," primarily residential mortgages and related investments, including mortgage-backed and related securities. Territorial Savings Bank was in compliance with the QTL test at December 31, 2021.

Change in Control Regulations

Under the Change in Bank Control Act, no person may acquire control of a savings and loan holding company such as the Company unless the Federal Reserve Board has been given 60 days' prior written notice and has not issued a notice disapproving the proposed acquisition, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition. Control, as defined under the Change in Bank Control Act, means ownership, control of or power to vote 25% or more of any class of voting stock. Acquisition of more than 10% of any class of a savings and loan holding company's voting stock constitutes a rebuttable presumption of control under the regulations under certain circumstances including where, as is the case with Territorial Bancorp Inc., the issuer has registered securities under Section 12 of the Securities Exchange Act of 1934.

Federal Securities Laws

Territorial Bancorp Inc.'s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934. Territorial Bancorp Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Territorial Bancorp Inc. common stock held by persons who are affiliates (generally officers, directors and principal shareholders) of Territorial Bancorp Inc. may not be resold without registration unless sold in accordance with certain resale restrictions. If Territorial Bancorp Inc. meets specified current public information requirements, each affiliate of Territorial Bancorp Inc. is able to sell in the public market, without registration, a limited number of shares in any three-month period.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. We have policies, procedures and systems designed to ensure compliance with the Sarbanes-Oxley Act and related regulations.

ITEM 1A. Risk Factors

Risks Related to the COVID-19 Pandemic

The economic impact of the COVID-19 outbreak could continue to adversely affect our financial condition and results of operations.

The COVID-19 pandemic caused significant economic dislocation in the United States, resulting in an unprecedented slow-down in economic activity. Certain industries have been particularly hard-hit, including the travel and hospitality industry, the restaurant industry and the retail industry. Because the largest sector of Hawaii's economy is the visitor industry, our market has been severely impacted by the pandemic. See the risk factor titled "Our local economy relies heavily on the tourism industry. Downturns in this industry could further affect our operations and results," below. Finally, the spread of the coronavirus has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. From time to time, we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners.

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be fully controlled and abated. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for our products and services may decline, making it difficult to grow assets and income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- disruptions to the global supply chain may have a destabilizing effect on financial markets, key market indices and overall economic activity;
- our allowance for loan losses may have to be increased if borrowers experience financial difficulties beyond loan deferral periods, which will adversely affect our net income;
- the net worth and liquidity of our borrowers and any loan guarantors may decline, impairing their ability to honor commitments to us;
- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend and reduce the amount of our shares we repurchase;
- our cyber security risks are increased as the result of an increase in the number of employees working remotely;
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us;
- Federal Deposit Insurance Corporation premiums may increase if the agency experiences additional resolution costs; and
- the productivity and availability of key personnel and other employees necessary to conduct business, including through issues with employee retention caused by the pandemic and related governmental actions or otherwise, may be negatively impacted.

Risks Related to our Lending Activities

Our lending activities provide lower interest rates than financial institutions that originate more commercial loans.

Our principal lending activity consists of originating one- to four-family residential real estate mortgage loans. As of December 31, 2021, these loans totaled $1.3 billion or 97.0% of total loans. We originate our loans with a focus on limiting credit risk and not to generate the highest return or create the greatest difference between the yield on our interest-earning assets and our cost of funds (interest rate spread).

Residential real estate mortgage loans generally have lower interest rates than commercial business loans, commercial real estate loans and consumer loans. As a result, we may generate lower interest rate spreads and rates of return when compared to our competitors who originate more consumer or commercial loans than we do. We intend to continue our focus on residential real estate lending.

Nonresidential real estate loans and commercial business loans increase our exposure to credit risks.

At December 31, 2021, our portfolio of commercial real estate, construction and other nonresidential real estate loans totaled $18.6 million, or 1.4% of total loans. In addition, at December 31, 2021, our portfolio of commercial business loans totaled $7.9 million, or 0.6% of total loans. These loans generally expose us to a greater risk of nonpayment and loss than residential real estate loans because repayment of such loans often depends on the successful operations and income stream of the borrowers. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans.

We target our business lending and marketing strategy towards small- to medium-sized businesses. These small- to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions adversely affect these businesses, our results of operations and financial condition may be negatively impacted. In addition, some of our commercial business loans are collateralized by a security interest in furniture, fixtures and equipment and the liquidation of collateral in the event of default is often an insufficient source of repayment because the collateral may have limited use or value.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate current economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 0.2% of total loans at December 31, 2021, material additions to our allowance could materially decrease our net income. In addition, any future credit deterioration, including as a result of COVID-19, could require us to increase our allowance for loan losses in the future.

The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for Territorial Bancorp Inc. and Territorial Savings Bank for our first fiscal year beginning after December 15, 2022. This standard, referred to as Current Expected Credit Loss (CECL), will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan

charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

Concentration of loans in our primary market area may increase risk.

Our success depends primarily on the general economic conditions in the State of Hawaii, as nearly all of our loans are to customers in the state. Accordingly, the economic conditions in the State of Hawaii have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, a decline in real estate valuations in this market would lower the value of the collateral securing those loans. In addition, significant weakening in general economic conditions such as the spread of COVID-19, inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results. See "Item 1. Business – Market Area" for a discussion of the adverse impact of the COVID-19 pandemic on our market area.

Risks Related to Laws, Regulations and Government Matters

Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U.S. government securities, adjustments of the federal funds and discount rates and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties.

The Community Reinvestment Act (CRA), the Equal Credit Opportunity Act, the Fair Housing Act and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful regulatory challenge to an institution's performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity and restrictions on activities which could result in the

denial of certain corporate applications such as opening new branches. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition and results of operations.

We are subject to extensive regulatory oversight.

We and our subsidiaries are subject to extensive regulation and supervision. Regulators have intensified their focus on bank lending criteria and controls, and on the USA PATRIOT Act's anti-money laundering and Bank Secrecy Act compliance requirements. There also is increased scrutiny of our compliance practices generally and particularly with the rules enforced by the Office of Foreign Assets Control. Our failure to comply with these and other regulatory requirements could lead to, among other remedies, administrative enforcement actions and legal proceedings. In addition, the Dodd-Frank Act and implementing regulations are likely to have a significant effect on the financial services industry, which are likely to increase operating costs and reduce profitability. Regulatory or legislative changes could make regulatory compliance more difficult or expensive for us, and could cause us to change or limit some of our products and services, or the way we operate our business.

The Federal Reserve Board may require us to commit capital resources to support Territorial Savings Bank.

Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the "source of strength" doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Thus, any borrowing or funds needed to raise capital required to make a capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition and results of operations.

Government responses to economic conditions may adversely affect our operations, financial condition and earnings.

Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These measures may increase our costs of doing business and may have a significant adverse effect on our lending activities, financial performance and operating flexibility. In addition, these risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Noncompliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. In the past, several banking institutions have received large fines for non-compliance with these laws

and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

In recent years, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the Federal Deposit Insurance Corporation has taken actions to increase insurance coverage on deposit accounts. In addition, there have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral.

The potential exists for additional federal or state laws and regulations, or changes in policy, regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Bank regulatory agencies, such as the Federal Reserve Board, the Hawaii Division of Financial Institutions and the Federal Deposit Insurance Corporation, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws, regulations and other regulatory changes may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. Federal and state proposals limiting our rights as a creditor could result in credit losses or increased expense in pursuing our remedies as a creditor.

We are subject to certain capital requirements, which, along with other regulatory requirements, may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares.

In 2015, we became subject to the following minimum capital requirements: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. In January 2019, we became subject to a "capital conservation buffer" of 2.5%, resulting in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 to risk-based assets capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. A financial institution, such as Territorial Savings Bank, is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions.

Territorial Savings Bank and Territorial Bancorp Inc. met all of these requirements, including the full 2.5% capital conservation buffer, as of December 31, 2021.

In addition to these capital requirements, Territorial Bancorp Inc. is subject to regulatory restrictions and notification requirements related to the payment of dividends and repurchases. For additional information, see "Item 1. Business—Supervision and Regulation."

The application of these capital requirements and other regulatory requirements could, among other things, result in lower returns on equity, require the raising of additional capital, limits on the payment of dividends to shareholders and repurchases of our common stock and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. See "Supervision and Regulation—Federal Banking Regulation—Capital Distributions."

Reductions in defense spending by the federal government could have a detrimental impact on Hawaii's economy.

The defense industry, the second largest contributor to Hawaii's economy after the visitor industry, accounts for about 8.5% of the state's gross domestic product. The defense industry creates thousands of jobs for residents of the State. Cuts to defense and other general spending could have an adverse impact on Hawaii's economy, which could adversely affect our financial condition and results of operations.

The foreclosure process may adversely impact our recoveries on non-performing loans

The judicial foreclosure process is protracted, which delays our ability to resolve non-performing loans through the sale of the underlying collateral. The longer timelines have been the result of the COVID-19 pandemic and related economic crisis, additional consumer protection initiatives related to the foreclosure process, increased documentary requirements and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. This may result in a material adverse effect on collateral values and our ability to minimize its losses.

Risks Related to Market Interest Rates

Future changes in interest rates could reduce our profits.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

As a result of our focus on one- to four-family residential real estate loans and the low demand for adjustable-rate loans in our market area, the interest rates we earn on our loans are generally fixed for long periods of time. Additionally, many of our securities investments are of long maturities with fixed interest rates. Like many savings institutions, our focus on deposit accounts as a source of funds, which have no stated maturity date or shorter contractual maturities than loans, results in our liabilities having a shorter duration than our assets. For example, as of December 31, 2021, 94.9% of our loans had maturities of 15 years or longer, while 76.4% of our certificates of deposits had maturities of one year or less. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets, such as loans and investments, likely will not increase as rapidly as the interest paid on our liabilities, such as deposits. Furthermore, our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. In a period of declining interest rates, the interest income earned on our assets likely will decrease more rapidly than the interest paid on our liabilities, as borrowers prepay mortgage loans and mortgage-backed securities, thereby requiring us to reinvest these cash flows at lower interest rates. In 2020, the Federal Open Market Committee of the Federal Reserve Board (the "FOMC") lowered the federal funds rate to near zero percent. More recently, the FOMC has indicated it expects to increase rates starting in 2022.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities and the fair value of mortgage servicing assets. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their loans in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may make it more difficult for borrowers to repay adjustable-rate loans. Potential reduction, or impairment, to the fair value of mortgage servicing assets generally occurs as market interest rates decline. Alternatively, an increase in market interest rates generally causes an increase in the fair value of mortgage servicing assets.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2021, the fair value of our investment in held-to-maturity securities totaled $635.0 million. Net unrealized losses on these securities totaled $1.5 million at December 31, 2021.

At December 31, 2021, our "rate shock" analysis indicated that our economic value of equity (the difference between the market value of our assets and the market value of our liabilities with adjustments made for off-balance sheet items) would decrease by $22.0 million if there was an instantaneous 200 basis point increase in market interest rates. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

A continuation of the historically low interest rate environment may adversely affect our net interest income and profitability.

In recent years the Federal Reserve Board's policy has been to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. Interest rates at these historically low levels have increased repayments on higher yielding loans and mortgage-backed securities. Our ability to reinvest these repayments in loans and securities with similar yields may be limited. Our ability to reduce our interest expense by lowering the rates we offer on our savings products to maintain our net interest income may be limited at current interest rate levels. Our interest expense may increase as we access non-core funding sources or increase deposit rates to fund our operations. More recently, the FOMC has indicated it expects to increase rates starting in 2022.

Risks Related to Economic Conditions

A worsening of economic conditions in our market area could reduce demand for our products and services and/or result in increases in our level of non-performing loans, which could adversely affect our operations, financial condition and earnings.

Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans. A deterioration in economic conditions, as a result of COVID-19 or otherwise, could have the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans;
- the value of our securities portfolio may decrease; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions caused by COVID-19, inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Our local economy relies heavily on the tourism industry. Downturns in this industry could affect our operations and results.

Tourism is the largest sector of Hawaii's economy. COVID-19 has had a significant impact on tourism. The Hawaii Tourism Authority reported spending declined by 27.0% in 2021 compared to 2019, the year prior to the COVID-19 pandemic. A downturn in the tourism industry, and the related loss of jobs or operating income for businesses, could have a significant impact on our ability to originate loans, and the ability of borrowers to repay loans, either of which could adversely affect our financial condition and results of operations. The downturn in the tourism industry may have a significant effect on our financial condition and results of operations. See "Item 1. Business – Market Area" for a discussion of the adverse impacts of the COVID-19 pandemic on our market area.

A protracted government shutdown may result in reduced loan originations and related gains on sale and could negatively affect our financial condition and results of operations.

During any protracted federal government shutdown, we may not be able to close certain loans and we may not be able to recognize non-interest income on the sale of loans. Some of the loans we originate are sold directly to government agencies, and some of these sales may be unable to be consummated during the shutdown. In addition, we believe that some borrowers may determine not to proceed with their home purchase and not close on their loans, which would result in a permanent loss of the related non-interest income. A federal government shutdown could also result in reduced income for government employees or employees of companies that engage in business with the federal government, which could result in greater loan delinquencies, increases in our nonperforming and classified assets and a decline in demand for our products and services.

Risks Related to Operational Matters

System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as from security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, these security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography or other developments could result in a compromise or breach of the algorithms we and our third-party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations.

We mitigate this risk through guidance promulgated for all financial institutions by the Federal Financial Institutions Examination Council and the regulations issued under the Gramm-Leach-Bliley Act. This guidance also requires our core data processor to meet these standards. We regularly self-audit or review exams from auditors as well as federal banking regulators to assure that these standards are being met, internally as well as by our important data processing vendors. We also implemented firewall and other internal controls to protect our systems from compromise.

Nevertheless, our systems could be compromised and it is possible that significant amounts of time and money may be spent to rectify the harm caused by a breach or hack. While we have general liability insurance and cyber liability insurance, we know there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer loss. In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties,

including as a result of cyber-attacks or information security breaches, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected.

The risk that our systems may be compromised by persons seeking to commit fraud is increased as a result of an increase in the number of our employees working remotely due to the COVID-19 pandemic.

Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses.

Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report and control our exposure to risk, including strategic, market, liquidity, compliance and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks.

Our business may be adversely affected by an increasing prevalence of fraud, including cyberfraud, and other financial crimes.

Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud, including cyberfraud, and other financial crimes. In addition, employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. While we have policies and procedures designed to prevent such losses, losses may still occur.

We depend on our management team and other key personnel to implement our business strategy and execute successful operations and we could be harmed by the loss of their services or the inability to hire additional personnel.

We are dependent upon the services of the members of our senior management team who direct our strategy and operations. Members of our senior management team, or lending personnel who possess expertise in our markets and key business relationships, could be difficult to replace. Our loss of these persons, or our inability to hire additional qualified personnel, or the need to hire additional employees or pay higher salaries to retain existing employees, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets.

Our funding sources may prove insufficient to replace deposits at maturity and support our future growth.

We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include FHLB advances, securities sold under agreements to repurchase, proceeds from the sale of loans, federal funds purchased and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected.

Risks Related to Environmental Matters

Climate change is a long term risk to the State of Hawaii.

As a state surrounded by water, rising sea levels and storm surges have effected and will continue to impact coastline properties and properties subject to tidal flooding. Shoreline erosion and beach narrowing could negatively impact the real estate loans we have made on those properties. The location of the properties that are subject of loans can result in customers being required to purchase more flood insurance than borrowers of other banks, which can increase borrowers' cost and reduce our loan originations. Rising sea levels and tidal actions can also result in roads and highways becoming unusable, requiring population relocation and/or significant expenses to construct new roads and highways. Furthermore, as tourism is the State's largest industry, climate change could negatively impact the weather of Hawaii, which is one of the leading reasons for visitors to travel to the State. Scientists have indicated that climate change may increase the intensity of tropical storms and hurricanes.

Severe weather, natural disasters and other external events could significantly affect our operations and results.

Because all of our office locations are in the State of Hawaii, severe weather or natural disasters, such as tsunamis, volcanic eruptions, hurricanes and earthquakes and other adverse external events, could have a significant effect on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Natural disasters, like the tsunami that occurred in Japan in 2011, could have an impact on the visitor industry in Hawaii. Accordingly, the occurrence of any such severe weather or natural disaster event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations.

A recently contaminated drinking water shaft on the Island of Oahu could significantly affect our operations and results.

In November 2021, it was reported that a U.S. Navy drinking water shaft had become contaminated with jet fuel. The related facility is approximately 100 feet from a groundwater aquifer that supplies a majority of the total water used on the Island of Oahu, including the City of Honolulu. The Hawaii Board of Water Supply has discontinued the use of certain wells in response to the possibility of contamination. In addition to the health risks posed to residents and businesses on Oahu, it is possible that water service may not be provided for ongoing construction projects, which could result in a reduction in new home sales and a related reduction in loan originations for new home purchases, as well as reductions in employment in the construction industry and related sales of materials. Accordingly, this event or the occurrence of any similar man-made disaster event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations.

Societal responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes and other issues. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate-friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior.

Risks Related to Competitive and Strategic Matters

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. Competitive factors driven by consumer sentiment or otherwise can also reduce our ability to generate fee income, such as through overdraft fees. For additional information see "Item 1. Business—Competition."

The building of market share through de novo branching could cause our expenses to increase faster than revenues.

We may continue to build market share in the State of Hawaii through de novo branching. There are considerable costs involved in opening branches that generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, our business expansion may not be successful after establishment.

Risks Related to Accounting Matters

Changes in management's estimates and assumptions may have a material impact on our Consolidated Financial Statements and our financial condition or operating results.

In preparing this annual report as well as other periodic reports we are required to file under the Securities Exchange Act of 1934, including our Consolidated Financial Statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management's best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our valuation of investment securities, our determination of our income tax provision, and our evaluation of the adequacy of our allowance for loan losses.

Other Risks Related to Our Business

Our employee stock ownership plan may continue to increase our costs, which would reduce our income.

Our employee stock ownership plan purchased 8% of the total shares of common stock sold in our stock offering in 2009 using funds borrowed from Territorial Bancorp Inc. We record annual employee stock ownership plan expense in an amount equal to the fair value of the shares of common stock released to employees over the 20-year term of the loan. If the value of the shares of common stock appreciates up to the time shares are released, compensation expense relating to the employee stock ownership plan will increase and our net income will decline.

Legal and regulatory proceedings and related matters could adversely affect us or the financial services industry in general.

We, and other participants in the financial services industry upon whom we rely to operate, may in the future become involved in legal and regulatory proceedings. Most of the proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and other participants in the financial services industry or we may not prevail in any proceeding or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or by our inability to conduct our operations in a manner that is appealing to current or prospective customers, our business and operating results may be adversely affected.

The corporate governance provisions in our articles of incorporation and bylaws, and the corporate governance provisions under Maryland law, may prevent or impede the holders of our common stock from obtaining representation on our Board of Directors and may impede takeovers of the company that our board might conclude are not in the best interest of Territorial Bancorp Inc. or its stockholders.

Provisions in our articles of incorporation and bylaws may prevent or impede holders of our common stock from obtaining representation on our Board of Directors and may make takeovers of Territorial Bancorp Inc. more difficult. For example, our Board of Directors is divided into three staggered classes. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Our articles of incorporation include a provision that no person will be entitled to vote any shares of our common stock in excess of 10% of our outstanding shares of common stock. This limitation does not apply to the purchase of shares by a tax-qualified employee stock benefit plan established by us. In addition, our articles of incorporation and bylaws restrict who may call special meetings of stockholders and how directors may be removed from office. Additionally, in certain instances, the Maryland General Corporation Law requires a supermajority vote of our stockholders to approve a merger or other business combination with a large stockholder, if the proposed transaction is not approved by a majority of our directors.

ITEM 1B. Unresolved Staff Comments

Not applicable.

ITEM 2. Properties

We operate from our corporate office in Honolulu, Hawaii, and from our 29 full-service branches located in the State of Hawaii. Of our 29 branches, 24 are located on the island of Oahu, and all but one of our branches are leased properties. The net book value of our premises, land and equipment was $4.1 million at December 31, 2021.

ITEM 3. Legal Proceedings

From time to time, we are involved as plaintiff or defendant in various legal proceedings arising in the ordinary course of business. At December 31, 2021, we were not involved in any legal proceedings, the outcome of which we believe would be material to our financial condition or results of operations.

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) ***Market, Holder and Dividend Information.*** Our common stock is traded on the NASDAQ Global Select Market under the symbol "TBNK." The approximate number of holders of record of Territorial Bancorp Inc.'s common stock as of February 28, 2021 was 1,049. Certain shares of Territorial Bancorp Inc. are held in "nominee" or "street" name and, accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

(b) ***Sales of Unregistered Securities.*** Not applicable.

(c) ***Use of Proceeds.*** Not applicable.

(d) ***Securities Authorized for Issuance Under Equity Compensation Plans.*** See "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

(e) ***Stock Repurchases.*** The following table sets forth information in connection with repurchases of our shares of common stock during the three months ended December 31, 2021:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (1)
October 1, 2021 through October 31, 2021	18,102	$ 25.01	18,102	$ —
November 1, 2021 through November 30, 2021	—	—	—	—
December 1, 2021 through Deember 31, 2021	—	—	—	—
Total	18,102	$ 25.01	18,102	$ —

(1) On October 28, 2021, the Board of Directors of Territorial Bancorp Inc. announced the completion of its tenth share repurchase program. Under this repurchase program, the Company was authorized to repurchase up to $5,000,000 of the Company's outstanding shares. On February 2, 2022, the Board of Directors announced an eleventh share repurchase program. Under this repurchase program, the Company may repurchase up to $5,000,000 of the Company's outstanding shares.

ITEM 6. [Reserved]

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The objective of this section is to help readers understand our views on our results of operations and financial condition. You should read this discussion in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements that appear elsewhere in this Annual Report on Form 10-K.

Overview

We have historically operated as a traditional thrift institution. The significant majority of our assets consist of long-term, fixed-rate residential mortgage loans and mortgage-backed securities, which we have funded primarily with deposit inflows, cash balances at the Federal Reserve Bank, loan and securities repayments, advances from the Federal Home Loan Bank, proceeds from securities sold under agreements to repurchase and proceeds from loan and security sales. As a result, we may be vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets.

We have continued our focus on originating one- to four-family residential real estate loans. Our emphasis on conservative loan underwriting has resulted in continued low levels of nonperforming assets. Our nonperforming assets, which include nonaccrual loans, totaled $3.3 million, or 0.15% of total assets at December 31, 2021, compared to $4.4 million, or 0.21% of total assets at December 31, 2020. For the year ended December 31, 2021, we reversed $1.6 million in provisions for loan losses and for the year ended December 31, 2020, we recorded provisions for loan losses of $1.6 million. The qualitiative factors used to calculate the allowance for loan losses were raised in 2020 because of loan payment deferrals related to the COVID-19 pandemic and the increase in Hawaii's unemployment rate. The reversal of loan loss provisions in 2021 occurred primarily due to a decrease in the qualitative factors used to calculate the allowance for loan losses because of a decrease in Hawaii's unemployment rate and in the amount of loans in the loan payment deferral program.

Our operations are affected by our efforts to manage our interest rate risk position. In 2021 and 2020, we sold $36.2 million and $43.8 million, respectively, of fixed-rate mortgage loans. We had a net decrease in public deposits of $44.2 million and $81.6 million in 2021 and 2020, respectively. In 2021 and 2020, we restructured $20.0 million and $82.0 million, respectively, of FHLB advances to lower the average cost of FHLB advances and extend the average maturity date. See "—Management of Market Risk" for a discussion of the actions we have taken in managing interest rate risk.

All of Territorial Savings Bank's investments in mortgage-backed securities and collateralized mortgage obligations have been issued by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. These agencies guarantee the payment of principal and interest on the Bank's mortgage-backed securities. We do not own any preferred stock issued by Fannie Mae or Freddie Mac. As of December 31, 2021 and 2020, our additional borrowing capacity at the FHLB of Des Moines was $800.9 million and $807.2 million, respectively.

Critical Accounting Policies and Estimates

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. We maintain an allowance for loan losses at an amount estimated to equal all credit losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. The allowance for loan losses includes quantitative and qualitative components. The qualitative component has a higher degree of management subjectivity and includes factors such as:

- changes in lending policies and procedures, including changes in underwriting standards and collections, charge-off and recovery practices;
- changes in international, national, regional and local economic business conditions and developments that affect the collectibility of the portfolio;

- changes in the bank's internal loan review system;
- changes in the experience, depth and ability of personnel in the mortgage loan origination and loan servicing departments;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans and classified assets;
- changes in the nature and volume of loans being originated;
- changes in the value of underlying collateral for collateral dependent loans;
- existence and any changes in concentrations of credit;
- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio; and
- changes in the amount of loans with payment deferrals.

The qualitative factors used to estimate losses relate to factors that are not captured in historical loss rates and which involves significant amount of management judgement.

Since we cannot predict with certainty the amount of loan charge-offs that will be incurred and because the eventual level of loan charge-offs is affected by numerous conditions beyond our control, a range of loss estimates can reasonably be used to determine the allowance for loan losses and the related provisions for loan losses. A 10% increase in Hawaii's unemployment rate would increase loan loss provisions by approximately $96,000. A 10% increase in the peer group factor used to calculate the allowance for loan losses on construction, land and commercial real estate loans would increase loan loss provisions by approximately $42,000. A peer group factor calculated using the losses reported by other banks in Hawaii on similar loans is used because the Bank does have a limited loss history on these types of loans. A 10% increase in the qualitative factor on owner-occupant and non-owner occupant loans would increase loan loss provisions by approximately $34,000. A 10% increase in the amount of loans in the loan payment deferral program would increase loan loss provisions by approximately $28,000. A 10% increase in historical losses would increase loan loss provisions by approximately $5,000. A change in home prices in Hawaii is not expected to have a material impact on loan loss provisions as the ratio of the average loan balance to the tax-assessed value of the property securing the loan was only 46.3% at December 31, 2021.

Securities Impairment. We periodically perform analyses to determine whether there has been an other-than-temporary decline in the value of our securities. Our held-to-maturity securities consist primarily of debt securities for which we have a positive intent and ability to hold to maturity and are carried at amortized cost. Available-for-sale securities are carried at fair value. All of our securities are issued by U.S. government sponsored agencies which guarantee the payment of principal and interest. We conduct a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security for any credit losses through a charge on the income statement. The fair value of investment securities are obtained from independent third party pricing services and are based on pricing models that consider bid and ask prices and prices at which similar securities traded. The market values of our securities are affected by changes in interest rates as well as shifts in the market's perception of the issuers.

Deferred Tax Assets. Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, 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. There was no valuation allowance for deferred tax assets as of December 31, 2021 and 2020.

Defined Benefit Retirement Plan. Defined benefit plan obligations and related assets of our defined benefit retirement plan are presented in Note 17 of the Notes to Consolidated Financial Statements. Effective December 31, 2008, the defined benefit retirement plan was frozen and all plan benefits were fixed as of that date. Plan assets, which consist primarily of marketable equity securities and mutual funds, are typically valued using market quotations. Plan obligations and the annual pension expense are determined by an independent actuary through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate, we utilize a yield that reflects the top 50% of the universe of bonds, ranked in the order of the highest yield. These bonds provide cash flows that match the timing of expected benefit payments. Asset returns are based upon the anticipated average rate of earnings expected on the invested funds of the plans.

At December 31, 2021, we used weighted-average discount rates of 2.50% and 2.90% for calculating annual pension expense and projected plan liabilities, respectively, and an expected long-term rate of return on plan assets of 7.00% for calculating annual pension expense. For both the discount rate and the asset return rate, a range of estimates could reasonably have been used, which would affect the amount of pension expense and pension liability recorded.

A decrease in the discount rate or an increase in the asset return rate would have reduced our pension expense in 2021, while an increase in the discount rate or a decrease in the asset return rate would have the opposite effect. A 25 basis point decrease in the discount rate assumptions would have decreased our 2021 pension expense by $12,000 and would have increased our year-end 2021 pension liability by $649,000, while a 25 basis point decrease in the asset return rate would have increased our 2021 pension expense by $52,000.

Selected Financial Data

	At December 31,	
	2021	2020
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 2,130,602	$ 2,110,799
Cash and cash equivalents	99,859	363,543
Investment securities held to maturity	636,442	247,642
Loans receivable, net	1,302,824	1,406,995
Bank-owned life insurance	51,423	45,644
Deposits	1,681,828	1,659,800
Advances from the Federal Home Loan Bank	141,000	141,000
Securities sold under agreements to repurchase	10,000	10,000
Total stockholders' equity	256,322	248,708

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Selected Operating Data:		
Interest income	$ 60,301	$ 69,757
Interest expense	6,276	12,191
Net interest income	54,025	57,566
(Reversal of provision) provision for loan losses	(1,592)	1,625
Net interest income after (reversal of provision) provision for loan losses	55,617	55,941
Noninterest income	6,472	6,804
Noninterest expense	38,286	37,425
Income before income taxes	23,803	25,320
Income taxes	6,373	6,715
Net income	$ 17,430	$ 18,605

	At or for the Year Ended December 31,	
	2021	2020
Selected Financial Ratios (expressed as percentages) and Other Data:		
Performance Ratios:		
Return on average assets (ratio of net income to average total assets)	0.82 %	0.89 %
Return on average equity (ratio of net income to average equity)	6.90 %	7.53 %
Interest rate spread (1)	2.59 %	2.76 %
Net interest margin (2)	2.65 %	2.85 %
Efficiency ratio (3)	63.29 %	58.14 %
Noninterest expense to average total assets	1.80 %	1.79 %
Average interest-earning assets to average interest-bearing liabilities	116.45 %	115.81 %
Average equity to average total assets	11.87 %	11.79 %
Basic earnings per share	$ 1.92	$ 2.03
Diluted earnings per share	$ 1.90	$ 2.01
Dividend payout ratio (4)	53.40 %	50.75 %
Asset Quality Ratios:		
Nonperforming assets to total assets	0.15 %	0.21 %
Nonperforming loans to total loans	0.25 %	0.31 %
Allowance for loan losses to nonperforming loans	81.37 %	96.75 %
Allowance for loan losses to total loans	0.20 %	0.30 %
Capital Ratios (bank-level only):		
Total capital (to risk-weighted assets)	26.78 %	27.99 %
Common equity Tier 1 capital (to risk-weighted assets)	26.47 %	27.49 %
Tier I capital (to risk-weighted assets)	26.47 %	27.49 %
Tier I capital (to total assets)	11.09 %	11.38 %
Other Data:		
Number of full-service offices	29	29
Full-time equivalent employees	266	273

(1) The average interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities for the year.
(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.
(3) The efficiency ratio represents noninterest expense divided by the sum of net interest income and noninterest income.
(4) The dividend payout ratio represents cash dividends declared per share divided by diluted earnings per share.

Balance Sheet Analysis

Assets. At December 31, 2021, our assets were $2.1 billion, an increase of $19.8 million, or 0.9%, from December 31, 2020. The increase was primarily caused by a $385.2 million increase in total investment securities, which was partially offset by a $263.7 million decrease in cash and cash equivalents and a $106.4 million decrease in total loans.

Cash and Cash Equivalents. At December 31, 2021, our cash and cash equivalents were $99.9 million, a decrease of $263.7 million, or 72.5% from December 31, 2020. The decrease was primarily due to a $385.2 million increase in total investment securities, which was partially offset by a $106.4 million decrease in total loans.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Real estate loans:				
First mortgage:				
One- to four-family residential	$ 1,267,537	96.97 %	$ 1,366,507	96.74 %
Multi-family residential	5,468	0.42	7,245	0.51
Construction, commercial and other	18,590	1.42	19,074	1.35
Home equity loans and lines of credit	7,121	0.54	9,376	0.67
Other loans	8,470	0.65	10,321	0.73
Total loans	1,307,186	100.00 %	1,412,523	100.00 %
Other items:				
Unearned fees and discounts, net	(1,693)		(1,266)	
Allowance for loan losses	(2,669)		(4,262)	
Loans receivable, net	$ 1,302,824		$ 1,406,995	

The loan portfolio decreased from $1.4 billion at December 31, 2020 to $1.3 billion at December 31, 2021 as loan repayments and sales exceeded new loan originations.

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled maturities of our loan portfolio at December 31, 2021. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to four-family residential real estate		Multi-family residential real estate		Construction, commercial and other real estate		Home equity loans and lines of credit		Other loans		Total	
Due During the Years Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)											
2022	$ 31	5.13 %	$ 1,429	4.86 %	$ 1,304	5.13 %	$ 430	5.43 %	$ 978	5.42 %	$ 4,172	5.14 %
2023 to 2026	2,022	3.92	1,027	5.71	1,825	5.39	2,580	5.34	1,099	4.80	8,553	4.99
2027 to 2036	41,889	3.98	2,413	3.77	6,864	4.04	3,352	5.02	6,393	3.41	60,911	3.98
2037 and beyond	1,223,595	3.45	599	4.25	8,597	3.81	759	5.22	—	-	1,233,550	3.45
Total	$ 1,267,537	3.47 %	$ 5,468	4.47 %	$ 18,590	4.14 %	$ 7,121	5.18 %	$ 8,470	3.82 %	$ 1,307,186	3.49 %

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2021 that are contractually due after December 31, 2022.

	Due After December 31, 2022		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
First mortgage:			
One- to four-family residential	$ 1,266,975	$ 531	$ 1,267,506
Multi-family residential	3,438	601	4,039
Construction, commercial and other	15,804	1,482	17,286
Home equity loans and lines of credit	573	6,118	6,691
Other loans	7,208	284	7,492
Total loans	$ 1,293,998	$ 9,016	$ 1,303,014

Securities. At December 31, 2021, our securities portfolio totaled $636.4 million, or 29.9% of assets. The securities portfolio increased from $251.2 million at December 31, 2020 to $636.4 million at December 31, 2021 as security purchases exceeded repayments and sales. All of the mortgage-backed securities were issued by Fannie Mae, Freddie Mac or Ginnie Mae and classified as held-to-maturity. At December 31, 2021, none of the underlying collateral consisted of subprime or Alt-A loans (traditionally defined as nonconforming loans having less than full documentation). At December 31, 2021, we held no common or preferred stock of Fannie Mae or Freddie Mac.

Any unrealized loss on individual mortgage-backed securities as of December 31, 2021 and 2020 was caused by increases in market interest rates. All of our mortgage-backed securities are guaranteed by U.S. government-sponsored enterprises or a U.S. government agency. Since the decline in market value has been attributable to changes in interest rates and not credit quality, we continue to have the intent not to sell these investments, and it is not more likely than not that we will be required to sell such investments prior to the recovery of the amortized cost basis, we have not considered these investments to be other-than-temporarily impaired as of December 31, 2021 and 2020.

Portfolio Maturities and Coupons. The composition and maturities of the investment securities portfolio at December 31, 2021 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. No tax-equivalent adjustments have been made, as we did not hold any tax-free investment securities at December 31, 2021.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Coupon	Amortized Cost	Weighted Average Coupon	Amortized Cost	Weighted Average Coupon	Amortized Cost	Weighted Average Coupon	Amortized Cost	Fair Value	Weighted Average Coupon
	(Dollars in thousands)										
Held to Maturity:											
U.S. government sponsored mortgage-backed securities:											
Fannie Mae	$ —	— %	$ 16	2.40 %	$ 21	2.42 %	$ 363,109	2.08 %	$ 363,146	$ 360,500	2.08 %
Freddie Mac	—	—	—	—	—	—	258,589	2.17	258,589	259,431	2.17
Collateralized mortgage obligations (1)	—	—	—	—	—	—	1,794	1.61	1,794	1,788	1.61
Ginnie Mae	—	—	—	—	7	1.84	12,906	2.80	12,913	13,268	2.80
Total U.S. government sponsored mortgage-backed securities	$ —	— %	$ 16	2.40 %	$ 28	2.28 %	$ 636,398	2.13 %	$ 636,442	$ 634,987	2.13 %

(1) All of our collateralized mortgage obligations have been issued by Fannie Mae, Freddie Mac or Ginnie Mae.

Bank-Owned Life Insurance. We invest in bank-owned life insurance to provide us with a funding source for our benefit plan obligations. Bank-owned life insurance also generally provides us noninterest income that is nontaxable. Interagency federal guidance generally limits our investment in bank-owned life insurance to 25% of the Bank's Tier 1 capital plus our allowance for loan losses. At December 31, 2021, this limit was $59.6 million, and we had invested $51.4 million in bank-owned life insurance at that date.

Deposits. At December 31, 2021, deposits totaled $1.7 billion, or 89.7% of total liabilities. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and Super NOW accounts. Historically, we have not accepted, and do not currently have, brokered deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing and products, convenient locations and quality customer service to attract and retain deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies, market interest rates, liquidity requirements and our deposit growth goals.

During the year ended December 31, 2021, our deposits grew by $22.0 million, or 1.3%. The growth in deposits was primarily due to increases of $74.4 million in savings and $42.8 million in checking accounts, which were partially offset by a $96.7 million decrease in certificates of deposit for the year ended December 31, 2021. The increase in savings and checking accounts and the decrease in certificates of deposit occurred as some customers with matured certificates of deposit transferred their funds to savings accounts as interest rates on certificates of deposit declined. The decrease in certificates of deposit also included a planned $44.2 million decrease in public deposits. We allowed public deposits to mature because they have shorter maturity dates and are more interest rate-sensitive than other sources of funds.

At December 31, 2021, we had a total of $225.1 million in certificates of deposit, of which $171.9 million had remaining maturities of one year or less. Based on historical experience and our current pricing strategy, we believe we will retain a significant portion of these accounts upon maturity.

The following table sets forth the distribution of our average total deposit accounts (including interest-bearing and non-interest-bearing deposits), by account type, for the periods indicated.

	For the Year Ended December 31,					
	2021			2020		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Deposit type:						
Non-interest-bearing	$ 67,341	4.0 %	— %	$ 58,007	3.5 %	— %
Savings accounts	1,060,016	63.5	0.10 %	946,505	57.6	0.26 %
Certificates of deposit	264,754	15.9	1.07 %	409,758	24.9	1.58 %
Money market	5,508	0.3	0.18 %	5,845	0.4	0.34 %
Checking and Super NOW	272,375	16.3	0.02 %	223,770	13.6	0.02 %
Total deposits	$ 1,669,994	100.0 %	0.25 %	$ 1,643,885	100.0 %	0.57 %

The following table sets forth uninsured deposits (in excess of $250,000). We have no deposits that are uninsured for any other reason.

	At December 31,	
	2021	2020
	(In thousands)	
Uninsured non-maturity deposits:	$ 270,049	$ 231,265
Uninsured deposits with remaining maturities:		
Three months or less	$ 79,924	$ 16,646
Over three months to six months	5,107	7,329
Over six months to twelve months	11,876	5,986
Over twelve months	9,715	9,153
	$ 106,622	$ 39,114
Total uninisured deposits	$ 376,671	$ 270,379

As of December 31, 2021, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $250,000 was $109.6 million. As of December 31, 2021, certificates of deposit owned by state and local governments in amounts greater than or equal to $250,000 was $81.9 million. The following table sets forth the maturity of certificates of deposit in amounts greater than or equal to $250,000 as of December 31, 2021.

	At December 31, 2021
	(In thousands)
Three months or less	$ 82,884
Over three months through six months	5,599
Over six months through one year	13,459
Over one year to three years	7,381
Over three years	283
Total	$ 109,606

Borrowings. Our borrowings consist of advances from the FHLB and funds borrowed under securities sold under agreements to repurchase. At December 31, 2021, our FHLB advances totaled $141.0 million, or 7.5% of total liabilities and our securities sold under agreements to repurchase totaled $10.0 million, or 0.5% of total liabilities. At December 31, 2021, we had the capability to borrow up to $800.9 million in the form of additional advances from the Federal Home Loan Bank.

During the year ended December 31, 2021, our total borrowings remained constant at $151.0 million. During the year ended December 31, 2021, we restructured $20.0 million of FHLB advances. This transaction lowered the average cost of FHLB advances from 1.52% to 1.45% and extended the average maturity date from 3.02 years to 3.39 years. The restructuring was accounted for as a continuation of the existing borrowings with any prepayment fees recognized as an adjustment to the future cost of the restructured advances. We primarily funded our operations with additional deposits, borrowings, proceeds from loan and security sales and principal repayments on loans and mortgage-backed securities.

Stockholders' Equity. At December 31, 2021, our stockholders' equity was $256.3 million, an increase of $7.6 million, or 3.1%, from $248.7 million at December 31, 2020. The increase in stockholders' equity occurred primarily as our net income, the increase in capital from the allocation of ESOP shares and the decrease in accumulated comprehensive loss on the unfunded pension liability exceeded dividends declared and shares repurchased. The decrease in the other comprehensive loss on the unfunded pension liability is discussed in Note 21 of the Notes to Consolidated Financial Statements.

Average Balances and Yields

The following table sets forth average balance sheets, average yields and rates, and certain other information for the years indicated. No tax-equivalent yield adjustments were made, as we did not hold any tax-free investments. All average balances are daily average balances. Nonaccrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to interest income of $501,000 and $579,000 for 2021 and 2020, respectively.

	For the Year Ended December 31,					
	2021			2020		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans:						
Real estate loans:						
First mortgage:						
One- to four-family residential (1)	$ 1,289,057	$ 46,880	3.64 %	$ 1,474,736	$ 56,692	3.84 %
Multi-family residential	6,636	302	4.55	9,028	413	4.57
Construction, commercial and other	18,625	820	4.40	22,193	1,010	4.55
Home equity loans and lines of credit	7,838	389	4.96	9,905	577	5.83
Other loans	9,078	349	3.84	10,629	482	4.53
Total loans	1,331,234	48,740	3.66	1,526,491	59,174	3.88
Investment securities:						
U.S. government sponsored mortgage-backed securities (1)	482,525	10,729	2.22	327,882	9,615	2.93
Total securities	482,525	10,729	2.22	327,882	9,615	2.93
Other	228,408	832	0.36	162,086	968	0.60
Total interest-earning assets	2,042,167	60,301	2.95	2,016,459	69,757	3.46
Non-interest-earning assets	86,040			79,232		
Total assets	$ 2,128,207			$ 2,095,691		
Interest-bearing liabilities:						
Savings accounts	$ 1,060,016	1,074	0.10 %	$ 946,505	2,486	0.26 %
Certificates of deposit	264,754	2,835	1.07	409,758	6,459	1.58
Money market accounts	5,508	10	0.18	5,845	20	0.34
Checking and Super NOW accounts	272,375	56	0.02	223,770	48	0.02
Total interest-bearing deposits	1,602,653	3,975	0.25	1,585,878	9,013	0.57
Federal Home Loan Bank advances	141,000	2,117	1.50	145,276	2,996	2.06
Securities sold under agreements to repurchase	10,000	184	1.84	10,000	182	1.82
Total interest-bearing liabilities	1,753,653	6,276	0.36	1,741,154	12,191	0.70
Non-interest-bearing liabilities	121,839			107,373		
Total liabilities	1,875,492			1,848,527		
Stockholders’ equity	252,715			247,164		
Total liabilities and stockholders’ equity	$ 2,128,207			$ 2,095,691		
Net interest income		$ 54,025			$ 57,566	
Net interest rate spread (2)			2.59 %			2.76 %
Net interest-earning assets (3)	$ 288,514			$ 275,305		
Net interest margin (4)			2.65 %			2.85 %
Interest-earning assets to interest-bearing liabilities	116.45 %			115.81 %		

(1) Average balance includes loans or investments held to maturity and available for sale, as applicable.
(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(4) Net interest margin represents net interest income divided by average total interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume. There were no out-of-period items or adjustments for 2021 or 2020.

	Year Ended December 31, 2021 vs. 2020		
	Increase (Decrease) Due to		Total Increase (Decrease)
	Volume	Rate	
	(In thousands)		
Interest-earning assets:			
Loans:			
Real estate loans:			
First mortgage:			
One- to four-family residential	$ (6,868)	$ (2,944)	$ (9,812)
Multi-family residential	(109)	(2)	(111)
Construction, commercial and other	(158)	(32)	(190)
Home equity loans and lines of credit	(110)	(78)	(188)
Other loans	(66)	(67)	(133)
Total loans	(7,311)	(3,123)	(10,434)
U.S. government sponsored mortgage-backed securities	2,286	(1,172)	1,114
Other	(2,992)	2,856	(136)
Total interest-earning assets	(8,017)	(1,439)	(9,456)
Interest-bearing liabilities:			
Savings accounts	342	(1,754)	(1,412)
Certificates of deposit	(1,901)	(1,723)	(3,624)
Money market accounts	(2)	(8)	(10)
Checking and Super NOW accounts	10	(2)	8
Total interest-bearing deposits	(1,551)	(3,487)	(5,038)
Federal Home Loan Bank advances	(86)	(793)	(879)
Securities sold under agreements to repurchase	—	2	2
Total interest-bearing liabilities	(1,637)	(4,278)	(5,915)
Change in net interest income	$ (6,380)	$ 2,839	$ (3,541)

Comparison of Operating Results for the Years Ended December 31, 2021 and 2020

General. Net income decreased by $1.2 million, or 6.3%, to $17.4 million for the year ended December 31, 2021 from $18.6 million for the year ended December 31, 2020. The decrease in net income was primarily due to a $3.5 million decrease in net interest income, an $861,000 increase in noninterest expense and a $332,000 decrease in noninterest income. These decreases in net income were partially offset by a $3.2 million decrease in loan loss provisions and a $342,000 decrease in income taxes.

Net Interest Income. Net interest income decreased by $3.5 million, or 6.2%, to $54.0 million for the year ended December 31, 2021 from $57.6 million for the year ended December 31, 2020. Interest income decreased by $9.5 million, or 13.6%, to $60.3 million for the year ended December 31, 2021 from $69.8 million for the year ended

December 31, 2020. The decrease in interest income occurred primarily because of a $195.3 million decrease in the average loan balance, which was augmented by a 22 basis point decrease in the average loan yield. Interest expense decreased by $5.9 million, or 48.5%, to $6.3 million for the year ended December 31, 2021 from $12.2 million for the year ended December 31, 2020. The decrease in interest expense was primarily due to a 32 basis point decline in the average cost of deposits. This decrease in the average cost of deposits was partially offset by a $16.8 million increase in the average deposit balance. The interest rate spread and net interest margin were 2.59% and 2.65%, respectively, for the year ended December 31, 2021, compared to 2.76% and 2.85%, respectively, for the year ended December 31, 2020. The decrease in the interest rate spread was due to the decrease in the yield on interest-earning assets that was partially offset by the decrease in the cost of interest-bearing liabilities. The decrease in the net interest margin was due to a decrease in net interest income and an increase in the average balance of interest-earning assets.

Interest Income. Interest income decreased by $9.5 million, or 13.6%, to $60.3 million for the year ended December 31, 2021 from $69.8 million for the year ended December 31, 2020. Interest income on loans decreased by $10.4 million, or 17.6%, to $48.7 million for the year ended December 31, 2021 from $59.2 million for the year ended December 31, 2020. The decrease in interest income on loans occurred because the average balance of loans decreased by $195.3 million, or 12.8%, as loan repayments and sales exceeded new loan originations. The decrease in interest income that occurred because of the decrease in the loan portfolio was augmented by a 22 basis point decrease in the average loan yield to 3.66% for the year ended December 31, 2021 compared to 3.88% for the year ended December 31, 2020. The decrease in the average yield on loans occurred primarily because of the payoff of higher yielding loans and the origination of new loans with lower yields, as a result of the low interest rate environment. Interest income on investment securities increased by $1.1 million, or 11.6%, to $10.7 million for the year ended December 31, 2021 from $9.6 million for the year ended December 31, 2020. The increase in interest income on securities occurred primarily because of a $154.6 million increase in the average securities balance, which was partially offset by a 71 basis point decrease in the average yield on securities. The increase in the average securities balance occurred as security purchases exceeded repayments and security sales. The decrease in the average yield on securities occurred as higher yielding securities were paid off and securities with lower yields were added to the portfolio, as a result of the low interest rate environment.

Interest Expense. Interest expense decreased by $5.9 million, or 48.5%, to $6.3 million for the year ended December 31, 2021 from $12.2 million for the year ended December 31, 2020. Interest expense on certificates of deposit decreased by $3.6 million, or 56.2%, to $2.8 million for the year ended December 31, 2021 from $6.5 million for the year ended December 31, 2020. The decrease in interest expense on certificates of deposit occurred because of a $145.0 million decrease in the average balance of certificates of deposit and a 51 basis point decrease in the average cost of certificates of deposit. The decrease in the average balance and the average cost of certificates of deposit occurred as higher costing certificates matured and depositors rolled over the balances into savings accounts with lower interest rates, as interest rates on certificates of deposit declined due to the low interest rate environment.

Provision for Loan Losses. For the years ended December 31, 2021 and 2020, we had net chargeoffs of $1,000 and $75,000, respectively. Based on our analysis of the factors described in "—Allowance for Loan Losses," we recorded a reversal of provisions for loan losses of $1.6 million and provisions for loan losses of $1.6 million for the years ended December 31, 2021 and 2020, respectively. The decrease in loan loss provisions from 2020 to 2021 was primarily due to a decrease in the qualitiative factors used to calculate the allowance for loan losses. The qualitative factors were raised in 2020 because of loan payment deferrals related to the COVID-19 pandemic and Hawaii's unemployment rate increase due to layoffs that resulted from the government mandates to minimize the spread of COVID-19. The reversal of loan loss provisions is primarily due to a decrease in the qualitative factors used to calculate the allowance for loan losses. The decrease in qualitative factors can be primarily attributed to a decrease in the amount of loan payment deferrals and a decrease in Hawaii's unemployment rate. The reversal of provision/provision for loan losses recorded resulted in ratios of the allowance for loan losses to total loans of 0.20% and 0.30% at December 31, 2021 and December 31, 2020, respectively. Nonaccrual loans totaled $3.3 million and $4.4 million at December 31, 2021 and 2020, respectively. To the best of our knowledge, at December 31, 2021 and 2020, we had provided for all losses that are both probable and can be reasonably estimated at those respective dates.

Noninterest Income. The following table summarizes changes in noninterest income for the years ended December 31, 2021 and 2020.

	Year Ended December 31,		Change 2021/2020	
	2021	2020	$ Change	% Change
	(Dollars in thousands)			
Service and other fees	$ 2,463	$ 2,662	$ (199)	(7.5)%
Income on bank-owned life insurance	779	807	(28)	(3.5)%
Gain on sale of investment securities	1,840	1,320	520	39.4 %
Gain on sale of loans	663	1,626	(963)	(59.2)%
Other	727	389	338	86.9 %
Total	$ 6,472	$ 6,804	$ (332)	(4.9)%

Noninterest income decreased by $332,000 for the year ended December 31, 2021 compared to the year ended December 31, 2020. During the years ended December 31, 2021 and 2020, we sold mortgage loans held for sale with principal balances of $36.2 million and $43.8 million, respectively, and recognized gains of $663,000 and $1.2 million, respectively. During 2020, we securitized fixed-rate mortgage loans and received mortgage-backed securities and recognized a net gain of $377,000 on the transaction. There were no securitization transactions in 2021. The decrease in service and other fees was primarily due to a decrease in broker fee income which is earned when we referred mortgage loan applications to other financial institutions and mortgage bankers. In 2021 and 2020, we sold $22.1 million and $15.8 million, respectively, of held-to-maturity mortagage-backed securities and recorded gains of $1.5 million and $1.0 million, respectively. The sale of these held-to-maturity mortgage-backed securities, for which we had already collected a substantial portion of the outstanding purchased principal (at least 85%), were in accordance with the Investments — Debt and Equity Securities topic of the FASB ASC and does not taint management's assertion of its intent to hold the remaining securities in the held-to-maturity portfolio to maturity. Other income increased in 2021 due to an increase in the return on assets in our defined benefit pension plan and a reduction in the interest costs on the benefit obligation increased the pension income for the year.

Noninterest Expense. The following table summarizes changes in noninterest expense for the years ended December 31, 2021 and 2020.

	Year Ended December 31,		Change 2021/2020	
	2021	2020	$ Change	% Change
	(Dollars in thousands)			
Salaries and employee benefits	$ 22,091	$ 21,741	$ 350	1.6 %
Occupancy	6,486	6,684	(198)	(3.0)%
Equipment	4,483	4,666	(183)	(3.9)%
Federal deposit insurance premiums	565	352	213	60.5 %
Other general and administrative expenses	4,661	3,982	679	17.1 %
Total	$ 38,286	$ 37,425	$ 861	2.3 %

Noninterest expense increased by $861,000 to $38.3 million for the year ended December 31, 2021 from $37.4 million for the year ended December 31, 2020. Other general and administrative expenses increased primarily due to an increase in legal fees, other loan expenses, and advertising expenses. Salaries and employee benefits expense increased primarily due to an increase in health insurance expense and a decrease in deferred salary expenses for originating new loans. These increases in salaries and employee benefits expense were partially offset by a decrease in equity incentive plan costs. The increase in federal deposit insurance premiums was primarily due to credits that were received in the prior year because the FDIC insurance fund was over-capitalized. The decrease in occupancy expense was primarily due to a decrease in leasehold improvement depreciation expense. The decrease in equipment expense was primarily due to a decrease in service bureau expense.

Income Tax Expense. Income tax expense for 2021 was $6.4 million with an effective tax rate of 26.8% compared to $6.7 million with an effective tax rate of 26.5% in 2020. Income tax expense for 2020 included $63,000 of tax benefits from the exercise of stock options and $118,000 of proceeds on bank-owned life insurance that were not

taxable and which lowered the effective tax rate. There were no benefits from the exercise of stock options or proceeds on bank-owned life insurance in 2021.

Nonperforming and Problem Assets

When a residential mortgage loan or home equity line of credit is 15 days past due, we attempt personal, direct contact with the borrower to determine when payment will be made. On the first day of the following month, we mail a letter reminding the borrower of the delinquency, and will send an additional letter when a loan is 60 days or more past due. If necessary, subsequent late notices are issued and the account will be monitored on a regular basis thereafter. By the 121st day of delinquency, unless the borrower has made arrangements to bring the loan current, we will refer the loan to legal counsel to commence foreclosure proceedings.

Commercial business loans, commercial real estate loans and consumer loans are generally handled in the same manner as residential mortgage loans or home equity lines of credit. All commercial business loans that are 15 days past due are immediately referred to our senior lending officer. In addition, we generate past due notices and attempt direct contact with a borrower when a consumer loan is 10 days past due. Because consumer loans are generally unsecured, we may commence collection procedures earlier for consumer loans than for residential mortgage loans or home equity lines of credit.

Loans are generally placed on nonaccrual status when payment of principal or interest is more than 90 days contractually delinquent or when, in the opinion of management, collection of principal or interest in full appears doubtful. When loans are placed on a nonaccrual status, unpaid accrued interest is fully reversed. The payments received on nonaccrual loans are recorded as a reduction of principal. The loan may be returned to accrual status if both principal and interest payments are brought current and full payment of principal and interest is expected.

Nonperforming Assets. The table below sets forth the amounts and categories of our nonperforming assets (loans and real estate owned) at the dates indicated.

	At December 31,	
	2021	2020
	(Dollars in thousands)	
Nonaccrual loans:		
Real estate loans:		
First mortgage:		
One- to four-family residential	$ 3,261	$ 4,382
Home equity loans and lines of credit	19	23
Total nonaccrual loans	3,280	4,405
Real estate owned:		
Real estate loans:		
First mortgage:		
One- to four-family residential	—	—
Total real estate owned	—	—
Total nonperforming assets	3,280	4,405
Loans delinquent 90 days or greater and still accruing interest	24	—
Restructured loans still accruing interest:		
Real estate loans:		
First mortgage:		
One- to four-family residential	551	565
Total restructured loans still accruing interest	551	565
Total nonperforming assets, accruing loans delinquent for 90 days or more and restructured loans still accruing interest	$ 3,855	$ 4,970
Ratios:		
Nonperforming loans to total loans	0.25 %	0.31 %
Nonperforming assets to total assets	0.15 %	0.21 %

We had four troubled debt restructurings totaling $891,000 as of December 31, 2021 that were considered to be impaired. These four loans were one- to four-family residential mortgage loans. Two of the loans, totaling $425,000, were performing in accordance with their restructured terms and accruing interest at December 31, 2021. One of the loans, totaling $340,000, was performing in accordance with its restructured terms but not accruing interest at December 31, 2021. One of the loans for $126,000 was 59 days delinquent and accruing interest at December 31, 2021. We had five troubled debt restructurings totaling $1.0 million as of December 31, 2020 that were considered to be impaired. These five loans were one- to four-family residential mortgage loans. Three of the loans, totaling $565,000, were performing in accordance with their restructured terms and accruing interest at December 31, 2020. Two of the loans, totaling $467,000, were performing in accordance with their restructured terms but not accruing interest at December 31, 2020. There were no new troubled debt restructurings in 2021 or 2020. The Coronavirus Aid, Relief and Economic Security (CARES) Act provided relief to financial institutions from categorizing eligible loan modifications as troubled debt restructurings over the remaining life of the modified loan. Eligible loan modifications under the CARES Act were required to be related to the COVID-19 pandemic and the borrower's payments must not have been more than 30 days past due as of December 31, 2019. Loan modifications under the CARES Act must have been executed during the period from March 1, 2020 to January 1, 2022. Bank regulators issued similar guidance, which also clarified that a COVID-19 related loan modification should not be considered a troubled debt restructuring if the borrower was not more than 30 days past due on payments at the time the loan modification program was implemented and the modification is considered short-term (not to exceed six months). We use the provisions of the CARES Act and the Interagency Statements to account for the eligible loans that received modifications. The amount of outstanding loans that received modifications at December 31, 2021 and 2020 is discussed in Note 7 of the Notes to Consolidated Financial Statements.

Delinquent Loans. The following table sets forth our loan delinquencies by type and by amount at the dates indicated. Loans with a formal loan payment deferral plan in place are not considered contractually past due or delinquent if the borrower is in compliance with the loan payment deferral plan.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At December 31, 2021						
Real estate loans:						
First mortgage:						
One- to four-family residential	—	$ —	2	$ 244	2	$ 244
Other loans	2	—	2	24	4	24
Total loans	2	$ —	4	$ 268	6	$ 268
At December 31, 2020						
Real estate loans:						
First mortgage:						
One- to four-family residential	1	$ 152	3	$ 240	4	$ 392
Home equity loans and lines of credit	1	23	—	—	1	23
Other loans	2	—	—	—	2	—
Total loans	4	$ 175	3	$ 240	7	$ 415

Real Estate Owned. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at estimated fair value at the date of foreclosure less the cost to sell, establishing a new cost basis. Estimated fair value generally represents the price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions. Holding costs and declines in estimated fair value result in charges to expense after acquisition. At December 31, 2021 and 2020, we had no real estate owned.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or the fair value of collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted.

We maintain an allowance for loan losses at an amount estimated to equal all credit losses incurred in our loan portfolio that are both probable and can be reasonably estimated at a balance sheet date. Our determination as to the classification of our assets and the amount of our loan loss allowance is subject to review by bank regulators, who can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at December 31, 2021, we had substandard assets of $3.5 million and no loss or doubtful assets. Substandard assets at December 31, 2021 included $532,000 of troubled debt restructurings and $2.9 million of nonperforming loans. At December 31, 2020, we had substandard assets of $4.6 million, and no loss or doubtful assets. Substandard assets at December 31, 2020 included $664,000 of troubled debt restructurings and $3.9 million of nonperforming loans. We generally classify any loan that is delinquent 90 days or more as substandard. Loans which have been delinquent for fewer days may also be classified as substandard.

In addition to classifying assets as substandard, doubtful or loss, we also categorize assets as special mention. A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these

potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. We designate loans that are 30 to 89 days delinquent as special mention. Loans which have been delinquent for fewer days may also be categorized as special mention. At December 31, 2021 and 2020, special mention assets were $126,000 and $507,000, respectively.

Allowance for Loan Losses

We provide for loan losses based upon the consistent application of our documented allowance for loan loss (ALLL) methodology. All loan losses are charged to the allowance for loan losses and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with GAAP.

General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired in accordance with current accounting standards. The portfolio is grouped into similar risk characteristics, primarily loan type and loan-to-value ratios. We apply an estimated loss rate to each loan group. The loss rates applied are primarily based upon our loss experience adjusted, as appropriate, for the qualitative and 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 we have established, which could have a material negative effect on our financial results. The loans on which we have granted loan deferrals are included in the ALLL calculation.

Residential mortgage loans represent the largest segment of our loan portfolio. All of the residential mortgage loans are secured by a first mortgage on residential real estate in Hawaii, consist primarily of fixed-rate mortgage loans that have generally been underwritten to Freddie Mac 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 bank's internal loan review system;
- 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.

In 2021 and 2020, we granted loan payment deferrals to customers who were experiencing financial difficulties because of the effects of the COVID-19 pandemic. We established additional loan loss provisions in 2020 primarily because of these loan payment deferrals and the higher unemployment rate that occurred because of the COVID-19 pandemic. In 2021 we reversed loan loss provisions due to a decrease in the qualitative factors used to calculate the

allowance for loan losses. The decrease in the qualitative factors occurred primarily because of a decrease in the amount of loans with payment deferrals and a decrease in Hawaii's unemployment rate.

We also use 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.

We have 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 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 to provide for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

We evaluate our loan portfolio on a quarterly basis and the allowance is adjusted accordingly. While we use 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.

During 2021, we have not seen a significant increase in loan delinquencies, significant changes in deposits or significant drawdowns on lines of credit. Loan delinquencies do not include loans requesting payment deferral because of the COVID-19 pandemic unless required payments are delinquent. We do not have any commercial loans to hotels, businesses in the transportation industry, restaurants or retail establishments.

Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category. The allowance for loan losses for each category is affected by the national and Hawaii economies as well as other factors. The allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	At December 31,			
	2021		2020	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
First mortgage:				
One- to four-family residential	$ 1,807	96.97 %	$ 3,092	96.74 %
Multi-family residential	7	0.42	10	0.51
Construction, commercial and other	435	1.42	406	1.35
Home equity loans and lines of credit	1	0.54	1	0.67
Other loans	89	0.65	146	0.73
Total allocated allowance	2,339	100.00	3,655	100.00
Unallocated	330	—	607	—
Total	$ 2,669	100.00 %	$ 4,262	100.00 %

The following table sets forth additional information regarding the allowance for loan losses and net charge-offs by category:

	At or For the Year Ended December 31,	
	2021	2020
Allowance for loan losses to total loans at end of year	0.20 %	0.30 %
Nonaccrual assets to total loans at end of year	0.25 %	0.31 %
Allowance for loan losses to nonaccrual loans at end of year	81.37 %	96.75 %
Net charge-offs to average loans outstanding		
Residential Mortgage	- %	- %
Construction, Commercial & Other Mortgage Loans	- %	- %
Home Equity LOC	- %	- %
Consumer & Other	- %	(0.01)%

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Our Board of Directors has established an Asset/Liability Management Committee, which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

We have historically operated as a traditional thrift institution and a significant majority of our assets consist of long-term, fixed-rate residential mortgage loans and mortgage-backed securities, which we have funded primarily with checking and savings accounts and short-term borrowings. There is also little demand for adjustable-rate mortgage loans in the Hawaii market area. This has resulted in our being particularly vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets.

We continue our efforts to reduce interest rate risk. In 2021 and 2020, we sold fixed-rate mortgage loans with principal balances of $36.2 million and $43.8 million, respectively. We had a net decrease in public deposits of $44.2 million and $81.6 million in 2021 and 2020, respectively. In 2021 and 2020, we restructured $20.0 million and $82.0 million, respectively, of FHLB advances which extended our average maturity date to reduce our interest rate risk. In addition, we may utilize the following strategies to further reduce our interest rate risk:

- Continuing our efforts to increase our core checking and savings accounts, which are less rate-sensitive than certificates of deposit and which provide us with a stable, low-cost source of funds;
- Continuing to repay short-term borrowings;
- Maintaining overnight cash balances at the Federal Reserve Bank or a portfolio of short-term investments;
- Purchasing mortgage-backed securities with shorter durations;
- Selling a portion of the fixed-rate mortgage loans we originate to Freddie Mac or Fannie Mae;
- Extending the maturity of our liabilities by obtaining longer-term fixed-rate public deposits, FHLB advances and securities sold under agreements to repurchase;
- Subject to the maintenance of our credit quality standards, originating commercial loans and home equity lines of credit, which have adjustable interest rates and shorter average lives than first mortgage loans; and
- Maintaining relatively high regulatory capital ratios.

Our policies do not permit hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate

mortgage investment conduit residual interests or stripped mortgage-backed securities. We do not have any current plans to sell loans classified as held-for-investment.

Economic Value of Equity. We use an interest rate sensitivity analysis that computes changes in the economic value of equity (EVE) of our cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE represents the market value of portfolio equity and is equal to the present value of assets minus the present value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market-risk-sensitive instruments in the event of an instantaneous and sustained 100 to 400 basis point increase or a 100 basis point decrease in market interest rates with no effect given to any steps that we might take to counter the effect of that interest rate movement. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below. Given the current relatively low level of market interest rates, an EVE calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

The following table presents our internal calculations of the estimated changes in our EVE as of December 31, 2021 that would result from the designated instantaneous changes in the interest rate yield curve.

Change in Interest Rates (bp) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE	Percentage Change in EVE	EVE Ratio as a Percent of Present Value of Assets (3)(4)	Increase (Decrease) in EVE Ratio as a Percent of Present Value of Assets (3)(4)
		(Dollars in thousands)			
+400	$ 237,753	$ (104,640)	(30.56)%	13.79 %	(2.02)%
+300	$ 277,065	$ (65,328)	(19.08)%	15.09 %	(0.72)%
+200	$ 320,345	$ (22,048)	(6.44)%	16.35 %	0.54 %
+100	$ 346,651	$ 4,258	1.24 %	16.72 %	0.91 %
0	$ 342,393	$ —	— %	15.81 %	— %
-100	$ 282,617	$ (59,776)	(17.46)%	12.77 %	(3.04)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the difference between the present value of an institution's assets and liabilities.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) EVE Ratio represents EVE divided by the present value of assets.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in EVE. Modeling changes in EVE requires making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE table presented assumes that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the EVE table provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and net interest income and will differ from actual results.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary obligations include meeting the borrowing needs of our customers, fulfilling deposit withdrawls, interest payments on deposits, and repayment of borrowings. Territorial Savings Bank's primary sources of funds consist of deposit inflows, cash balances at the FRB, loan and security repayments, advances from the FHLB, securities sold under agreements to repurchase and proceeds from loan and security sales. We also have the capability of securitizing mortgage loans that conform to Freddie Mac loan underwriting standards into mortgage-backed securities. These securities can either be sold or pledged as collateral for public deposits and borrowings to increase the Bank's cash on hand. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are

greatly influenced by general interest rates, economic conditions and competition. We have established an Asset/Liability Management Committee, consisting of our President and Chief Executive Officer, our Vice Chairman and Co-Chief Operating Officer, our Senior Vice President and Chief Financial Officer and our Vice President and Senior Treasury Analyst, which is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2021.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

(i) expected loan demand;

(ii) purchases and sales of investment securities;

(iii) expected deposit flows and borrowing maturities;

(iv) yields available on interest-earning deposits and securities; and

(v) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits or securities and may also be used to pay off short-term borrowings.

Our most liquid asset is cash. The amount of this asset is dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2021, the Company's cash and cash equivalents totaled $99.9 million.

If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB, which provide an additional source of funds. We also utilize securities sold under agreements to repurchase as another borrowing source. At December 31, 2021, we had the ability to borrow up to an additional $800.9 million from the FHLB. Advances from the FHLB and securities sold under agreements to repurchase were $141.0 million and $10.0 million, respectively, at December 31, 2021 and 2020.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At December 31, 2021, we had $11.3 million in loan commitments outstanding, all of which were for fixed-rate loans. In addition to commitments to originate loans, we had $15.4 million in unused lines of credit to borrowers. Certificates of deposit due within one year of December 31, 2021 totaled $171.9 million, or 10.2% of total deposits. If these deposits do not remain with us, we may be required to seek other sources of funds, including loan sales, brokered deposits, securities sold under agreements to repurchase and FHLB advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2022. We believe, however, based on past experience that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are originating loans and purchasing mortgage-backed securities. During the years ended December 31, 2021 and 2020, we originated $360.7 million and $292.3 million of loans, respectively. In 2021, we purchased securities with a total face value of $515.1 million. In 2020, we did not purchase any securities.

Financing activities consist primarily of activity in deposit accounts, FHLB advances, securities sold under agreements to repurchase, stock repurchases and dividend payments. We experienced net increases in deposits of $22.0 million and $27.9 million for the years ended December 31, 2021 and 2020, respectively. The increases in deposits include a net decrease in public deposits of $44.2 million and $81.6 million in 2021 and 2020, respectively. We allowed public deposits to mature because they have shorter maturity dates and are more interest rate-sensitive than other sources of funds. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

As a separate legal entity, the Company is required to have liquidity to fund stock repurchases and dividend payments to shareholders and for other corporate purposes. 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. During the years ended December 31, 2021 and 2020, the Company repurchased 198,773 and 204,324 shares of common stock, respectively, at an average cost of $25.15 and $24.47 per share, respectively, as part of the repurchase programs authorized by the Board of Directors. At December 31, 2021 and 2020, on a stand-alone basis, the Company had cash in banks of $25.5 million and $18.1 million, respectively.

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. At December 31, 2021, Territorial Savings Bank and the Company exceeded all regulatory capital requirements and are considered to be "well capitalized" under regulatory guidelines. See Note 23 of the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we enter into commitments to sell mortgage loans. We sell loans under agreements that contain representations and warranties related to, among other things, the origination and characteristics of the mortgage loans. We may be required to repurchase mortgage loans that we have sold in cases of breaches of these representations and warranties. For additional information, see Note 22 of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see Note 2(w) of the Notes to Consolidated Financial Statements.

Impact of Inflation and Changing Prices

Our Consolidated Financial Statements and related notes have been prepared in accordance with U.S. GAAP. U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in "ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," above.

ITEM 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of
Territorial Bancorp, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Territorial Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting in accordance with the standards of the PCAOB. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting in accordance with the standards of the PCAOB. Accordingly, we express no such opinion.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

As described in Notes 2 and 7 to the consolidated financial statements, the Company's allowance for loan losses was $2,669,000 at December 31, 2021. The allowance for loan losses provides for estimated probable loan losses incurred, based on management's evaluation of the loan portfolio. The allowance for loan losses includes qualitative and environmental factors, which have a higher degree of management subjectivity, and include factors such as:

- 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 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.

We identified the estimation of qualitative and environmental factors used in the allowance for loan losses calculation as a critical audit matter. The qualitative and environmental factors are used to estimate losses related to factors that are not captured in the historical loss rates, and are based on management's evaluation of available internal and external data, which involves significant management judgement. Auditing management's judgments regarding the qualitative and environmental factors applied to the allowance for loan losses involved a high degree of subjectivity and complex auditor judgment due to the nature and extent of audit evidence and effort required to address these matters.

The primary procedures we performed to address this critical audit matter included:

- Testing the mathematical accuracy and computation of the allowance for loan losses, including the qualitative and environmental factors, by re-performing or independently calculating significant elements of the allowance based on relevant source documents and independent, third-party data.
- Evaluating management's analysis of the qualitative and environmental factors, including changes in factors, assumptions or methodology from the prior year, by validating the completeness and accuracy of the inputs used, performing a sensitivity analysis over the qualitative thresholds established by management, and agreeing the environmental and qualitative factors considered by management to those used in the calculation of the allowance for loan losses.

/s/ Moss Adams LLP

Portland, Oregon
March 21, 2022

We have served as the Company's auditor since 2015

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2021 and 2020
(Dollars in thousands, except share data)

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents	$ 99,859	$ 363,543
Investment securities available for sale, at fair value	—	3,562
Investment securities held to maturity, at amortized cost (fair value of $634,987 and $262,841 at December 31, 2021 and December 31, 2020, respectively)	636,442	247,642
Loans held for sale	—	2,195
Loans receivable, net	1,302,824	1,406,995
Federal Home Loan Bank stock, at cost	8,173	8,144
Federal Reserve Bank stock, at cost	3,158	3,145
Accrued interest receivable	5,786	6,515
Premises and equipment, net	4,065	4,855
Right-of-use asset, net	9,982	12,333
Bank-owned life insurance	51,423	45,644
Deferred income tax assets, net	1,927	3,382
Prepaid expenses and other assets	6,963	2,844
Total assets	$ 2,130,602	$ 2,110,799
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits	$ 1,681,828	$ 1,659,800
Advances from the Federal Home Loan Bank	141,000	141,000
Securities sold under agreements to repurchase	10,000	10,000
Accounts payable and accrued expenses	22,638	29,221
Lease liability	10,744	13,119
Income taxes payable	1,863	2,161
Advance payments by borrowers for taxes and insurance	6,207	6,790
Total liabilities	1,874,280	1,862,091
Commitments and contingencies: (Note 22 and 24)		
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 9,324,060 and 9,513,867 shares at December 31, 2021 and December 31, 2020, respectively	93	95
Additional paid-in capital	56,951	61,153
Unearned ESOP shares	(3,425)	(3,915)
Retained earnings	208,227	200,066
Accumulated other comprehensive loss	(5,524)	(8,691)
Total stockholders' equity	256,322	248,708
Total liabilities and stockholders' equity	$ 2,130,602	$ 2,110,799

See accompanying Notes to Consolidated Financial Statements.

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Income
For the years ended December 31, 2021 and 2020
(Dollars in thousands, except per share data)

	2021	2020
Interest income:		
Loans	$ 48,740	$ 59,174
Investment securities	10,729	9,615
Other investments	832	968
Total interest income	60,301	69,757
Interest expense:		
Deposits	3,975	9,013
Advances from the Federal Home Loan Bank	2,117	2,996
Securities sold under agreements to repurchase	184	182
Total interest expense	6,276	12,191
Net interest income	54,025	57,566
(Reversal of provision) provision for loan losses	(1,592)	1,625
Net interest income after (reversal of provision) provision for loan losses	55,617	55,941
Noninterest income:		
Service and other fees	2,463	2,662
Income on bank-owned life insurance	779	807
Gain on sale of investment securities	1,840	1,320
Gain on sale of loans	663	1,626
Other	727	389
Total noninterest income	6,472	6,804
Noninterest expense:		
Salaries and employee benefits	22,091	21,741
Occupancy	6,486	6,684
Equipment	4,483	4,666
Federal deposit insurance premiums	565	352
Other general and administrative expenses	4,661	3,982
Total noninterest expense	38,286	37,425
Income before income taxes	23,803	25,320
Income taxes	6,373	6,715
Net income	$ 17,430	$ 18,605
Basic earnings per share	$ 1.92	$ 2.03
Diluted earnings per share	$ 1.90	$ 2.01
Cash dividends declared per common share	$ 1.02	$ 1.02
Basic weighted-average shares outstanding	9,059,204	9,137,398
Diluted weighted-average shares outstanding	9,110,335	9,196,689

See accompanying Notes to Consolidated Financial Statements.

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Net income	$ 17,430	$ 18,605
Unfunded pension liability gain (loss), net of tax	3,443	(789)
Unrealized loss on securities, net of tax	(3)	(13)
Amount reclassified from other comprehensive income, net of tax	(273)	(221)
Other comprehensive income (loss), net of tax	3,167	(1,023)
Comprehensive income	$ 20,597	$ 17,582

See accompanying Notes to Consolidated Financial Statements.

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2021 and 2020
(Dollars in thousands, except share data)

	Common Shares Outstanding	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at December 31, 2019	9,681,493	$ 97	$ 65,057	$ (4,404)	$ 190,808	$ (7,668)	$ 243,890
Net income	—	—	—	—	18,605	—	18,605
Other comprehensive loss	—	—	—	—	—	(1,023)	(1,023)
Cash dividends declared ($1.02 per share)	—	—	—	—	(9,347)	—	(9,347)
Share-based compensation	18,875	—	619	—	—	—	619
Allocation of 48,933 ESOP shares	—	—	690	489	—	—	1,179
Repurchase of shares of common stock	(268,328)	(3)	(6,633)	—	—	—	(6,636)
Exercise of options for common stock	81,827	1	1,420	—	—	—	1,421
Balances at December 31, 2020	9,513,867	$ 95	$ 61,153	$ (3,915)	$ 200,066	$ (8,691)	$ 248,708
Net income	—	—	—	—	17,430	—	17,430
Other comprehensive income	—	—	—	—	—	3,167	3,167
Cash dividends declared ($1.02 per share)	—	—	—	—	(9,269)	—	(9,269)
Share-based compensation	20,437	—	351	—	—	—	351
Allocation of 48,933 ESOP shares	—	—	764	490	—	—	1,254
Repurchase of shares of common stock	(210,244)	(2)	(5,317)	—	—	—	(5,319)
Balances at December 31, 2021	9,324,060	$ 93	$ 56,951	$ (3,425)	$ 208,227	$ (5,524)	$ 256,322

See accompanying Notes to Consolidated Financial Statements.

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Cash flows from operating activities:		
Net income	$ 17,430	$ 18,605
Adjustments to reconcile net income to net cash from operating activities:		
(Reversal of provision) provision for loan losses	(1,592)	1,625
Depreciation	1,151	1,224
Deferred income tax expense (benefit)	305	(392)
Amortization of fees, discounts, and premiums, net	(405)	(401)
Amortization of right-of-use asset	3,071	3,289
Origination of loans held for sale	(33,739)	(45,496)
Proceeds from sales of loans held for sale	36,598	44,991
Gain on sale of loans, net	(663)	(1,626)
Gain on sale of investment securities available for sale	(339)	(290)
Gain on sale of investment securities held to maturity	(1,501)	(1,030)
Net loss on disposal of premises and equipment	2	49
Gain on lease modification	(35)	—
ESOP expense	1,254	1,179
Share-based compensation expense	351	619
Decrease (increase) in accrued interest receivable	729	(1,106)
Net increase in bank-owned life insurance	(779)	(807)
Net (increase) decrease in prepaid expenses and other assets	(4,119)	94
Net (decrease) increase in accounts payable and accrued expenses	(1,254)	3,946
Net decrease in lease liability	(3,060)	(3,166)
Net decrease in advance payments by borrowers for taxes and insurance	(583)	(174)
Net decrease in income taxes payable	(298)	(144)
Net cash from operating activities	12,524	20,989
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(515,769)	—
Principal repayments on investment securities held to maturity	104,800	109,990
Principal repayments on investment securities available for sale	198	1,368
Proceeds from sale of investment securities held to maturity	23,570	16,863
Proceeds from sale of investment securities available for sale	3,330	3,668
Principal repayments on loans receivable, net of loan originations	106,264	167,312
Purchases of Federal Home Loan Bank stock	(29)	(21)
Proceeds from redemption of Federal Home Loan Bank stock	—	600
Purchases of Federal Reserve Bank stock	(13)	(17)
Purchases of bank-owned life insurance	(5,000)	—
Proceeds from bank-owned life insurance	—	276
Purchases of premises and equipment	(363)	(1,762)
Proceeds from disposals of premises and equipment	—	4
Net cash from investing activities	(283,012)	298,281

(Continued)

TERRITORIAL BANCORP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(Dollars in thousands)

	2021	2020
Cash flows from financing activities:		
Net increase in deposits	$ 22,028	$ 27,867
Repayments of advances from the Federal Home Loan Bank	—	(15,000)
Proceeds from securities sold under agreements to repurchase	—	5,000
Repayments of securities sold under agreements to repurchase	—	(5,000)
Purchases of Fed Funds	—	10
Sales of Fed Funds	—	(10)
Repurchases of common stock	(5,000)	(5,000)
Cash dividends paid	(10,224)	(8,400)
Net cash from financing activities	6,804	(533)
Net (decrease) increase in cash and cash equivalents	(263,684)	318,737
Cash and cash equivalents at beginning of the period	363,543	44,806
Cash and cash equivalents at end of the period	$ 99,859	$ 363,543
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 6,276	$ 12,554
Income taxes	6,366	8,161
Supplemental disclosure of noncash investing and financing activities:		
Company stock acquired through stock swap and net settlement transactions	$ —	$ 1,421
Company stock repurchased through stock swap and net settlement transactions	319	1,636
Loans receivable transferred to held for sale	—	9,431
Loans securitized into investment securities	—	9,759
Establishment of right-of-use asset, net of incentives and modifications	720	4,042
Establishment of lease liability, net of modifications	720	4,102

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(1) Organization

Territorial Bancorp Inc. is a Maryland corporation and is the holding company for Territorial Savings Bank. Territorial Savings Bank is a Hawaii state-chartered bank headquartered in Honolulu, Hawaii and is a member of the Federal Reserve System. Territorial Savings Bank has one inactive subsidiary, Territorial Financial Services, Inc. During 2021, another inactive subsidiary, Territorial Real Estate Co., was dissolved.

(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. 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. At December 31, 2021, the Company classified all of its investments as held-to-maturity. At December 31, 2020, the Company classified all of its investments, except $3.6 million of securities, 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. Net gains or losses recognized on the sale of real estate owned are included in other general and administrative expenses.

(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 qualitative and 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. 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, regional and local economic business conditions and developments that affect the collectibility of the portfolio;
- changes in the bank's internal loan review system;
- changes in the experience, depth and ability of personnel in the mortgage loan origination and loan servicing departments;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans and classified assets;
- changes in the nature and volume of loans being originated;
- changes in the value of underlying collateral for collateral dependent loans;
- existence and any changes in concentrations of credit;
- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio; and
- changes in the amount of loans with payment deferrals.

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. The mortgage-backed securities received in securitizations are valued at fair value and classified as held-to-maturity. A gain or loss in the securitization transactions is recognized for the difference between the fair value of the mortgage-backed securities received and the amortized cost of the loans securitized.

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.

(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, 2021 and 2020, 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 2018 to 2020 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 or other income, 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.

(o) Share-Based Compensation

The Company grants share-based compensation awards, including restricted stock and restricted stock units, which are either performance-based or time-based. The fair value of the restricted stock and restricted stock unit awards were based on the closing price of the Company's stock on the date of grant. The cost of these awards are amortized in the Consolidated Statements of Income on a straight-line basis over the vesting period. The amount of performance-based restricted stock units that vest on a performance condition is remeasured quarterly based on how the Company's return on average equity compares to the SNL Bank Index. The fair value of performance-based restricted stock units that are based on how the Company's total stock return compares to the SNL Bank Index was measured using a Monte-Carlo valuation.

(p) 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.

(q) 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.

(r) Earnings Per Share

We have two forms of our outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive dividends at the same rate as common shareholders and they both share equally in undistributed earnings. Unvested restricted stock awards that are time-based contain nonforfeitable rights to dividends or dividend equivalents are considered to be participating securities in the earnings per share computation using the two-class method. Under the two-class method, earnings are allocated to common shareholders and participating securities according to their respective rights to earnings. Unvested restricted stock awards that vest based on performance or market conditions are not considered to be participating securities in the earnings per share calculation because accrued dividends on shares that do not vest are forfeited.

Basic earnings per share is computed by dividing net income allocated to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income allocated to common shareholders 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.

(s) Common Stock Repurchase Program

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. During 2021 and 2020, the Company repurchased 198,773 and 204,324 shares of common stock, respectively, at an average cost of $25.15 and $24.47 per share, respectively, as part of the repurchase programs authorized by the Board of Directors.

(t) 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, 2021, this limit was $59.6 million and the Company had invested $51.4 million in bank-owned life insurance at that date.

(u) Leases

The Company records a right-of-use (ROU) asset for those leases that convey rights to control use of identified assets for a period of time in exchange for consideration. The Company is also required to record a lease liability for the present value of future payment commitments. The Company leases most of its premises and some vehicles and equipment under operating leases expiring on various dates through 2031. The majority of lease agreements relate to real estate and generally provide that the Company pay taxes, insurance, maintenance and certain other variable operating expenses applicable to the leased premises. Variable lease components and nonlease components are not included in the Company's computation of the ROU asset or lease liability. The Company also does not include short-term leases in the computation of the ROU asset or lease liability. Short-term leases are leases with a term at commencement of 12 months or less. Short-term lease expense is recorded on a straight-line basis over the term of the lease. Lease agreements do not contain any residual value guarantees or restrictive covenants.

The value of the ROU asset and lease liability is impacted by the amount of the periodic payment required, length of the lease term, and the discount rate used to calculate the present value of the minimum lease payments. Certain leases have renewal options at the expiration of the lease terms. Generally, option periods are not included in the computation of the lease term, ROU asset or lease liability because the Company is not reasonably certain to exercise renewal options at the expiration of the lease terms. Because the discount rates implicit in our leases are not known, discount rates have been estimated using the rates for fixed-rate, amortizing advances from the Federal Home Loan Bank (FHLB) for the approximate terms of the leases.

(v) 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 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.

(w) Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) amended various sections of the FASB Accounting Standards Codification (ASC) related to the accounting for credit losses on financial instruments. The amendment changes the threshold for recognizing losses from a "probable" to an "expected" model. The new model is referred to as the current expected credit loss model and applies to loans, leases, held-to-maturity investments, loan commitments and financial guarantees. The amendment requires the measurement of all expected credit losses for financial assets as of the reporting date (including historical experience, current conditions and reasonable and supportable forecasts) and enhanced disclosures that will help financial statement users understand the estimates and judgments used in estimating credit losses and evaluating the credit quality of an organization's portfolio. The amendment is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal

years. In November 2019, the FASB issued an update that delays the effective date of the amendment for smaller reporting companies, as defined by the Securities and Exchange Commission, to fiscal years beginning after December 15, 2022. The Company is a smaller reporting company. 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 has formed a team that is working on an implementation plan to adopt the amendment. The implementation plan will include developing policies, procedures and internal controls over the model. The Company is also working with a software vendor to measure expected losses required by the amendment. The Company is currently evaluating the effects that the adoption of this amendment will have on its consolidated financial statements and expects that the portfolio composition and economic conditions at the time of adoption will influence the accounting adjustment made at the time the amendment is adopted.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act provided relief to financial institutions from categorizing eligible loan modifications as troubled debt restructurings over the remaining life of the modified loan. Eligible loan modifications under the CARES Act were required to be related to the COVID-19 pandemic and the borrower's payments must not have been more than 30 days past due as of December 31, 2019. Loan modifications under the CARES Act must have been executed during the period from March 1, 2020 to the earlier of December 31, 2020 or 60 days after the end of the national emergency. On December 21, 2020, legislation extended the troubled debt restructuring relief provisions of the CARES Act to January 1, 2022. Banking regulators issued similar guidance, which also clarified that a COVID-19 loan modification should not be considered a troubled debt restructuring if the borrower was not more than 30 days past due on payments at the time the loan modification program was implemented and the modification is considered short-term (not to exceed six months).

(3) Cash and Cash Equivalents

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

	December 31,	
(Dollars in thousands)	**2021**	**2020**
Cash and due from banks	$ 11,662	$ 14,355
Interest-earning deposits in other banks	88,197	349,188
Cash and cash equivalents	$ 99,859	$ 363,543

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

(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, 2021:				
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 636,442	$ 5,699	$ (7,154)	$ 634,987
Total	$ 636,442	$ 5,699	$ (7,154)	$ 634,987
December 31, 2020:				
Available-for-sale:				
U.S. government-sponsored mortgage-backed securities	$ 3,185	$ 377	$ —	$ 3,562
Total	$ 3,185	$ 377	$ —	$ 3,562
Held-to-maturity:				
U.S. government-sponsored mortgage-backed securities	$ 247,642	$ 15,200	$ (1)	$ 262,841
Total	$ 247,642	$ 15,200	$ (1)	$ 262,841

The amortized cost and estimated fair value of investment securities by maturity date at December 31, 2021 are shown below. Incorporated in the maturity schedule are mortgage-backed securities, which are allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Held-to-maturity:		
Due within 5 years	$ 16	$ 16
Due after 5 years through 10 years	28	28
Due after 10 years	636,398	634,943
Total	$ 636,442	$ 634,987

Realized gains and losses and the proceeds from sales of held-to-maturity and available-for-sale securities are shown in the table below.

(Dollars in thousands)	2021	2020
Proceeds from sales	$ 26,900	$ 20,530
Gross gains	1,840	1,320
Gross losses	—	—

During 2021 and 2020, the Company sold $22.1 million and $15.8 million, respectively, of held-to-maturity mortagage-backed securities and recorded gains of $1.5 million and $1.0 million, respectively. The sale of the mortgage-backed securities, for which the Company had already collected a substantial portion of the outstanding purchased principal (at least 85%), were in accordance with the Investments – Debt and Equity Securities topic of the FASB ASC and do not taint management's assertion of its intent to hold the remaining securities in the held-to-maturity portfolio to maturity.

During 2021 and 2020, the Company sold $3.0 million and $3.4 million, respectively, of available-for-sale mortgage-backed securities and recorded a gain of $339,000 and $290,000, respectively.

Investment securities with amortized costs of $140.6 million and $192.7 million at December 31, 2021 and 2020, respectively, were pledged to secure deposits made by state and local governments, 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, 2021 and 2020. The Company does not intend to sell held-to-maturity securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

	Less Than 12 Months		12 Months or Longer		Total		
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Number of Securities**	**Fair Value**	**Unrealized Losses**
(Dollars in thousands)							
December 31, 2021:							
Held-to-maturity:							
U.S. government-sponsored mortgage-backed securities	$ 482,629	$ (6,976)	$ 3,681	$ (178)	43	$ 486,310	$ (7,154)
December 31, 2020:							
Held-to-maturity:							
U.S. government-sponsored mortgage-backed securities	$ 678	$ (1)	$ 4	$ —	6	$ 682	$ (1)

Mortgage-Backed Securities. The unrealized losses on the Company's investment in mortgage-backed securities were caused by increases in market interest rates subsequent to purchase. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of December 31, 2021 and 2020.

During 2020, the Company securitized fixed-rate first mortgage loans with a book value of $9.4 million into Freddie Mac mortgage-backed securities to increase liquidity. The securitization transaction increased investment securities and lowered loans receivable. The securitization transaction was accounted for by recording the mortgage-backed securities at a fair value of $9.8 million. A net gain of $377,000 was recognized on the securitization transaction and recorded in gain on sale of loans in the Consolidated Statements of Income. There were no securitization transactions during 2021.

(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, 2021 and 2020, the Bank met such requirement. At December 31, 2021 and 2020, the Bank owned $8.2 million and $8.1 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, 2021 and 2020, the Bank met such requirement. At December 31, 2021 and 2020, the Bank owned $3.2 million and $3.1 million, respectively, 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.

(7) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	December 31, 2021	December 31, 2020
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 1,267,537	$ 1,366,507
Multi-family residential	5,468	7,245
Construction, commercial and other	18,590	19,074
Home equity loans and lines of credit	7,121	9,376
Total real estate loans	1,298,716	1,402,202
Other loans:		
Loans on deposit accounts	278	235
Consumer and other loans	8,192	10,086
Total other loans	8,470	10,321
Less:		
Net unearned fees and discounts	(1,693)	(1,266)
Allowance for loan losses	(2,669)	(4,262)
Total unearned fees, discounts and allowance for loan losses	(4,362)	(5,528)
Loans receivable, net	$ 1,302,824	$ 1,406,995

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
Year ended December 31, 2021:						
Balance, beginning of year	$ 3,102	$ 406	$ 1	$ 146	$ 607	$ 4,262
(Reversal of provision) provision for loan losses	(1,305)	29	—	(39)	(277)	(1,592)
	1,797	435	1	107	330	2,670
Charge-offs	—	—	—	(22)	—	(22)
Recoveries	17	—	—	4	—	21
Net recoveries (charge-offs)	17	—	—	(18)	—	(1)
Balance, end of year	$ 1,814	$ 435	$ 1	$ 89	$ 330	$ 2,669
Year ended December 31, 2020:						
Balance, beginning of year	$ 1,741	$ 511	$ 1	$ 54	$ 405	$ 2,712
Provision (reversal of provision) for loan losses	1,361	(105)	(10)	177	202	1,625
	3,102	406	(9)	231	607	4,337
Charge-offs	—	—	—	(92)	—	(92)
Recoveries	—	—	10	7	—	17
Net recoveries (charge-offs)	—	—	10	(85)	—	(75)
Balance, end of year	$ 3,102	$ 406	$ 1	$ 146	$ 607	$ 4,262

The allowance for loan loss for each segment of the loan portfolio is generally determined by calculating the historical loss of each segment in a seven year look-back period and adding a qualitative adjustment, when appropriate, 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, regional and local economic business conditions and developments that affect the collectibility of the portfolio;
- changes in the bank's internal loan review system;
- changes in the experience, depth and ability of personnel in the mortgage loan origination and loan servicing departments;
- changes in the volume and severity of past due loans, the volume of nonaccrual loans and classified assets;
- changes in the nature and volume of loans being originated;
- changes in the value of underlying collateral for collateral dependent loans;
- existence and any changes in concentrations of credit;
- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio; and
- changes in the amount of loans with payment deferrals.

The Company has granted loan payment deferrals to borrowers who have been affected by the COVID-19 pandemic. Additional loan loss provisions were established because of these loan payment deferrals and the higher unemployment rate that occurred because of the COVID-19 pandemic.

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, 2021 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.

The table below presents the balance in the allowance for loan losses and the recorded investment in loans, net of unearned fees and discounts, 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, 2021:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	1,814	435	1	89	330	2,669
Total ending allowance balance	$ 1,814	$ 435	$ 1	$ 89	$ 330	$ 2,669
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 3,812	$ —	$ 19	$ —	$ —	$ 3,831
Collectively evaluated for impairment	1,267,560	18,529	7,103	8,470	—	1,301,662
Total ending loan balance	$ 1,271,372	$ 18,529	$ 7,122	$ 8,470	$ —	$ 1,305,493
December 31, 2020:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	3,102	406	1	146	607	4,262
Total ending allowance balance	$ 3,102	$ 406	$ 1	$ 146	$ 607	$ 4,262
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 4,947	$ —	$ 23	$ —	$ —	$ 4,970
Collectively evaluated for impairment	1,367,576	19,024	9,353	10,334	—	1,406,287
Total ending loan balance	$ 1,372,523	$ 19,024	$ 9,376	$ 10,334	$ —	$ 1,411,257

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, 2021:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 3,812	$ 4,299
Home equity loans and lines of credit	19	31
Total	$ 3,831	$ 4,330
December 31, 2020:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 4,947	$ 5,425
Home equity loans and lines of credit	23	32
Total	$ 4,970	$ 5,457

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

(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized
2021:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 3,888	$ 36
Home equity loans and lines of credit	21	—
Total	$ 3,909	$ 36
2020:		
With no related allowance recorded:		
One- to four-family residential mortgages	$ 5,012	$ 33
Home equity loans and lines of credit	24	—
Total	$ 5,036	$ 33

There were no loans individually evaluated for impairment with a related allowance for loan loss as of December 31, 2021 or 2020. 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. An impaired loan would also not have an allocated allowance if the value of the property securing the loan, less the cost to sell the property, is greater than the loan balance.

The table below presents the aging of loans and accrual status by class of loans, net of unearned fees and discounts. Loans with a formal loan payment deferral plan in place are not considered contractually past due or delinquent if the borrower is in compliance with the loan payment deferral plan:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due	Total Loans	Nonaccrual Loans	Loans 90 Days or More Past Due and Still Accruing
December 31, 2021:								
One- to four-family residential mortgages	$ 129	$ —	$ 244	$ 373	$ 1,265,540	$ 1,265,913	$ 3,261	$ —
Multi-family residential mortgages	—	—	—	—	5,459	5,459	—	—
Construction, commercial and other mortgages	—	—	—	—	18,529	18,529	—	—
Home equity loans and lines of credit	—	—	—	—	7,122	7,122	19	—
Loans on deposit accounts	—	—	—	—	278	278	—	—
Consumer and other	3	—	24	27	8,165	8,192	—	24
Total	$ 132	$ —	$ 268	$ 400	$ 1,305,093	$ 1,305,493	$ 3,280	$ 24
December 31, 2020:								
One- to four-family residential mortgages	$ 376	$ 152	$ 240	$ 768	$ 1,364,527	$ 1,365,295	$ 4,382	$ —
Multi-family residential mortgages	—	—	—	—	7,228	7,228	—	—
Construction, commercial and other mortgages	—	—	—	—	19,024	19,024	—	—
Home equity loans and lines of credit	—	23	—	23	9,353	9,376	23	—
Loans on deposit accounts	—	—	—	—	235	235	—	—
Consumer and other	1	—	—	1	10,098	10,099	—	—
Total	$ 377	$ 175	$ 240	$ 792	$ 1,410,465	$ 1,411,257	$ 4,405	$ —

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

the fair value of the collateral less selling costs. Any commercial real estate, commercial, construction or equity loan that has a loan balance in excess of a specified amount is also periodically reviewed to determine whether the loan exhibits any weaknesses and is performing in accordance with its contractual terms.

The Company had 10 nonaccrual loans with a book value of $3.3 million at December 31, 2021 and 12 nonaccrual loans with a book value of $4.4 million as of December 31, 2020. The Company collected interest on nonaccrual loans of $94,000 and $72,000 during 2021 and 2020, respectively, but due to regulatory requirements, the Company recorded the interest payments as a reduction of principal. The Company would have recognized additional interest income of $228,000 and $132,000 during 2021 and 2020, respectively, had the loans been accruing interest. The Company had two consumer loans totalling $24,000 that were 90 days or more past due and still accruing interest as of December 31, 2021. The Company did not have any loans 90 days or more past due and still accruing interest as of December 31, 2020.

There were no loans modified in a troubled debt restructuring during the year ended December 31, 2021 or 2020. There were no new troubled debt restructurings within the 12 months ended December 31, 2021 that subsequently defaulted. Loan modifications under the CARES Act and the Interagency Statements issued by bank regulators in 2020 are discussed below.

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, 2021:					
One- to four-family residential mortgages	3	$ 551	1	$ 340	$ 891
Total	3	$ 551	1	$ 340	$ 891
December 31, 2020:					
One- to four-family residential mortgages	3	$ 565	2	$ 467	$ 1,032
Total	3	$ 565	2	$ 467	$ 1,032

There was one troubled debt restructurings for $126,000 that was 59 days delinquent at December 31, 2021. There were no delinquent troubled debt restructurings at December 31, 2020. 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, 2021, the Company has no commitments to lend any additional funds to these borrowers.

The CARES Act provided relief to financial institutions from categorizing eligible loan modifications as troubled debt restructurings over the remaining life of the modified loan. Eligible loan modifications under the CARES Act were required to be related to the COVID-19 pandemic and the borrower's payments must not have been more than 30 days past due as of December 31, 2019. Loan modifications under the CARES Act must be executed during the period from March 1, 2020 to January 1, 2022. Banking regulators issued similar guidance, which also clarified that a COVID-19 related loan modification should not be considered a troubled debt restructuring if the borrower was not more than 30 days past due on payments at the time the loan modification program was implemented and the modification is considered short-term (not to exceed six months). The Company uses the provisions of the CARES Act and the Interagency Statements to account for the eligible loans that received modifications.

The Company has granted loan payment deferrals to borrowers who have been affected by the COVID-19 pandemic. The table below summarizes loans in the loan payment deferral program by class of loan:

(Dollars in thousands)	December 31, 2021				December 31, 2020			
	Loans in the Loan Payment Deferral Program		Percent of Total Loans		Loans in the Loan Payment Deferral Program		Percent of Total Loans	
One- to- four family residential mortgage	$	74,704	5.7	%	$	126,254	9.0	%
Non-residential mortgage		3,928	0.3			4,548	0.3	
Total	$	78,632	6.0	%	$	130,802	9.3	%

The loans on which the Company has granted loan payment deferrals are included in the ALLL calculation. However, loans performing under a loan payment deferral agreement are not considered contractually past due and are excluded from the past due statistics above.

The ratio of the current loan balance to the current tax-assessed value of the property securing the mortage loans in the payment deferral program averaged 55.6% at December 31, 2021. At December 31, 2021, one- to four-family residential mortgage loans represented 97.3% of the Company's total loan portfolio balance with a ratio of the current loan balance to the current tax assessed value of the property securing these loans averaging 46.3%. All of the Company's residential mortgage loans are secured by real estate in Hawaii.

As of December 31, 2021, of the $74.7 million total one- to four-family mortgage loans in the loan payment deferral program, $60.7 million, or 81.2%, had resumed making full principal and interest payments. The interest on these loans that accrued during the deferral period will be repaid over subsequent years. $13.9 million, or 18.6%, of the total mortgage loans in the loan payment deferral program were making interest-only payments. In the loan payment deferral program, there was one one-to four-family mortgage loan with a principal balance of $147,000 that was 119 days delinquent as of December 31, 2021. There were no loans which have had their deferral period end and not resumed their loan payments.

As of December 31, 2021, all of the $3.9 million commercial mortgage, commercial and industrial and home equity lines of credit in the loan payment deferral program had resumed making full principal and interest payments. There was one delinquent personal line of credit for $23,000 at December 31, 2021.

Since the beginning of the year, there has not been a significant increase in the Company's loan delinquencies, significant changes in deposits or significant drawdowns on any lines of credit. Loan delinquencies do not include loans requesting payment deferral because of the COVID-19 pandemic. We do not have any commercial loans to hotels, businesses in the transportation industry, restaurants or retail establishments.

The Company had no real estate owned as of December 31, 2021 or 2020. There were no loans in the process of foreclosure as of December 31, 2021. There were two one- to four-family residential mortgage loans totalling $251,000 in the process of foreclosure at December 31, 2020.

Nearly all the Company's 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, 2021 and 2020, the Company sold mortgage loans held for sale with principal balances of $36.2 million and $43.8 million, respectively, and recognized gains of $663,000 and $1.2 million, respectively. The Company had no loans held for sale at December 31, 2021 and five loans held for sale for $2.2 million at December 31, 2020.

During 2020, the Company securitized fixed-rate first mortgage loans with a book value of $9.4 million and received mortgage-backed securities with a fair market value of $9.8 million. The Company retained the servicing of these loans and recorded mortgage servicing assets with a fair market value of $78,000 and recognized a net gain of $377,000 on the transaction. There were no securitization transactions during 2021.

The Company serviced loans for others with principal balances of $41.3 million and $56.7 million at December 31, 2021 and 2020, respectively. Of these amounts, $24.3 million and $35.5 million of loan balances relate to securitizations for which the Company continues to hold the related mortgage-backed securities at December 31, 2021 and 2020, respectively. The amount of contractually specified servicing fees earned was $127,000 and $173,000 for 2021 and 2020, respectively. The fees are reported in service and other fees 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 $586,000 and $622,000 at December 31, 2021 and 2020, respectively.

(8) Accrued Interest Receivable

The components of accrued interest receivable are as follows:

	December 31,	
(Dollars in thousands)	**2021**	**2020**
Loans receivable	$ 4,644	$ 5,872
Investment securities	1,126	627
Interest-bearing deposits	16	16
Total	$ 5,786	$ 6,515

(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. The Company amortizes 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. In 2021, the Company did not sell or securitize any loans on a servicing retained basis. In 2020, the Company added $78,000 in mortgage servicing assets when it securitized $9.4 million of mortgage loans into mortgage-backed securities to increase liquidity.

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

(Dollars in thousands)	**2021**	**2020**
Balance at beginning of year	$ 407	$ 503
Additions	—	78
Impairments	—	(73)
Amortization	(84)	(101)
Balance at end of year	$ 323	$ 407

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

	December 31,	
(Dollars in thousands)	**2021**	**2020**
Gross carrying value	$ 1,643	$ 1,643
Accumulated amortization	(1,320)	(1,236)
Net carrying value	$ 323	$ 407

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

(Dollars in thousands)		
2022	$	62
2023		45
2024		34
2025		28
2026		24
Thereafter		130
Total	$	323

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 Consolidated 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, 2021 and 2020:

	2021	2020
Fair value, beginning of year (in thousands)	$ 407	$ 552
Fair value, end of year (in thousands)	334	407
Weighted average discount rate	10.25 %	10.25 %
Weighted average prepayment speed assumption (CPR)	11.60	13.57
Annual cost to service (per loan)	$ 75	$ 75

The conditional prepayment rate (CPR) prepayment model assumes constant prepayment rates each period.

(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, 2021, the notional amount of interest rate locks and forward loan sale commitments on loans in the process of being originated each amounted to $1.2 million.

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, 2021	Asset Derivatives Fair Value at December 31, 2020	Liability Derivatives Fair Value at December 31, 2021	Liability Derivatives Fair Value at December 31, 2020
Interest rate contracts	Prepaid expenses and other assets	$ 9	$ 38	$ —	$ —
Interest rate contracts	Accounts payable and accrued expenses	—	—	9	38
Total derivatives		$ 9	$ 38	$ 9	$ 38

Gains and losses on derivatives net to zero for the years ended December 31, 2021 and 2020.

(11) Premises and Equipment

Premises and equipment are as follows:

(Dollars in thousands)	December 31, 2021	December 31, 2020
Land	$ 585	$ 585
Buildings and improvements	1,400	1,365
Leasehold improvements	14,683	14,671
Furniture, fixtures and equipment	6,062	6,807
Automobiles	118	118
	22,848	23,546
Less accumulated depreciation and amortization	(18,783)	(18,701)
	4,065	4,845
Construction in progress	—	10
Total	$ 4,065	$ 4,855

Depreciation expense was $1.2 million for the years ended December 31, 2021 and 2020.

(12) Deposits

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

	December 31,			
	2021		2020	
(Dollars in thousands)	Amount	Rate	Amount	Rate
Non-interest bearing	$ 69,980	— %	$ 66,014	— %
Savings accounts	1,085,255	0.07	1,010,891	0.15
Certificates of deposit	225,054	0.85	321,778	1.34
Money market	5,368	0.10	7,749	0.20
Checking and Super NOW	296,171	0.02	253,368	0.02
Total	$ 1,681,828	0.16 %	$ 1,659,800	0.36 %

The maturity of certificate of deposit accounts at December 31, 2021 is as follows (dollars in thousands):

Maturing in:	
2022	$ 171,854
2023	28,640
2024	13,729
2025	5,027
2026	5,804
Total	$ 225,054

Certificates of deposit with balances greater than or equal to $250,000 totaled $109.6 million and $172.7 million at December 31, 2021 and 2020, 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)	2021	2020
Savings	$ 1,074	$ 2,485
Certificates of deposit and money market	2,845	6,480
Checking and Super NOW	56	48
Total	$ 3,975	$ 9,013

At December 31, 2021 and 2020, overdrawn deposit accounts totaled $12,000 and $15,000, respectively, and have been reclassified as loans in the Consolidated Balance Sheets.

In the normal course of business, certain directors and executive officers (and their associated and affiliated parties) maintain deposit accounts with the Company totaling $12.2 million and $8.2 million at December 31, 2021 and 2020, respectively.

(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. At December 31, 2021 and 2020, our credit line with the FHLB Des Moines was equal to 45% of the Bank's total assets and we had the capacity to borrow an additional $800.9 million and $807.2 million, respectively.

During 2021 and 2020, we restructured $20.0 million and $82.0 million, respectively, of FHLB advances. The transaction for 2021 lowered the average cost of FHLB advances from 1.52% to 1.45%, and extended the average maturity date by 0.4 years. The transactions for 2020 lowered the average cost of FHLB advances from 2.28% to 1.52%, and extended the average maturity date by 1.9 years. The restructuring was accounted for as a continuation of the existing borrowings with any prepayment fees recognized as an adjustment to the future cost of the restructured advances.

Advances outstanding consisted of the following:

	December 31,			
	2021		2020	
(Dollars in thousands)	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Due over 1 year to 2 years	$ 24,000	1.27 %	$ 10,000	2.13 %
Due over 2 years to 3 years	82,000	1.40	34,000	1.58
Due over 3 years to 4 years	25,000	1.58	77,000	1.40
Due over 4 years to 5 years	10,000	1.97	20,000	1.57
Total	$ 141,000	1.45 %	$ 141,000	1.52 %

(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:

(Dollars in thousands)	2021 Repurchase Liability	2021 Weighted Average Rate	2020 Repurchase Liability	2020 Weighted Average Rate
Maturing:				
Over 2 years to 3 years	$ 5,000	1.88 %	$ —	— %
Over 3 years to 4 years	5,000	1.73	5,000	1.88
Over 4 years to 5 years	—	—	5,000	1.73
Total	$ 10,000	1.81 %	$ 10,000	1.81 %

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, 2021. 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	$ 11,389	$ 11,700	$ 10,000	$ 1,700	36

(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	Gross Amount Not Offset in the Balance Sheet: Cash Collateral Pledged	Net Amount
December 31, 2021:						
Securities sold under agreements to repurchase	$ 10,000	$ —	$ 10,000	$ 10,000	$ —	$ —
December 31, 2020:						
Securities sold under agreements to repurchase	$ 10,000	$ —	$ 10,000	$ 10,000	$ —	$ —

(16) Income Taxes

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

(Dollars in thousands)	2021	2020
Current		
Federal	$ 4,466	$ 5,157
State	1,602	1,950
	6,068	7,107
Deferred		
Federal	205	(231)
State	100	(161)
	305	(392)
Total	$ 6,373	$ 6,715

The federal statutory corporate tax rate for the years ended December 31, 2021 and 2020 was 21%. 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)	2021	2020
Income tax expense at statutory rate	$ 4,999	$ 5,317
Income tax effect of:		
State income taxes, net of federal income tax benefits	1,274	1,574
Other tax-exempt income	(164)	(194)
Share-based compensation	1	70
Meal and entertainment expenses	54	51
Tax benefit from the exercise of stock options	—	(63)
Non-deductible executive compensation	127	67
Other	82	(107)
Total income tax expense	$ 6,373	$ 6,715
Effective income tax rate	26.78 %	26.52 %

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

	December 31,	
(Dollars in thousands)	2021	2020
Current taxes payable:		
Federal	$ 245	$ 239
State	1,618	1,922
	$ 1,863	$ 2,161
Deferred taxes receivable:		
Federal	$ (1,112)	$ (2,152)
State	(815)	(1,230)
	$ (1,927)	$ (3,382)

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

(Dollars in thousands)	December 31, 2021	December 31, 2020
Deferred tax assets:		
Premises and equipment	$ 473	$ 392
Hawaii franchise tax	454	476
Unfunded pension liability	—	1,250
Allowance for loan losses	711	1,135
Employee benefit plans	2,703	2,706
Equity incentive plan	151	210
Deferred compensation	240	339
Net lease liability	203	209
Other	44	22
	4,979	6,739
Deferred tax liabilities:		
Deferred loan costs	2,654	2,926
FHLB stock dividends	126	126
Prepaid expense	186	97
Unrealized gain on securities available for sale	—	100
Premiums on loans sold	86	108
	3,052	3,357
Net deferred tax assets	$ 1,927	$ 3,382

Deferred tax assets and liabilities at December 31, 2021 and 2020 were calculated using federal corporate tax rates of 21%.

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, 2021 and 2020.

(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 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.

In 2008, the Board of Directors approved changes to the Company's Pension Plan. Effective December 31, 2008, there are no further accruals of benefits for any participants and benefits do not 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)	2021	2020	2021	2020
Accumulated benefit obligation at end of year	$ 20,943	$ 24,130	$ 9,915	$ 9,866
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 24,130	$ 21,367	$ 9,866	$ 9,702
Service cost (income)	105	174	(111)	9
Interest cost	547	722	177	172
Actuarial (gain) loss	(2,885)	2,776	—	—
Benefits paid	(954)	(909)	(17)	(17)
Benefit obligation at end of year	20,943	24,130	9,915	9,866
Change in plan assets:				
Fair value of plan assets at beginning of year	21,151	19,435	—	—
Actual return on plan assets	2,928	2,625	—	—
Employer contributions	—	—	17	17
Benefits paid	(954)	(909)	(17)	(17)
Fair value of plan assets at end of year	23,125	21,151	—	—
Funded status at end of year	$ 2,182	$ (2,979)	$ (9,915)	$ (9,866)
Amounts recognized in the Consolidated Balance Sheets:				
Prepaid expenses and other assets (Accounts payable and accrued expenses)	$ 2,182	$ (2,979)	$ (9,915)	$ (9,866)
Amounts recognized in accumulated other comprehensive loss:				
Net actuarial loss	$ 7,401	$ 12,088	$ —	$ —
Prior service cost	129	134	—	—
Accumulated other comprehensive loss, before tax	$ 7,530	$ 12,222	$ —	$ —

The accumulated benefit obligation experienced an actuarial gain of $2.9 million in 2021 primarily because the actual benefit payments, rather than estimated payments, were used to calculate the benefit obligation. In addition, the actuarial gain can be attributed to an increase in the discount rate used to calculate the benefit obligation.

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)	2021	2020
Accumulated other comprehensive loss at beginning of year, before tax	$ 12,222	$ 11,147
Actuarial net (gain) loss arising during the period	(4,372)	1,455
Amortizations (recognized in net periodic benefit cost):		
Actuarial loss	(315)	(375)
Prior service cost	(5)	(5)
Total recognized in other comprehensive loss	(4,692)	1,075
Accumulated other comprehensive loss at end of year, before tax	$ 7,530	$ 12,222

For the years ended December 31, 2021 and 2020, the following weighted average assumptions were used to determine benefit obligations at the end of the year:

	Pension Plan		SERP	
	Year Ended December 31,			
	2021	2020	2021	2020
Assumptions used to determine the year-end benefit obligations:				
Discount rate	2.90 %	2.50 %	5.00 %	5.01 %
Rate of compensation increase	N/A	N/A	5.00 %	5.00 %

The dates used to determine retirement measurements for the Pension Plan were December 31, 2021 and 2020.

The Company's investment strategy for the Pension 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, 2021 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, 2021 and 2020, 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, 2021:				
Cash	$ 1,017	$ 1,017	$ —	$ —
Equities	16,276	16,276	—	—
Mutual funds (1)	5,832	5,832	—	—
Total	$ 23,125	$ 23,125	$ —	$ —
December 31, 2020:				
Cash	$ 1,971	$ 1,971	$ —	$ —
Equities	14,004	14,004	—	—
Mutual funds (1)	5,176	5,176	—	—
Total	$ 21,151	$ 21,151	$ —	$ —

(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.

Estimated future benefit payments reflecting expected future service at December 31, 2021 are as follows:

(Dollars in thousands)	Pension Plan	SERP
2022	$ 957	$ 11
2023	991	8,739
2024	1,009	125
2025	1,134	125
2026	1,192	125
2027 - 2031	6,176	624
Total	$ 11,459	$ 9,749

For the years ended December 31, 2021 and 2020, the following weighted average assumptions were used to determine net periodic benefit cost for the fiscal years shown:

	Pension Plan		SERP	
	Year Ended December 31,			
	2021	2020	2021	2020
Assumptions used to determine the net periodic benefit cost:				
Discount rate	2.50 %	3.30 %	5.03 %	5.02 %
Expected return on plan assets	7.00	7.00	-	-
Rate of compensation increase	N/A	N/A	5.00	5.00

The components of net periodic benefit cost were as follows:

	Pension Plan		SERP	
	Year Ended December 31,			
(Dollars in thousands)	2021	2020	2021	2020
Net periodic benefit cost (income) for the year:				
Service cost (income)	$ 105	$ 174	$ (111)	$ 9
Interest cost	547	722	177	172
Expected return on plan assets	(1,441)	(1,304)	—	—
Amortization of prior service cost	5	5	—	—
Recognized actuarial loss	315	375	—	—
Recognized curtailment loss	—	—	—	—
Net periodic benefit cost (income) for the year:	$ (469)	$ (28)	$ 66	$ 181

The service cost component of net periodic benefit cost is included in salaries and employee benefits in the Consolidated Statements of Income. The other components of net periodic benefit cost including interest cost, the return on plan assets and amortization of net loss are reported in other income.

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 Pension Plan in 2022. The Company expects to make an $11,000 contribution to the SERP in 2022 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 2021 and 2020 amounted to $66,000 and $65,000, 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, 2021 and 2020.

(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, 2021 and 2020 amounted to $1.3 million and $1.2 million, respectively.

Shares held by the ESOP trust were as follows:

	December 31,	
	2021	2020
Allocated shares	540,869	507,304
Unearned shares	342,531	391,464
Total ESOP shares	883,400	898,768
Fair value of unearned shares, in thousands	$ 8,649	$ 9,407

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, 2021 and 2020, we accrued $99,000 and $137,000, respectively, for the ESOP restoration plan.

(19) Share-Based Compensation

The shareholders of Territorial Bancorp Inc. adopted the 2010 Equity Incentive Plan and the 2019 Equity Incentive Plan. These plans provide for the award of stock options and restricted stock to key officers and directors. In accordance with the Compensation — Stock Compensation topic of the FASB ASC, the cost of the equity incentive plans 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. No new awards can be made under the 2010 Equity Plan, but awards previously made can continue to vest. There are 146,347 shares remaining available for new awards under the 2019 Equity Plan.

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

(In thousands)	2021	2020
Compensation expense	$ 351	$ 619
Income tax benefit	96	169

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, 2019	116,409	$ 17.53	0.72	$ 1,562
Granted	—	—	—	—
Exercised	81,827	17.36	—	725
Forfeited	—	—	—	—
Expired	31,497	—	—	—
Options outstanding at December 31, 2020	3,085	$ 23.62	1.67	$ 1
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	—	—	—	—
Options outstanding at December 31, 2021	3,085	$ 23.62	0.67	$ 5
Options vested and exercisable at December 31, 2021	3,085	$ 23.62	0.67	$ 5

The following summarizes certain stock option activity of the Company:

(In thousands)	2021	2020
Intrinsic value of stock options exercised	$ —	$ 725
Proceeds received from stock options exercised	—	1,421
Tax benefits realized from stock options exercised	—	158
Total fair value of stock options that vested	—	—

As of December 31, 2021, the Company had no unrecognized compensation costs related to the stock option plan.

Restricted Stock

Restricted stock awards are 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 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. Unvested restricted stock that is time-based contain nonforeitable dividend rights. Accrued dividends on restricted stock that do not vest based on performance or market conditions are forfeited.

The table below presents the time-based restricted stock activity:

	Restricted Stock	Weighted Average Grant Date Fair Value
Unvested at December 31, 2019	20,249	$ 28.78
Granted	13,444	21.05
Vested	9,998	29.16
Forfeited	—	—
Unvested at December 31, 2020	23,695	$ 24.24
Granted	10,849	26.67
Vested	11,336	25.81
Forfeited	—	—
Unvested at December 31, 2021	23,208	$ 24.61

During the year ended December 31, 2021, the Company issued 10,849 shares of restricted stock to certain members of executive management under the 2019 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, 2021, the Company had $346,000 of unrecognized compensation costs related to time-vested restricted stock. The unrecognized compensation costs are expected to be recognized over a weighted average period of 1.8 years.

The table below presents the performance-based restricted stock units (PRSUs) that will vest on a performance condition:

	Performance-Based Restricted Stock Units Based on a Performance Condition	Weighted Average Grant Date Fair Value
Unvested at December 31, 2019	35,976	$ 29.16
Granted	16,129	21.05
Vested	7,680	29.53
Forfeited	3,840	29.53
Unvested at December 31, 2020	40,585	$ 25.83
Granted	13,016	26.67
Vested	7,473	30.73
Forfeited	4,545	30.73
Unvested at December 31, 2021	41,583	$ 24.68

During the year ended December 31, 2021, the Company issued 13,016 PRSUs to certain members of executive management under the 2019 Equity Incentive Plan. These PRSUs will vest three years after they are granted 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 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, 2021, the Company had $74,000 of unrecognized compensation costs related to these PRSUs. The unrecognized compensation costs are expected to be recognized over a weighted average period of 1.4 years. Performance will be measured over a three-year period and will be cliff vested.

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
Unvested at December 31, 2019	8,994	$ 25.74
Granted	4,032	22.16
Vested	1,197	24.44
Forfeited	1,682	24.44
Unvested at December 31, 2020	10,147	$ 24.69
Granted	3,254	25.94
Vested	1,628	28.32
Forfeited	1,377	28.32
Unvested at December 31, 2021	10,396	$ 24.03

During the year ended December 31, 2021, the Company issued 3,254 of PRSUs to certain members of executive management under the 2019 Equity Incentive Plan. These PRSUs will vest three years after they are granted 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: April 5, 2021
Performance period: January 1, 2021 to December 31, 2023
2.74 year risk-free rate on grant date: 0.32%
December 31, 2020 closing price: $24.03
Closing stock price on date of grant: $26.77
Annualized volatility (based on 2.74 year historical volatility as of the grant date): 38.5%

As of December 31, 2021, the Company had $71,000 of unrecognized compensation costs related to the PRSUs that are based on a market condition. The unrecognized compensation costs are expected to be recognized over a weighted average period of 1.4 years. Performance will be measured over a three-year period and will be cliff vested.

(20) Earnings Per Share

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

(Dollars in thousands, except per share data)	For the Year Ended December 31, 2021	For the Year Ended December 31, 2020
Net income	$ 17,430	$ 18,605
Income allocated to participating securities	(75)	(78)
Net income available to common shareholders	$ 17,355	$ 18,527
Weighted-average number of shares used in:		
Basic earnings per share	9,059,204	9,137,398
Dilutive common stock equivalents:		
Stock options and restricted stock units	51,131	59,291
Diluted earnings per share	9,110,335	9,196,689
Net income per common share, basic	$ 1.92	$ 2.03
Net income per common share, diluted	$ 1.90	$ 2.01

(21) Other Comprehensive Loss

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

(Dollars in thousands)	Unfunded Pension Liability	Unrealized (Gain)/Loss on Securities	Total
December 31, 2021:			
Balances at beginning of year	$ 8,967	$ (276)	$ 8,691
Other comprehensive (income) loss, net of taxes	(3,443)	3	(3,440)
Amounts reclassified from other comprehensive income, net of taxes	—	273	273
Net current period other comprehensive (income) loss	(3,443)	276	(3,167)
Balances at end of year	$ 5,524	$ —	$ 5,524
December 31, 2020:			
Balances at beginning of year	$ 8,178	$ (510)	$ 7,668
Other comprehensive loss, net of taxes	789	13	802
Amounts reclassified from other comprehensive income, net of taxes	—	221	221
Net current period other comprehensive loss	789	234	1,023
Balances at end of year	$ 8,967	$ (276)	$ 8,691

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

	Year Ended December 31,					
	2021			2020		
(Dollars in thousands)	**Pretax Amount**	**Tax**	**After Tax Amount**	**Pretax Amount**	**Tax**	**After Tax Amount**
Unfunded pension liability	$ (4,692)	$ 1,249	$ (3,443)	$ 1,075	$ (286)	$ 789
Unrealized loss on securities	4	(1)	3	18	(5)	13
Amount reclassified from other comprehensive income	373	(100)	273	301	(80)	221
Total	$ (4,315)	$ 1,148	$ (3,167)	$ 1,394	$ (371)	$ 1,023

The decrease in the accumulated comprehensive loss on the unfunded pension liability occurred primarily because a decrease in the pension obligation which occurred primarily because the actual benefit payments, rather than estimated payments, were used to calculate the benefit obligation. In addition, the decrease in the pension obligation can also be attributed to an increase in the discount rate used to calcualte the benefit obligation.

(22) 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, 2021 and 2020, the Company had loan commitments aggregating to $11.3 million (interest rates from 1.875% to 2.875%) and $21.3 million (interest rates from 2.250% to 3.125%), respectively, primarily consisting of fixed-rate residential first mortgage loans. In addition to commitments to originate loans, at December 31, 2021 and 2020, the Company had $15.4 million and $20.7 million, respectively, in unused lines of credit to borrowers.

The Company is required by the Federal Reserve Bank to maintain reserves based on the amount of deposits held. Effective March 25, 2020 the Federal Reserve Bank lowered the reserve requirement to zero percent, therefore, there were no required reserve balances as of December 31, 2021 and 2020.

(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. The Company is not subject to regulatory capital requirements because its total assets are less than $3.0 billion. At December 31, 2021 and 2020, Territorial Savings Bank exceeded all of the fully-phased in regulatory captial requirments and is considered to be "well capitalized" under regulatory guidelines. In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

The table below presents the fully-phased in capital required to be considered “well-capitalized” and meet the capital conservation buffer requirement 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, 2021 and 2020:

(Dollars in thousands)	Required Ratio	Actual Amount	Actual Ratio
December 31, 2021:			
Tier 1 Leverage Capital			
Territorial Savings Bank	5.00 %	$ 235,785	11.09 %
Territorial Bancorp Inc.		$ 261,846	12.31 %
Common Equity Tier 1 Risk-Based Capital (1)			
Territorial Savings Bank	9.00 %	$ 235,785	26.47 %
Territorial Bancorp Inc.		$ 261,846	29.40 %
Tier 1 Risk-Based Capital (1)			
Territorial Savings Bank	10.50 %	$ 235,785	26.47 %
Territorial Bancorp Inc.		$ 261,846	29.40 %
Total Risk-Based Capital (1)			
Territorial Savings Bank	12.50 %	$ 238,515	26.78 %
Territorial Bancorp Inc.		$ 264,576	29.70 %
December 31, 2020:			
Tier 1 Leverage Capital			
Territorial Savings Bank	5.00 %	$ 239,256	11.38 %
Territorial Bancorp Inc.		$ 257,399	12.24 %
Common Equity Tier 1 Risk-Based Capital (1)			
Territorial Savings Bank	9.00 %	$ 239,256	27.49 %
Territorial Bancorp Inc.		$ 257,399	29.57 %
Tier 1 Risk-Based Capital (1)			
Territorial Savings Bank	10.50 %	$ 239,256	27.49 %
Territorial Bancorp Inc.		$ 257,399	29.57 %
Total Risk-Based Capital (1)			
Territorial Savings Bank	12.50 %	$ 243,608	27.99 %
Territorial Bancorp Inc.		$ 261,751	30.07 %

(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 became effective on January 1, 2019.

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, 2021 and 2020, 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.

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 Company.

Legislation enacted in 2018 requires the federal banking agencies, including the Federal Reserve Board, to establish a "community bank leverage ratio" between 8% to 10% of average total consolidated assets for qualifying institutions with assets of less than $10 billion. Institutions with capital meeting the specified requirements and electing to follow the alternative framework would be deemed to comply with the applicable regulatory capital requirements, including the risk based requirements. The federal regulators have adopted 9% as the applicable ratio, effective March 31, 2020, and temporarily reduced the ratio to 8% as a result of the CARES Act, transitioning back to 9% by year-end 2021. We have not elected to follow the alternative framework.

(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) Revenue Recognition

The Company's contracts with customers are generally short-term in nature, with cycles of one year or less. These can range from an immediate term for services such as wire transfers, foreign currency exchanges and cashier's check purchases, to several days for services such as processing annuity and mutual fund sales. Some contracts may be of an ongoing nature, such as providing deposit account services, including ATM access, check processing, account analysis and check ordering. However, provision of an assessable service and payment for such service is usually concurrent or closely timed. Contracts related to financial instruments, such as loans, investments and debt, are excluded from the scope of this accounting requirement.

After analyzing the Company's revenue sources, including the amount of revenue received, the timing of services rendered and the timing of payment for these services, the Company has determined that the rendering of services and the payment for such services are generally closely matched. Any differences are not material to the Company's Consolidated Financial Statements. Accordingly, the Company generally records income when payment for services is received.

Revenue from contracts with customers is reported in service fees on loan and deposit accounts and in other noninterest income in the Consolidated Statements of Income. The table below reconciles the revenue from contracts with customers and other revenue reported in those line items:

(Dollars in thousands)	Service and Other Fees	Other	Total
Year ended December 31, 2021			
Revenue from contracts with customers	$ 2,330	$ 177	$ 2,507
Other revenue	133	550	683
Total	$ 2,463	$ 727	$ 3,190
Year ended December 31, 2020			
Revenue from contracts with customers	$ 2,565	$ 243	$ 2,808
Other revenue	97	146	243
Total	$ 2,662	$ 389	$ 3,051

(26) Leases

The table below presents lease costs and other information for the years indicated:

(Dollars in thousands)	Year Ended December 31, 2021	2020
Lease costs:		
Operating lease costs	$ 3,398	$ 3,365
Short-term lease costs	47	23
Variable lease costs	156	163
Total lease costs	$ 3,601	$ 3,551
Cash paid for amounts included in measurement of lease liabilities	$ 3,372	$ 3,238
ROU assets obtained in exchange for new operating lease liabilities	$ 4,060	$ 4,042

At December 31, 2021, future minimum rental commitments under noncancellable operating leases are as follows:

(Dollars in thousands)	
2022	$ 2,840
2023	2,069
2024	1,793
2025	1,074
2026	853
Thereafter	2,662
Total	11,291
Less present value discount	(547)
Present value of leases	$ 10,744

The table below presents other lease related information:

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years)	5.93	5.92
Weighted-average discount rate	1.83 %	2.29 %

The Company leased to a tenant certain property that it owns under a non-cancelable lease that expired during 2021. The Company continues to rent to the tenant on a month-to-month basis. Rental income comprised of minimum rentals for 2021 amd 2020 was approximately $110,000 each year.

On December 31, 2021, the Bank entered into a lease for our corporate offices that terminates our current lease. The current lease is anticipated to terminate in October 2022. The new lease will commence on February 4, 2022 and the right of use asset and lease liability for the new lease will be recorded when the lease commences. The new lease has the following lease payment obligations (dollars in thousands):

Due in:		
One Year or Less	$	53
More Than One Year to Three Years		1,133
More Than Three Years to Five Years		1,259
More than Five Years		9,045
Total	$	11,490

(27) 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 measured or disclosed 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 available 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.

Investment Securities Available for Sale. 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.

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. The fair value inputs are considered Level 2 inputs. 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.

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, 2021					
Assets					
Cash and cash equivalents	$ 99,859	$ 99,859	$ 99,859	$ —	$ —
Investment securities held to maturity	636,442	634,987	—	634,987	—
Loans receivable, net	1,302,824	1,314,609	—	—	1,314,609
FHLB stock	8,173	8,173	—	8,173	—
FRB stock	3,158	3,158	—	3,158	—
Accrued interest receivable	5,786	5,786	16	1,126	4,644
Interest rate contracts	9	9	—	9	—
Liabilities					
Deposits	1,681,828	1,682,078	—	1,456,773	225,305
Advances from the Federal Home Loan Bank	141,000	141,867	—	141,867	—
Securities sold under agreements to repurchase	10,000	10,143	—	10,143	—
Accrued interest payable	35	35	—	34	1
Interest rate contracts	9	9	—	9	—
December 31, 2020					
Assets					
Cash and cash equivalents	$ 363,543	$ 363,543	$ 363,543	$ —	$ —
Investment securities available for sale	3,562	3,562	—	3,562	—
Investment securities held to maturity	247,642	262,841	—	262,841	—
Loans held for sale	2,195	2,274	—	2,274	—
Loans receivable, net	1,406,995	1,433,489	—	—	1,433,489
FHLB stock	8,144	8,144	—	8,144	—
FRB stock	3,145	3,145	—	3,145	—
Accrued interest receivable	6,515	6,515	16	627	5,872
Interest rate contracts	38	38	—	38	—
Liabilities					
Deposits	1,659,800	1,663,226	—	1,338,022	325,204
Advances from the Federal Home Loan Bank	141,000	145,441	—	145,441	—
Securities sold under agreements to repurchase	10,000	10,466	—	10,466	—
Accrued interest payable	35	35	—	33	2
Interest rate contracts	38	38	—	38	—

At December 31, 2021 and 2020, 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.

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, 2021				
Interest rate contracts — assets	$ —	$ 9	$ —	$ 9
Interest rate contracts — liabilities	—	(9)	—	(9)
December 31, 2020				
Interest rate contracts — assets	$ —	$ 38	$ —	$ 38
Interest rate contracts — liabilities	—	(38)	—	(38)
Investment securities available for sale	—	3,562	—	3,562

The table below presents the balance of assets measured at fair value on a nonrecurring basis and the related losses at December 31, 2020:

(Dollars in thousands)	Fair Value Adjustment Date	Level 1	Level 2	Level 3	Total	Total Losses
December 31, 2020						
Mortgage servicing assets	12/31/2020	$ —	$ —	$ 407	$ 407	$ (73)

There were no assets measured at fair value on a non-recurring basis at December 31, 2021. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2021 and at December 31, 2020.

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

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
December 31, 2020:				
Mortgage servicing assets	$ 407	Discounted cash flow	Discount rate	9.25% - 11.25% (10.25%)
			Prepayment speed (CPR)	10.42 - 19.61 (13.57)
			Annual cost to service (per loan, in dollars)	$ 75

(28) Parent Company Only

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

Condensed Balance Sheets

(Dollars in thousands)	December 31, 2021	December 31, 2020
Assets		
Cash	$ 25,532	$ 18,108
Investment in Territorial Savings Bank	230,261	230,566
Receivable from Territorial Savings Bank	566	851
Prepaid expenses and other assets	132	355
Total assets	$ 256,491	$ 249,880
Liabilities and Equity		
Other liabilities	$ 169	$ 1,172
Equity	256,322	248,708
Total liabilities and equity	$ 256,491	$ 249,880

Condensed Statements of Income

(Dollars in thousands)	For the Year Ended December 31, 2021	For the Year Ended December 31, 2020
Interest and dividend income:		
Dividends from Territorial Savings Bank	$ 22,000	$ 8,000
Interest-earning deposit with Territorial Savings Bank	5	19
Total interest and dividend income	22,005	8,019
Noninterest expense:		
Salaries	43	43
Other general and administrative expenses	998	719
Total noninterest expense	1,041	762
Income before income taxes and equity in undistributed earnings in subsidiaries	20,964	7,257
Income taxes	(288)	(217)
Income before equity in undistributed earnings in subsidiaries	21,252	7,474
Equity in undistributed earnings of Territorial Savings Bank, net of dividends	(3,822)	11,131
Net income	$ 17,430	$ 18,605

Condensed Statements of Cash Flows

(Dollars in thousands)	For the Year Ended December 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 17,430	$ 18,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of Territorial Savings Bank, net of dividends	3,822	(11,131)
Net decrease in prepaid expenses and other assets	1,762	1,583
Net decrease in other liabilities	(366)	(151)
Net cash provided by operating activities	22,648	8,906
Cash flows from investing activities:		
Investment in Territorial Savings Bank	—	—
Net cash used in investing activities	—	—
Cash flows from financing activities:		
Repurchases of common stock	(5,000)	(5,000)
Cash dividends paid	(10,224)	(8,400)
Net cash used in financing activities	(15,224)	(13,400)
Net increase (decrease) in cash	7,424	(4,494)
Cash at beginning of the period	18,108	22,602
Cash at end of the period	$ 25,532	$ 18,108

(29) Subsequent Events

On January 27, 2022, the Board of Directors of Territorial Bancorp Inc. declared a quarterly cash dividend of $0.23 per share of common stock. The dividend was paid on February 24, 2022 to stockholders of record as of February 10, 2022.

On February 2, 2022, the Board of Directors of Territorial Bancorp Inc. announced an eleventh share repurchase program. Under this repurchase program, the Company may repurchase up to $5,000,000 of the Company's outstanding shares.

ITEM 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

(a) An evaluation was performed under the supervision and with the participation of the Company's management, including the Chairman of the Board, President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended) as of December 31, 2021. Based on that evaluation, the Company's management, including the Chairman of the Board, President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

During the quarter ended December 31, 2021, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

(b) **Management's annual report on internal control over financial reporting.**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as such term is defined in Rule 13a-15(f) in the Exchange Act. The Company's internal control system is a process designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and 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 our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. 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.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013). Based on our assessment we believe that, as of December 31, 2021, the Company's internal control over financial reporting is effective based on those criteria.

ITEM 9B. Other Information

None.

ITEM 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The information in Territorial Bancorp Inc.'s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders under the captions "Proposal 1—Election of Directors," "Information About Executive Officers," "Delinquent Section 16(a) Reports," "Corporate Governance—Code of Ethics and Business Conduct," "Nominating and Corporate Governance Committee Procedures—Procedures to be Followed by Stockholders," "Corporate Governance—Committees of the Board of Directors" and "Audit Committee Report" is incorporated herein by reference.

ITEM 11. Executive Compensation

The information in Territorial Bancorp Inc.'s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders under the caption "Executive Compensation" is incorporated herein by reference.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in Territorial Bancorp Inc.'s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders under the caption "Stock Ownership" is incorporated herein by reference. Information with respect to the security ownership of our directors and executive officers is included above in "Item 10. Directors, Executive Officers and Corporate Governance," and is incorporated herein by reference.

Equity Compensation Plan Information

Set forth below is information as of December 31, 2021 with respect to compensation plans (other than our employee stock ownership plan) under which equity securities of the Registrant are authorized for issuance.

Equity Compensation Plan Information

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (1)	Number of Securities Remaining Available for Future Issuance Under Share-based Compensation Plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders	3,085	$ 23.62	146,347

(1) Reflects stock options only.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information in Territorial Bancorp Inc.'s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders under the captions "Transactions with Certain Related Persons" and "Proposal 1 — Election of Directors" is incorporated herein by reference.

ITEM 14. Principal Accountant Fees and Services

The information in Territorial Bancorp Inc.'s definitive Proxy Statement for the 2022 Annual Meeting of Stockholders under the captions "Proposal 2—Ratification of Independent Registered Public Accounting Firm—Audit Fees" and "—Pre-Approval of Services by the Independent Registered Public Accounting Firm" is incorporated herein by reference.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

(a) *Financial Statements*

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

(i) Report of Independent Registered Public Accounting Firm (Moss Adams LLP, Portland, Oregon, PCAOB ID:659)
(ii) Consolidated Balance Sheets at December 31, 2021 and 2020
(iii) Consolidated Statements of Income for the years ended December 31, 2021 and 2020
(iv) Consolidated Statements of Comprehensive Income for the years ended December 31, 2021 and 2020
(v) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020
(vi) Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020
(vii) Notes to Consolidated Financial Statements

(b) *Exhibits*

3.1	Articles of Incorporation of Territorial Bancorp Inc. (Incorporated by reference to Exhibit 3.1 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
3.2	Bylaws of Territorial Bancorp Inc. (Incorporated by reference to Exhibit 3.2 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
4.1	Form of Common Stock Certificate of Territorial Bancorp Inc. (Incorporated by reference to Exhibit 4 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
4.2	Description of Registrant's Securities (Incorporated by reference to Exhibit 4.2 to the Annual Report on Form 10-K (file no. 001-34403), filed March 19, 2021.
10.1	Employment Agreement between Territorial Bancorp Inc. and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (file no. 001-34403), filed with the Securities and Exchange Commission on November 18, 2009)
10.2	Employment Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.3	First Amendment to Employment Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.3 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.4	Employment Agreement between Territorial Bancorp Inc. and Vernon Hirata (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (file no. 001-34403), filed with the Securities and Exchange Commission on November 18, 2009)
10.5	Employment Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.4 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.6	First Amendment to Employment Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.7	Employment Agreement between Territorial Bancorp Inc. and Ralph Y. Nakatsuka (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K (file no. 001-34403), filed with the Securities and Exchange Commission on November 18, 2009)
10.8	Employment Agreement between Territorial Savings Bank and Ralph Y. Nakatsuka (Incorporated by reference to Exhibit 10.6 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)

10.9	First Amendment to Employment Agreement between Territorial Savings Bank and Ralph Y. Nakatsuka (Incorporated by reference to Exhibit 10.9 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.10	Supplemental Executive Retirement Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.7 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.11	Supplemental Executive Retirement Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.8 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.12	Supplemental Executive Retirement Agreement between Territorial Savings Bank and Ralph Y. Nakatsuka (Incorporated by reference to Exhibit 10.9 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.13	Executive Deferred Incentive Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.10 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.14	Executive Deferred Incentive Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.11 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.15	[Intentionally omitted]
10.16	Territorial Savings Bank Non-Qualified Supplemental Employee Stock Ownership Plan (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K (file no. 001-34403), filed with the Securities and Exchange Commission on November 18, 2009)
10.17	Territorial Savings Bank Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.14 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.18	First Amendment to Territorial Savings Bank Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.15 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.19	Second Amendment to Territorial Savings Bank Executive Incentive Compensation Plan (Incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.20	[Intentionally Omitted]
10.21	Form of Employee Restricted Stock Award (Incorporated by reference to Exhibit 10.21 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.22	Form of Employee Stock Option Award (Incorporated by reference to Exhibit 10.22 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.23	Form of Director Restricted Stock Award (Incorporated by reference to Exhibit 10.23 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.24	Form of Director Stock Option Award (Incorporated by reference to Exhibit 10.24 to the Annual Report on Form 10-K/A (file no. 001-34403), filed with the Securities and Exchange Commission on March 29, 2011)
10.25	Territorial Savings Bank Separation Pay Plan and Summary Plan Description (Incorporated by reference to Exhibit 10.16 of the Registration Statement on Form S-1 (file no. 333-155388), initially filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on November 14, 2008)
10.26	Amendment One to Territorial Savings Bank Amended and Restated Supplemental Employee Retirement Agreement for Vernon Hirata (Incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Commission on May 14, 2011)
10.27	Amendment One to Territorial Savings Bank Amended and Restated Supplemental Employee Retirement Agreement for Ralph Nakatsuka (Incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Commission on May 14, 2011)
10.28	[Intentionally Omitted]
10.29	Amendment Two to Territorial Savings Bank Amended and Restated Supplemental Employee Retirement Agreement for Vernon Hirata (Incorporated by reference to Exhibit 10.29 to the Annual Report on Form 10-K (file no. 001-34403), filed with the Securities and Exchange Commission on March 14, 2012)
10.30	Amendment Two to Territorial Savings Bank Amended and Restated Supplemental Employee Retirement Agreement for Ralph Nakatsuka (Incorporated by reference to Exhibit 10.30 to the Annual Report on Form 10-K (file no. 001-34403), filed with the Securities and Exchange Commission on March 14, 2012)

10.31	Second Amendment to Employment Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K (file no. 001-34403), filed with the Securities and Exchange Committee on March 15, 2013)
10.32	Third Amendment to Employment Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.33	First Amendment to Employment Agreement between Territorial Bancorp Inc. and Vernon Hirata (Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.34	Second Amendment to Employment Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.35	First Amendment to Employment Agreement between Territorial Bancorp Inc. and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.36	Second Amendment to Employment Agreement between Territorial Savings Bank and Ralph Nakatsuka (Incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.37	First Amendment to Employment Agreement between Territorial Bancorp Inc. and Ralph Nakatsuka (Incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.38	First Amendment to Amended and Restated Executive Deferred Incentive Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.7 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.39	First Amendment to Amended and Restated Supplemental Employee Retirement Agreement between Territorial Savings Bank and Allan S. Kitagawa (Incorporated by reference to Exhibit 10.8 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.40	Third Amendment to Amended and Restated Supplemental Employee Retirement Agreement between Territorial Savings Bank and Vernon Hirata (Incorporated by reference to Exhibit 10.9 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.41	Third Amendment to Amended and Restated Supplemental Employee Retirement Agreement between Territorial Savings Bank and Ralph Nakatsuka (Incorporated by reference to Exhibit 10.10 to the Quarterly Report on Form 10-Q (file no. 001-34403), filed with the Securities and Exchange Committee on November 7, 2014)
10.42	Territorial Bancorp Inc. 2010 Equity Incentive Plan, as amended and restated (Incorporated by reference to Appendix A to the definitive proxy statement for the Annual Meeting of Shareholders (file No. 001-34403), filed with the Securities and Exchange Commission on April 24, 2017)
10.43	Territorial Bancorp Inc. Annual Incentive Plan, as amended (Incorporated by reference to Appendix B to the definitive proxy statement for the Annual Meeting of Stockholders (file No. 001-34403), filed with the Securities and Exchange Commission on April 24, 2017)
10.44	Territorial Bancorp Inc. 2019 Equity Incentive Plan (Incorporated by reference to Appendix A to the definitive proxy statement for the Annual Meeting of Stockholders (file No. 001-34403), filed with the Securities and Exchange Commission on April 16, 2019)
10.45	Form of Incentive Stock Option Agreement (Incorporated by reference to Exhibit 10.2 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)
10.46	Form of Non-Qualified Stock Option Agreement (Incorporated by reference to Exhibit 10.3 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)
10.47	Form of Director Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.4 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)
10.48	Form of Employee Restricted Stock Award Agreement (Incorporated by reference to Exhibit 10.5 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)
10.49	Form of Restricted Stock Unit Agreement (time-based) (Incorporated by reference to Exhibit 10.6 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)

10.50	Form of Restricted Stock Unit Agreement (performance-based) (Incorporated by reference to Exhibit 10.7 of the Registration Statement on Form S-8 (file no. 333-237039), filed by Territorial Bancorp Inc. with the Securities and Exchange Commission on March 9, 2020)
10.51	Form of Amendment, dated October 8, 2021, to Amended and Restated Supplemental Executive Retirement Agreement for Allan S. Kitagawa, Vernon Hirata and Ralph Nakatsuka
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, 2021, filed on March 21, 2022, formatted in Inline 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
104	Cover Page Interactive Data File (formatted as inline XBRL document and contained in Exhibit 101)

(c) *Financial Statement Schedules*

Not applicable.

ITEM 16. Form 10-K Summary

Not applicable.

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, 2022

By: /s/ Allan S. Kitagawa
Allan S. Kitagawa
Chairman of the Board, President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to requirements of the Exchange Act, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Allan S. Kitagawa Allan S. Kitagawa	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	March 21, 2022
/s/ Melvin M. Miyamoto Melvin M. Miyamoto	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 21, 2022
/s/ Kirk W. Caldwell Kirk W. Caldwell	Director	March 21, 2022
/s/ Howard Y. Ikeda Howard Y. Ikeda	Director	March 21, 2022
/s/ Jennifer A. Isobe Jennifer A. Isobe	Director	March 21, 2022
David S. Murakami	Director	
/s/ John M. Ohama John M. Ohama	Director	March 21, 2022
/s/ Francis E. Tanaka Francis E. Tanaka	Director	March 21, 2022

Territorial Bancorp Inc.

CORPORATE OFFICE
1132 Bishop Street, Suite 2200
Honolulu, Hawaii 96813

Aina Haina Branch
820 W. Hind Drive, Suite 118
Honolulu, Hawaii 96821

Ala Moana Center Branch
Street Level, Mauka
1450 Ala Moana Boulevard, Suite 1052
Honolulu, Hawaii 96814

Downtown Branch
1000 Bishop Street
Honolulu, Hawaii 96813

Hawaii Kai Branch
Hawaii Kai Shopping Center
377 Keahole Street
Honolulu, Hawaii 96825

Hilo Branch
Waiakea Center
315 Makaala Street, Suite 102
Hilo, Hawaii 96720

Kahala Branch
Ku `Ono Marketplace
4210 Waialae Avenue, Suite 106
Honolulu, Hawaii 96816

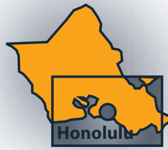
Kahului Branch
Queen Kaahumanu Center
275 W. Kaahumanu Avenue, Suite 146
Kahului, Maui, Hawaii 96732

Kailua Branch
19 Oneawa Street
Kailua, Hawaii 96734

Kaimuki Branch
1108 12th Avenue, Suite C
Honolulu, Hawaii 96816

Kalihi-Kapalama Branch
1199 Dillingham Boulevard
Honolulu, Hawaii 96817

Kamehameha Shopping Center Branch
1620 North School Street, Suite 136
Honolulu, Hawaii 96817



Kaneohe Branch
46-005 Kawa Street, Suite 102
Kaneohe, Hawaii 96744

Kapahulu Branch
Kilohana Square
1016 Kapahulu Avenue, Suite 130
Honolulu, Hawaii 96816

Kapolei Branch
Ace Center of Kapolei
480 Kamokila Boulevard, Suite 105
Kapolei, Hawaii 96709

Kauai Branch
Kukui Grove Shopping Center
4393 Kukui Grove Street, Suite 103
Lihue, Kauai, Hawaii 96766

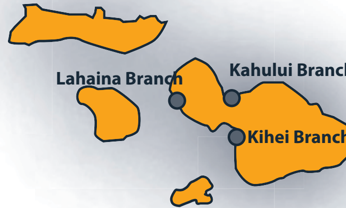
Keeaumoku Branch
735 Keeaumoku Street, Suite 108
Honolulu, Hawaii 96814

Kihei Branch
Azeka Shopping Center Mauka
1279 South Kihei Road, Suite 311
Kihei, Hawaii 96753

Kona Branch
Crossroads Shopping Center
75-1027 Henry Street, Suite #111B
Kailua-Kona, Hawaii 96740

Lahaina Branch
Old Lahaina Center
170 Papalaua Street, Unit 3
Lahaina, Hawaii 96761

Manoa Branch
2752 Woodlawn Drive, #5-110
Honolulu, Hawaii 96822



McCully Branch
1111 McCully Street
Honolulu, Hawaii 96826

Mililani Branch
Town Center of Mililani
95-1249 Meheula Park Way, Suite 168
Mililani, Hawaii 96789

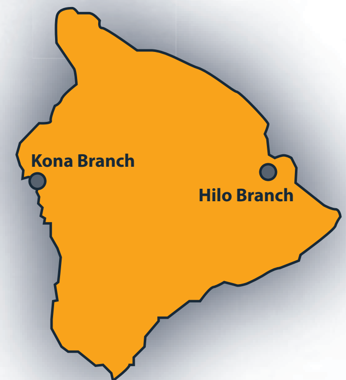
Nuuanu Branch
Nuuanu Shopping Center
1613 Nuuanu Avenue, Suite A15
Honolulu, Hawaii 96817

Pearl City Branch
Pearl City Shopping Center
850 Kamehameha Highway, Suite B2
Pearl City, Hawaii 96782

Pearlridge Branch
98-084 Kamehameha Highway
Aiea, Hawaii 96701

Piikoi Branch
1159 S. Beretania Street
Honolulu, Hawaii 96814

Salt Lake Branch
Salt Lake Shopping Center
848 Ala Lilikoi Street, Suite 107
Honolulu, Hawaii 96818



Waipahu Branch
Waipahu Town Center
94-050 Farrington Highway, Suite B1-12
Waipahu, Hawaii 96797

Waipio Branch
Laniakea Plaza
94-1221 Ka Uka Boulevard, #102
Waipahu, Hawaii 96797