Territorial Bancorp Inc.
Form 10-Q
August 08, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period ended June 30, 2013

or

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

For transition period from to

Commission File Number 1-34403

TERRITORIAL BANCORP INC.

(Exact Name of Registrant as Specified in Charter)

Maryland	**26-4674701**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)
1132 Bishop Street, Suite 2200, Honolulu, Hawaii	**96813**
(Address of Principal Executive Offices)	(Zip Code)

(808) 946-1400

Registrant s telephone number, including area code

Not Applicable

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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o

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

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

10,474,230 shares of Common Stock, par value $0.01 per share, were issued and outstanding as of July 31, 2013.

Table of Contents

TERRITORIAL BANCORP INC.

Form 10-Q Quarterly Report

Table of Contents

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

(Dollars in thousands, except share data)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 87,171	$ 182,818
Investment securities held to maturity, at amortized cost (fair value of $580,456 and $584,125 at June 30, 2013 and December 31, 2012, respectively)	582,682	554,673
Federal Home Loan Bank stock, at cost	11,908	12,128
Loans held for sale	2,991	2,220
Loans receivable, net	821,757	774,876
Accrued interest receivable	4,370	4,367
Premises and equipment, net	4,799	5,056
Bank-owned life insurance	39,656	31,177
Deferred income taxes receivable	4,861	3,580
Prepaid expenses and other assets	2,220	3,732
Total assets	$ 1,562,415	$ 1,574,627
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Deposits	$ 1,235,456	$ 1,237,847
Advances from the Federal Home Loan Bank	15,000	20,000
Securities sold under agreements to repurchase	65,000	70,000
Accounts payable and accrued expenses	23,500	23,017
Current income taxes payable	1,857	1,152
Advance payments by borrowers for taxes and insurance	3,575	3,639
Total liabilities	1,344,388	1,355,655
Stockholders Equity:		
Preferred stock, $.01 par value; authorized 50,000,000 shares, no shares issued or outstanding	0	0
Common stock, $.01 par value; authorized 100,000,000 shares; issued and outstanding 10,474,230 and 10,806,248 shares at June 30, 2013 and December 31, 2012, respectively	105	108
Additional paid-in capital	87,618	93,616
Unearned ESOP shares	(7,585)	(7,829)
Retained earnings	142,135	137,410
Accumulated other comprehensive loss	(4,246)	(4,333)

Total stockholders equity		218,027		218,972
Total liabilities and stockholders equity	$	1,562,415	$	1,574,627

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Income (Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest and dividend income:				
Investment securities	$ 4,518	$ 6,293	$ 9,072	$ 12,809
Loans	9,199	9,110	18,429	18,139
Other investments	66	87	164	171
Total interest and dividend income	13,783	15,490	27,665	31,119
Interest expense:				
Deposits	1,074	1,582	2,194	3,152
Advances from the Federal Home Loan Bank	65	104	168	208
Securities sold under agreements to repurchase	471	831	948	1,735
Total interest expense	1,610	2,517	3,310	5,095
Net interest income	12,173	12,973	24,355	26,024
Provision (reversal of allowance) for loan losses	(16)	(79)	2	5
Net interest income after provision (reversal of allowance) for loan losses	12,189	13,052	24,353	26,019
Noninterest income:				
Service fees on loan and deposit accounts	568	480	1,069	1,030
Income on bank-owned life insurance	258	234	479	467
Gain on sale of investment securities	1,024	172	1,912	300
Gain on sale of loans	380	406	1,025	847
Other	81	115	186	205
Total noninterest income	2,311	1,407	4,671	2,849
Noninterest expense:				
Salaries and employee benefits	5,012	5,041	10,364	10,214
Occupancy	1,333	1,290	2,584	2,614
Equipment	851	811	1,723	1,623
Federal deposit insurance premiums	191	192	381	382
Loss on extinguishment of debt	0	198	0	198
Other general and administrative expenses	1,208	966	2,259	2,105
Total noninterest expense	8,595	8,498	17,311	17,136
Income before income taxes	5,905	5,961	11,713	11,732
Income taxes	2,244	2,115	4,411	4,346
Net income	$ 3,661	$ 3,846	$ 7,302	$ 7,386
Basic earnings per share	$ 0.37	$ 0.38	$ 0.74	$ 0.73
Diluted earnings per share	$ 0.36	$ 0.37	$ 0.72	$ 0.72
Cash dividends declared per common share	$ 0.13	$ 0.11	$ 0.25	$ 0.21
Basic weighted-average shares outstanding	9,841,162	10,135,179	9,879,050	10,163,647
Diluted weighted-average shares outstanding	10,070,604	10,303,363	10,093,690	10,305,751

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Net income	$ 3,661	$ 3,846	$ 7,302	$ 7,386
Change in unrealized loss on securities	10	6	18	10
Noncredit related gains on securities not expected to be sold	47	0	69	0
Other comprehensive income	57	6	87	10
Comprehensive income	$ 3,718	$ 3,852	$ 7,389	$ 7,396

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income (Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Total Stockholders Equity
Balances at December 31, 2011	$ 110	$ 97,640	$ (8,319)	$ 128,300	$ (3,770)	$ 213,961
Net income	0	0	0	7,386	0	7,386
Other comprehensive income	0	0	0	0	10	10
Cash dividends declared	0	0	0	(2,259)	0	(2,259)
Share-based compensation	0	1,323	0	0	0	1,323
Allocation of 24,466 ESOP shares	0	274	245	0	0	519
Repurchase of 251,739 shares of company common stock	(2)	(5,336)	0	0	0	(5,338)
Exercise of 41,275 options on common stock	0	716	0	0	0	716
Balances at June 30, 2012	$ 108	$ 94,617	$ (8,074)	$ 133,427	$ (3,760)	$ 216,318
Balances at December 31, 2012	$ 108	$ 93,616	$ (7,829)	$ 137,410	$ (4,333)	$ 218,972
Net income	0	0	0	7,302	0	7,302
Other comprehensive income	0	0	0	0	87	87
Cash dividends declared	0	0	0	(2,577)	0	(2,577)
Share-based compensation	0	1,327	0	0	0	1,327
Allocation of 24,466 ESOP shares	0	326	244	0	0	570
Repurchase of 332,018 shares of company common stock	(3)	(7,651)	0	0	0	(7,654)
Balances at June 30, 2013	$ 105	$ 87,618	$ (7,585)	$ 142,135	$ (4,246)	$ 218,027

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net income	$ 7,302	$ 7,386
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2	5
Depreciation and amortization	567	571
Deferred income tax benefit	(1,339)	(655)
Amortization of fees, discounts, and premiums	401	(133)
Origination of loans held for sale	(47,607)	(44,376)
Proceeds from sales of loans held for sale	47,861	46,539
Gain on sale of loans, net	(1,025)	(847)
Net gain on sale of real estate owned	0	(38)
Gain on sale of investment securities held to maturity	(1,912)	(300)
ESOP expense	570	519
Share-based compensation expense	1,327	1,323
Excess tax benefits from share-based compensation	0	(54)
(Increase) decrease in accrued interest receivable	(3)	94
Net increase in bank-owned life insurance	(479)	(467)
Net decrease in prepaid expenses and other assets	1,512	409
Net increase (decrease) in accounts payable and accrued expenses	483	(1,665)
Net increase (decrease) in income taxes payable	705	(1,435)
Net cash provided by operating activities	8,365	6,876
Cash flows from investing activities:		
Purchases of investment securities held to maturity	(167,189)	(67,354)
Principal repayments on investment securities held to maturity	110,983	95,378
Proceeds from sale of investment securities held to maturity	29,188	4,559
Loan originations, net of principal repayments on loans receivable	(46,218)	(37,383)
Proceeds from redemption of Federal Home Loan Bank stock	220	0
Purchases of bank-owned life insurance	(8,000)	0
Proceeds from sale of real estate owned	0	262
Purchases of premises and equipment	(310)	(282)
Net cash used in investing activities	(81,326)	(4,820)

(Continued)

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	Six Months Ended June 30, 2013	2012
Cash flows from financing activities:		
Net increase (decrease) in deposits	$ (2,391)	$ 47,166
Proceeds from advances from the Federal Home Loan Bank	5,000	100
Repayments of advances from the Federal Home Loan Bank	(10,000)	(100)
Repayments of securities sold under agreements to repurchase	(5,000)	(18,000)
Purchases of Fed Funds	0	10
Sales of Fed Funds	0	(10)
Net increase (decrease) in advance payments by borrowers for taxes and insurance	(64)	41
Excess tax benefits from share-based compensation	0	54
Proceeds from issuance of common stock	0	716
Repurchases of company stock	(7,654)	(5,338)
Cash dividends paid	(2,577)	(2,259)
Net cash provided by (used in) financing activities	(22,686)	22,380
Net increase (decrease) in cash and cash equivalents	(95,647)	24,436
Cash and cash equivalents at beginning of the period	182,818	131,937
Cash and cash equivalents at end of the period	$ 87,171	$ 156,373
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest on deposits and borrowings	$ 3,305	$ 5,162
Income taxes	5,045	6,436

See accompanying notes to consolidated financial statements.

Table of Contents

TERRITORIAL BANCORP INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Territorial Bancorp Inc. have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with Territorial Bancorp Inc. s consolidated financial statements and notes thereto filed as part of the Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

(2) Organization

On November 4, 2008, the Board of Directors of Territorial Mutual Holding Company approved a plan of conversion and reorganization under which the Company would convert from a mutual holding company to a stock holding company. The conversion to a stock holding company was approved by the depositors and borrowers of Territorial Savings Bank and the Office of Thrift Supervision (OTS) and included the filing of a registration statement with the U.S. Securities and Exchange Commission. Upon the completion of the conversion and reorganization on July 10, 2009, Territorial Mutual Holding Company and Territorial Savings Group, Inc. ceased to exist as separate legal entities and Territorial Bancorp Inc. became the holding company for Territorial Savings Bank. A total of 12,233,125 shares were issued in the conversion at $10 per share, raising $122.3 million of gross proceeds. $3.7 million of conversion expenses were offset against the gross proceeds. Territorial Bancorp Inc. s common stock began trading on the NASDAQ Global Select Market under the symbol TBNK on July 13, 2009.

Upon completion of the conversion and reorganization, a special liquidation account was established in an amount equal to the total equity of Territorial Mutual Holding Company as of December 31, 2008. The liquidation account is to provide eligible account holders and supplemental eligible account holders who maintain their deposit accounts with Territorial Savings Bank after the conversion with a liquidation interest in the unlikely event of the complete liquidation of Territorial Savings Bank after the conversion. The liquidation account will be reduced annually to the extent that eligible account holders and supplemental eligible account holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder s or supplemental eligible account holder s interest in the liquidation account. In the event of a complete liquidation of Territorial Savings Bank, and only in such event, each account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held.

(3) Recently Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) amended the Comprehensive Income topic of the FASB Accounting Standards Codification (ASC). The amendment eliminated the option of presenting components of other comprehensive income as part of the statement of changes in stockholders equity. Nonowner changes in stockholders equity must be presented either in a continuous statement of comprehensive income or in two separate but consecutive statements. The amendment was effective for interim or annual periods beginning after December 15, 2011, with early adoption permitted. In December 2011, the FASB deferred the effective date of the part of this amendment requiring reclassifications out of accumulated other comprehensive income to be shown on the face of the financial statements to allow time for further deliberation. Until final reporting requirements were effective, previous disclosure requirements would remain in effect. The Company adopted this amendment on January 1, 2012, and other than the location of disclosures related to other comprehensive income, the adoption did not have a material effect on its consolidated financial statements. In February 2013, the FASB finalized the reporting requirements for reclassifications out of accumulated other comprehensive income. When an amount reclassified out of accumulated other comprehensive income is required to be reported in net income in its entirety, the effect on income statement items must be disclosed. When an amount reclassified out of accumulated other comprehensive income is not required to be reported in net income in its entirety in the same period, cross references to other required disclosures providing information about the transaction are required. This amendment was effective for reporting periods beginning after December 15, 2012. The Company adopted this amendment on January 1, 2013 and the adoption did not have a material effect on its consolidated financial statements.

In December 2011, the FASB amended the Balance Sheet topic of the FASB ASC. The amendment requires disclosures about the gross and net information related to instruments and transactions eligible for offset in the statement of financial position. The disclosures are meant to assist users of financial statements to more easily compare information that is presented based on the differing offsetting requirements of U.S. generally accepted accounting principles and International Financial Reporting Standards. In January 2013, the FASB issued a clarification that stated the amendment applies only to certain derivatives, repurchase and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendment was effective for interim and annual periods beginning on or after January 1, 2013. The Company adopted this amendment on January 1, 2013 and the adoption did not have a material effect on its consolidated financial statements.

(4) Cash and Cash Equivalents

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

(Dollars in thousands)		**June 30, 2013**		**December 31, 2012**
Cash and due from banks	$	12,628	$	10,574
Interest-earning deposits in other banks		74,543		172,244
Cash and cash equivalents	$	87,171	$	182,818

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

Table of Contents

(5) Investment Securities

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

(Dollars in thousands)	Carrying value	Gross unrealized Gains	Gross unrealized Losses	Estimated fair value
June 30, 2013:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	$ 582,146	$ 12,590	$ (14,816)	$ 579,920
Trust preferred securities	536	0	0	536
Total	$ 582,682	$ 12,590	$ (14,816)	$ 580,456
December 31, 2012:				
Held to maturity:				
U.S. government-sponsored mortgage-backed securities	$ 554,252	$ 29,706	$ (254)	$ 583,704
Trust preferred securities	421	0	0	421
Total	$ 554,673	$ 29,706	$ (254)	$ 584,125

The carrying and estimated fair value of investment securities at June 30, 2013 are shown below. Incorporated in the maturity schedule are mortgage-backed and trust preferred securities, which are allocated using the contractual maturity as a basis. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Carrying Value	Estimated fair value
Held to maturity:		
Due within 5 years	$ 1,730	$ 1,751
Due after 5 years through 10 years	562	596
Due after 10 years	580,390	578,109
Total	$ 582,682	$ 580,456

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

(Dollars in thousands)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Proceeds from sales	$ 15,558	$ 2,926	$ 29,188	$ 4,559
Gross gains	1,024	172	1,912	300
Gross losses	0	0	0	0

Table of Contents

During the three months ended June 30, 2013 and 2012, all sales were related to $14.5 million and $2.8 million, respectively, of held-to-maturity debt securities. During the six months ended June 30, 2013 and 2012, all sales were related to $27.3 million and $4.3 million, respectively, of held-to-maturity debt securities. The sale of these securities, for which the Company had already collected a substantial portion of the outstanding principal (at least 85%), is in accordance with the Investment topic of the FASB ASC and will not affect the historical cost basis used to account for the remaining securities in the held-to-maturity portfolio.

Investment securities with carrying values of $227.3 million and $221.3 million at June 30, 2013 and December 31, 2012, respectively, were pledged to secure public deposits, securities sold under agreements to repurchase and transaction clearing accounts.

Provided below is a summary of investment securities which were in an unrealized loss position at June 30, 2013 and December 31, 2012. The Company does not intend to sell these securities until such time as the value recovers or the securities mature and it is not more likely than not that the Company will be required to sell the securities prior to recovery of value or the securities mature.

	Less than 12 months		12 months or longer			Total	
Description of securities (Dollars in thousands)	**Fair value**	**Unrealized Losses**	**Fair value**	**Unrealized losses**	**Number of securities**	**Fair value**	**Unrealized losses**
June 30, 2013:							
Mortgage-backed securities	$ 295,810	$ 14,772	$ 2,593	$ 44	51	$ 298,403	$ 14,816
December 31, 2012:							
Mortgage-backed securities	$ 32,921	$ 253	$ 47	$ 1	21	$ 32,968	$ 254

Mortgage-Backed Securities. The unrealized losses on the Company s investment in mortgage-backed securities were caused by increases in market interest rates. All of the mortgage-backed securities are guaranteed by Freddie Mac or Fannie Mae, which are U.S. government-sponsored enterprises, or Ginnie Mae, which is a U.S. government agency. Since the decline in market value is attributable to changes in interest rates and not credit quality, and the Company does not intend to sell these investments until maturity and it is not more likely than not that the Company will be required to sell such investments prior to recovery of its amortized cost basis, the Company does not consider these investments to be other-than-temporarily impaired as of June 30, 2013 and December 31, 2012.

Trust Preferred Securities. At June 30, 2013, the Company owns two trust preferred securities, PreTSL XXIII and XXIV. The trust preferred securities represent investments in a pool of debt obligations issued primarily by holding companies for Federal Deposit Insurance Corporation-insured financial institutions. Both of these securities are classified in the Bank s held-to-maturity investment portfolio.

The trust preferred securities market is considered to be inactive as only three transactions have occurred over the past 18 months in the same tranche of securities owned by the Company. The Company used a discounted cash flow model to determine whether these securities are other-than-temporarily impaired. The assumptions used in preparing the discounted cash flow model include the following: estimated discount rates, estimated deferral and default rates on collateral, and estimated cash flows.

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

Table of Contents

PreTSL XXIV has a book value of $0. PreTSL XXIII has a book value of $536,000. The difference between the book value of $536,000 and the remaining amortized cost basis of $1.1 million is reported as other comprehensive loss and is related to noncredit factors such as the trust preferred securities market being inactive.

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

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

(Dollars in thousands)		2013		2012
Balance at January 1,	$	5,885	$	5,885
Credit losses on debt securities for which other-than-temporary impairment was not previously recognized		0		0
Balance at June 30,	$	5,885	$	5,885

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

	June 30,			
(Dollars in thousands)		2013		2012
Noncredit losses on other-than-temporarily impaired securities, net of taxes	$	376	$	679

Table of Contents

(6) Loans Receivable and Allowance for Loan Losses

The components of loans receivable are as follows:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Real estate loans:		
First mortgages:		
One- to four-family residential	$ 789,788	$ 741,334
Multi-family residential	5,712	6,888
Construction, commercial, and other	12,851	13,819
Home equity loans and lines of credit	15,070	15,202
Total real estate loans	823,421	777,243
Other loans:		
Loans on deposit accounts	395	493
Consumer and other loans	4,593	3,988
Total other loans	4,988	4,481
Less:		
Net unearned fees and discounts	(5,030)	(5,176)
Allowance for loan losses	(1,622)	(1,672)
	(6,652)	(6,848)
Loans receivable, net	$ 821,757	$ 774,876

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

(Dollars in thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Balance, beginning of period	$ 1,667	$ 1,529	$ 1,672	$ 1,541
Provision (reversal of allowance) for loan losses	(16)	(79)	2	5
	1,651	1,450	1,674	1,546
Charge-offs	(85)	(22)	(137)	(136)
Recoveries	56	29	85	47
Net charge-offs	(29)	7	(52)	(89)
Balance, end of period	$ 1,622	$ 1,457	$ 1,622	$ 1,457

Table of Contents

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

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended June 30, 2013:						
Balance, beginning of period	$ 585	$ 818	$ 35	$ 107	$ 122	$ 1,667
Provision (reversal of allowance) for loan losses	(42)	(5)	(3)	20	14	(16)
	543	813	32	127	136	1,651
Charge-offs	(80)	0	0	(5)	0	(85)
Recoveries	50	0	3	3	0	56
Net charge-offs	(30)	0	3	(2)	0	(29)
Balance, end of period	$ 513	$ 813	$ 35	$ 125	$ 136	$ 1,622
Six months ended June 30, 2013:						
Balance, beginning of period	$ 590	$ 818	$ 35	$ 107	$ 122	$ 1,672
Provision (reversal of allowance) for loan losses	(68)	(5)	(6)	67	14	2
	522	813	29	174	136	1,674
Charge-offs	(81)	0	0	(56)	0	(137)
Recoveries	72	0	6	7	0	85
Net charge-offs	(9)	0	6	(49)	0	(52)
Balance, end of period	$ 513	$ 813	$ 35	$ 125	$ 136	$ 1,622

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
Three months ended June 30, 2012:						
Balance, beginning of period	$ 544	$ 641	$ 34	$ 174	$ 136	$ 1,529
Provision (reversal of allowance) for loan losses	(12)	8	0	(61)	(14)	(79)
	532	649	34	113	122	1,450
Charge-offs	(4)	(8)	0	(10)	0	(22)
Recoveries	24	0	1	4	0	29
Net charge-offs	20	(8)	1	(6)	0	7
Balance, end of period	$ 552	$ 641	$ 35	$ 107	$ 122	$ 1,457
Six months ended June 30, 2012:						
Balance, beginning of period	$ 631	$ 285	$ 258	$ 291	$ 76	$ 1,541
Provision (reversal of allowance) for loan losses	(6)	364	(224)	(175)	46	5
	625	649	34	116	122	1,546
Charge-offs	(108)	(8)	(1)	(19)	0	(136)
Recoveries	35	0	2	10	0	47
Net charge-offs	(73)	(8)	1	(9)	0	(89)
Balance, end of period	$ 552	$ 641	$ 35	$ 107	$ 122	$ 1,457

13

Table of Contents

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

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

The Company also revised the qualitative factors that were used to determine the allowance for loan losses on construction, commercial and other mortgage loans, home equity loans and lines of credit and consumer and other loans. As a result of these modifications, the Company increased the portion of the allowance for loan losses attributable to construction, commercial and other mortgage loans and decreased the portion of the allowance for loan losses attributable to residential mortgages, home equity loans and lines of credit and consumer and other loans. 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 June 30, 2013 to be at an appropriate level to provide for probable losses that can be reasonably estimated based on general and specific conditions. While the Company uses the best information it has available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. To the extent actual outcomes differ from the estimates, additional provisions for credit losses may be required that would reduce future earnings. In addition, as an integral part of their examination process, the Office of the Comptroller of the Currency will periodically review the allowance for loan losses. The Office of the Comptroller of the Currency may require the Company to increase the allowance based on their analysis of information available at the time of their examination.

Table of Contents

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

(Dollars in thousands)	Residential Mortgage	Construction, Commercial and Other Mortgage Loans	Home Equity Loans and Lines of Credit	Consumer and Other	Unallocated	Totals
June 30, 2013:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively evaluated for impairment	513	813	35	125	136	1,622
Total ending allowance balance	$ 513	$ 813	$ 35	$ 125	$ 136	$ 1,622
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 7,736	$ 0	$ 162	$ 0	$ 0	$ 7,898
Collectively evaluated for impairment	782,783	12,793	14,916	4,989	0	815,481
Total ending loan balance	$ 790,519	$ 12,793	$ 15,078	$ 4,989	$ 0	$ 823,379
December 31, 2012:						
Allowance for loan losses:						
Ending allowance balance:						
Individually evaluated for impairment	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Collectively evaluated for impairment	590	818	35	107	122	1,672
Total ending allowance balance	$ 590	$ 818	$ 35	$ 107	$ 122	$ 1,672
Loans:						
Ending loan balance:						
Individually evaluated for impairment	$ 6,775	$ 0	$ 160	$ 0	$ 0	$ 6,935
Collectively evaluated for impairment	736,297	13,784	15,051	4,481	0	769,613
Total ending loan balance	$ 743,072	$ 13,784	$ 15,211	$ 4,481	$ 0	$ 776,548

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

(Dollars in thousands)	June 30, 2013	December 31, 2012
Loans with no allocated allowance for loan losses	$ 7,898	$ 6,935
Loans with allocated allowance for loan losses	0	0
Total impaired loans	$ 7,898	$ 6,935

Amount of allocated loan loss allowance	$ 0	$ 0

Table of Contents

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

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance
June 30, 2013:		