



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

February 11, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Territorial Savings Bank, FSB  
Charter Number 705991

1132 Bishop Street, Suite 2200  
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Office of the Comptroller of the Currency

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**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated “**Satisfactory.**”

The following table indicates the performance level of **Territorial Savings Bank, FSB** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Territorial Savings Bank, FSB Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

\* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- All home mortgage loans and small loans to businesses were made within the bank's assessment areas (AAs);
- The geographic distribution of home mortgage loans in the AAs reflects good penetration;
- The distribution of home loans in the AAs reflects excellent penetration among borrowers of different income levels;
- The bank has an adequate level of community development investments and is responsive to identified credit needs; and,
- The branch distribution system is accessible to geographies and individuals of different income levels in the AA. The bank provides a relatively high level of community development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and

sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## **Description of Institution**

Territorial Savings Bank (TSB or the Bank) is a full-service federally chartered savings bank headquartered in Honolulu, Hawaii. In July 2009, TSB converted from a mutual savings bank to a stock institution. As of December 31, 2012, the bank had total assets of \$1.6 billion, total deposits of \$1.3 billion, total loans of \$783.9 million, and Tier One Capital of \$207.3 million. TSB is a wholly owned subsidiary of Territorial Bancorp Inc. (TBNK), a bank holding company headquartered in Honolulu, Hawaii and traded on the NASDAQ stock exchange.

TSB is an intrastate bank that operates 27 branches throughout Hawaii. Twenty-one branches are located in the Honolulu MSA, two are located in Hawaii County, three are located in Maui County, and one is located in Kauai County.

TSB offers a full-range of loan and deposit products and services. Approximately ninety-nine per cent of the bank's loan portfolio is comprised of residential real estate loans. The Bank's primary business focus is one-to-four family residential mortgage loans. The bank also originates home equity loans and lines of credit, construction, commercial, other non-residential real estate loans, consumer loans, and multi-family mortgage loans. It offers Small Business Administration (SBA) loans for new business startups and to expand an existing business. TSB provides a variety of alternative banking services including telephone banking, on-line banking, ATM services, bill payment, and direct deposit.

There are no known legal, financial, or other factors that impede the bank's ability to help meet the credit needs of its assessment areas. The bank received a "Satisfactory" rating on its last CRA examination dated August 6, 2008.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

We reviewed home mortgage loans from January 1, 2009 through December 31, 2011. The mortgage loans reviewed were home purchase, home improvement, and home refinance loans. We reviewed community development (CD) loans, investments, and services for the period August 6, 2008, which is the date of the last CRA evaluation, to December 31, 2012. Our analysis does not include small business, small farm, or multifamily home mortgage originations. The number of reported loans by these product types is insufficient for meaningful analysis in both assessment areas. Consumer loans were not evaluated as they do not constitute a substantial majority of the bank's business.

### Data Integrity

Prior to this CRA evaluation, we performed two data integrity examination to ensure the accuracy of the bank's publicly filed information on home mortgage loans and small loans to businesses. The data we reviewed was collected and reported by the bank over the evaluation period. The testing indicated no substantive inaccuracies in the data. Therefore, we concluded that the home mortgage loans and small loans to businesses could be relied upon for this examination. Additionally, CD loans, investments, and services made or rendered during the evaluation period were reviewed to determine their eligibility for consideration. We included in this examination all activities found to meet the definition of CD. Finally, we reviewed the appropriateness of the bank's processes for collecting and reporting home mortgage and small business loan data. We found no substantive deficiencies in these processes.

### Selection of Areas for Full-Scope Review

We performed a full-scope review for both of the bank's AAs, the Honolulu MSA and Hawaii non-MSA. Please refer to Appendix A for more information on the scope of the examination and the Market Profiles in Appendix B for detailed demographics and other performance context information for the AAs.

### Ratings

TSB's overall CRA rating is a blend of its performance under the Lending, Investment, and Service Tests. Under each of those tests, performance in the Honolulu MSA AA carried the most weight as most of the bank's loans and branches are located in this AA. Additionally, when evaluating the bank's mortgage lending performance under the Lending Test, we placed greater weight on home purchase and home refinance loans, with home improvement loans receiving less weight due to the volume of these loans.

### Other

We conducted contacts with several community organizations within the AAs to identify community needs. One organization we contacted is a statewide community development financial institution (CDFI) that works with low-income Hawaiian residents in both urban and

rural geographies. The organization's mission is to provide services for immigrants, refugees, and low-income residents of Hawaii enabling them to achieve self-sufficiency. We also met with representatives from a broad spectrum of community and government organizations. According to these contacts, some of the most pressing financial needs and opportunities for financial institutions in the AAs include affordable housing, financial literacy, small business loans, and banking services for Low- and Moderate-Income (LMI) individuals.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

Territorial Savings Bank's performance under the Lending Test is rated "High Satisfactory." Based upon full-scope reviews, the bank's overall performance within the Honolulu MSA AA and the Hawaii non-MSA AA is good.

#### Lending Activity

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's lending activity.

The bank's overall lending levels reflect a good responsiveness to assessment area credit needs given the bank's business strategy, volume of lending, and competition. During the evaluation period, 100 percent of the bank's loan originations were made within its AAs. Mortgage loans are the bank's major product and represent the primary business focus. To a much lesser extent, the bank also originates small loans to businesses. The percentage of TSB's lending that occurs within each AA generally correlates with its concentration of core branch deposits within the AA. This demonstrates that the bank is focusing its lending activities to reinvest core deposit resources into the community that helps fund its operations.

Home refinance, purchase, and home improvement loans represented 47 percent, 40 percent, and 13 percent, respectively, of all home mortgages originated in the Honolulu MSA AA. Additionally, home refinance, purchase, and home improvement loans represented 54 percent, 27 percent, and 19 percent, respectively, of all home mortgages originated in the Hawaii-non MSA AA. Therefore, home refinance loans will carry the most weight in the assessment of home mortgages in both AAs. The volume of multifamily, small business, and small farm loans made by the bank was not significant. Therefore, an analysis of these loans is not meaningful.

There is strong competition for mortgage loans and small business loans in the bank's markets. The primary competitors are the four larger Hawaii based banks: Bank of Hawaii, First Hawaiian Bank, American Savings Bank, and Central Pacific Bank. The bank also faces competition from some of the larger credit unions in Hawaii. In addition, there is significant competition from non-Hawaii based mortgage lenders including Chase, Bank of America, Wells Fargo, and other large mortgage lenders.

#### *Hawaii non-MSA*

In this AA TSB has a deposit market share of 2.9 percent and ranked fifth among eight depository institutions. For home purchase lending there are 118 lenders in the AA reflecting strong competition. TSB ranked 30<sup>th</sup> in home purchase lending with a 0.37 percent market share, 9<sup>th</sup> in home improvement lending with a 2.49 percent market share, and 24<sup>th</sup> in home refinance lending with 0.48 percent market share. There are 40 lenders that made home

improvement loans and 149 lenders that made home refinance loans in the AA. For small loans to businesses, TSB has a zero market share among 49 lenders.

### *Honolulu MSA*

In this AA TSB has a deposit market share of 3.9 percent and ranked fifth among 13 institutions. For home purchase lending there are 117 lenders in the AA reflecting strong competition. TSB ranked 11<sup>th</sup> in home purchase lending with a 2.61 percent market share, 6<sup>th</sup> in home improvement lending with a 5.64 percent market share, and 14<sup>th</sup> in home refinance lending with 1.99 percent market share. There are 58 lenders that made home improvement loans and 173 lenders that made home refinance loans in the AA. For small loans to businesses, TSB ranked 20<sup>th</sup> among 43 lenders with a 0.06 percent market share.

## **Distribution of Loans by Income Level of the Geography**

Overall, the geographic distribution of home mortgage loans in the AAs reflects good penetration.

### ***Home Mortgage Loans***

Overall, the geographic distribution of home mortgage loans is good. Our analysis took into consideration the low percentage of owner-occupied housing units in low-income geographies. Therefore, we placed more weight on moderate-income lending. We also considered the strong competition from large, local and nationwide financial institutions operating in the State of Hawaii.

Refer to Tables 2, 3, and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

### *Hawaii non-MSA*

The overall geographic distribution of home mortgage loans in the Hawaii non-MSA is excellent. The Hawaii non-MSA has only one low-income geography and zero owner-occupied units are located in that geography. Therefore, home mortgage lending is limited to moderate, middle, and upper geographies. Our review focused on the bank's distribution to moderate-income geographies.

### **Home Purchase**

The bank's geographic distribution of home purchase loans is excellent. The percentage of loans in moderate-income geographies is near to the percentage of owner-occupied units and significantly exceeds the percentage of peer aggregate home purchase lending in moderate-income geographies.

### **Home Improvement Loans**

The bank's geographic distribution of home improvement loans is good. TSB's percentage of home improvement loans made in moderate-income geographies is somewhat lower than the

percentage of owner-occupied housing units. However, the percentage of home improvement loans made in moderate-income geographies significantly exceeds the percentage of peer aggregate home improvement lending in moderate-income geographies.

### **Home Refinance Loans**

TSB's geographic distribution of home refinance loans is excellent. The bank's percentage of home refinance loans made in moderate-income geographies is near to the percentage of owner-occupied housing units in moderate-income geographies. However, the percentage of home refinance loans made in moderate-income geographies significantly exceeds the percentage of peer aggregate home refinance lending in moderate-income geographies.

#### *Honolulu MSA*

The overall geographic distribution of home mortgage loans in the Honolulu MSA is good.

### **Home Purchase**

TSB's geographic distribution of home purchase loans is excellent. The percentage of home purchase loans made in low-income geographies significantly exceeds both the percentage of owner-occupied housing units and the percentage of peer aggregate home purchase lending in low-income geographies.

The percentage of home purchase loans made in moderate-income geographies significantly exceeds both the percentage of owner-occupied housing units and the percentage of peer aggregate home purchase lending in moderate-income geographies.

### **Home Improvement Loans**

The bank's geographic distribution of home improvement loans is adequate. The bank did not make any loans to low-income geographies during the evaluation period. However, the bank's opportunity to make loans in low-income geographies is limited given the percent of owner-occupied housing units in low-income geographies is low at 0.42 percent. Furthermore, peer aggregate lending in low-income geographies is extremely low at 0.28 percent.

Territorial faces strong competition in the home improvement market where the top five institutions have over 58 percent of the market share. TSB ranks sixth out of 58 lenders with a 5.6 percent market share.

TSB's percentage of home improvement loans made in moderate-income geographies is lower than the percentage of owner-occupied housing units in moderate-income geographies. However, the percentage of home improvement loans made in moderate-income geographies significantly exceeds the percentage of peer aggregate home improvement lending in moderate-income geographies.

### **Home Refinance Loans**

TSB's geographic distribution of home refinance loans is good. The percentage of home refinance loans made in low-income geographies is lower than the percentage of owner-occupied housing units in low-income geographies and is significantly lower than the percentage of peer aggregate home refinance lending in low-income geographies.

However, the bank's percentage of home refinance loans made in moderate-income geographies significantly exceeds both the percentage of owner-occupied housing units and the percentage of peer aggregate home refinance lending in moderate-income geographies.

### ***Lending Gap Analysis***

We reviewed summary reports and maps and analyzed TSB's home mortgage and small business lending activity over the evaluation period to identify any gaps in the geographic distribution of loans. We did not identify any unexplained conspicuous gaps. Both of the bank's AAs consist of whole geographies, meet the requirements of the CRA regulation, and do not arbitrarily exclude any low- or moderate-income areas.

### ***Inside/Outside Ratio***

This ratio is a bank-wide calculation and is not calculated by individual AA. Analysis is limited to bank originations and purchases and does not include any affiliate data. For the evaluation period, all loan products were made inside the bank's AAs.

### **Distribution of Loans by Income Level of the Borrower**

The distribution of home loans in the AAs reflects excellent penetration among borrowers of different income levels.

### ***Home Mortgage Loans***

The distribution of home mortgage loans by income level of the borrower reflects excellent penetration. Our analysis took into consideration the limited opportunities to lend to low-income families given the high cost of housing compared to low median family income. Therefore, we placed more weight on moderate-income lending. We also took into consideration the types of home mortgage products offered by the bank as well as the strong competition from local lenders, large national banks, and mortgage companies.

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

### ***Hawaii non-MSA***

The overall distribution of home mortgage loans in the AA is good.

### **Home Purchase Loans**

Borrower distribution for home purchase loans reflects excellent penetration. The percentage of home purchase loans to low-income borrowers is significantly lower than the percentage of

low-income families in this AA. However, the percentage of home purchase loans to low-income borrowers significantly exceeds the percentage of peer aggregate lending to low-income borrowers in the AA.

The percentage of home purchase loans to moderate-income borrowers significantly exceeds both the percentage of moderate-income families and the peer aggregate lending to moderate-income borrowers in the AA.

### **Home Improvement Loans**

Borrower distribution for home improvement loans is good. The percentage of home improvement loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA. However, the percentage of home improvement loans to low-income borrowers significantly exceeds the peer aggregate lending to low-income borrowers in the AA.

The percentage of home improvement loans to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. The percentage of home improvement loans to moderate-income borrowers substantially meets the peer aggregate lending to moderate-income borrowers in the AA.

### **Home Refinance Loans**

Borrower distribution for home refinance loans reflects adequate penetration. The percentage of home refinance loans to low-income borrowers is significantly lower than the percentage of low-income families located in the AA and the percentage of peer aggregate lending to low-income borrowers in the AA.

The percentage of refinance loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA and exceeds the percentage of peer aggregate lending to moderate-income borrowers in the AA.

### *Honolulu MSA*

The overall distribution of home mortgage loans in the AA is excellent.

### **Home Purchase Loans**

Borrower distribution for home purchase loans reflects excellent penetration. The percentage of home purchase loans to low-income borrowers is significantly lower than the percentage of low-income families in this AA. However, the percentage of home purchase loans to low-income borrowers significantly exceeds the percentage of aggregate peer lending to low-income borrowers in the AA.

The percentage of home purchase loans to moderate-income borrowers significantly exceeds both the percentage of moderate-income families and the peer aggregate lending to moderate-income borrowers in the AA.

## **Home Improvement Loans**

Borrower distribution for home improvement loans is good. The percentage of home improvement loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA. The percentage of home improvement loans to low-income borrowers is below the percentage of peer aggregate lending to low-income borrowers in the AA.

However, the percentage of home improvement loans to moderate-income borrowers significantly exceeds both the percentage of moderate-income families and the percentage of peer aggregate lending to moderate-income borrowers in the AA.

Market competition for home improvement loans in the Honolulu MSA is strong. The 2011 peer mortgage data indicates that the top five lenders dominated the market with over 58 percent of the market share for home improvement loans. TSB ranks sixth out of 58 lenders with a market share of less than six percent.

## **Home Refinance Loans**

Borrower distribution for home refinance loans reflects excellent penetration. The percentage of home refinance loans to low-income borrowers is significantly lower than the percentage of low-income families located in the AA. However, the percentage of home refinance loans to low-income borrowers significantly exceeds the percentage of peer aggregate lending to low-income borrowers in the AA.

The percentage of refinance loans to moderate-income borrowers exceeds the percentage of home refinance loans to moderate-income families located in the AA. In addition, the percentage of home refinance loans to moderate-income borrowers significantly exceeds the percentage of peer aggregate lending to moderate-income borrowers in the AA.

## **Community Development Lending**

TSB did not originate any CD loans in the AAs during the evaluation period.

## **Product Innovation and Flexibility**

Territorial's product flexibility had a neutral impact on its Lending Test conclusions. The bank offers some flexible loan products directed towards affordable housing. Products include the Section 8 mortgages and United States Department of Agriculture Loans (USDA) program.

The United States Department of Agriculture Loan program is primarily used to help low-income individuals or households purchase homes in rural areas. The program features higher LTVs, lower rates, longer terms, and payment assistance subsidies. During the review period, the bank originated one USDA loan totaling \$38 thousand in Hawaii.

Section 8 Mortgages provides loans to borrowers who have been approved by either the State of Hawaii or the City and County of Honolulu for mortgage payment subsidies versus receiving

a subsidy for rent. During the review period, TSB originated 11 Section 8 loans totaling \$425 thousand in Hawaii.

## INVESTMENT TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated "Low Satisfactory." Based on a full-scope review, the bank's performance in the Honolulu MSA AA is adequate. The bank's performance in the Hawaii non-MSA AA is adequate.

We allocated the statewide contributions based on the AA's pro rata share of deposits. The bank had 86.70 percent of its CRA contributions in the Honolulu MSA AA and 13.30 percent of its CRA contributions in the Hawaii non-MSA AA.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

#### *Hawaii non-MSA*

Overall, the bank's Investment Test performance in the Hawaii non-MSA AA is adequate given the bank's opportunities for investment. During the evaluation period, TSB made qualified investments and donations in the Hawaii non-MSA totaling \$596 thousand. In addition, we considered the investment made prior to the current evaluation period. The remaining balance of that investment as of the date of our examination was \$71 thousand. Combined, the total of \$667 thousand represents approximately 2.4 per cent of allocated Tier One Capital for the AA, and is considered adequate. While none of the investments are considered innovative or complex, these investments are responsive to the credit needs and benefit the AA. One example of a qualified investment made during the evaluation period was a mortgage-backed security which provided several loans for affordable housing to individuals in low- and moderate-income geographies.

#### *Honolulu MSA*

Overall, the bank's Investment Test performance in the Honolulu MSA AA is adequate. During the evaluation period, TSB made qualified investments and donations in the Honolulu MSA totaling \$2.9 million. In addition, we considered the ongoing impact that the investments made prior to the current evaluation period had within the AA. The remaining balance of the two prior period investments as of the date of our examination was \$433 thousand. When considering both current and prior period investments, the total of \$3.3 million represents approximately 1.9 percent of allocated Tier One Capital for the AA, and is considered adequate. While none of the investments are considered innovative or complex, these investments are responsive to the credit needs and benefit the AA. One example of a qualified investment made during the evaluation period was a \$1.1 million mortgage-backed security which provided several loans for affordable housing to individuals in low- and moderate-income geographies.

## SERVICE TEST

### Conclusions for Areas Receiving Full-Scope Reviews

Territorial Savings Bank's performance under the Service Test is rated "High Satisfactory." Based on full-scope reviews, the bank's performance in the Hawaii non-MSA AA and the Honolulu MSA is good.

#### Retail Banking Services

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

##### *Hawaii non-MSA*

TSB's branch distribution in the Hawaii non-MSA AA is adequate. Branches are accessible to geographies and individuals of different income levels in the AA. The bank operates six branches in the AA and all are located in middle-income geographies. However, there is only one low-income geography in the AA and 10 moderate-income geographies in the AA. Additionally, the population in the low- and moderate-income geographies is low at 16 per cent. One of the bank's branches is in close proximity to moderate-income geographies and another branch is in close proximity to the low-income geography in the AA. Also, it should be noted that in Hawaii County, the AA covers a large geographic and sometimes sparsely populated area. During the rating period, the bank opened one branch in a middle-income geography. There were no branch closings, which has not affected the overall accessibility of the bank's delivery systems.

Branch services and hours do not vary in a way that would inconvenience portions of the AA, particularly LMI individuals. TSB offers a wide variety of traditional banking products and services to meet the needs of the AA. Five of the six branches have Saturday hours and all but one branch have deposit taking and cash withdrawal ATMs. Customers are allowed to use other banks ATM services free of charge.

Delivery systems are accessible to essentially all portions of the AAs. In addition to the bank's ATM network, TSB offers telephone banking, online banking, and night deposit services to supplement the bank's branch network and serve as alternative delivery systems to increase accessibility of banking services.

TSB is responsive to the needs of the LMI community through programs involved with the Department of Hawaiian Home Mortgage Lands Mortgages, United States Department of Agriculture Loans, and Section 8 Mortgages.

##### *Honolulu MSA*

TSB's branch distribution in the Honolulu MSA is good. Branches are accessible to geographies and individuals of different income levels in the AA. The bank has 21 full-service branches in this AA. TSB has no branches in low-income geographies and six branches in moderate-income geographies. The remaining 15 branches are located in middle- or upper-

income geographies with one undesignated income geography. One branch in a middle-income geography is in close proximity to a low-income geography and another is in close proximity to a moderate-income geography in the AA. Another branch in an undesignated geography is in close proximity to a moderate-income geography in the AA. Although none of the bank's branches or ATMs are located in low-income geographies, only 2 percent of the AA's population is within these geographies. The distribution of branches and ATMs in moderate-income geographies is comparable to the percentage of the population in moderate-income geographies. During the rating period, the bank opened two branches. One branch was located in a moderate-income geography, improving the overall accessibility of the bank's delivery systems. The other branch was opened in an upper-income geography. There were no branch closings.

Branch services and hours do not vary in a way that would inconvenience portions of the AA, particularly LMI individuals. TSB offers a wide variety of traditional banking products and services to meet the needs of the AA. Six branches have Saturday hours and all of the 21 branches have deposit taking and cash withdrawal ATMs.

Delivery systems are accessible to essentially all portions of the AAs. In addition to the bank's ATM network, TSB offers telephone banking, online banking services, and night deposit services to supplement the bank's branch network and serve as alternative delivery systems to increase accessibility of banking services.

TSB is responsive to the needs of the LMI community through programs involved with the Department of Hawaiian Home Mortgage Lands Mortgages, United States Department of Agriculture Loans, and Section 8 Mortgages.

## **Community Development Services**

TSB provides a relatively high level of community development services. TSB employees in the Honolulu MSA AA provided a good level of community development services. TSB employees in the Hawaii Non-MSA AA provided an adequate level of community development services. Bank employees participated in a variety of organizations and partnerships, some in leadership roles, that benefited LMI individuals, promoted economic development, and provided affordable housing. They also provided technical assistance on financial and banking related matters to numerous community groups, low- and moderate-income persons and families, and small businesses.

### *Hawaii non-MSA*

In the Hawaii non-MSA, two Bank employees provided their expertise to two community development organizations. The community development services are listed below.

- Employee served as Treasurer for a non-profit health care center which provides free health screenings for uninsured and underinsured women.
- Employee served as Treasurer, Financial Committee Chair, and Board member for a non-profit agency that provides food assistance to low income, elderly, children,

homeless, unemployed and those experiencing temporary emergencies throughout both AAs.

*Honolulu MSA*

In the Honolulu MSA, approximately 48 employees provided their expertise to nine different community development organizations and programs. Examples of the community development services are listed below.

- Employees provided homebuyer education and financial literacy sessions through a non-profit corporation providing services to low- and moderate-income individuals.
- Several employees serve as instructors for a non-profit organization that provides home ownership counseling to low- and moderate-income families.
- Employees provide financial literacy education and banking services to inmates of a prison facility.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): (1/1/09 to 12/31/11) Investment and Service Tests and CD Loans: (08/06/08 to 12/31/12)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Territorial Savings Bank, FSB (TSB) Honolulu, Hawaii	Home Mortgage Loans (includes home purchase, home improvement, and home refinance loans) reported on the HMDA Loan Application Register, as well as small loans to businesses as reported on the CRA Loan Register.  Community Development loans, investments, and services.	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Honolulu MSA #26180	Full-Scope	Honolulu County (Island of Oahu)
Hawaii Non-MSA	Full-Scope	Hawaii County (Island of Hawaii), Kauai County (Islands of Kauai and Niihau), and Maui County (Islands of Maui, Lanai, and Molokai, but excluding Island of Kahoolawe)

## Appendix B: Market Profiles for Full-Scope Areas

### Hawaii non-MSA AA

Demographic Information for Full-Scope Area: Hawaii non-MSA AA 2000 Census						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	68	1.47	14.71	66.18	16.18	1.47
Population by Geography	335,234	0.00	17.11	68.85	14.04	0.00
Owner-Occupied Housing by Geography	71,550	0.00	17.81	67.84	14.35	0.00
Businesses by Geography	40,564	0.80	12.70	72.54	13.96	0.00
Farms by Geography	1,564	0.64	15.86	68.93	14.58	0.00
Family Distribution by Income Level	81,851	20.51	17.95	21.83	39.72	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	31,474	0.01	24.41	66.53	9.05	0.00
Median Family Income = \$50,555			Median Housing Value = \$214,362			
HUD Adjusted Median Family Income for XXXX = \$72,400						
Households Below the Poverty Level = 12%						

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census, and 2011 HUD updated MFI.

The Hawaii non-MSA Assessment Area is comprised of three counties, Hawaii, Kauai, and Maui. The AA is made up of the Islands of Hawaii, Kauai, and Maui, but it excludes the non-public Islands of Kahoolawe, Niihau, and Lanai and the Island of Molokai. However, TSB will consider requests for banking services from residents of these islands. As of June 30, 2012, the bank had \$163.6 million in deposits in this AA, representing 13.3 percent of total deposits. There are eight FDIC insured financial institutions in the AA with 91 offices. TSB's main competitors include the four larger Hawaii-based banks: Bank of Hawaii, First Hawaiian Bank, American Savings Bank, and Central Pacific Bank. Combined, they hold over 94 percent of the deposit market share. In addition, there is significant competition from JPMorgan Chase, Bank of America, and Wells Fargo. TSB operates six branches and five deposit taking ATMs in this AA.

Similar to Honolulu, the non-MSA AA economy is heavily dependent on tourism. Hawaii County is the island of Hawaii. It is the largest in terms of land mass of the six major islands and the second most populous with an estimated population in 2010 of 185,079. Despite having one of the higher population totals among the neighboring islands, Hawaii County is perceived to be relatively underdeveloped because of its vast land size of 4,028 square miles. Kauai County includes the island of Kauai. Kauai is the fourth largest of the six major

Hawaiian Islands. Only a small portion of its land is developed, mostly in the coastal areas, leaving the interior of the island reserved for agriculture and conservation. Kauai County's estimated 2010 population is 67,091. Maui County includes the island of Maui. It is the economic center and seat of county government for the islands of Kahoolawe, Lanai, and Molokai. Maui County is the third most populous county within the state of Hawaii with an estimated population in 2010 of 144,444. The largest employment sectors for the three counties combined are accommodation and food services, government and government enterprises, and retail trade.

Within the AA, 20.5 percent of the families were low income, earning a median family income of \$36 thousand or less and 17.9 percent were moderate income, earning an annual income of \$57 thousand or less. Approximately 12 percent of all households in the AA had incomes below the poverty level. Approximately zero percent of the population and 0.8 percent of small businesses are located in low-income geographies. These figures show that the lending opportunities in low-income geographies are very limited.

According to the Bureau of Labor Statistics, as of December 2012, the unemployment rate for Hawaii County, Kauai County, and Maui County were 6.9 percent, 6.0 percent, and 5.2 percent, respectively. The state unemployment rate was 5.2 percent. According to the State of Hawaii's Department of Business, Economic Development, and Tourism, the economic activity in all three counties has begun to improve and should remain stable in the next few years. Recovering tourism, improving real estate values, and decreasing unemployment rates have contributed to the county's economic improvement. Thirteen areas of the counties within the AA have been designated as Enterprise Zones.

Within the AA, zero percent of the housing units are owner occupied and 100 percent are renter occupied in low-income geographies and 51.3 percent of housing units are owner occupied and 31.9 percent of units are renter occupied in moderate income geographies. Additionally, 100 percent of all units are 1-4 family unit homes and zero percent of units are 5+ housing units in low-income geographies and 87.8 percent of all units are 1-4 family unit homes and 11.1 percent of units are 5+ housing units in moderate income geographies. According to the National Association of Realtors, the 2012 average median housing price for Hawaii County, Kauai County, and Maui County Honolulu were \$232 thousand, \$363 thousand, and \$382 thousand, respectively.

## Honolulu MSA AA

Demographic Information for Full-Scope Area: Honolulu MSA AA 2000 Census						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	217	3.69	29.49	36.41	27.65	2.76
Population by Geography	876,156	2.03	28.72	42.14	27.10	0.00
Owner-Occupied Housing by Geography	156,233	0.42	16.11	43.47	40.00	0.00
Businesses by Geography	81,520	4.67	32.96	36.04	25.01	1.33
Farms by Geography	933	2.25	19.40	50.91	26.69	0.75
Family Distribution by Income Level	207,147	20.32	17.94	22.25	39.49	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	79,256	3.95	43.02	38.09	14.95	0.00
Median Family Income	= \$60,110					
HUD Adjusted Median Family Income for 2011	= \$81,600					
Households Below the Poverty Level	=10%					
				Median Housing Value	= \$254,169	
				Unemployment Rate	= 2.91%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, and 2011 HUD updated MFI.

The Honolulu MSA Assessment Area consists of all of Honolulu County. Honolulu County consists of the island of Oahu. As of June 30, 2012, the bank had \$1.1 billion in deposits in this AA, representing 86.7 percent of total deposits. There are 13 FDIC insured financial institutions in the AA with 189 offices. TSB's main competitors include the four larger Hawaii-based banks: Bank of Hawaii, First Hawaiian Bank, American Savings Bank, and Central Pacific Bank. Combined, they hold over 91 per cent of the deposit market share. In addition, there is significant competition from JPMorgan Chase, Bank of America, and Wells Fargo. TSB operates 21 branches and 21 deposit taking ATMs in this AA.

Oahu is the third largest Hawaiian Island and the most populated. Based on the 2010 Census, the population of the AA was 953,000. The city of Honolulu is the state's capital and the primary population center. Much of the Eastern portion of the island of Oahu is made up of forest reserves and watersheds. A small portion of the Western area is also made up of forest reserves. Oahu is home to the United Military Command for the Pacific and a significant portion of the island is made up of military installations. Aside from the large military presence, Honolulu's economy is heavily dependent on the tourist industry. Oahu is the primary destination of the majority of tourists to the state, and has close to 36,000 hotel and condominiums units, most of which are focused in the Waikiki area. Historically, agriculture was a dominant element of the local economy, and it continues to represent a significant element. In spite of the large population on the island, the 2007 Agricultural Census indicated that more than 60,000 acres (15.7 percent of the land area) are still used for agricultural

production. The island is also home to the University of Hawaii and three private universities. The top five major employers provide hospitality and health services.

Within the AA, 20.3 percent of the families were low income, earning a median family income of \$40 thousand or less and 17.9 percent were moderate income, earning an annual income of \$65 thousand or less. Approximately 10 percent of all households in the AA had incomes below the poverty level. Approximately 2 percent of the population and 4.7 percent of small businesses are located in low-income geographies. These figures show that the lending opportunities in low-income geographies are limited.

According to the Bureau of Labor Statistics, as of December 2012, the unemployment rate for the AA totaled 4.7 percent. The state unemployment rate was 5.2 percent. According to Moody's Investors Service, the economic activity in Honolulu has begun to improve and should remain stable in the next few years. Honolulu's recovering tourism, improving real estate values, large military presence, overall employment stability, and public investment has contributed to the county's economic stability. Five areas of the county have been designated as Enterprise Zones. One of the areas is Urban Honolulu, which includes the airport, downtown, and Ala Moana areas.

Within the AA, 11.6 percent of the housing units are owner occupied and 78.7 percent are renter occupied in low-income geographies and 24.3 percent of housing units are owner occupied and 61.8 percent of units are renter occupied in moderate income geographies. Additionally, 26.2 percent of all units are 1-4 family unit homes and 73.4 percent of units are 5+ housing units in low-income geographies and 36.0 percent of all units are 1-4 family unit homes and 63.8 percent of units are 5+ housing units in moderate income geographies. According to the National Association of Realtors, the 2012 average median housing price for Honolulu totaled \$637 thousand.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As \_\_\_12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table

also presents market share information based on the most recent aggregate market data available.

- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm.

Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**TERRITORIAL SAVINGS BANK**

**Table 1. Lending Volume**

LENDING VOLUME												Geography: HAWAII		Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011	
Assessment Area (2011):	% of Rated Area Loans (#) in MA/AA <sup>*</sup>	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans <sup>**</sup>		Total Reported Loans		% of Rated Area Deposits in MA/AA <sup>***</sup>			
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)				
<b>Full Review:</b>															
Hawaii non-MSA AA	9.15	171	42,980	1	170	0	0	0	0	172	43,150	13.30			
Honolulu MSA AA	90.85	1,678	553,529	29	3,261	0	0	0	0	1,707	556,790	86.70			

<sup>\*</sup> Loan Data as of December 31, 2011. Rated area refers to either state or multi-state MA rating area.

<sup>\*\*</sup> The evaluation period for Community Development Loans is from January 01, 2009 to December 31, 2012.

<sup>\*\*\*</sup> Deposit Data as of June 30, 2012. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**TERRITORIAL SAVINGS BANK**

**Table 1. Other Products**

LENDING VOLUME		Geography: HAWAII						Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011						
Assessment Area (2011):	% of Rated Area Loans (#) in MA/AA *	Total Optional Loans		Small Business Real Estate Secured**		Home Equity**		Motor Vehicle**		Credit Card**		Other Secured Consumer**		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>														
Hawaii non-MSA AA	0.00	0	0	0	0	0	0	0	0	0	0	0	0	13.30
Honolulu MSA AA	0.00	0	0	0	0	0	0	0	0	0	0	0	0	86.70

\* Loan Data as of December 31, 2011. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Optional Product Line(s) is from January 01, 2009 to December 31, 2011.

\*\*\* Deposit Data as of June 30, 2012. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**TERRITORIAL SAVINGS BANK**

**Table 1. Other Products**

LENDING VOLUME		Geography: HAWAII		Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011	
	Other Unsecured Consumer Loans		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
Assessment Area (2011):					
<b>Full Review:</b>					
Hawaii non-MSA AA	0	0	0	0	0
Honolulu MSA AA	0	0	0	0	0

\* The evaluation period for Optional Product Line(s) is from January 01, 2009 to December 31, 2011.

**TERRITORIAL SAVINGS BANK**

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: HAWAII						Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011						
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	46	6.45	0.00	0.00	17.81	17.39	67.84	67.39	14.35	15.22	0.08	12.64	73.27	14.02
Honolulu MSA AA	667	93.55	0.42	1.05	16.11	32.83	43.47	35.83	40.00	30.28	0.81	15.99	49.38	33.82

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT		Geography: HAWAII								Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income*			
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	32	12.50	0.00	0.00	17.81	12.50	67.84	71.88	14.35	15.63	0.00	11.05	69.61	19.34
Honolulu MSA AA	224	87.50	0.42	0.00	16.11	10.71	43.47	41.07	40.00	48.21	0.28	8.22	44.18	47.32

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE 2011		Geography: HAWAII						Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31,							
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income *				
	#	% of Total **	% Owner Occ Units ***	% BANK Loans ****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Low	Mod	Mid	Upp	
<b>Full Review:</b>															
Hawaii non-MSA AA	93	10.63	0.00	0.00	17.81	17.20	67.84	68.82	14.35	13.98	0.00	10.41	71.88	17.71	
Honolulu MSA AA	782	89.37	0.42	0.26	16.11	18.54	43.47	37.21	40.00	43.99	0.58	11.76	42.07	45.59	

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: HAWAII						Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011						
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate HMDA Lending (%) by Tract Income <sup>*</sup>			
	#	% of Total <sup>**</sup>	% of MF Units <sup>***</sup>	% BANK Loans <sup>****</sup>	% MF Units <sup>**</sup> *	% BANK Loans	% MF Units <sup>***</sup>	% BANK Loans	% MF Units <sup>***</sup>	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	0	0.00	0.00	0.00	8.88	0.00	83.74	0.00	7.38	0.00	0.00	30.00	70.00	0.00
Honolulu MSA AA	5	100.0	3.50	0.00	55.83	80.00	31.80	20.00	8.87	0.00	0.00	67.53	28.57	3.90

<sup>\*</sup> Based on 2011 Peer Mortgage Data (USPR)

<sup>\*\*</sup> Multi-family loans originated and purchased in the MA/AA as a percentage of all multi-family loans originated and purchased in the rated area.

<sup>\*\*\*</sup> Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multi family housing units in the area based on 2000 Census information.

<sup>\*\*\*\*</sup> Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

**TERRITORIAL SAVINGS BANK**

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES		Geography: HAWAII		Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011										
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income*			
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses**	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	1	3.33	0.80	0.00	12.70	0.00	72.54	100.0	13.96	0.00	0.81	11.44	75.27	12.47
Honolulu MSA AA	29	96.67	4.67	3.45	32.96	17.24	36.04	37.93	25.01	41.38	2.50	33.41	37.62	26.46

\* Based on 2011 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2011).

**TERRITORIAL SAVINGS BANK**

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS		Geography: HAWAII								Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011				
Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%) by Tract Income			
	#	% of Total**	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	0	0.00	0.64	0.00	15.86	0.00	68.93	0.00	14.58	0.00	0.00	13.04	58.70	28.26
Honolulu MSA AA	0	0.00	2.25	0.00	19.40	0.00	50.91	0.00	26.69	0.00	0.00	17.65	76.47	5.88

\* Based on 2011 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet (2011).

**TERRITORIAL SAVINGS BANK**

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: HAWAII					Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011							
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data*			
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>1</sup>	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	46	6.45	20.51	6.52	17.95	23.91	21.83	19.57	39.72	50.00	4.21	15.85	27.78	52.16
Honolulu MSA AA	667	93.55	20.32	7.77	17.94	22.41	22.25	25.30	39.49	44.51	3.64	17.51	32.12	46.73

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.4% of loans originated and purchased by BANK.

<sup>1</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: HAWAII								Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data			
	#	% of Total**	% Families**	% BANK Loans****	% Families <sup>2</sup>	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Low	Mod	Mid	Upp
<b>Full Review:</b>														
Hawaii non-MSA AA	32	12.50	20.51	9.38	17.95	18.75	21.83	40.63	39.72	31.25	5.54	20.92	29.54	44.00
Honolulu MSA AA	224	87.50	20.32	4.98	17.94	21.72	22.25	26.24	39.49	47.06	6.64	17.76	26.64	48.96

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.2% of loans originated and purchased by BANK.

<sup>2</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE 2011		Geography: HAWAII						Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31,							
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending Data				
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>3</sup>	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Low	Mod	Mid	Upp	
<b>Full Review:</b>															
Hawaii non-MSA AA	93	10.63	20.51	3.23	17.95	17.20	21.83	41.94	39.72	37.63	7.49	17.15	23.39	51.97	
Honolulu MSA AA	782	89.37	20.32	7.74	17.94	18.90	22.25	27.95	39.49	45.41	4.29	15.75	26.34	53.63	

\* Based on 2011 Peer Mortgage Data (USPR)

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 2.0% of loans originated and purchased by BANK.

<sup>3</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**TERRITORIAL SAVINGS BANK**

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES 2011		Geography: HAWAII			Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31,				
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Aggregate Lending Data	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Hawaii non-MSA AA	1	3.33	63.58	100.0	0.00	100.0	0.00	7,769	4,189
Honolulu MSA AA	29	96.67	61.12	100.0	65.52	20.69	13.79	15,835	7,983

\* Based on 2011 Peer Small Business Data -- US and PR

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2011).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.33% of small loans to businesses originated and purchased by the bank.

**TERRITORIAL SAVINGS BANK**

**Table 12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS		Geography: HAWAII			Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011				
Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Aggregate Lending Data	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Hawaii non-MSA AA	0	0.00	94.25	0.00	0.00	0.00	0.00	51	33
Honolulu MSA AA	0	0.00	90.89	0.00	0.00	0.00	0.00	18	8

\* Based on 2011 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

\*\*\* Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2011).

\*\*\*\* Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0.00% of small loans to farms originated and purchased by the bank.

**TERRITORIAL SAVINGS BANK**

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: HAWAII				Evaluation Period: AUGUST 6, 2008 TO DECEMBER 31, 2012			
Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Hawaii non-MSA AA	1	71	4	596	5	667	16.66	0	0
Honolulu MSA AA	2	433	21	2,903	23	3,336	83.34	0	0

\* 'Prior Period Investments' means investments made in a previous period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

**TERRITORIAL SAVINGS BANK**

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS										Geography: HAWAII				Evaluation Period: JANUARY 1, 2009 TO DECEMBER 31, 2011			
Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Hawaii non-MSA AA	13.30	6	22.22	0.00	0.00	100.00	0.00	1	0	0	0	1	0	0.00	17.11	68.85	14.04
Honolulu MSA AA	86.70	21	77.78	0.00	28.57	47.62	19.05	2	0	0	1	0	1	2.03	28.72	42.14	27.10

*(Note: One branch or 4.76 percent of the branches in the Honolulu MSA is located in a non income-designated geography.)*