Risk Factors Comparison 2024-03-15 to 2023-03-17 Form: 10-K

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~~rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may make it more difficult for borrowers to repay adjustable- rate loans. Potential reduction, or impairment, to the fair value of~~ mortgage servicing assets generally occurs as market interest rates decline. Alternatively, an increase in market interest rates generally causes an increase in the fair value of mortgage servicing assets. Changes in interest rates also affect the current fair value of our interest- earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, ~~2022~~ **2023**, the fair value of our investment in held- to- maturity securities totaled $ ~~591~~ **568**. 1 million. Net unrealized losses on these securities totaled $ ~~126~~ **117**. 7 million at December 31, ~~2022~~ **2023**. During the year ended December 31, ~~2022~~ **2023**, we incurred other comprehensive ~~losses~~ **income** of $ **243, 000** ~~2. 0 million~~ related to net changes in unrealized holding losses in the available- for- sale investment securities portfolio. At December 31, ~~2022~~ **2023**, our " rate shock " analysis indicated that our economic value of equity (the difference between the market value of our assets and the market value of our liabilities with adjustments made for off- balance sheet items) would decrease by $ ~~96~~ **114**. ~~5~~ **0** million if there was an instantaneous 200 basis point increase in market interest rates **and would increase by $ 97. 4 million if there was an instantaneous 200 basis point decrease in market interest rates**. See " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations — Management of Market Risk. " Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U. S. government securities, adjustments of the federal funds and discount rates **,** and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments **,** and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted. **Hedging against interest rate exposure may adversely affect our earnings. As part of our interest rate risk management for 2024, we may determine to employ financial risk methodologies that limit, or " hedge, " the adverse effects of rising or decreasing interest rates on our loan portfolios and short- term liabilities. This could include hedging strategies with respect to arrangements where our customers swap floating interest rate obligations for fixed interest rate obligations, or vice versa. Our hedging activity would vary based on the level and volatility of interest rates and other changing market conditions. There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Moreover, hedging activities could result in losses if the event against which we hedge does not occur. Additionally, interest rate hedging could fail to protect us or adversely affect us because, among other things: · available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought; · the duration of the hedge may not match the duration of the related liability; · the party owing money in the hedging transaction may default on its obligation to pay; · the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; 17 · the value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and / or · downward adjustments, or " mark- to- market " losses, would reduce our stockholders' equity.** Risks Related to Economic Conditions A worsening of economic conditions in our market area could reduce demand for our products and services and / or result in increases in our level of non- performing loans, which could adversely affect our operations, financial condition **,** and earnings. Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans. A deterioration in economic conditions, as a result of ~~COVID- 19~~ **a health pandemic**, recession **,** or otherwise, could have the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity **,** and results of operations: ~~•~~ **•** demand for our products and services may decline; ~~•~~ **•** loan delinquencies, problem assets **,** and foreclosures may increase; ~~•~~ **•** collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans; ~~•~~ **•** we may increase our allowance for credit losses; ~~•~~ **•** the value of our securities portfolio may decrease; and ~~•~~ **•** the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us. ~~17Moreover~~ -- **Moreover**, a significant decline in general economic conditions caused by ~~COVID- 19~~ **a pandemic, a natural disaster**, inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment **,** or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance. Inflation can have an adverse impact on our business and on our customers. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Over the past year, in response to a pronounced rise in inflation, the Federal Reserve Board has raised certain benchmark interest rates to combat inflation. As discussed under " — Risks Related to Market Interest Rates — Future changes in interest rates could reduce our profits, " as inflation increases and market interest rates rise **,** the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation generally increases the cost of goods and services we use in our business operations, such as electricity and other utilities, which increases our non- interest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us. Sustained higher interest rates by the Federal Reserve Board to tame persistent inflationary price pressures could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non- performing assets, decreases in loan collateral values **,** and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition **,** and results of operations. ~~Our~~ **18Our** local economy relies heavily on the tourism industry. Downturns in this industry could affect our operations and results. -Tourism is the largest sector of Hawaii' s economy ~~.~~ ~~COVID- 19 has had a significant impact on tourism~~ . The Hawaii Tourism Authority reported visitor arrivals in ~~2022~~ **2023** ~~declined~~ **increased** by ~~11~~ **4** . ~~0~~ **4** % compared to **2022** ~~2019, the year prior to the pandemic~~ . Total ~~visititor~~ - **visitor** spending in ~~2022~~ **2023** rose by ~~8~~ **5** . ~~9~~ **5** % compared to **2022** ~~2019, the year prior to the pandemic~~ . A downturn in the tourism industry **, including any downturn related to the wildfires on the island of Maui** , and the related loss of jobs or operating income for businesses, could have a significant impact on our ability to originate loans, and the ability of borrowers to repay loans, either of which could adversely affect our financial condition and results of operations. ~~The downturn~~ **Our stock price may be negatively impacted by unrelated bank failures and negative depositor confidence** in ~~the tourism industry~~ **depository institutions. Further, if we are unable to adequately manage our liquidity, deposits, capital levels, and interest rate risk, which have come under greater scrutiny in light of recent bank failures, it** may have a ~~significant~~ **material adverse** effect on our financial condition and results of operations. ~~See " Item 1~~ **In 2023, five banks failed and were placed into FDIC receivership** . ~~Business —~~ **Generally, these banks had elevated levels of uninsured deposits, which may be less likely to remain at the bank over time and less stable as a source of funding than insured deposits. These failures led to volatility and declines in the** ~~Market~~ **market** ~~Area "~~ for **bank stocks and questions about depositor confidence in depository institutions. These events have led to** a ~~discussion~~ **greater focus by institutions, investors, and regulators on the on-balance sheet liquidity** of **and funding sources for financial institutions, the composition of its deposits, including the amount of uninsured deposits, the amount of accumulated** ~~the~~ **other comprehensive loss, capital levels, and interest rate risk management. If we are unable to adequately manage our liquidity, deposits, capital levels, and interest rate risk, it may have a material** adverse **effect** ~~impacts of the COVID- 19 pandemic~~ on our ~~market area~~ **financial condition, the results of operations, and our stock price** . -A protracted government shutdown may result in reduced loan originations and related gains on sale and could negatively affect our financial condition and results of operations. -During any protracted federal government shutdown, we may not be able to close certain loans and we may not be able to recognize non- interest income on the sale of loans. Some of the loans we originate are sold directly to government agencies ~~,~~ and some of these sales may be unable to be consummated during the shutdown. In addition, we believe that some borrowers may determine not to proceed with their home purchase and not close on their loans, which would result in a permanent loss of the related non- interest income. A federal government shutdown could also result in reduced income for government employees or employees of companies that engage in business with the federal government, which could result in greater loan delinquencies, increases in our nonperforming and classified assets **,** and a decline in demand for our products and services. -A default by the U. S. ~~Governement~~ - **Government** on its debt obligations could negatively affect our business and operations. A U. S. government debt default could have a material adverse impact on our business and financial performance, including a decrease in the value of treasury bonds, notes, bills **,** and other government securities which we may own, and which could negatively impact our capital position and our ability to meet regulatory requirements. Other negative impacts could be volatile capital markets, an adverse impact on the U. S. economy and the U. S. dollar, as well as increased default rates ~~18among~~ -- **among** borrowers in light of increased economic uncertainty. Some of these impacts might occur even in the absence of an actual default but as a consequence of extended political negotiations around the threat of such a default and a government shutdown. **A lack of liquidity could adversely affect our financial condition and results of operations. Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment of our liabilities to ensure that there is adequate liquidity to fund operations. An inability to raise funds through deposits, borrowings, the sale and maturities of loans and securities and other sources could have a substantial negative effect on liquidity. Our most important source of funds is our deposits. Deposit balances can decrease when 19customers perceive alternative investments as providing a better risk adjusted return, which are strongly influenced by such external factors as the direction of interest rates, local and national economic conditions and the availability and attractiveness of alternative investments. Further, the demand for deposits may be reduced due to a variety of factors such as negative trends in the banking sector, the level of and / or composition of our uninsured deposits, demographic patterns, changes in customer preferences, reductions in consumers' disposable income, the monetary policy of the Federal Reserve Board or regulatory actions that decrease customer access to particular products. If customers move money out of bank deposits and into other investments such as money market funds, we would lose a relatively low- cost source of funds, which would increase our funding costs and reduce net interest income. Any changes made to the rates offered on deposits to remain competitive with other financial institutions may also adversely affect profitability and liquidity. Other primary sources of funds consist of cash flows from operations, maturities and sales of investment securities and / or loans, and borrowings from the Federal Home Loan Bank and / or Federal Reserve Bank discount window. We also may borrow funds from third- party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable, could be impaired by factors that affect us directly or the financial services industry or**

economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry, a decrease in the level of our business activity as a result of a downturn in markets or by one or more adverse regulatory actions against us or the financial sector in general. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet expenses, or to fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations. Risks Related to the COVID- 19 Pandemic The...... of operations. Risks Related to our Lending Activities ~~-~~Our lending activities provide lower interest rates than financial institutions that originate more commercial loans. ~~-~~Our principal lending activity consists of originating one- to four- family residential real estate mortgage loans. As of December 31, ~~2022~~ **2023**, these loans totaled $ 1. 3 billion or ~~96~~ **97**. ~~8~~ **5** % of total loans. We originate our loans with a focus on limiting credit risk and not to generate the highest return or create the greatest difference between the yield on our interest- earning assets and our cost of funds (interest rate spread). ~~-~~Residential real estate mortgage loans generally have lower interest rates than commercial business loans, commercial real estate loans **,** and consumer loans. As a result, we may generate lower interest rate spreads and rates of return when compared to our competitors who originate more consumer or commercial loans than we do. We intend to continue our focus on residential real estate lending. ~~-~~Nonresidential real estate loans and commercial business loans increase our exposure to credit risks. ~~-~~At December 31, ~~2022~~ **2023**, our portfolio of commercial real estate, construction **,** and other nonresidential real estate loans totaled $ ~~23~~ **11**. 6 million, or ~~1~~ **0**. ~~8~~ **9** % of total loans. In addition, at December 31, ~~2022~~ **2023**, our portfolio of commercial business loans totaled $ 8. ~~7~~ **6** million, or 0. 7 % of total loans. These loans generally expose us to a greater risk of nonpayment and loss than residential real estate loans because repayment of such loans often depends on the successful operations and income stream of the borrowers. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. ~~-~~We target our business lending and marketing strategy towards small- to medium- sized businesses. These small- to medium- sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions adversely affect these businesses, our results of operations and financial condition may be negatively impacted. In addition, some of our commercial business loans are collateralized by a security interest in furniture, fixtures and equipment and the liquidation of collateral in the event of default is often an insufficient source of repayment because the collateral may have limited use or value. **20If** ~~If~~ our allowance for ~~loan~~ **credit** losses is not sufficient to cover actual loan losses, our earnings will decrease. ~~-~~We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for ~~loan~~ **credit** losses, we review our loans and our loss and ~~19delinquency~~ -- **delinquency** experience, and we evaluate current economic conditions. If our assumptions are incorrect, our allowance for ~~loan~~ **credit** losses may not be sufficient to cover **the** ~~probable incurred~~ losses in our loan portfolio, resulting in additions to our allowance. While our allowance for ~~loan~~ **credit** losses was 0. ~~16~~ **39** % of total loans at December 31, ~~2022~~ **2023**, material additions to our allowance could materially decrease our net income. In addition, any future credit deterioration, including as a result of ~~COVID- 19~~ **a pandemic or natural disaster**, could require us to increase our allowance for ~~loan losses in the future. The Financial Accounting Standards Board has adopted a new accounting standard that will be effective for Territorial Bancorp Inc. and Territorial Savings Bank for our first fiscal year beginning after December 15, 2022. This standard, referred to as Current Expected Credit Loss (CECL), will require financial institutions to determine periodic estimates of lifetime expected~~ credit losses ~~on loans and held- to- maturity securities, and recognize the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which may require us to increase our allowance for loan losses, and to greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase~~ in ~~our allowance for loan losses or expenses incurred to determine~~ the **future** ~~appropriate level of the allowance for loan losses may have a material adverse effect on our financial condition and results of operations~~. ~~-~~In addition, bank regulators periodically review our allowance for ~~loan~~ **credit** losses and may require us to increase our provision for ~~loan~~ **credit** losses or recognize further loan charge- offs. Any increase in our allowance for ~~loan~~ **credit** losses or loan charge- offs resulting from these reviews might have a material adverse effect on our financial condition and results of operations. ~~-~~We are subject to environmental liability risk associated with lending activities. ~~-~~A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties. During the ordinary course of business, we may foreclose on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines **,** and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property' s value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on nonresidential real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us. ~~-~~Concentration of loans in our primary market area may increase risk. ~~-~~Our success depends primarily on the general economic conditions in the State of Hawaii, as nearly all of our loans are to customers in the state. Accordingly, the economic conditions in the State of Hawaii have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, a decline in real estate valuations in this market would lower the value of the collateral securing those loans. In addition, significant weakening in general economic conditions ~~such~~ as ~~the spread~~ **a result** of ~~COVID- 19~~ **a pandemic, a natural disaster**, inflation, **a** recession, unemployment **,** or other factors beyond our control could negatively affect our financial results. See " Item 1. Business – Market Area " for a discussion of the adverse impact of the COVID- 19 pandemic on our market area. Risks Related to Laws, Regulations and Government Matters We are subject to the Community Reinvestment Act and fair lending laws, and failure to comply with these laws could lead to material penalties. The Community Reinvestment Act (CRA), the Equal Credit Opportunity Act, the Fair Housing Act **,** and other fair lending laws and regulations impose nondiscriminatory lending requirements on financial institutions. A successful ~~20regulatory~~ -- **regulatory** challenge to an institution' s performance under the CRA or fair lending laws and regulations could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity **,** and restrictions on activities which could result in the denial of certain corporate applications such as opening new branches. Private parties may also have the ability to ~~challenge~~ **21challenge** an institution' s performance under fair lending laws in private class action litigation. Such actions could have a material adverse effect on our business, financial condition **,** and results of operations. We are subject to extensive regulatory oversight. We and our subsidiaries are subject to extensive regulation and supervision. Regulators have intensified their focus on bank lending criteria and controls, and on the USA PATRIOT Act' s anti- money laundering and Bank Secrecy Act compliance requirements. There also is increased scrutiny of our compliance practices generally and particularly with the rules enforced by the Office of Foreign Assets Control. Failure to comply with these and other regulatory requirements could lead to, among other remedies, administrative enforcement actions and legal proceedings. In addition, the Dodd- Frank Act and implementing regulations are likely to have a significant effect on the financial services industry, which are likely to increase operating costs and reduce profitability. Regulatory or legislative changes could make regulatory compliance more difficult or expensive for us, and could cause us to change or limit some of our products and services, or the way we operate our business. The Federal Reserve Board may require us to commit capital resources to support Territorial Savings Bank. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary bank and to commit resources to support such subsidiary bank. Under the " source of strength " doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Thus, any borrowing or funds needed to raise capital required to make a capital injection becomes more difficult and expensive and could have an adverse effect on our business, financial condition **,** and results of operations. Government responses to economic conditions may adversely affect our operations, financial condition **,** and earnings. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of new legislation and regulatory actions in response to these conditions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These measures may increase our costs of doing business and may have a significant adverse effect on our lending activities, financial performance **,** and operating flexibility. In addition, these risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance. If the Federal Reserve Board increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U. S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance. ~~Noncompliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the 21identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. In the past, several banking institutions have received large fines for non- compliance with these laws and regulations. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, these policies and procedures may not be effective in preventing violations of these laws and regulations.~~ Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income. In recent years, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the Federal Deposit Insurance Corporation has taken actions to increase insurance coverage on deposit accounts. In addition, there have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution' s ability to foreclose on mortgage collateral. The potential exists for additional federal or state laws and regulations, or changes in policy, regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to ~~concerns~~ **22concerns** and trends identified in examinations, including the expected issuance of many formal enforcement orders. Bank regulatory agencies, such as the Federal Reserve Board, the Hawaii Division of Financial Institutions **,** and the Federal Deposit Insurance Corporation, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws, regulations **,** and other regulatory changes may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs **,** and profitability. Federal and state proposals limiting our rights as a creditor could result in credit losses or increased expense in pursuing our remedies as a creditor. We are subject to certain capital requirements, which, along with other regulatory requirements, may adversely impact our return on equity, require us to raise additional capital, or constrain us from paying dividends or repurchasing shares. We are subject to the following minimum capital requirements: (i) a common equity Tier 1 capital ratio of 4. 5 %; (ii) a Tier 1 to risk- based assets capital ratio of 6 %; (iii) a total capital ratio of 8 %; and (iv) a Tier 1 leverage ratio of 4 %. An additional " capital conservation buffer " of 2. 5 % subjects us to the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7. 0 %, (ii) a Tier 1 to risk- based assets capital ratio of 8. 5 %, and (iii) a total capital ratio of 10. 5 %. A financial institution, such as Territorial Savings Bank, is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that can be utilized for such actions. -Territorial Savings Bank and Territorial Bancorp Inc. met all of these requirements, including the full 2. 5 % capital conservation buffer, as of December 31, ~~2022~~ **2023** . -In addition to these capital requirements, Territorial Bancorp Inc. is subject to regulatory restrictions and notification requirements related to the payment of dividends and repurchases. For additional information, see " Item 1. Business — Supervision and Regulation. " -The application of these capital requirements and other regulatory requirements could, among other things, result in lower returns on equity, require the raising of additional capital, limits on the payment of dividends to shareholders and repurchases of our common stock **,** and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and / or increase our holdings of liquid assets. See " Supervision and Regulation — Federal Banking Regulation — Capital Distributions. " ~~22Reductions~~ -- **Reductions** in defense spending by the federal government could have a detrimental impact on Hawaii' s economy. -The defense industry, the second largest contributor to Hawaii' s economy after the visitor industry, accounts for about 8. ~~3~~ **9** % of the state' s gross domestic product. The defense industry creates thousands of jobs for residents of the State. Cuts to defense and other general spending could have an adverse impact on Hawaii' s economy, which could adversely affect our financial condition and results of operations. -The foreclosure process may adversely impact our recoveries on non- performing loans -The judicial foreclosure process is protracted, which delays our ability to resolve non- performing loans through the sale of the underlying collateral. The longer timelines have been the result of ~~the COVID- 19 pandemic and related economic crisis,~~ additional consumer protection initiatives related to the foreclosure process, increased documentary requirements **,** and judicial scrutiny, and, both voluntary and mandatory programs under which lenders may consider loan modifications or other alternatives to foreclosure. These reasons and the legal and regulatory responses have impacted the foreclosure process and completion time of foreclosures for residential mortgage lenders. This may result in a material adverse effect on collateral values and our ability to minimize its losses. ~~Risks~~ **23Risks** Related to Operational Matters -System failure or breaches of our network security could subject us to increased operating costs as well as litigation and other liabilities. -The computer systems and network infrastructure we use could be vulnerable to unforeseen problems. Our operations are dependent upon our ability to protect our computer equipment against damage from physical theft, fire, power loss, telecommunications failure **,** or a similar catastrophic event, as well as from security breaches including, ransomware attacks, denial of service attacks, viruses, worms **,** and other disruptive problems caused by hackers. Any damage or failure that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations. Computer break- ins, phishing **,** and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us and may cause existing and potential customers to refrain from doing business with us. Our heavy reliance on information technology systems exposes us to additional operational risks, which include the risk of malfeasance by employees or persons outside of our organization, errors relating to transaction processing and technology, systems failures or interruptions, failures to properly implement systems upgrades, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. -Although we, with the help of third- party service providers, intend to continue to implement security technology and establish operational procedures to prevent such damage, these security measures may not be successful. In addition, advances in computer capabilities, new discoveries in the field of cryptography **,** or other developments could result in a compromise or breach of the algorithms we and our third- party service providers use to encrypt and protect customer transaction data. A failure of such security measures could have a material adverse effect on our financial condition and results of operations. -We mitigate this risk through guidance promulgated for all financial institutions by the Federal Financial Institutions Examination Council and the regulations issued under the Gramm- Leach- Bliley Act. This guidance also requires our core data processor to meet these standards. We regularly self- audit or review exams from auditors as well as federal banking regulators to assure that these standards are being met, internally as well as by our important data processing vendors. We also implemented firewall and other internal controls to protect our systems from compromise. -Nevertheless, our systems could be compromised and it is possible that significant amounts of time and money may be spent to rectify the harm caused by a breach or hack. While we have general liability insurance and cyber liability insurance, we know there are limitations on coverage as well as dollar amount. Furthermore, cyber incidents carry a greater risk of injury to our reputation. Finally, depending on the type of incident, banking regulators can impose restrictions on our business and consumer laws may require reimbursement of customer loss. In addition, we outsource some of our data processing to certain third- party providers. If these third- party providers encounter difficulties, ~~23including~~ -- **including** as a result of cyber- attacks or information security breaches, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. ~~The risk that our systems may be compromised by persons seeking to commit fraud is increased as a result of an increase in the number of our employees working remotely due to the COVID- 19 pandemic.~~ Our risk management framework may not be effective in mitigating risk and reducing the potential for significant losses. -Our risk management framework is designed to minimize risk and loss to us. We seek to identify, measure, monitor, report **,** and control our exposure to risk, including strategic, market, liquidity, compliance **,** and operational risks. While we use a broad and diversified set of risk monitoring and mitigation techniques, these techniques are inherently limited because they cannot anticipate the existence or future development of currently unanticipated or unknown risks. Accordingly, we could suffer losses as a result of our failure to properly anticipate and manage these risks. ~~Our~~ **24Our** business may be adversely affected by an increasing prevalence of fraud, including cyberfraud, and other financial crimes. Our loans to businesses and individuals and our deposit relationships and related transactions are subject to exposure to the risk of loss due to fraud, including cyberfraud, and other financial crimes. In addition, employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Nationally, reported incidents of fraud and other financial crimes have increased. We have also experienced losses due to apparent fraud and other financial crimes. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers **,** or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence. While we have policies and procedures designed to prevent such losses, losses may still occur. We depend on our management team and other key personnel to implement our business strategy and execute successful operations and we could be harmed by the loss of their services or the inability to hire additional personnel. We are dependent upon the services of the members of our senior management team who direct our strategy and operations. Members of our senior management team, or lending personnel who possess expertise in our markets and key business relationships, could be difficult to replace. Our loss of these persons, or our inability to hire additional qualified personnel, or the need to hire additional employees or pay higher salaries to retain existing employees, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets **. Our board of directors relies to a large degree on management and outside consultants in overseeing cybersecurity risk management. Territorial Savings Bank has a standing IT Steering Committee, consisting of the Executive Vice President of Administration, the Information Technology Manager, the Information Security Officer, information technology staff, and staff from other departments within our organization. The committee meets quarterly, or more frequently if needed, and reports to the board of directors after each meeting through committee minutes. The Bank also engages outside consultants and service providers to support its cybersecurity efforts. Our directors do not have significant experience in cybersecurity risk management in other business entities comparable to Territorial Savings Bank and rely on the Information Security Officer and the Information Technology Manager for cybersecurity guidance**. Our funding sources may prove insufficient to replace deposits at maturity and support our future growth. We must maintain sufficient funds to respond to the needs of depositors and borrowers. As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. As we continue to grow, we are likely to become more dependent on these sources, which may include FHLB **and FRB** advances, securities sold under agreements to repurchase, proceeds from the sale of loans, federal funds purchased **,** and brokered certificates of deposit. Adverse operating results or changes in industry conditions could lead to difficulty or an inability to access these additional funding sources. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. If we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our operating margins and profitability would be adversely affected. ~~24Changes~~ -- **Changes** in the valuation of our securities portfolio could hurt our profits and reduce our capital levels. Our securities portfolio may be impacted by fluctuations in market value, potentially reducing accumulated other comprehensive income and / or earnings. Fluctuations in market value may be caused by changes in market interest rates, lower market prices for securities **,** and limited investor demand. ~~Management evaluates securities~~ **Any of these factors, among others, could require 25the Company to record an allowance** for **credit losses** ~~other- than- temporary impairment on a quarterly basis~~ , ~~with more frequent evaluation for selected issues~~ **which could have an adverse effect on our business, financial condition, and results of operations** . In analyzing a debt issuer' s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports and, to a lesser extent, spread differentials between the effective rates on instruments in the portfolio compared to risk- free rates ~~. In analyzing an equity issuer' s financial condition, management considers industry analysts' reports, financial performance and projected target prices of investment analysts within a one- year time frame. If this evaluation shows impairment to the actual or projected cash flows associated with one or more securities, a potential loss to earnings may occur~~ . Changes in interest rates can also have an adverse effect on our financial condition, as our available- for- sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available- for- sale securities, net of taxes. Declines in market value could result in ~~other- than- temporary impairments of these assets, which would lead to~~ accounting charges that could have a material adverse effect on our net income and capital levels. In addition, if we were required to sell securities to fund our operations, as described in " — Our funding sources may prove insufficient to replace deposits at maturity and support our future growth, " such sales may be at prices that are not favorable, or could call into question our classification of held- to- maturity securities such that we would be required to recognize unrecognized losses with respect to such securities. **Our smaller size may make it more difficult for us to compete. Our smaller asset size may make it more difficult to compete with other financial institutions that are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. In addition, our smaller customer base may make it difficult to generate meaningful noninterest income from such activities as securities and insurance brokerage. Finally, as a smaller institution, we are disproportionately affected by the continually increasing costs of compliance with new**

banking and other regulations. We may not pay dividends on our common stock in the future. Holders of our common stock are entitled to receive only such dividends as our board of directors may declare out of funds legally available for such payments. Our board of directors may, in its sole discretion, change the amount or frequency of dividends or discontinue the payment of dividends entirely. In addition, we are a savings and loan holding company, and our ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends. It is the policy of the Federal Reserve that savings and loan holding companies should generally pay dividends on common stock only out of earning, and only if prospective earnings retention is consistent with the organization' s expected future needs, asset quality and financial condition. Further, if we are unable to satisfy the capital requirements applicable to us for any reason, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. ~~Risks~~ - **Risk Related to** the COVID- 19 Pandemic ~~-~~The economic impact of the COVID- 19 outbreak could continue to adversely affect our financial condition and results of operations ~~-~~**.** Global health concerns relating to the COVID- 19 pandemic and related government actions taken to reduce the spread of the virus have continued to affect the macroeconomic environment,both nationally and in the Company' s existing geographic footprint.Given the ongoing and dynamic nature of the circumstances,it is difficult to predict the full impact of the COVID- 19 outbreak on our business.The extent of such impact will depend on future developments,which are highly uncertain,including when the coronavirus can be fully controlled and abated.The COVID- 19 pandemic and the related adverse local and national economic consequences could have a material,adverse effect on our business,financial condition,liquidity,and results of operations. ~~-Risks~~ **26Risks** ~~Related~~ Related to Environmental and Other Global Matters ~~-~~Climate change is a long **-** term risk to the State of Hawaii. ~~-~~As a state surrounded by water, rising sea levels and storm surges have effected and will continue to impact coastline properties and properties subject to tidal flooding. Shoreline erosion and beach narrowing could negatively impact the real estate loans we have made on those properties. The location of the properties that are subject of loans can result in customers being required to purchase more flood insurance than borrowers of other banks, which can increase borrowers' cost and reduce our loan originations. Rising sea levels and tidal actions can also result in roads and highways becoming unusable, requiring population relocation and / or significant expenses to construct new roads and highways. Furthermore, as tourism is the State' s largest industry, climate change could negatively impact the weather of Hawaii, which is one of the leading reasons for visitors to travel to the State. Scientists have indicated that climate change may increase the intensity of tropical storms and hurricanes. ~~-~~**Climate change has also made areas of the State of Hawaii more susceptible to large wildfires.** Severe weather, natural disasters and other external events could significantly affect our operations and results. Because all of our office locations are in the State of Hawaii, severe weather or natural disasters, such as tsunamis, volcanic eruptions, hurricanes **,** and earthquakes and other adverse external events, could have a significant effect on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue **,** and / or cause us to incur additional expenses. Natural disasters, like the tsunami that occurred in Japan in 2011, could have an impact on the visitor industry in Hawaii. Accordingly, the occurrence of any such severe weather or natural disaster event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations. A contaminated drinking water shaft and a contaminated groundwater aquifer on the Island of Oahu could significantly affect our operations and results. ~~-~~In November 2021, it was reported that a U. S. Navy drinking water shaft had become contaminated with jet fuel. The related facility is approximately 100 feet from a groundwater aquifer that supplies a majority of the total water used on the Island of Oahu, including the City of Honolulu. Subsequently, the U. S. Environmental Protection Agency indicated that fuel releases had also contaminated the groundwater aquifer. The Honolulu Board of Water Supply has ~~25discontinued~~ -- **discontinued** the use of certain wells in response to the possibility of contamination, with such discontinuation to last indefinitely. Voluntary water usage reductions were announced in March 2022, and compliance has avoided the imposition of mandatory water restrictions as of now. Numerous lawsuits have been filed against the United States government, with plaintiffs claiming physical, emotional **,** and financial damage. In addition to the health risks posed to residents and businesses on Oahu, as well as possible negative effects on the tourism industry, it is possible that water service may not be provided for ongoing construction projects, which could result in a reduction in new home sales and a related reduction in loan originations for new home purchases, as well as reductions in employment in the construction industry and related sales of materials. Accordingly, this event or the occurrence of any similar man- made disaster event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations. ~~-~~Our business, financial condition, and results of operations could be adversely affected by natural disasters, health epidemics, and other catastrophic events. ~~-~~We could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a pandemic, natural disaster, war, act of terrorism, accident, or other reason. Any of these events could result in the temporary reduction of operations, employees, and customers, which could limit our ability to provide services. Additionally, many of our borrowers may suffer property damage, experience interruption of their businesses **,** or lose their jobs after such events. Those borrowers might not be able to repay their loans, and the collateral for such loans may decline significantly in value. ~~Societal~~ **27Societal** responses to climate change could adversely affect our business and performance, including indirectly through impacts on our customers ~~-~~**.** Concerns over the long- term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. We and our customers may face cost increases, asset value reductions, operating process changes **,** and other issues. The impact on our customers will likely vary depending on their specific attributes, including reliance on or role in carbon intensive activities. Among the impacts to us could be a drop in demand for our products and services, particularly in certain sectors. In addition, we could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, including by increasing our business with climate- friendly companies, may not be effective in protecting us from the negative impact of new laws and regulations or changes in consumer or business behavior. -Risks Related to Competitive and Strategic Matters -Strong competition within our market areas may limit our growth and profitability. -Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. Competitive factors driven by consumer sentiment or otherwise can also reduce our ability to generate fee income, such as through overdraft fees. For additional information see " Item 1. Business — Competition. " ~~26The~~ -- **The** building of market share through de novo branching could cause our expenses to increase faster than revenues. -We may continue to build market share in the State of Hawaii through de novo branching. There are considerable costs involved in opening branches that generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any such business expansion can be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, our business expansion may not be successful after establishment. -Our inability to tailor our retail delivery model to respond to consumer preferences in banking may negatively affect earnings. We have expanded our market presence through growth of our branch network. Our branch network continues to be a very significant source of new business generation; however, consumers continue to migrate much of their routine banking to self- service channels. In recognition of this shift in consumer patterns, we regularly review our branch network, which can result in branch consolidation accompanied by the enhancement of our capabilities to serve its customers through alternate delivery channels. The benefits of this strategy would depend on our ability to realize expected expense reductions without experiencing significant customer attrition. **28Risk** ~~Risks~~ Related to Accounting Matters -Changes in management' s estimates and assumptions may have a material impact on our Consolidated Financial Statements and our financial condition or operating results. -In preparing this annual report as well as other periodic reports we are required to file under the Securities Exchange Act of 1934 as amended, including our Consolidated Financial Statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management' s best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our valuation of investment securities, our determination of our income tax provision, and our evaluation of the adequacy of our allowance for ~~loan~~ **credit** losses. -Other Risks Related to Our Business ~~Our employee stock ownership plan~~ **Potential downgrades of U. S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings and financial condition. A possible future downgrade of the sovereign credit ratings of the U. S. government and a decline in the perceived creditworthiness of U. S. government- related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade** may ~~continue to increase~~ **also adversely affect the market value of such instruments. We cannot predict if, when,** ~~our~~ - **or** ~~costs~~ **how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Such ratings actions could result in a significant adverse impact on us. Among other things** , **a downgrade in the U. S. government' s credit rating could adversely impact the value of our securities portfolio and may trigger requirements that we post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U. S. government or the credit ratings of related institutions, agencies, or instruments would significantly exacerbate the other risks to** which **we** ~~would reduce our income. Our employee stock ownership plan purchased 8 % of the total shares of common stock sold in our stock offering in 2009 using funds borrowed from Territorial Bancorp Inc. We record annual employee stock ownership plan expense in an amount equal to the fair value of the shares of common stock released to employees over the 20- year term of the loan. If the value of the shares of common stock appreciates up to the time shares~~ are **subject and any** ~~released~~ - **related adverse effects on** ~~, compensation expense relating to~~ the **business, financial condition,** ~~employee stock ownership plan will increase~~ and **results of operations** ~~our net income will decline~~ . -Legal and regulatory proceedings and related matters could adversely affect us or the financial services industry in general. -We, and other participants in the financial services industry upon whom we rely to operate, may in the future become involved in legal and regulatory proceedings. Most of the proceedings we consider to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and other participants in the financial services industry or we may not prevail in any proceeding or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations. **We** ~~27We~~ are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance. -We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers , and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees or by our inability to conduct our operations in a manner that is appealing to current or prospective customers, our business and operating results may be adversely affected. ~~The~~ **29The** corporate governance provisions in our articles of incorporation and bylaws, and the corporate governance provisions under Maryland law, may prevent or impede the holders of our common stock from obtaining representation on our Board of Directors and may impede takeovers of the company that our board might conclude are not in the best interest of Territorial Bancorp Inc. or its stockholders. -Provisions in our articles of incorporation and bylaws may prevent or impede holders of our common stock from obtaining representation on our Board of Directors and may make takeovers of Territorial Bancorp Inc. more difficult. For example, our Board of Directors is divided into three staggered classes. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Our articles of incorporation include a provision that no person will be entitled to vote any shares of our common stock in excess of 10 % of our outstanding shares of common stock. This limitation does not apply to the purchase of shares by a tax- qualified employee stock benefit plan established by us. In addition, our articles of incorporation and bylaws restrict who may call special meetings of stockholders and how directors may be removed from office. Additionally, in certain instances, the Maryland General Corporation Law requires a supermajority vote of our stockholders to approve a merger or other business combination with a large stockholder, if the proposed transaction is not approved by a majority of our directors. ITEM 1B. Unresolved Staff Comments Not applicable. ITEM **1CCybersecurity Risk Management, Strategy and Governance Cybersecurity is a significant and integrated component of Territorial Savings Bank' s risk management strategy. As a financial services company, cyber threats are present and growing, and the potential exists for a cybersecurity incident to occur, which could disrupt business operations or compromise sensitive data. To date, Territorial Savings Bank has not, to its knowledge, experienced an incident materially affecting or reasonably likely to materially affect Territorial Savings Bank. To prepare and respond to incidents, Territorial Savings Bank has implemented a multi- layered cybersecurity strategy, integrating people, technology, and processes. This includes employee training, the use of innovative technologies, and the implementation of policies and procedures in the areas of Information Security, Data Governance, Business Continuity and Disaster Recovery, Vendor Management, and Incident Response. Territorial Savings Bank engages third- party consultants and independent auditors to, among other things, conduct penetration tests and perform cybersecurity risk assessments and audits. The Information Security Department of Territorial Savings Bank is primarily responsible for identifying, assessing and managing material risks from cybersecurity threats. The Information Security Department is managed by the Board- appointed Information Security Officer (the " ISO ") who reports directly to Territorial Savings Bank' s Executive Vice President of Administration. The ISO has four years of experience with Territorial Savings Bank and an additional 29 years of experience in the information technology (" IT ") field. The ISO also oversees Territorial Savings Bank' s Information Security Program, which is governed by various information security and cybersecurity, systems development, change control, disaster recovery / business continuity and physical asset classification and control policies. The Information Security Program identifies data sources, threats and vulnerabilities and ensures awareness, accountability, and oversight for data protection throughout Territorial Savings Bank and with trusted third parties to ensure that data is protected and able to be recovered in the event of a breach or failure (technical or other disaster). The Information Security Department provides on- going technology and IT threat updates to ensure the latest threats are addressed. In addition, the ISO participates in penetration testing, business continuity / disaster recovery testing, and incident response plan testing. The ISO presents information security and cybersecurity updates at least quarterly to Territorial Savings Bank' s Information Technology Steering Committee, which consists of the Executive Vice President of Administration, the Senior Vice President of Electronic Banking, the Information Technology Manager, the Information Security Officer, information technology staff, and staff from other departments within the organization. The committee minutes are reviewed by the Board of Directors after each meeting. 30The Information Security Department provides oversight, from a risk perspective, of IT security practices. As referenced above, the ISO provides information security updates to the Information Technology Steering Committee at each Information Technology Steering Committee meeting. Additional information security training to the Board of Directors is provided through targeted training overseen by the ISO. In addition, as discussed below, Territorial Savings Bank has implemented an Incident Response Plan to provide a structured and systematic incident response process for information security incidents that affect any of the information technology systems, network, or data of Territorial Savings Bank. The Incident Response Plan is implemented and maintained by the ISO. Cybersecurity metrics are reported to management committees at least monthly and are summarized in annual reporting to the Board of Directors. The Board of Directors recognizes the importance of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information and has incorporated those elements in its ongoing oversight of the Information Security Program. Risk Assessment. On a periodic basis, but not less than annually, the Information Security Officer (the " ISO ") identifies and documents internal and external vulnerabilities that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer records. Based on the results of the risk assessment, Territorial Savings Bank' s Information Security Program may be revised to protect against any anticipated threats or hazards to the security or integrity of such information. The Board of Directors reviews changes to the program designed to monitor, measure, and respond to vulnerabilities identified. Response to Security Vulnerabilities. In response to identified risks, management may take certain steps to correct and respond to security vulnerabilities, which may include: ● Applying vendor- provided software fixes, commonly called patches. ● Implementing documented, approved, and tested changes to security configurations. ● Ensuring that exploitable files and services are assessed and removed or disabled based upon known vulnerabilities and**

business needs. ● Updating vulnerability scanning and intrusion detection tools to identify known vulnerabilities and related unauthorized activities. ● Conducting subsequent penetration testing and vulnerability assessments, as warranted. ● Reviewing performance with service providers to ensure security maintenance and reporting responsibilities are operating according to contract provisions and that service providers provide notification of system security breaches that may affect Territorial Savings Bank. Internal Controls, Audit, and Testing. Regular internal monitoring is integral to Territorial Savings Bank' s risk assessment process, which includes regular testing of internal key controls, systems, and procedures. In addition, independent third- party penetration testing to test the effectiveness of security controls and preparedness measures is conducted at least annually or more often, if warranted by the risk assessment or other external factors. Management determines the scope and objectives of the penetration analysis. Service Providers. Like many companies, Territorial Savings Bank relies on third- party vendor solutions to support its operations. Many of these vendors, especially in the financial services industry, have access to sensitive and proprietary information. In order to mitigate the operational, informational and other risks associated with the use of vendors, Territorial Savings Bank maintains a risk- based Vendor Management Program designed to identify, measure, monitor, and control risks related to outsourced vendor relationships. The Vendor Management Program is implemented through a Vendor Management Program Policy and includes a detailed onboarding process and periodic reviews of vendors with access to sensitive Territorial Savings Bank data. The Vendor Management Program Policy applies to any business arrangement between Territorial Savings Bank and another individual or entity, by contract or otherwise, in compliance with the Interagency Guidance on Third- Party Relationships: Risk Management. The Vendor Management Program is reviewed as part of Territorial Savings Bank' s annual Internal Audit Risk Assessment. Employees and Training. Employees are the first line of defense against cybersecurity events. Each employee is responsible for protecting Territorial Savings Bank and client information. Employees are provided training at initial onboarding and thereafter regarding information security and cybersecurity- related policies and procedures applicable to 31their respective roles within the organization. In addition, employees are subjected to regular simulated phishing assessments, designed to sharpen threat detection and reporting capabilities. In addition to training, employees are supported with solutions designed to identify, prevent, detect, respond to, and recover from incidents. Notable technologies include firewalls, intrusion detection systems, managed endpoint detection and response, digital risk protection services, data loss prevention scanning, user behavior analytics, multi- factor authentication, data backups, and business continuity applications. Notable services include 24 / 7 security monitoring and response, weekly vulnerability scanning, third- party monitoring, and threat intelligence. Board Reporting. At least annually, the ISO reports to the Board the overall status of the Information Security Program and Territorial Savings Bank' s compliance with the Interagency Guidelines for Safeguarding Customer Information. Any material findings related to the risk assessment, risk management and control decisions, service provider arrangements, results of testing, security breaches or violations are discussed as are management' s responses and any recommendations for program changes. Program Adjustments. The ISO monitors, evaluates, and adjusts the Information Security Program considering any relevant changes in technology, the sensitivity of its customer information, internal or external threats to information, and changing business arrangements, such as mergers and acquisitions, alliances and joint ventures, outsourcing arrangements, and changes to customer information systems. Incident Response Plan. To ensure that information security incidents can be recovered from quickly and with the least impact to Territorial Savings Bank and its customers, Territorial Savings Bank maintains a structured and systematic incident response plan (the " IRP ") for all information security incidents that affect any of the IT systems, network, or data of Territorial Savings Bank, including Territorial Savings Bank' s data held, or IT services provided by third- party vendors or other service providers. The ISO is responsible for implementing and maintaining the IRP, which includes: ● Identifying the incident response team (" IRT ") and any appropriate sub- teams to address specific information security incidents, or categories of information security incidents. ● Coordinating IRT activities, including developing, maintaining, and following appropriate procedures to respond to and document identified information security incidents. ● Conducting post- incident reviews to gather feedback on information security incident response procedures and address any identified gaps in security measures. ● Providing training and conducting periodic exercises to promote employee and stakeholder preparedness and awareness of the IRP. ● Reviewing the IRP at least annually, or whenever there is a material change in Territorial Savings Bank' s business practices that may reasonably affect its cyber incident response procedures. ITEM 2. Properties We operate from our corporate office in Honolulu, Hawaii, and from our ~~29~~ **28** full- service branches located in the State of Hawaii. Of our ~~29~~ **28** branches, 23 are located on the island of Oahu, and all but one of our branches are leased properties. The net book value of our premises, land and equipment was $ 7. ~~6~~ **2** million at December 31, ~~2022~~ **2023 . In August 2023, wildfires on the island of Maui destroyed our Lahaina branch office. Our branch was leased and the leasehold improvements and furniture are fixtures had a book value of $ 5, 000, which was written off in the quarter ended September 30, 2023** . ITEM 3. Legal Proceedings From time to time, we are involved as plaintiff or defendant in various legal proceedings arising in the ordinary course of business. At December 31, ~~2022~~ **2023** , we were not involved in any legal proceedings, the outcome of which we believe would be material to our financial condition or results of operations. **32** ~~ITEM 4. Mine Safety Disclosures Not applicable. 28~~