

Territorial Bancorp Inc.
Form DEF 14A
April 16, 2012
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

Territorial Bancorp Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

N/A

(2) Aggregate number of securities to which transaction applies:

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- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- (4) Proposed maximum aggregate value of transaction:

N/A

- (5) Total fee paid:

N/A

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- (1) Amount Previously Paid:

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- (2) Form, Schedule or Registration Statement No.:

N/A

- (3) Filing Party:

N/A

(4) Date Filed:

N/A

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[Letterhead of Territorial Bancorp Inc.]

April 18, 2012

Dear Fellow Stockholder:

You are cordially invited to attend the 2012 annual meeting of stockholders of Territorial Bancorp Inc. The meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii, on May 23, 2012, at 8:30 a.m., local time.

The notice of annual meeting and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. Officers of the Company will be present to respond to appropriate questions of stockholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card promptly. If you attend the meeting, you may vote in person even if you have previously mailed a proxy card.

We look forward to seeing you at the meeting.

Sincerely,

/s/ Allan S. Kitagawa
Allan S. Kitagawa
*Chairman of the Board, President and
Chief Executive Officer*

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[Territorial Bancorp Inc. Logo]

1132 Bishop Street, Suite 2200

Honolulu, Hawaii 96813

(808) 946-1400

NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE

8:30 a.m. on May 23, 2012

PLACE

1132 Bishop Street, Suite 611
Honolulu, Hawaii

ITEMS OF BUSINESS

- (1) To elect two directors to serve for a term of three years.
- (2) To ratify the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2012.
- (3) To consider a nonbinding proposal to approve our executive compensation as described in the proxy statement.
- (4) To approve the Territorial Bancorp Inc. 2012 Annual Incentive Plan.
- (5) To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

RECORD DATE

To vote, you must have been a stockholder at the close of business on April 5, 2012.

PROXY VOTING

It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you. Voting instructions are printed on your proxy or voting instruction card and included in the accompanying proxy statement. You can revoke a proxy at any time before its exercise at the meeting by following the instructions in the proxy statement.

/s/ Vernon Hirata
Vernon Hirata
Corporate Secretary
April 18, 2012

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Territorial Bancorp Inc.

Proxy Statement

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Territorial Bancorp Inc. (the Company) to be used at the annual meeting of stockholders of the Company. The Company is the holding company for Territorial Savings Bank (the Bank). The annual meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii, on Wednesday, May 23, 2012, at 8:30 a.m., local time. This proxy statement and the enclosed proxy card are being mailed to stockholders of record on or about April 18, 2012.

Voting and Proxy Procedure

Who Can Vote at the Meeting

You are entitled to vote your Company common stock if the records of the Company show that you held your shares as of the close of business on April 5, 2012. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker or other nominee. As the beneficial owner, you have the right to direct your broker how to vote.

As of the close of business on April 5, 2012, there were 11,571,174 shares of Company common stock outstanding. Each share of common stock has one vote. The Company's Articles of Incorporation provide that, subject to certain exceptions, a record owner of the Company's common stock for a person who beneficially owns, either directly or indirectly, in excess of 10% of the Company's outstanding shares, is not entitled to any vote in respect of the shares held in excess of the 10% limit.

Attending the Meeting

If you were a stockholder as of the close of business on April 5, 2012, you may attend the meeting. However, if your shares of Company common stock are held by a broker, bank, or other nominee (i.e., in street name), you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Company common stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank, or other nominee who holds your shares.

Vote Required

A majority of the outstanding shares of common stock entitled to vote is required to be represented at the meeting to constitute a quorum for the transaction of business. If you return valid proxy instructions or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes of determining the existence of a quorum. A broker non-vote

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occurs when a broker, bank, or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank, or other nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

In voting on the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees, or withhold votes as to specific nominees. There is no cumulative voting for the election of directors. Directors are elected by a plurality of the votes cast at the annual meeting. This means that the nominees receiving the greatest number of votes will be elected. Votes that are withheld and broker non-votes will have no effect on the outcome of the election.

In voting to ratify the appointment of KPMG LLP as our independent registered public accounting firm, you may vote in favor of the proposal, vote against the proposal, or abstain from voting. To be approved, this matter requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions will not be counted as votes cast and will have no effect on this proposal.

In voting on the nonbinding proposal to approve our executive compensation, you may vote in favor of the proposal, vote against the proposal, or abstain from voting. To approve the proposal, the affirmative vote of a majority of the votes cast at the annual meeting is required. Broker non-votes and abstentions will not be counted as votes cast and will have no effect on this proposal. While this vote is required by law, it will neither be binding on us or the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, us or the Board of Directors.

In voting to approve the Territorial Bancorp Inc. 2012 Annual Incentive Plan, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To be approved, this matter requires the affirmative vote of a majority of the votes cast at the annual meeting. Broker non-votes and abstentions will not be counted as votes cast and will have no effect on this proposal.

Voting by Proxy

The Company's Board of Directors is sending you this proxy statement to request that you allow your shares of Company common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of Company common stock represented at the meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date, and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. The Board of Directors recommends that you:

vote *for* each of the nominees for director;

vote *for* ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm;

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vote *for* the approval of our executive compensation as described in this proxy statement; and

vote *for* the approval of the Territorial Bancorp Inc. 2012 Annual Incentive Plan.

If any matters not described in this proxy statement are properly presented at the annual meeting and you have returned a validly executed proxy card, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the meeting to solicit additional proxies. The Company does not currently know of any other matters to be presented at the meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must advise the Corporate Secretary of the Company in writing before your common stock has been voted at the annual meeting, deliver a later dated proxy, or attend the meeting and vote your shares in person by ballot. Attendance at the annual meeting will not in itself constitute revocation of your proxy.

If your Company common stock is held in street name, you will receive instructions from your broker or other nominee that you must follow to have your shares voted. Your broker or other nominee may allow you to deliver your voting instructions via the telephone or the Internet. Please review the proxy card or instruction form provided by your broker or other nominee that accompanies this proxy statement.

Participants in the ESOP and 401(k) Plan

If you participate in the Territorial Savings Bank Employee Stock Ownership Plan (the ESOP) or if you hold Territorial Bancorp Inc. common stock through the Territorial Savings Bank 401(k) Plan (the 401(k) Plan), you will receive vote authorization forms for the plans that reflect all shares you may direct the trustees to vote on your behalf under the plans. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary responsibilities, will vote all unallocated shares of Territorial Bancorp Inc. common stock held by the ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions. Under the terms of the 401(k) Plan, a participant is entitled to provide voting instructions for all shares credited to his or her 401(k) Plan account and held in the Territorial Bancorp Inc. Stock Fund. Shares for which no voting instructions are given or for which instructions were not timely received will be voted in the same proportion as shares for which voting instructions were received. **The deadline for returning your ESOP and 401(k) Plan voting instructions is May 16, 2012.**

If you have any questions about voting, please contact Senior Vice President and Director of Investor Relations Walter Ida at (808) 946-1400.

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Corporate Governance

General

The Company periodically reviews its corporate governance policies and procedures to ensure that the Company meets the highest standards of ethical conduct, reports results with accuracy and transparency, and maintains full compliance with the laws, rules and regulations that govern the Company's operations. As part of this periodic corporate governance review, the Board of Directors reviews and adopts what it believes to be best corporate governance policies and practices for the Company.

Code of Ethics and Business Conduct

We have adopted a Code of Ethics and Business Conduct that is designed to promote the highest standards of ethical conduct by our directors, executive officers, and employees. The Code of Ethics and Business Conduct requires that our directors, executive officers, and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner, and otherwise act with integrity and in our best interest. Under the terms of the Code of Ethics and Business Conduct, directors, executive officers, and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics and Business Conduct. A copy of the Code of Ethics and Business Conduct can be found in the Investor Relations Corporate Governance section of our Web site, www.territorialsavings.net. Amendments to and waivers from our Code of Ethics and Business Conduct will be disclosed in the Investor Relations Corporate Governance section of our Web site.

As a mechanism to encourage compliance with the Code of Ethics and Business Conduct, we have established procedures to receive, retain, and treat complaints regarding accounting, internal accounting controls, and auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner. The Code of Ethics and Business Conduct also prohibits us from retaliating against any director, executive officer, or employee who reports actual or apparent violations of the Code of Ethics and Business Conduct.

In addition, we have adopted a Code of Ethics for Senior Officers that is applicable to our senior financial officers, including our principal executive officer, principal financial officer, principal accounting officer, and all officers performing similar functions. A copy of the Code of Ethics for Senior Officers can be found in the Investor Relations Corporate Governance section of our Web site, www.territorialsavings.net. Amendments to and waivers from our Code of Ethics for Senior Officers will be disclosed in the Investor Relations Corporate Governance section of our Web site.

Meetings of the Board of Directors

The Company conducts business through meetings of its Board of Directors and through activities of its committees. During 2011, the Board of Directors held 13 meetings (not including committee meetings), and our independent directors met seven times in executive session without management present. No director attended fewer than 75% of the total meetings of the Board of Directors and the committees on which such director served (held during the period for which the director has served as a director or committee member, as appropriate).

Table of Contents**Committees of the Board of Directors**

The following table identifies our Audit, Compensation, and Nominating and Corporate Governance committees and their members. All members of each committee are independent in accordance with the listing standards of the NASDAQ Stock Market, Inc. Each of these committees operates under a written charter that is available in the Investor Relations Corporate Governance section of the Company's Web site, www.territorialsavings.net.

	Nominating and Corporate Governance	Compensation	Audit
	Howard Y. Ikeda *	Kirk W. Caldwell*	Howard Y. Ikeda*
	Kirk W. Caldwell	Howard Y. Ikeda	Francis E. Tanaka
	David S. Murakami	Richard I. Murakami	Richard I. Murakami David S. Murakami
Number of Meetings in 2011:	4	5	6

* Denotes Chairperson.

Audit Committee. Pursuant to Territorial Bancorp Inc.'s Audit Committee Charter, the Audit Committee assists the Board of Directors in its oversight of the Company's accounting and reporting practices, the quality and integrity of the Company's financial reports and the Company's compliance with applicable laws and regulations. The Audit Committee is also responsible for engaging the Company's independent registered public accounting firm and monitoring its conduct and independence. In addition to meeting the independence requirements of the NASDAQ Stock Market, Inc., each member of the Audit Committee meets the audit committee independence requirements of the Securities and Exchange Commission. The Board of Directors has designated Howard Y. Ikeda as an audit committee financial expert under the rules of the Securities and Exchange Commission. The report of the Audit Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See Audit Committee Report.

Compensation Committee. Pursuant to Territorial Bancorp Inc.'s Compensation Committee Charter, the Compensation Committee approves the compensation objectives for the Company and Territorial Savings Bank and establishes the compensation for the Chief Executive Officer and other executives. Our Chairman of the Board, President and Chief Executive Officer, Allan Kitagawa, provides recommendations to the Compensation Committee on matters of compensation philosophy, plan design, and the general guidelines for employee compensation. However, Mr. Kitagawa does not vote on and is not present for any discussion of his own compensation. These recommendations are then considered by the Compensation Committee. The Compensation Committee reviews all compensation components for the Company's Chief Executive Officer and other highly compensated executive officers' compensation including base salary, annual incentive, long-term incentives, and other perquisites. In addition to reviewing competitive market values, the committee also examines the total compensation mix, pay-for-performance relationship, and how all elements, in the aggregate, comprise the executive's total

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compensation package. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved by the full Board of Directors. See Compensation Discussion and Analysis for more information regarding the role of the Compensation Committee in determining and/or recommending the amount or form of executive compensation. The report of the Compensation Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See Compensation Committee Report.

Nominating and Corporate Governance Committee. Pursuant to Territorial Bancorp Inc.'s Nominating and Corporate Governance Committee charter, the Nominating and Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness, and in developing and implementing the Company's corporate governance guidelines. The Nominating and Corporate Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of stockholders. The procedures of the Nominating and Corporate Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are included in this proxy statement. See Nominating and Corporate Governance Committee Procedures.

Attendance at the Annual Meeting

The Board of Directors encourages each director to attend annual meetings of stockholders. All of our then-current directors, except for Mr. Ohama, attended the 2011 Annual Meeting of Stockholders.

Board Leadership Structure

The Board of Directors currently combines the position of Chairman of the Board with the position of Chief Executive Officer, coupled with a lead independent director to strengthen the Company's governance structure. The Board of Directors believes this provides an efficient and effective leadership model for the Company. Combining the Chairman of the Board and Chief Executive Officer positions fosters clear accountability, effective decision-making, alignment on corporate strategy, and a clear and direct channel of communication from senior management to the full Board of Directors. To further strengthen the leadership of the Board of Directors, the Board selects a lead independent director on an annual basis, currently Director Richard Murakami. The responsibilities of the lead independent director include leading all Board meetings of nonmanagement Directors. The Board of Directors believes its administration of its risk oversight function is not adversely affected by the Board of Directors' leadership structure. To assure effective independent oversight, the Board has adopted a number of governance practices, including holding executive sessions of the independent directors at least twice a year or more often as needed. In addition, the Compensation Committee, which consists only of independent directors, evaluates the performance of our Chairman of the Board and Chief Executive Officer and presents its findings to our independent directors.

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Risk Oversight

The Board of Directors has an active role, as a whole and also at the committee level, in overseeing management of the Company's risks. The Board of Directors satisfies this responsibility through the review of minutes from each committee regarding such committee's considerations and actions, through frequent attendance as nonvoting guests at committee meetings and through regular reports directly from officers responsible for oversight of particular risks within our organization. The Board of Directors regularly reviews information regarding the Company's credit, liquidity, and operations, as well as the risks associated with such areas. The Company's Compensation Committee is responsible for overseeing the management of risks relating to the Company's executive compensation plans and arrangements. The Audit Committee oversees management of financial risks. The Nominating and Corporate Governance Committee manages risks associated with the Company's corporate governance, including the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed about such risks. The Board of Directors annually reviews our conflicts of interest policy to ensure all directors are in compliance with the policy.

Risks relating to the direct operations of Territorial Savings Bank are further overseen by its Board of Directors, who are the same individuals who serve on the Board of Directors of Territorial Bancorp Inc. The Board of Directors of Territorial Savings Bank also has additional committees that conduct additional risk oversight. Further, the Board of Directors oversees risks through the establishment of policies and procedures that are designed to guide daily operations in a manner consistent with applicable laws, regulations, and risks acceptable to the organization, such as the requirement that all loan relationships in excess of \$2.0 million must be submitted to the Board of Directors Loan Committee for approval, subject to ratification by the full Board of Directors, or to the full Board of Directors for approval.

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The following table provides information as of April 5, 2012, with respect to persons known by the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investing power. Percentages are based on 11,571,174 shares of Company common stock issued and outstanding as of April 5, 2012.

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding
Territorial Savings Bank Employee Stock Ownership Plan 1132 Bishop St., Suite 2200 Honolulu, Hawaii 96813	977,667	8.4%
John L. Keeley, Jr. (1) Keeley Asset Management Corp. 401 South LaSalle Street Chicago, Illinois 60605	628,945	5.4%

(1) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 17, 2012.

Proposal 1 Election of Directors

The Board of Directors of Territorial Bancorp Inc. is presently composed of six members. The Board is divided into three classes, each with three-year staggered terms, with approximately one-third of the directors elected each year. The nominees for election this year are Allan S. Kitagawa and Richard I. Murakami, both of whom are current directors of the Company and the Bank.

The Board of Directors has determined that each of our directors, with the exception of Chairman of the Board, President and Chief Executive Officer Allan S. Kitagawa, is independent as defined in the listing standards of the NASDAQ Stock Market. Mr. Kitagawa is not independent because he is one of our executive officers.

In determining the independence of the directors listed above, the Board of Directors reviewed the following transactions, none of which is required to be reported under Transactions with Certain Related Persons below. Director Kirk Caldwell has a mortgage loan with Territorial Savings Bank. Director David Murakami has a mortgage loan, a home equity line of credit, and overdraft protection with Territorial Savings Bank. Director Richard Murakami has a mortgage loan and overdraft protection with Territorial Savings Bank. Director Francis Tanaka has a mortgage loan with Territorial Savings Bank.

It is intended that the proxies solicited by the Board of Directors will be voted for the election of the nominees named below. If any nominee is unable to serve, and you have returned a validly executed proxy card, the persons named in the proxy card will vote your shares to approve the election of any substitute proposed by the Board of Directors. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the Board. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve.

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The table below sets forth certain information regarding our directors, nominees proposed by the Board of Directors, and executive officers. Shares beneficially owned include shares of common stock over which a person has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the number of shares shown. Percentages of common stock owned are based on 11,571,174 shares of Company common stock issued and outstanding as of April 5, 2012.

Name	Position(s) Held With Territorial Bancorp Inc.	Age (1)	Director Since (2)	Current Term Expires	Shares Beneficially Owned as of April 5, 2012	Percent of Common Stock
NOMINEES						
Allan S. Kitagawa	Chairman of the Board, President and Chief Executive Officer	66	1986	2012	79,890 (3)	*
Richard I. Murakami (4)	Director	84	1981	2012	13,132	*
CONTINUING DIRECTORS						
Kirk W. Caldwell	Director	59	2007	2013	15,396	*
Francis E. Tanaka	Director	66	2011	2013		
Howard Y. Ikeda	Director	66	1988	2014	28,273 (5)	*
David S. Murakami (4)	Director	72	2006	2014	14,032 (6)	*
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS						
Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary	59			64,539 (7)	*
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer	56			62,909 (8)	*
Karen J. Cox	Senior Vice President-Administration	66			17,547 (9)	*
Richard K.C. Lau	Senior Vice President and Chief Lending Officer	69			36,607 (10)	*
Melvin M. Miyamoto	Senior Vice President and Treasurer	58			17,896 (11)	*
All Directors and Executive Officers as a Group (11 persons)					350,221	3.0%

* Less than 1%.

(1) As of December 31, 2011.

(2) Includes services with Territorial Savings Bank.

(3) Includes 25,151 shares held through the Territorial Savings Bank 401(k) Plan, and 3,480 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.

(4) David S. Murakami and Richard I. Murakami are not related.

(5) Includes 3,200 shares held by an individual retirement account, 10,022 shares owned by Mr. Ikeda's spouse, 340 held jointly with Mr. Ikeda's child, and 513 shares owned by Mr. Ikeda's child.

(6) Includes 900 shares held jointly by David S. Murakami's spouse and his children.

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- (7) Includes 34,406 shares held through the Territorial Savings Bank 401(k) Plan, 3,480 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 15,600 shares held in trust, and 322 shares owned by Mr. Hirata's spouse.
- (8) Includes 3,480 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.
- (9) Includes 12,684 shares held through the Territorial Savings Bank 401(k) Plan, 2,748 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, and 500 shares held as trustee for two grandchildren.
- (10) Includes 10,420 shares held through the Territorial Savings Bank 401(k) Plan, 3,072 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, and 1,500 shares held by a corporation.
- (11) Includes 13,585 shares held through the Territorial Savings Bank 401(k) Plan and 2,720 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.

The Board of Directors recommends a vote FOR the election of all nominees.

The business experience for at least the past five years of each of our directors and nominees proposed by the Board of Directors is set forth below. The biographies of each of the nominees and continuing board members below contain information regarding the person's business experience and the experiences, qualifications, attributes, or skills that caused the Nominating Committee and the Board of Directors to determine that the person should serve as a director. Each director is also a director of Territorial Savings Bank. Unless otherwise indicated, directors and executive officers have held their positions for the past five years.

All of the nominees and directors continuing in office are long-time residents of the communities served by Territorial Bancorp Inc. and its subsidiaries and many of such individuals have operated, or currently operate, businesses located in such communities. As a result, each nominee and director continuing in office has significant knowledge of the businesses that operate in Territorial Bancorp Inc.'s market area, an understanding of the general real estate market, values and trends in such communities, and an understanding of the overall demographics of such communities. Additionally, as residents of such communities, each nominee and continuing director has direct knowledge of the trends and developments occurring in such communities. As the holding company for a community banking institution, Territorial Bancorp Inc. believes that the local knowledge and experience of its directors assists Territorial Bancorp Inc. in assessing the credit and banking needs of its customers, developing products and services to better serve its customers, and assessing the risks inherent in its lending operations, and provides Territorial Bancorp Inc. with greater business development opportunities. As local residents, our nominees and directors are also exposed to the advertising, product offerings, and community development efforts of competing institutions which, in turn, assists Territorial Bancorp Inc. in structuring its marketing efforts and community outreach programs.

Nominees for Election of Directors

The nominees standing for election are:

Allan S. Kitagawa has served as Chairman of the Board and Chief Executive Officer of Territorial Savings Bank since 1986, and was named President in 2007. Mr. Kitagawa worked with American Savings and Loan Association from 1974 to 1986, including service as Executive Vice President and Chief Executive Officer of the Hawaii Division. Mr. Kitagawa is a Certified Public Accountant. Under Mr. Kitagawa's leadership, Territorial Savings Bank has grown from \$282 million in assets at December 31, 1986, to \$1.5 billion at December 31, 2011, while Territorial Savings Bank's conservative lending practices have resulted in continued low levels of nonperforming assets at a time when many financial institutions are experiencing significant asset quality issues.

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Richard I. Murakami is the retired President of a major building, material and bonding company and previously was employed for 20 years as a Vice President of a Hawaii based commercial bank. Mr. Murakami is a well-known and respected member of the Japanese-American community. He also provides insight into the traditional savings and loan depositor as these customers constitute a significant part of the customer base of Territorial Savings Bank.

Directors Continuing in Office

The following directors have terms ending in 2013:

Kirk W. Caldwell is currently Of Counsel to the law firm of Ashford & Wriston, which he rejoined in 2011. Previously, he was acting Mayor of the City and County of Honolulu, Hawaii, from July 2010 to October 2010, and was appointed the Managing Director of the City and County of Honolulu, Hawaii, in January 2009. Prior to this appointment, Mr. Caldwell was a partner with Ashford & Wriston, where he had worked since 1984. Much of his practice consisted of representing financial institutions, including Territorial Savings Bank. Prior to his appointment as Managing Director of the City and County of Honolulu, Mr. Caldwell also served as the majority leader of the State of Hawaii House of Representatives, and had served as a state representative since 2002. Because of his current and past positions, Mr. Caldwell is uniquely positioned to advise the Board of Directors on community and economic developments affecting the State of Hawaii and the localities in which we operate.

Francis E. Tanaka retired in 2001 as the Executive Vice President – Controller of Haseko (Hawaii), Inc., the U.S. subsidiary of a large Japanese publicly-traded company that is in the engineering, construction, real estate development, investment, and property management business throughout the world. For 18 years, Mr. Tanaka was in charge of the financial management of the Hawaii subsidiary, which does residential, office, and commercial development in Hawaii. Prior to that, he was controller of a construction company. He is a Certified Public Accountant and was employed by national and local certified public accounting firms early in his career. He continues to perform limited tax services and business consulting in his retirement. Mr. Tanaka's financial and accounting background, including supervision and preparation of financial statements for a Securities and Exchange Commission-registered real estate venture of the Hawaii subsidiary, adds depth to the Audit Committee. He also provides the Board of Directors with knowledge of our real estate market.

The following directors have terms ending in 2014:

Howard Y. Ikeda is the President of Ikeda and Wong, CPA, Inc., an independent public accounting firm in the State of Hawaii. Mr. Ikeda is a Certified Public Accountant licensed to practice in the State of Hawaii. He has been in public accounting for over 40 years. Mr. Ikeda's professional and business experience provide the Board of Directors with valuable insight into the accounting issues Territorial Bancorp Inc. faces and in assessing strategic transactions involving Territorial Bancorp Inc. and Territorial Savings Bank. His experience as a Certified Public Accountant qualifies him to be a member of the Audit Committee as a financial expert for purposes of the rules and regulations of the Securities and Exchange Commission.

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David S. Murakami was a Certified Residential Appraiser in the State of Hawaii, and was the owner of DSM Appraisal Company from 1982 until 2011. Mr. Murakami retired in 2011. Mr. Murakami previously worked as a Senior Vice President-Loan Administrator with financial institutions in the State of Hawaii beginning in 1962. Mr. Murakami's employment experience, both with financial institutions and as a Certified Residential Appraiser, gives him extensive insights into Territorial Savings Bank's challenges and opportunities in its overall operations and lending activities. He is also well-known in the local community as he was a long-time assistant coach for the highly visible University of Hawaii-Manoa baseball program.

Proposal 2 Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has appointed KPMG LLP to be the Company's independent registered public accounting firm for the year ending December 31, 2012, subject to ratification by stockholders. A representative of KPMG LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of KPMG LLP is not approved by a majority of the votes cast by stockholders at the annual meeting, other independent registered public accounting firms may be considered by the Audit Committee of the Board of Directors.

The Board of Directors recommends that stockholders vote FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm.

Audit Fees

The following table sets forth the fees to KPMG LLP for the years ended December 31, 2011 and 2010.

	2011	2010
Audit fees (1)	\$ 352,000	\$ 376,000
Audit-related fees (2)	\$ 66,000	\$ 121,000
Tax fees (3)	\$ 33,000	\$ 76,000
All other fees	\$	\$

- (1) Audit fees relate to the audit of Territorial Bancorp Inc.'s consolidated financial statements and to Securities and Exchange Commission registration statements.
- (2) Audit-related fees pertain to the audit of the financial statements of certain employee benefit plans.
- (3) Tax fees consist of tax return preparation and other tax matters.

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Pre-Approval of Services by the Independent Registered Public Accounting Firm

The Audit Committee is responsible for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In accordance with its charter, the Audit Committee approves, in advance, all audit and permissible non-audit services to be performed by the independent registered public accounting firm. Such approval process ensures that the external auditor does not provide any non-audit services to us that are prohibited by law or regulation.

In addition, the Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm. Requests for services by the independent registered public accounting firm for compliance with the audit or services policy must be specific as to the particular services to be provided. The request may be made with respect to either specific services or a type of service for predictable or recurring services. During each of the years ended December 31, 2011 and 2010, 100% of audit-related fees and tax fees were approved, in advance, by the Audit Committee.

Proposal 3 Advisory (Nonbinding) Vote on Executive Compensation

Based upon a board determination that considered the advice of stockholders at our 2011 Annual Meeting of Stockholders, stockholders are annually being given the opportunity to vote on an advisory (nonbinding) resolution to approve the compensation of our Named Executive Officers, as described in this proxy statement under Compensation Discussion and Analysis and the compensation tables and narrative disclosure. This proposal, commonly known as a say-on-pay proposal, gives stockholders the opportunity to endorse or not endorse the Company's executive pay program.

The purpose of our compensation policies and procedures is to attract and retain experienced, highly qualified executives critical to the Company's long-term success and enhancement of stockholder value. The Board of Directors believes the Company's compensation policies and procedures achieve this objective, and therefore recommend stockholders vote **FOR** the proposal. Specifically, stockholders are being asked to approve the following resolution:

RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed in this proxy statement pursuant to Item 402 of Securities and Exchange Commission Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

Although nonbinding, the Board of Directors and the Compensation Committee value constructive dialogue on executive compensation and other important governance topics with our stockholders and encourage all stockholders to vote their shares on this matter. The Board of Directors and the Compensation Committee will review the voting results and take them into consideration when making future decisions regarding our executive compensation programs.

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Unless otherwise instructed, validly executed proxies will be voted FOR this resolution.

The Board of Directors unanimously recommends that you vote FOR the resolution set forth in Proposal 3.

Proposal 4 Approval of the Territorial Bancorp Inc. 2012 Annual Incentive Plan

The Board of Directors has approved for submission to stockholders for approval the Territorial Bancorp Inc. 2012 Annual Incentive Plan (the Annual Incentive Plan). The Annual Incentive Plan is designed to provide key employees of the Company and its subsidiaries, including Territorial Savings Bank, with additional incentives to promote the growth and performance of the Company. The Annual Incentive Plan is subject to stockholder approval and will become effective upon its implementation by the Board of Directors subsequent to satisfaction of applicable stockholder approval requirements. Most of the companies that we compete with for management-level employees are public companies that offer annual performance-based cash bonus compensation as part of their overall compensation programs. The Annual Incentive Plan will give us the flexibility we need to continue to attract and retain highly qualified individuals by offering a competitive compensation program that is linked to the Company s performance.

The following is a summary of the material features of the Annual Incentive Plan, which is qualified in its entirety by reference to the provisions of the Annual Incentive Plan, attached hereto as Appendix A.

General

The Annual Incentive Plan will be administered by the members of the Company s Compensation Committee (the Committee) who are outside directors, as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended. The Committee has full and exclusive power within the limitations set forth in the Annual Incentive Plan to make all decisions and determinations regarding the selection of participants and the granting of awards; establishing the terms and conditions relating to each award; adopting rules, regulations, and guidelines for carrying out the Annual Incentive Plan s purposes; and interpreting and otherwise construing the Annual Incentive Plan. The Annual Incentive Plan also permits the Committee to delegate to one or more officers of the Company or a subsidiary the power to: (i) designate employees who will receive awards; and (ii) determine the size of any such awards. However, the Committee shall not delegate such responsibilities to any such officer for awards to be granted to such officer; the resolution providing such authorization sets forth the total number of awards such officer may grant; and the officer shall report periodically to the Committee regarding the nature and scope of the awards granted pursuant to the authority delegated. Awards intended to be performance-based under Internal Revenue Code Section 162(m) may only be granted by the Committee in order to be exempt from the \$1,000,000 limit on deductible compensation for tax purposes.

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Eligibility

The officers and key employees of the Company who may be selected from time to time by the Committee are eligible to receive awards under the Annual Incentive Plan.

Types of Awards

The Committee may determine the terms and conditions of awards under the Annual Incentive Plan, which shall be set forth in an award agreement delivered to each participant. The Committee may grant awards that are payable based on the attainment of a specific performance goal or goals, with or without additional service requirements. Generally, awards shall be paid in cash lump sums no later than March 15 of the calendar year following the calendar year in which the awards are earned, unless receipt of the amounts are deferred in accordance with Internal Revenue Code Section 409A and the terms of the Annual Incentive Plan. At present, this eligible group consists of approximately three persons.

Performance Features