

Territorial Bancorp Inc.
Form S-1/A
May 04, 2009
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As filed with the Securities and Exchange Commission on May 4, 2009

Registration No. 333-155388

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

PRE-EFFECTIVE AMENDMENT NO. 2
TO THE
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Territorial Bancorp Inc. and
Territorial Savings Bank Profit Sharing and 401(k) Plan

(Exact Name of Registrant as Specified in Its Charter)

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Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

6712
(Primary Standard Industrial
Classification Code Number)
1132 Bishop Street

Being applied for
(I.R.S. Employer
Identification Number)

Suite 2200

Honolulu, Hawaii 96813

(808) 946-1400

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant's Principal Executive Offices)

Mr. Allan S. Kitagawa

Chairman of the Board, President and Chief Executive Officer

1132 Bishop Street

Suite 2200

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(808) 946-1400

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box:

If this Form is filed to register additional shares for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

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

Large accelerated filer	<input type="checkbox"/>		<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	(Do not check if a smaller reporting company)		Smaller reporting company	<input type="checkbox"/>

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per share	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, \$0.01 par value per share	10,051,000 shares	\$10.00	\$ 100,510,000(1)	\$ 3,950 (2)
Participation Interests	939,221 interests			(3)

- (1) Estimated solely for the purpose of calculating the registration fee.
- (2) A fee of \$4,938 has previously been paid.
- (3) The securities of Territorial Bancorp Inc. to be purchased by the Territorial Savings Bank Profit Sharing and 401(k) Plan are included in the amount shown for the common stock. Accordingly, no separate fee is required for the participation interests. In accordance with Rule 457(h) of the Securities Act of 1933, as amended, the registration fee has been calculated on the basis of the number of shares of common stock that may be purchased with the current assets of such Plan.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS

TERRITORIAL BANCORP INC.

(Proposed Holding Company for Territorial Savings Bank)

Up to 8,740,000 Shares of Common Stock

Territorial Bancorp Inc., a Maryland corporation, is offering shares of common stock for sale in connection with the conversion of Territorial Mutual Holding Company from the mutual to the stock form of organization. All shares of common stock are being offered for sale at a price of \$10.00 per share. Depending on the number of shares we sell, we expect that our common stock will be traded on the Nasdaq Global Market or the Nasdaq Global Select Market, each under the symbol TBNK, upon conclusion of the stock offering. There is currently no public market for the shares of our common stock.

We are offering up to 8,740,000 shares of common stock for sale on a best efforts basis. We may sell up to 10,051,000 shares of common stock because of demand for the shares or changes in market conditions without resoliciting subscribers. We must sell a minimum of 6,460,000 shares in order to complete the offering.

We are offering the shares of common stock in a subscription offering. Depositors of Territorial Savings Bank with aggregate account balances of at least \$50 as of the close of business on September 30, 2007 will have first priority rights to buy our shares of common stock. Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a syndicated community offering managed by Keefe, Bruyette & Woods, Inc.

The minimum number of shares of common stock you may order is 25 shares. The maximum number of shares of common stock that can be ordered through a single qualifying account is 50,000 shares, and no person by himself or with an associate or group of persons acting in concert may purchase more than 100,000 shares. The offering is expected to expire at 3:00 p.m., local time, on June 22, 2009. We may extend this expiration date without notice to you until August 6, 2009, unless the Office of Thrift Supervision approves a later date, which may not be beyond June 26, 2011. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond August 6, 2009, or the number of shares of common stock to be sold is increased to more than 10,051,000 shares or decreased to fewer than 6,460,000 shares. If the offering is extended beyond August 6, 2009, or if the number of shares of common stock to be sold is increased to more than 10,051,000 shares or decreased to fewer than 6,460,000 shares, we will resolicit subscribers, giving them an opportunity to change or cancel their orders. Funds received during the offering will be held in a segregated account at Territorial Savings Bank, or, in our discretion, at another insured depository institution, and will earn interest at _____%, which is our current passbook savings rate.

Keefe, Bruyette & Woods, Inc. will assist us in selling our shares of common stock on a best efforts basis. Keefe, Bruyette & Woods, Inc. is not required to purchase any shares of the common stock that are being offered for sale. Purchasers will not pay a commission to purchase shares of common stock in the offering. Keefe, Bruyette & Woods, Inc. has advised us that it intends to make a market in the common stock, but is under no obligation to do so.

This investment involves a degree of risk, including the possible loss of your investment.

Please read Risk Factors beginning on page 17.

OFFERING SUMMARY

Price: \$10.00 per Share

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	Minimum	Maximum	Adjusted Maximum
Number of shares	6,460,000	8,740,000	10,051,000
Gross offering proceeds	\$ 64,600,000	\$ 87,400,000	\$ 100,510,000
Estimated offering expenses (excluding selling agent fees and expenses)	\$ 2,110,000	\$ 2,110,000	\$ 2,110,000
Estimated selling agent fees and expenses ⁽¹⁾	\$ 682,000	\$ 892,000	\$ 1,012,000
Estimated net proceeds	\$ 61,808,000	\$ 84,398,000	\$ 97,388,000
Estimated net proceeds per share	\$ 9.57	\$ 9.66	\$ 9.69

(1) See The Conversion; Plan of Distribution Marketing and Distribution; Compensation for a discussion of Keefe, Bruyette & Woods, Inc.'s compensation for this offering.

These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Neither the Securities and Exchange Commission, the Office of Thrift Supervision, nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

For assistance, please call the Stock Information Center, toll free, at [stock info #].

KEEFE, BRUYETTE & WOODS

The date of this prospectus is [prospectus date].

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SUMMARY

The following summary highlights material information in this prospectus. It may not contain all the information that is important to you. For additional information, you should read this entire prospectus carefully, including the Consolidated Financial Statements and the notes to the Consolidated Financial Statements.

In this prospectus, the terms we, our, and us refer to Territorial Bancorp Inc. and Territorial Savings Bank unless the context indicates another meaning.

Territorial Savings Bank

Territorial Savings Bank is a federally chartered savings bank headquartered in Honolulu, Hawaii. Territorial Savings Bank was organized in 1921, and reorganized into the mutual holding company structure in 2002. Territorial Savings Bank is currently the wholly owned subsidiary of Territorial Savings Group, Inc., a federal corporation, which is the wholly owned subsidiary of Territorial Mutual Holding Company, a federal mutual holding company. On a consolidated basis, Territorial Mutual Holding Company had total assets of \$1.2 billion, total loans of \$642.1 million, total deposits of \$923.9 million and equity of \$99.4 million as of December 31, 2008. At that date, 51.9% of our assets were mortgage loans and lines of credit, and 42.7% were mortgage-backed securities. We provide financial services to individuals, families and businesses through our 24 banking offices located throughout the State of Hawaii.

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

Territorial Savings Bank's executive offices are located at 1132 Bishop Street, Suite 2200, Honolulu, Hawaii 96813. Our telephone number at this address is (808) 946-1400. Our website address is www.territorialsavings.net. Information on our website is not incorporated into this prospectus and should not be considered part of this prospectus.

Territorial Bancorp Inc.

Territorial Bancorp Inc. is a newly formed Maryland corporation that will own all of the outstanding shares of common stock of Territorial Savings Bank upon completion of the mutual-to-stock conversion and the offering. Territorial Bancorp Inc. has not engaged in any business to date.

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

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Our Organizational Structure

In September 2002, Territorial Savings Bank's mutual predecessor reorganized into the mutual holding company form of organization by forming Territorial Mutual Holding Company. Territorial Mutual Holding Company owns 100% of the outstanding shares of common stock of Territorial Savings Group, Inc., a federal corporation. Territorial Mutual Holding Company is a mutual holding company that has no stockholders and is controlled by its members. Territorial Savings Group, Inc. owns 100% of the outstanding shares of common stock of Territorial Savings Bank. Territorial Savings Group, Inc. has not issued shares of stock to the public.

Pursuant to the terms of Territorial Mutual Holding Company's plan of conversion and reorganization, Territorial Mutual Holding Company will convert from a mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, and, if necessary, a community offering and a syndicated community offering, shares of common stock of Territorial Bancorp Inc. Upon the completion of the conversion and offering, Territorial Mutual Holding Company and Territorial Savings Group, Inc. will cease to exist, and Territorial Savings Bank will be a wholly owned subsidiary of Territorial Bancorp, Inc.

Business Strategy

Our business strategy is to grow and improve our profitability by:

remaining a community-oriented financial institution;

increasing loan production while maintaining high asset quality;

emphasizing lower cost core deposits to maintain low funding costs; and

expanding our branch network.

A full description of our products and services begins on page 88 of this prospectus under the heading "Business of Territorial Savings Bank."

These strategies are intended to guide our investment of the net proceeds of the offering. We intend to continue to pursue our business strategy after the conversion and the offering, subject to changes necessitated by future market conditions and other factors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Strategy" for a further discussion of our business strategy.

Reasons for the Conversion

Our primary reasons for converting and raising additional capital through the offering are:

to support our internal growth through lending in communities we serve or may serve in the future and through the establishment of *de novo* branch offices. We currently intend to establish one new branch office per year over the next three years;

to assist us in the management of interest rate risk;

to repay trust preferred securities and short-term borrowings;

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to provide additional financial resources to pursue future acquisitions of banks, thrifts and other financial services companies, and branch offices, although we have no current arrangements or agreements with respect to any such acquisitions;

to provide better capital management tools, including the ability to pay dividends and to repurchase shares of our common stock, subject to market conditions; and

to retain and attract qualified personnel by establishing stock-based benefit plans for management and employees.

We believe that the additional capital raised in the offering may enable us to take advantage of business opportunities that may not otherwise be available to us. As of December 31, 2008, Territorial Savings Bank was considered well capitalized for regulatory purposes and is not subject to a directive or a recommendation from the Office of Thrift Supervision to raise capital.

Terms of the Conversion and the Offering

Under Territorial Mutual Holding Company's plan of conversion and reorganization, our organization will convert to a fully public stock holding company structure. In connection with the conversion, we are offering between 6,460,000 and 8,740,000 shares of common stock to eligible depositors and borrowers of Territorial Savings Bank, to our employee benefit plans and, to the extent shares remain available, to the general public. The number of shares of common stock to be sold may be increased to up to 10,051,000 as a result of demand for the shares or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 10,051,000 or decreased to less than 6,460,000, or the offering is extended beyond August 6, 2009, subscribers will not have the opportunity to change or cancel their stock orders.

The purchase price of each share of common stock to be issued in the offering is \$10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Keefe, Bruyette & Woods, Inc., our marketing advisor in the offering, will use its best efforts to assist us in selling shares of our common stock. Keefe, Bruyette & Woods, Inc. is not obligated to purchase any shares of common stock in the offering.

Persons Who May Order Shares of Common Stock in the Offering

We are offering the shares of common stock in a subscription offering in the following descending order of priority:

First, to depositors of Territorial Savings Bank with aggregate account balances of at least \$50 as of the close of business on September 30, 2007.

Second, to Territorial Savings Bank's tax-qualified employee benefit plans.

Third, to depositors of Territorial Savings Bank with aggregate account balances of at least \$50 as of the close of business on March 31, 2009.

Fourth, to depositors of Territorial Savings Bank as of April 30, 2009 and to borrowers of Territorial Savings Bank as of September 18, 2002 whose borrowings remain outstanding as of April 30, 2009.

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Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering, with a preference given to natural persons residing in the State of Hawaii. The community offering may begin concurrently with, during or promptly after the subscription offering as we may determine at any time. If shares remain available for sale following the subscription offering or community offering, we also may offer for sale shares of common stock through a syndicated community offering managed by Keefe, Bruyette & Woods, Inc.

We have the right to accept or reject, in our sole discretion, orders received in the community offering or syndicated community offering. We have not established any set criteria for determining whether to accept or reject a purchase order in the community offering or the syndicated community offering, and, accordingly, any determination to accept or reject purchase orders in the community offering and the syndicated community offering will be based on the facts and circumstances known to us at the time.

To ensure a proper allocation of stock, each subscriber eligible to purchase stock in the subscription offering must list on his or her stock order and certification form all deposit accounts in which he or she had an ownership interest at September 30, 2007, March 31, 2009 or April 30, 2009, as applicable. Failure to list all accounts, or providing incorrect information, could result in the loss of all or part of a subscriber's stock allocation. Our interpretation of the terms and conditions of the plan of conversion and reorganization and of the acceptability of the order forms will be final.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first in the order of priority to subscribers in the subscription offering. A detailed description of share allocation procedures can be found in the section entitled The Conversion; Plan of Distribution.

How We Determined the Offering Range

The amount of common stock that we are offering is based on an independent appraisal of the estimated market value of Territorial Bancorp Inc., assuming the conversion and the offering are completed. FinPro, Inc., our independent appraiser, has estimated that, as of February 27, 2009, this market value ranged from \$64.6 million to \$87.4 million, with a midpoint of \$76.0 million. Based on this valuation and a \$10.00 per share price, the number of shares of common stock being offered for sale by us will range from 6,460,000 shares to 8,740,000 shares. The \$10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions.

The appraisal is based in part on our financial condition and results of operations, the effect of the additional capital raised by the sale of shares of common stock in the offering and an analysis of a peer group of 10 publicly traded savings bank and thrift holding companies that FinPro, Inc. considered comparable to us.

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The appraisal peer group consists of the following companies.

Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (in thousands)
First Defiance Financial Corp. (FDEF)	Nasdaq	Defiance, OH	\$ 1,957,177
HF Financial Corp. (HFFC)	Nasdaq	Sioux Falls, SD	1,173,152
Home Federal Bancorp, Inc. (HOME)	Nasdaq	Nampa, ID	718,133
Meta Financial Group, Inc. (CASH)	Nasdaq	Storm Lake, IA	859,125
MutualFirst Financial, Inc. (MFSF)	Nasdaq	Muncie, IN	1,409,686
NASB Financial, Inc. (NASB)	Nasdaq	Grandview, MO	1,526,454
Pulaski Financial Corp. (PULB)	Nasdaq	St. Louis, MO	1,363,158
Teche Holding Company (TSH)	NYSE (Amex)	New Iberia, LA	767,618
Timberland Bancorp, Inc. (TSBK)	Nasdaq	Hoquiam, WA	671,592
United Western Bancorp, Inc. (UWBK)	Nasdaq	Denver, CO	2,258,653

The following table presents a summary of selected pricing ratios for Territorial Bancorp Inc. and the peer group companies identified by FinPro, Inc. Ratios are based on core earnings for the twelve months ended December 31, 2008 and book value as of December 31, 2008. Core earnings, for purposes of the appraisal, are defined as net earnings after taxes, excluding the after-tax portion of income from nonrecurring items. Tangible book value is total equity, less intangible assets. Compared to the median pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a premium of 38.9% on a price-to-core-earnings basis, a discount of 5.1% on a price-to-book value basis and a discount of 7.1% on a price-to-tangible book value basis. The pricing ratios result from our generally having higher levels of equity but lower core earnings than the companies in the peer group on a pro forma basis. The price ratios also reflect recent volatile market conditions, particularly for stock of financial institution holding companies, and the effect of such conditions on the trading market for recent mutual-to-stock conversions. Our Board of Directors, in reviewing and approving the valuation, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios and price-to-tangible book value ratios at the different amounts of shares to be sold in the offering. The appraisal did not consider one valuation approach to be more important than the other.

	Price-to-core earnings multiple	Price-to-book value ratio	Price-to-tangible book value ratio
Territorial Bancorp Inc. (pro forma)			
Maximum, as adjusted	10.75x	54.50%	54.56%
Maximum	9.17x	50.53%	50.53%
Minimum	6.94x	42.16%	42.21%
Valuation of peer group companies using stock prices as of February 27, 2009			
Averages	11.66x	51.58%	55.95%
Medians	6.60x	53.25%	54.40%

Since December 31, 2007, the stock pricing of the peer group upon which the appraisal is based has declined. The median price to tangible book value was 125.1% at December 31, 2007 compared to 54.4% at February 27, 2009. The median price-to-core earnings per share was 13.4x at December 31, 2007 compared to 6.6x at February 27, 2009. In the absence of other factors, these changes would result in the appraisal for our offering being lower than if the appraisal were prepared as of December 31, 2007.

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As of November 7, 2008, FinPro, Inc. estimated the market value of Territorial Bancorp Inc., assuming the conversion and the offering were completed, to be between \$80.8 million and \$109.3 million, with a midpoint of \$95.0 million. As of that date, the median price to tangible book value of the peer group upon which the appraisal is based was 77.35%, and the median price-to-core earnings per share was 8.3x, each of which is higher than the amounts set forth above as of February 27, 2009. Based upon the changes in the valuation of the peer group companies, as well as recent disinterest in stock offerings of other converting thrift institutions (for which FinPro, Inc. provided a Strong Downward adjustment in the appraisal as of February 27, 2009), FinPro has reduced the estimated market value by 20%. The current appraisal was prepared using the same appraisal methodology as that used as of November 7, 2008.

FinPro, Inc. advised the Board of Directors that the appraisal was prepared in conformance with the regulatory appraisal methodology. That methodology requires a valuation based on an analysis of the trading prices of comparable public companies whose stocks have traded for at least one year prior to the valuation date, and as a result of this analysis, FinPro, Inc. determined that our pro forma price-to-core earnings ratios were higher than the peer group companies and our pro forma price-to-book and price-to-tangible book ratios were lower than the peer group companies. See How We Determined the Offering Range.

Our Board of Directors carefully reviewed the information provided to it by FinPro, Inc. through the appraisal process, but did not make any determination regarding whether prior standard mutual-to-stock conversions have been undervalued, nor did the board draw any conclusions regarding how the historical data reflected above may affect Territorial Bancorp Inc.'s appraisal. Instead, we engaged FinPro, Inc. to help us understand the regulatory process as it applies to the appraisal and to advise the Board of Directors as to how much capital Territorial Bancorp Inc. would be required to raise under the regulatory appraisal guidelines.

The independent appraisal does not indicate per share market value. Do not assume or expect that the valuation of Territorial Bancorp Inc. as indicated above means that, after the conversion and the offering, the shares of common stock will trade at or above the \$10.00 offering price. Furthermore, the pricing ratios presented above were utilized by FinPro, Inc. to estimate our market value and not to compare the relative value of shares of our common stock with the value of the capital stock of the peer group. The value of the capital stock of a particular company may be affected by a number of factors such as financial performance, asset size and market location.

The independent appraisal will be updated prior to the completion of the conversion. If the appraised value decreases below \$64.6 million or increases above \$100.5 million, subscribers may be resolicited with the approval of the Office of Thrift Supervision and be given the opportunity to change or cancel their orders. If you do not respond, we will cancel your stock order and return your subscription funds, with interest, and cancel any authorization to withdraw funds from your deposit accounts for the purchase of shares of common stock. For a more complete discussion of the amount of common stock we are offering for sale and the independent appraisal, see The Conversion; Plan of Distribution Determination of Share Price and Number of Shares to be Issued.

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The following table presents stock price appreciation information for all standard mutual-to-stock conversions completed between January 1, 2007 and February 27, 2009. These companies did not constitute the group of 10 comparable public companies utilized in FinPro, Inc.'s valuation analysis.

Mutual-to-Stock Conversion Offerings with Closing Dates

between January 1, 2007 and February 27, 2009

Company Name and Ticker Symbol	Conversion Date	Exchange	Percentage Price Appreciation (Depreciation) From Initial Trading Date				Through February 27, 2009	%
			One Day	One Week	One Month			
St. Joseph Bancorp, Inc. (SJBA)	2/2/2009	OTCBB			N/A			
Hibernia Homestead Bancorp, Inc. (HIBE)	1/28/2009	OTCBB		5.00	N/A	5.00		
First Savings Financial Group, Inc. (FSFG)	10/7/2008	Nasdaq	(1.00)	(4.00)	(8.00)	(9.00)		
Home Bancorp, Inc. (HBCP)	10/3/2008	Nasdaq	14.90	3.50	3.10	(6.40)		
Cape Bancorp, Inc. (CBNJ)	2/1/2008	Nasdaq	0.50	0.10	(2.00)	(27.50)		
Danvers Bancorp, Inc. (DNBK)	1/10/2008	Nasdaq	(2.60)	(2.20)	2.60	28.20		
First Advantage Bancorp (FABK)	11/30/2007	Nasdaq	11.70	8.00	6.50	(5.00)		
First Financial Northwest, Inc. (FFNW)	10/10/2007	Nasdaq	17.30	15.30	8.10	(26.30)		
Beacon Federal Bancorp, Inc. (BFED)	10/2/2007	Nasdaq	16.00	19.00	7.50	(21.20)		
Louisiana Bancorp, Inc. (LABC)	7/10/2007	Nasdaq	9.50	3.00	9.40	20.50		
Quaint Oak Bancorp, Inc. (QNTQ)	7/5/2007	OTCBB	(2.00)	(9.50)	(11.00)	(20.00)		
CMS Bancorp, Inc. (CMSB)	7/5/2007	Nasdaq	5.70	5.20	3.20	(30.00)		
ESSA Bancorp, Inc. (ESSA)	4/4/2007	Nasdaq	17.80	21.50	14.60	20.10		
Hampden Bancorp, Inc. (HBNK)	1/17/2007	Nasdaq	29.20	24.50	23.40	(21.30)		
Average			8.29	6.39	4.78	(6.64)		
Median			7.60	4.25	4.85	(7.70)		

Stock price appreciation is affected by many factors, including, but not limited to: general market and economic conditions; the interest rate environment; the amount of proceeds a company raises in its offering; and numerous factors relating to the specific company, including the experience and ability of management, historical and anticipated operating results, the nature and quality of the company's assets, and the company's market area. The companies listed in the table above may not be similar to Territorial Bancorp Inc., the pricing ratios for their stock offerings were in some cases different from the pricing ratios for Territorial Bancorp Inc.'s common stock and the market conditions in which these offerings were completed were, in some cases, different from current market conditions. Any or all of these differences may cause our stock to perform differently from these other offerings.

There can be no assurance that our stock price will not trade below \$10.00 per share, as has been the case for some mutual-to-stock conversions. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled Risk Factors beginning on page 17.

Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased is 25. Generally, no individual, or individuals exercising subscription rights through a single qualifying account held jointly, may purchase more than 50,000 shares (\$500,000) of common stock. If any of the following persons purchases shares of common stock, their purchases, in all categories of the offering, when combined with your purchases, cannot exceed 100,000 shares (\$1,000,000):

your spouse or relatives of you or your spouse living in your house;

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most companies, trusts or other entities in which you are a trustee, have a substantial beneficial interest or hold a senior management position; or

other persons who may be your associates or persons acting in concert with you.

See the detailed descriptions of acting in concert and associate in The Conversion; Plan of Distribution Limitations on Common Stock Purchases.

How You May Purchase Shares of Common Stock

In the subscription offering and community offering, you may pay for your shares only by:

personal check, bank check or money order, made payable to Territorial Bancorp Inc.; or

authorizing us to withdraw funds from the types of Territorial Savings Bank deposit accounts permitted on the stock order and certification form.

Territorial Savings Bank is not permitted to knowingly lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a check drawn on a Territorial Savings Bank line of credit or a third-party check to pay for shares of common stock.

You can subscribe for shares of common stock in the offering by delivering a signed and completed original stock order and certification form, together with full payment or authorization to withdraw from one or more of your Territorial Savings Bank deposit accounts, so that it is received (not postmarked) before 3:00 p.m., local time, on June 22, 2009, which is the expiration of the offering period. For orders paid for by check or money order, the funds will be cashed promptly and held in a segregated account at Territorial Savings Bank, or in our discretion at another insured depository institution. We will pay interest on those funds calculated at Territorial Savings Bank's current passbook savings rate from the date funds are received until completion or termination of the conversion and the offering. Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty; however, if a withdrawal results in a certificate account with a balance less than the applicable minimum balance requirement, the certificate will be canceled at the time of withdrawal without penalty and the remaining balance will be transferred to a savings account and earn interest at our passbook savings rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts with Territorial Savings Bank must be in the accounts at the time the stock order is received. However, funds will not be withdrawn from the accounts until the completion of the conversion and offering and will earn interest at the applicable deposit account rate until that time. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. After we receive your order, your order cannot be changed or canceled unless the number of shares of common stock to be offered is increased to more than 10,051,000 shares or decreased to fewer than 6,460,000 shares, or the offering is extended beyond August 6, 2009.

By signing the stock order and certification form, you are acknowledging receipt of a prospectus and that the shares of common stock are not deposits or savings accounts that are federally insured or otherwise guaranteed by Territorial Savings Bank, the Federal Deposit Insurance Corporation or any other government agency.

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. However, shares of common stock must be purchased through and held in a self-directed retirement account, such as those offered by a brokerage firm. By regulation, Territorial

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Savings Bank's individual retirement accounts are not self-directed, so they cannot be used to purchase or hold shares of our common stock. If you wish to use some or all of the funds in your Territorial Savings Bank individual retirement account to purchase our common stock, the applicable funds must be transferred to a self-directed account maintained by an independent trustee, such as a brokerage firm, and the purchase must be made through that account. If you do not have such an account, you will need to establish one before placing your stock order. It will take time to transfer your Territorial Savings Bank individual retirement account to an independent trustee, so please allow yourself sufficient time to take this action. An annual administrative fee may be payable to the independent trustee. Because individual circumstances differ and processing of retirement fund orders takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the June 22, 2009 expiration of the offering period, for assistance with purchases using your Territorial Savings Bank individual retirement account or any other retirement account that you may have. Whether you may use such funds for the purchase of shares in the stock offering may depend on time constraints and, possibly, limitations imposed by the brokerage firm or institution where the funds are held.

Delivery of Stock Certificates

Certificates representing shares of common stock sold in the offering will be mailed to the persons entitled thereto at the certificate registration address noted by them on the order form, as soon as practicable following consummation of the offering and receipt of all necessary regulatory approvals. **It is possible that, until certificates for the common stock are delivered, purchasers might not be able to sell the shares of common stock that they ordered, even though the common stock will have begun trading.**

How We Intend to Use the Proceeds From the Offering

Assuming we sell 10,051,000 shares of common stock in the stock offering, and we have net proceeds of \$97.4 million, we intend to distribute the net proceeds as follows:

\$48.7 million (50.0% of the net proceeds) will be invested in Territorial Savings Bank;

\$8.0 million (8.3% of the net proceeds) will be loaned to our employee stock ownership plan to fund its purchase of our shares of common stock;

\$24.0 million (24.6% of the net proceeds) will be used to redeem trust preferred securities (although we intend to redeem less of our trust preferred securities if we sell less than the midpoint number of shares in the offering); and

\$16.7 million (17.1% of the net proceeds) will be retained by us.

We may use the remaining funds we receive for investments, to pay cash dividends, to repurchase shares of common stock and for other general corporate purposes. Territorial Savings Bank may use the proceeds it receives to support increased lending and other products and services, and to repay short-term borrowings. The net proceeds retained by Territorial Bancorp Inc. and Territorial Savings Bank also may be used for future business expansion through acquisitions of banks, thrifts and other financial services companies, and opening or acquiring branch offices. We have no current arrangements or agreements with respect to any such acquisitions. Initially, a substantial portion of the net proceeds will be invested in short-term investments and mortgage-backed securities consistent with our investment policy.

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Please see the section of this prospectus entitled "How We Intend to Use the Proceeds From the Offering" for more information on the proposed use of the proceeds from the offering.

You May Not Sell or Transfer Your Subscription Rights

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the shares of common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal or state regulatory agencies, against anyone who we believe has sold or given away his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. When completing your stock order and certification form, you should not add the name(s) of persons who do not have subscription rights or who qualify in a lower subscription priority than you do. In addition, the stock order and certification form requires that you list all deposit or loan accounts, giving all names on each account and the account number at the applicable eligibility record date. Your failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, if there is an oversubscription.

Deadline for Orders of Common Stock

If you wish to purchase shares of common stock in the offering, we must receive a properly completed original stock order and certification form, together with full payment for the shares of common stock, at the Stock Information Center or any of our branch offices no later than 3:00 p.m., local time, on June 22, 2009. A postmark prior to June 22, 2009 will not entitle you to purchase shares of common stock unless we receive the envelope by 3:00 p.m., local time on June 22, 2009. You may submit your stock order and certification form by mail using the order reply envelope provided, by overnight courier to the indicated address on the order form, or by hand delivery to our Stock Information Center, located at 1132 Bishop Street, Suite 2200, Honolulu, Hawaii, or to any of our branch offices. Once we receive it, your order is irrevocable unless the offering is terminated or extended beyond August 6, 2009 or the number of shares of common stock to be sold is decreased to less than 6,460,000 shares or increased to more than 10,051,000 shares. If the offering is extended beyond August 6, 2009, or if the number of shares of common stock to be sold is decreased to less than 6,460,000 shares or is increased to more than 10,051,000 shares, we will, with the approval of the Office of Thrift Supervision, resolicit subscribers, giving them the opportunity to confirm, cancel or change their stock orders during a specified resolicitation period.

Although we will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 3:00 p.m., local time, on June 22, 2009, whether or not we have been able to locate each person entitled to subscription rights.

Steps We May Take If We Do Not Receive Orders for the Minimum Number of Shares

If we do not receive orders for at least 6,460,000 shares of common stock, we may take steps to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

increase the purchase limitations; and/or

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seek the approval of the Office of Thrift Supervision to extend the offering beyond August 6, 2009, so long as we resolicit subscriptions that we have previously received in the offering.

If a purchase limitation is increased, subscribers in the subscription offering who ordered the maximum amount will be, and, in our sole discretion, some other large subscribers may be, given the opportunity to increase their subscriptions up to the then-applicable limit.

Possible Change in the Offering Range

FinPro, Inc. will update its appraisal before we complete the offering. If, as a result of demand for the shares, or changes in market conditions, FinPro, Inc. determines that our pro forma market value has increased, we may sell up to 10,051,000 shares in the offering without further notice to you. If our pro forma market value at that time is either below \$64.6 million or above \$100.5 million, then, after consulting with the Office of Thrift Supervision, we may:

terminate the stock offering and promptly return all funds;

set a new offering range and give all subscribers the opportunity to confirm, modify or rescind their purchase orders for shares of Territorial Bancorp Inc.'s common stock; or

take such other actions as may be permitted by the Office of Thrift Supervision and the Securities and Exchange Commission.

Possible Termination of the Offering

We may terminate the offering at any time prior to the special meeting of members of Territorial Mutual Holding Company that is being called to vote upon the conversion, and at any time after member approval with the approval of the Office of Thrift Supervision.

We must sell a minimum of 6,460,000 shares to complete the offering. If we terminate the offering because we fail to sell the minimum number of shares or for any other reason, we will promptly return your funds with interest at our passbook savings rate and we will cancel deposit account withdrawal authorizations.

Purchases by Officers and Directors

We expect our directors and executive officers, together with their associates, to subscribe for 374,000 shares of common stock in the offering, or 5.8% of the shares to be sold at the minimum of the offering range. However, there can be no assurance that any individual director or executive officer, or the directors and executive officers as a group, will purchase any specific number of shares of our common stock. The purchase price paid by our directors and executive officers for their subscribed shares will be the same \$10.00 per share price paid by all other persons who purchase shares of common stock in the offering. Purchases by directors, executive officers and their associates will be included in determining whether the required minimum number of shares has been subscribed for in the offering.

Benefits to Management and Potential Dilution to Stockholders Following the Conversion

We expect our tax-qualified employee stock ownership plan to purchase 8% of the total number of shares of common stock that we sell in the offering, or 699,200 shares of common stock, assuming we

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sell the maximum of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the total number of shares of common stock sold in the offering. This plan is a tax-qualified retirement plan for the benefit of all our employees. Purchases by the employee stock ownership plan will be included in determining whether the required minimum number of shares has been sold in the offering. Assuming the employee stock ownership plan purchases 699,200 shares in the offering, we will recognize additional pre-tax compensation expense of \$7.0 million over a 20-year period, assuming the shares of common stock have a fair market value of \$10.00 per share for the full 20-year period. If, in the future, the shares of common stock have a fair market value greater or less than \$10.00, the compensation expense will increase or decrease accordingly.

We also intend to implement one or more stock-based benefit plans no earlier than six months after completion of the conversion. Stockholder approval of these plans will be required, and the stock-based benefit plans cannot be implemented until at least six months after the completion of the conversion pursuant to applicable Office of Thrift Supervision regulations. If adopted within 12 months following the completion of the conversion, the stock-based benefit plan will reserve a number of shares of common stock equal to not more than 4% of the shares sold in the offering, or up to 349,600 shares of common stock at the maximum of the offering range, for restricted stock awards to key employees and directors, at no cost to the recipients. If adopted within 12 months following the completion of the conversion, the stock-based benefit plan will also reserve a number of stock options equal to not more than 10% of the shares of common stock sold in the offering, or up to 874,000 shares of common stock at the maximum of the offering range, for key employees and directors. If the stock-based benefit plans are adopted after one year from the date of the completion of the conversion, the 4% and 10% limitations described above will no longer apply. We have not yet determined whether we will present these plans for stockholder approval within 12 months following the completion of the conversion or whether we will present these plans for stockholder approval more than 12 months after the completion of the conversion.

If 4% of the shares of common stock sold in the offering are awarded under a stock-based benefit plan and come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 3.8% in their ownership interest in Territorial Bancorp Inc. If 10% of the shares of common stock sold in the offering are issued upon the exercise of options granted under a stock-based benefit plan and come from authorized but unissued shares of common stock, stockholders would experience dilution of approximately 9.1% in their ownership interest in Territorial Bancorp Inc.

We intend to enter into employment agreements with certain of our executive officers. See Management of Territorial Bancorp Inc. Executive Officer Compensation for a further discussion of these agreements, including their terms and potential costs, as well as a description of other benefits arrangements.

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The following table summarizes the number of shares of common stock and aggregate dollar value of grants (valuing each share granted at the offering price of \$10.00) that are available under one or more stock-based benefit plans if such plans are adopted within one year following the completion of the conversion and the offering. The table shows the dilution to stockholders if all these shares are issued from authorized but unissued shares, instead of shares purchased in the open market. The table also sets forth the number of shares of common stock to be acquired by the employee stock ownership plan for allocation to all employees. A portion of the stock grants shown in the table below may be made to non-management employees.

	Number of Shares to be Granted or Purchased			Dilution Resulting From Issuance of Shares for Stock Benefit Plans	Value of Grants (1)	
	At Minimum of Offering Range	At Maximum of Offering Range	As a Percentage of Common Stock to be Issued (2)		At Minimum of Offering Range	At Maximum of Offering Range
Employee stock ownership plan	516,800	699,200	8.00%	7.41%	\$5,168	\$6,992
Stock awards	258,400	349,600	4.00	3.85%	2,584	3,496
Stock options	646,000	874,000	10.00	9.09%	1,964	2,657
Total	1,421,200	1,922,800	22.00%	18.03%	\$9,716	\$13,145

- (1) The actual value of restricted stock grants will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of \$10.00 per share. The fair value of stock options has been estimated at \$3.04 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of \$10.00; dividend yield of 0%; an expected option life of 6.5 years; a risk-free interest rate of 1.87%; and a volatility rate of 25.8% based on an index of publicly traded thrift institutions. The actual expense of stock options granted under a stock-based benefit plan will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted, which may or may not be the Black-Scholes model.
- (2) The stock-based benefit plans may award a greater number of options and shares, respectively, if the plans are adopted more than 12 months after the completion of the conversion.

The actual value of restricted stock grants will be determined based on their fair value (the closing market price of shares of common stock of Territorial Bancorp Inc.) as of the date grants are made. The following table presents the total value of all shares to be available for awards of restricted stock under the stock-based benefit plan, assuming the shares for the plan are purchased or issued in a range of market prices from \$8.00 per share to \$16.00 per share at the time of the grant.

Share Price	258,400 Shares	304,000 Shares	349,600 Shares	402,040 Shares
	Awarded at Minimum	Awarded at Midpoint	Awarded at Maximum	Awarded at Maximum
	of Offering Range	of Offering Range	of Offering Range	of Offering Range, As Adjusted
	(In thousands, except share price information)			
\$ 8.00	\$2,067	\$2,432	\$2,797	\$3,216
10.00	2,584	3,040	3,496	4,020
12.00	3,101	3,648	4,195	4,824
14.00	3,618	4,256	4,894	5,629
16.00	4,134	4,864	5,594	6,433

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The grant-date fair value of the stock options granted under the stock-based benefit plans will be based, in part, on the closing price of shares of common stock of Territorial Bancorp Inc. on the date the options are granted. The fair value will also depend on the various assumptions utilized in the option-pricing model ultimately adopted. The following table presents the total estimated value of the stock options to be available for grant under the stock-based benefit plans, assuming the range of market prices for the shares are \$8.00 per share to \$16.00 per share at the time of the grant.

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Exercise Price	Grant-Date Fair Value Per Option	646,000 Options at Minimum of Range (In thousands, except share price information)	760,000 Options at Midpoint of Range	874,000 Options at Maximum of Range	1,005,100 Options
					at Maximum of Range, As Adjusted
\$8.00	\$2.43	\$1,570	\$1,847	\$2,124	\$2,442
10.00	3.04	1,964	2,310	2,657	3,056
12.00	3.65	2,358	2,774	3,190	3,669
14.00	4.26	2,752	3,238	3,723	4,282
16.00	4.87	3,146	3,701	4,256	4,895

The tables presented above are provided for informational purposes only. There can be no assurance that our stock price will not trade below \$10.00 per share. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled **Risk Factors** beginning on page 17.

Market for Common Stock

We expect that our common stock will be listed on the Nasdaq Global Market (if we sell less than 10,051,000 shares of common stock in the stock offering) or the Nasdaq Global Select Market, each under the symbol **TBNK**. Keefe, Bruyette & Woods, Inc. currently intends to make a market in the shares of our common stock, but is under no obligation to do so. See **Market for the Common Stock**.

Our Policy Regarding Dividends

Following completion of the stock offering, our Board of Directors will have the authority to declare dividends on our common stock, subject to statutory and regulatory requirements. However, no decision has been made with respect to the amount, if any, and timing of any dividend payments. The payment and amount of any dividend payments will depend upon a number of factors, including the following:

regulatory capital requirements;

our financial condition and results of operations;

tax considerations;

statutory and regulatory limitations; and

general economic conditions and forecasts.

Recent Economic Downturn in Our Primary Market Area

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. On the island of Oahu, the primary real estate market in Hawaii, sales of existing single-family totaled 2,741 units during the year ended December 31, 2008, a decrease of 24.4% compared to similar sales during the year ended December 31, 2007. However, the median home price in Oahu decreased by 3% from December 2007 through December 2008. The number of condominium sales (a notable portion of the overall housing market), declined by 28% during the year ended December 31, 2008 compared to the year ended December 31, 2007, while the median price remained unchanged.

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On the island of Maui, the second largest real estate market, sales of existing single-family homes totaled 907 units for 2008, a decrease of 20.5% compared to 2007, while the median price for the year ended December 31, 2008 declined by 8% compared to the median price for the year ended December 31, 2007. The number of condominium sales declined by 33.6% between 2007 and 2008, while the median price remained unchanged.

The slowing Hawaiian economy has also resulted in a rise in delinquency and foreclosure rates. The number of foreclosures in the State of Hawaii has recently increased from an average of approximately 150 foreclosure filings per month for the eight months ended August 2008 to over 300 foreclosures per month during the months of September, October, November and December of 2008. Approximately one in 18 Hawaiian homeowners were more than one month behind in mortgage payments as of September 2008.

Tourism is one of the two largest components of Hawaii's economy. The Hawaii Department of Business, Economic Development and Tourism reported a 24.2% decline in tourists from August 2007 to August 2008, representing the largest year-to-year reduction recorded in the state's history. Tourism also declined 15.9% for the month of November 2008 compared to the month of November 2007, and 10.2% when comparing the first 11 months of 2008 to the first 11 months of 2007. Similarly, the unemployment rate in the State of Hawaii increased to 5.5% as of December 2008, from 4.2% as of August 2008 and 2.7% as of August 2007.

Recent Downturn in the Market for Stock of Financial Institutions and Their Holding Companies

Negative developments in the latter half of 2007 and during 2008 and 2009 in the global credit and securitization markets have resulted in uncertainty in the financial markets. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. Specifically, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of assets rose to 1.88% as of December 31, 2008 compared to 0.94% as of December 31, 2007. For the year ended December 31, 2008, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that return on average assets decreased to 0.12% compared to 0.81% for the year ended December 31, 2007. The NASDAQ Bank Index declined 23.92% between December 31, 2007 and December 31, 2008, and an additional 31.16% between December 31, 2008 and February 27, 2009. At December 31, 2008, our noncurrent assets plus other real estate owned as a percentage of assets was 0.02%, and our return on average assets was 0.60% for the year ended December 31, 2008.

Continued negative developments in the financial industry and the domestic and international credit markets 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. Further, continued declines in the stock market in general, or for stock of financial institutions and their holding companies, could affect our stock performance.

Tax Consequences

As a general matter, the conversion will not be a taxable transaction for federal or state income tax purposes to Territorial Mutual Holding Company, Territorial Savings Group, Inc., Territorial Savings

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Bank, Territorial Bancorp Inc., or persons eligible to subscribe in the subscription offering. See the section of this prospectus under the heading "Taxation" for additional information.

Conditions to Completion of the Conversion and the Offering

We cannot complete the conversion and the offering unless:

the plan of conversion and reorganization is approved by at least *a majority of votes eligible* to be cast by members of Territorial Mutual Holding Company. A special meeting of members to consider and vote upon the plan of conversion and reorganization has been set for June 26, 2009;

we have received orders to purchase at least the minimum number of shares of common stock offered; and

we receive final approval of the Office of Thrift Supervision to complete the conversion and the offering.

How You Can Obtain Additional Information

Our branch office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or the offering, please call our Stock Information Center, toll free, at [stock info #], Monday through Friday between 8:30 a.m. and 4:00 p.m., local time, or visit the Stock Information Center located at 1132 Bishop Street, Suite 2200, Honolulu, Hawaii. The Stock Information Center will be closed on weekends and bank holidays.

TO ENSURE THAT EACH PERSON RECEIVES A PROSPECTUS AT LEAST 48 HOURS PRIOR TO THE EXPIRATION DATE OF JUNE 22, 2009 IN ACCORDANCE WITH FEDERAL LAW, NO PROSPECTUS WILL BE MAILED OR HAND-DELIVERED ANY LATER THAN FIVE DAYS OR TWO DAYS, RESPECTIVELY, PRIOR TO JUNE 22, 2009.

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RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in our shares of common stock.

Risks Related to Our Business

Future changes in interest rates could reduce our profits.

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

the interest income we earn on our interest-earning assets, such as loans and securities; and

the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

As a result of our focus on one- to four-family residential real estate loans and the low demand for variable rate loans in our market area, the interest rates we earn on our loans are generally fixed for a longer period of time. Additionally, many of our securities investments are of longer maturities with fixed interest rates. Like many savings institutions, our focus on deposit accounts as a source of funds, which have no stated maturity date or shorter contractual maturities results in our liabilities having a shorter duration than our assets. For example, as of December 31, 2008, 88.4% of our loans had maturities of 15 years or longer, while 93.0% of our certificates of deposits had maturities of one year or less. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets, such as loans and investments, may not increase as rapidly as the interest paid on our liabilities, such as deposits. In a period of declining interest rates, the interest income earned on our assets may decrease more rapidly than the interest paid on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called or prepaid, thereby requiring us to reinvest those cash flows at lower interest rates. Our vulnerability to rising interest rates in recent years caused our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) to decrease to 2.25% for the year ended December 31, 2007 from 2.60% for the year ended December 31, 2006 and 3.20% for the year ended December 31, 2005. This resulted in a corresponding decrease in net interest income (the difference between interest income and interest expense) to \$28.6 million for the year ended December 31, 2007 from \$33.1 million for the year ended December 31, 2006 and \$39.4 million for the year ended December 31, 2005. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates results in increased prepayments of loans and mortgage-backed and related securities, as borrowers refinance their debt in order to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

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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, 2008, the fair value of our investment and mortgage-backed securities, all classified as held to maturity, totaled \$535.6 million. Gross unrealized gains on these securities totaled \$7.8 million at December 31, 2008.

At December 31, 2008, the Office of Thrift Supervision rate shock analysis indicated that our net portfolio value (the difference between the present value of our assets and the present value of our liabilities) would decrease by \$40.4 million if there was an instantaneous 200 basis point increase in market interest rates. See Management's Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

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, 2008, these loans totaled \$581.3 million, or 90.5% of total loans as of that date. We originate our loans with a focus on limiting credit risk, and not to generate the highest return or create the greatest difference between our cost of funds and the yield on our interest-earning assets (interest rate spread). We intend to continue our focus on residential real estate lending and this lending strategy following the stock offering.

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. For the year ended December 31, 2008, our return on average equity (net income divided by average equity) was 7.37%, compared to a median return on average equity of 3.75% for a peer group of publicly traded savings institutions for the same year. In addition, our net interest margin was 3.14% for the year, compared to a median of 3.43% for a peer group of publicly traded savings institutions. Each of these factors may reduce the value of our shares of common stock.

We could record future losses on our holdings of trust preferred securities that we purchased from issuer pools consisting primarily of financial institution holding companies. In addition, we may not receive full future interest payments on these securities.

We own shares of trust preferred securities with an adjusted cost basis of \$4.5 million, and a fair value of \$2.1 million at December 31, 2008. These securities had an adjusted cost basis of \$4.1 million and a fair value of \$1.3 million as of March 31, 2009. The trust preferred securities were issued by two issuer pools (Preferred Term Securities XXIII co-issued by Keefe, Bruyette & Woods, Inc. and First Tennessee (PreTSL XXIII) and Preferred Term Securities XXIV co-issued by Keefe, Bruyette & Woods, Inc. and First Tennessee (PreTSL XXIV)), consisting primarily of financial institution holding companies. Each of these securities is a Class D security, and was originated with a credit rating of BBB. These securities were rated BBB Watch as of March 31, 2009. We recognized a pre-tax loss for other-than-temporary impairment of \$2.5 million on one of these two securities (PreTSL XXIV) during the quarter ended December 31, 2008. With our adoption of Financial Accounting Standards Board Staff Position (FSP) No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, effective March 31, 2009, we reclassified \$1.5 million of this impairment from retained earnings to accumulated other comprehensive loss. We also recognized further pre-tax loss of

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\$298,000 and an increase in other comprehensive loss of \$138,000 for the same security during the quarter ended March 31, 2009.

The following table sets forth information with respect to these securities as of March 31, 2009.

Pool Deal Name	Book Value	Fair Value	Unrealized Gain (Loss)	Credit Rating	Number of Financial Institutions in Pool	Deferrals and Defaults as a % of Collateral
	(Dollars in Thousands)					
PreTSL XXIII	\$ 3,542	\$ 699	\$ (2,843)	BBB Watch	117	8.11%
PreTSL XXIV	\$ 562	\$ 562	\$	BBB Watch	83	9.55%

The amortized cost of these securities as of March 31, 2009 was \$3.5 million for PreTSL XXIII and \$3.1 million for PreTSL XXIV, respectively. These securities were downgraded to CC and C, respectively, as of April 9, 2009.

A number of factors or combinations of factors could cause us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these securities constitutes an additional impairment that is other than temporary, which could result in material losses to us. These factors include, but are not limited to, continued failure to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of the trust preferred securities could decline if the overall economy and the financial condition of some of the issuers continue to deteriorate and there remains limited liquidity for these securities.

For the quarters ended March 31, 2009 and December 31, 2008, we received interest payments totaling \$0 and \$44,000 on the trust preferred securities, respectively. The continued failure of the trust preferred issuers to make dividend payments for any quarter will reduce our earnings during that quarter.

Recent negative developments in the financial industry and the domestic and international credit markets may adversely affect our operations and results.

Negative developments in the latter half of 2007 and during 2008 and 2009 in the global credit and securitization markets have resulted in uncertainty in the financial markets. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. Specifically, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of assets rose to 1.88% as of December 31, 2008 compared to 0.94% as of December 31, 2007. For the year ended December 31, 2008, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that return on average assets decreased to 0.12% compared to 0.81% for the year ended December 31, 2007. The NASDAQ Bank Index declined 23.92% between December 31, 2007 and December 31, 2008, and an additional 31.16% between December 31, 2008 and February 27, 2009.

In response to these developments, Congress adopted the Emergency Economic Stabilization Act of 2008, under which the U.S. Department of the Treasury has the authority to expend up to \$700 billion to assist in stabilizing and providing liquidity to the U.S. financial system. Although it was originally

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contemplated that these funds would be used primarily to purchase troubled assets under the Troubled Asset Relief Program, on October 14, 2008, the U.S. Department of the Treasury announced the Capital Purchase Program, under which it will purchase up to \$250 billion of non-voting senior preferred shares of certain qualified financial institutions in an attempt to encourage financial institutions to build capital to increase the flow of financing to businesses and consumers and to support the economy. In addition, Congress has temporarily increased Federal Deposit Insurance Corporation deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. The Federal Deposit Insurance Corporation has also announced the creation of the Temporary Liquidity Guarantee Program which is intended to strengthen confidence and encourage liquidity in financial institutions by temporarily guaranteeing newly issued senior unsecured debt of participating organizations and providing full coverage for noninterest-bearing transaction deposit accounts (such as business checking accounts, interest-bearing transaction accounts paying 50 basis points or less and lawyers' trust accounts), regardless of dollar amount until December 31, 2009.

The potential exists for additional federal or state laws and regulations regarding lending and funding practices and liquidity standards, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Actions taken to date, as well as potential actions, may not have the beneficial effects that are intended, particularly with respect to the extreme levels of volatility and limited credit availability currently being experienced. In addition, new laws, regulations, and other regulatory changes will increase our Federal Deposit Insurance Corporation insurance premiums and may also increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws, regulations, and other regulatory changes, along with negative developments in the financial industry and the domestic and international credit markets, 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. Further, continued declines in the stock market in general, or for stock of financial institutions and their holding companies, could affect our stock performance.

The Federal Deposit Insurance Corporation is imposing an emergency assessment on financial institutions, which will decrease our earnings in 2009.

On February 27, 2009, the Federal Deposit Insurance Corporation announced a one-time special assessment of 20 basis points on all insured deposits regardless of the risk or size of the depository institution. This special assessment is payable by September 30, 2009 based on deposits as of June 30, 2009, and would result in additional non-interest expense of \$1.9 million based on our deposits as of December 31, 2008. In addition, the Federal Deposit Insurance Corporation may assess additional special premiums in the future.

If our investment in the Federal Home Loan Bank of Seattle is classified as other-than-temporarily impaired or as permanently impaired, our earnings and stockholders' equity could decrease.

We own common stock of the Federal Home Loan Bank of Seattle. We hold this stock to qualify for membership in the Federal Home Loan Bank System and to be eligible to borrow funds under the Federal Home Loan Bank of Seattle's advance program. The aggregate cost and fair value of our Federal Home Loan Bank of Seattle common stock as of December 31, 2008 was \$12.3 million based on its par value. There is no market for our Federal Home Loan Bank of Seattle common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower

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regulatory capital levels. Specifically, in January 2009, the Federal Home Loan Bank of Seattle announced that it anticipated that it would have a risk-based capital deficiency as of December 31, 2008. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of Seattle, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of Seattle common stock could be impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders' equity to decrease by the after-tax amount of the impairment charge.

The Federal Home Loan Bank of Seattle stopped paying dividends during the fourth quarter of 2008. This will negatively affect our earnings.

The Federal Home Loan Bank of Seattle stopped paying dividends during the fourth quarter of 2008, and would be prohibited from paying dividends in the future so long as it fails to meet any of its regulatory capital requirements. As a result of its expected risk-based capital deficiency as of December 31, 2008, we may not receive dividends from the Federal Home Loan Bank of Seattle in the near future. We received \$117,000 in total dividends from the Federal Home Loan Bank of Seattle during the three quarters ended September 30, 2008, and the failure of the Federal Home Loan Bank of Seattle to pay dividends for any quarter will reduce our earnings during that quarter.

Lack of consumer confidence in financial institutions may decrease our level of deposits.

Deposits at Territorial Savings Bank are insured by the Federal Deposit Insurance Corporation up to certain levels. However, our level of deposits may be affected by a recent lack of consumer confidence in financial institutions, which has caused depositors at financial institutions to withdraw deposits in excess of the applicable insurance levels. Such depositors may determine to place their excess funds in other institutions or to invest uninsured funds in investments perceived as being more secure, such as securities issued by the United States Treasury. These consumer preferences may require us to pay higher interest rates to retain deposits and may constrain liquidity as we seek to meet funding needs caused by reduced deposit levels.

Future legislative or regulatory actions responding to perceived financial and market problems could impair our rights against borrowers.

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. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

Non-residential real estate loans increase our exposure to credit risks.

At December 31, 2008, our portfolio of commercial real estate, construction and other non-residential real estate loans totaled \$21.0 million, or 3.3% of total loans, compared to \$8.6 million, or 1.7% of total loans at December 31, 2005. These loans generally expose us to a greater risk of non-payment 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.

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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 negatively impact these businesses, our results of operations and financial condition may be adversely affected.

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 and elsewhere. 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. For additional information see Business of Territorial Savings Bank Competition.

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

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance. While our allowance for loan losses was 0.14% of total loans at December 31, 2008, material additions to our allowance could materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Concentration of loans in our primary market area, which has recently experienced an economic downturn, 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 local 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, a significant weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results.

On the island of Oahu, the primary real estate market in Hawaii, sales of existing single-family totaled 2,741 units during the year ended December 31, 2008, a decrease of 24.4% compared to similar sales during the year ended December 31, 2007. The number of condominium sales (a notable portion of

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the overall housing market), declined by 28% during the year ended December 31, 2008 compared to the year ended December 31, 2007.

On the island of Maui, the second largest real estate market, sales of existing single-family homes totaled 907 units for 2008, a decrease of 20.5% compared to 2007, while the median price for the year ended December 31, 2008 declined by 8% compared to the median price for the year ended December 31, 2007. The number of condominium sales declined by 33.6% between 2007 and 2008.

The slowing Hawaiian economy has also resulted in a rise in delinquency and foreclosure rates. The number of foreclosures in the State of Hawaii has recently increased from an average of approximately 150 foreclosure filings per month for the eight months ended August 2008 to over 300 foreclosures per month during the months of September, October, November and December of 2008. Approximately one in 18 Hawaiian homeowners was more than one month behind in mortgage payments as of September 2008.

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

Tourism is one of the two largest components of Hawaii's economy. The Hawaii Department of Business, Economic Development and Tourism reported a 24.2% decline in tourists from August 2007 to August 2008, representing the largest year-to-year reduction recorded in the state's history. Tourism also declined 15.9% for the month of November 2008 compared to the month of November 2007, and 10.2% when comparing the first 11 months of 2008 to the first 11 months of 2007. Similarly, the unemployment rate in the State of Hawaii increased to 5.5% as of December 2008, from 4.2% as of August 2008 and 2.7% as of August 2007. Continued downturns in the tourism industry, and the related loss of jobs or operating income for businesses, could have a significant impact on our ability to originate loans, and the ability of borrowers to repay loans, either of which could adversely affect our financial condition and results of operations.

We operate in a highly regulated environment and may be adversely affected by changes in laws and regulations.

We are subject to extensive regulation, supervision, and examination by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Such regulators govern the activities in which we may engage, primarily for the protection of depositors. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a bank, the classification of assets by a bank, and the adequacy of a bank's allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, could have a material impact on us and our operations. Because our business is highly regulated, the laws, rules and applicable regulations are subject to regular modification and change. There can be no assurance that proposed laws, rules and regulations, or any other laws, rule or regulation, will not be adopted in the future, which could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects.

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

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Because all of our office locations are located in the State of Hawaii, severe weather or natural disasters, such as tsunamis, hurricanes and earthquakes and other adverse external events could have a significant affect 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. Accordingly, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations.

Risks Related to this Stock Offering

The future price of the shares of common stock may be less than the purchase price in the stock offering.

If you purchase shares of common stock in the stock offering, you may not be able to sell them at or above the purchase price in the stock offering. The purchase price in the offering is determined by an independent, third-party appraisal, pursuant to federal banking regulations and subject to review and approval by the Office of Thrift Supervision. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. Our aggregate pro forma market value as reflected in the final, approved independent appraisal may exceed the market price of our shares of common stock after the completion of the offering, which may result in our stock trading below the initial offering price of \$10.00 per share.

The capital we raise in the stock offering will reduce our return on equity. This could negatively affect the trading price of our shares of common stock.

Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. For the year ended December 31, 2008, our return on average equity was 7.37%. Following the stock offering, we expect our consolidated equity to increase from \$99.4 million to between \$153.2 million at the minimum of the offering range and \$184.4 million at the adjusted maximum of the offering range. Based upon our earnings for the year ended December 31, 2008, and these pro forma equity levels, our return on equity would be 6.33% and 5.73% at the minimum and maximum of the offering range, respectively. We expect our return on equity to remain lower until we are able to leverage the additional capital we receive from the stock offering. Although we will be able to increase net interest income using proceeds of the stock offering, our return on equity will be reduced by the capital raised in the stock offering, higher expenses from the costs of being a public company, and added expenses associated with our employee stock ownership plan and the stock-based benefit plan we intend to adopt. Until we can increase our net interest income and non-interest income, we expect our return on equity to remain lower, which may reduce the value of our shares of common stock.

We will need to implement additional finance and accounting systems, procedures and controls in order to satisfy our new public company reporting requirements.

Upon completion of the stock offering, we will become a public reporting company. The federal securities laws and regulations of the Securities and Exchange Commission require that we file annual, quarterly and current reports, and that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We expect that the obligations of being a public company, including substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. These obligations will increase our operating expenses and could divert management's attention from our banking operations. Compliance with the Sarbanes-Oxley

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Act of 2002 and the related rules and regulations of the Securities and Exchange Commission will require us to certify the adequacy of our internal controls and procedures, which could require us to upgrade our systems, and/or hire additional staff, which will increase our operating costs.

Our stock-based benefit plans will increase our costs, which will reduce our income.

We anticipate that our employee stock ownership plan will purchase 8% of the total shares of common stock sold in the stock offering, with funds borrowed from Territorial Bancorp Inc. The cost of acquiring the shares of common stock for the employee stock ownership plan will be between \$5.2 million at the minimum of the offering range and \$8.0 million at the adjusted maximum of the offering range. We will record annual employee stock ownership plan expense in an amount equal to the fair value of shares of common stock committed to be released to employees. If shares of common stock appreciate in value over time, compensation expense relating to the employee stock ownership plan will increase.

We also intend to adopt a stock-based benefit plan after the stock offering under which plan participants would be awarded shares of our common stock (at no cost to them) and/or options to purchase shares of our common stock. The number of shares of restricted stock or stock options reserved for issuance under any initial stock-based benefit plan may not exceed 4% and 10%, respectively, of our total outstanding shares, if these plans are adopted within 12 months after the completion of the conversion. We may grant shares of common stock and stock options in excess of these amounts provided the stock-based benefit plan is adopted more than one year following the stock offering. Assuming the market price of the common stock is \$10.00 per share; the options are granted with an exercise price of \$10.00 per share; the dividend yield on the stock is 0%; the expected option life is 6.5 years; the risk free interest rate is 1.87% (based on the seven-year Treasury rate) and the volatility rate on the shares of common stock is 25.8% (based on an index of publicly traded thrift institutions), the estimated grant-date fair value of the options utilizing a Black-Scholes option pricing analysis is \$3.04 per option granted. Assuming this value is amortized over a five-year vesting period, the corresponding annual pre-tax expense associated with the stock options would be \$611,000 at the adjusted maximum. In addition, assuming that all shares of restricted stock are awarded at a price of \$10.00 per share, and that the awards vest over a five-year period, the corresponding annual pre-tax expense associated with shares awarded under the stock-based benefit plan would be \$804,000 at the adjusted maximum. However, if we grant shares of stock or options in excess of these amounts, such grants would increase our costs further.

The shares of restricted stock granted under the stock-based benefit plan will be expensed by us over their vesting period at the fair market value of the shares on the date they are awarded. If the shares of restricted stock to be granted under the plan are repurchased in the open market (rather than issued directly from authorized but unissued shares by Territorial Bancorp Inc.) and cost the same as the purchase price in the stock offering, the reduction to stockholders' equity due to the plan would be between \$2.6 million at the minimum of the offering range and \$4.0 million at the adjusted maximum of the offering range. To the extent we repurchase shares of common stock in the open market to fund the grants of shares under the plan, and the price of such shares exceeds the offering price of \$10.00 per share, the reduction to stockholders' equity would exceed the range described above. Conversely, to the extent the price of such shares is below the offering price of \$10.00 per share, the reduction to stockholders' equity would be less than the range described above.

The implementation of stock-based benefit plans will dilute your ownership interest.

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We intend to adopt one or more stock-based benefit plans, which will allow participants to be awarded shares of common stock (at no cost to them) or options to purchase shares of our common stock, following the stock offering. These stock-based benefit plans will be funded through either open market purchases of shares of common stock, if permitted, or from the issuance of authorized but unissued shares of common stock. Stockholders would experience a reduction in ownership interest totaling 12.9% in the event newly issued shares are used to fund stock options or awards of shares of common stock under these plans in an amount equal to 10% and 4%, respectively, of the shares issued in the stock offering. We may grant shares of common stock and stock options in excess of these amounts provided the stock-based benefit plan is adopted more than one year following the stock offering.

We have not determined whether we will adopt stock-based benefit plans more than one year following the stock offering. Stock-based benefit plans adopted more than one year following the stock offering may exceed regulatory restrictions on the size of stock-based benefit plans adopted within one year, which would increase our costs.

If we adopt stock-based benefit plans within one year following the completion of the stock offering, then we may grant shares of common stock or stock options under our stock-based benefit plans for up to 4% and 10%, respectively, of our total outstanding shares. The amount of stock awards and stock options available for grant under the stock-based benefit plans may exceed these amounts, provided the stock-based benefit plans are adopted more than one year following the stock offering. Although the implementation of the stock-based benefit plan will be subject to stockholder approval, the determination as to the timing of the implementation of such a plan will be at the discretion of our Board of Directors. Stock-based benefit plans that provide for awards in excess of these amounts would increase our costs beyond the amounts estimated in Our stock-based benefit plans will increase our costs, which will reduce our income. Stock-based benefit plans that provide for awards in excess of these amounts could also result in dilution to stockholders in excess of that described in The implementation of stock-based benefit plans will dilute your ownership interest.

We will enter into employment agreements that may increase our compensation costs.

We have entered into employment agreements with each of Allan S. Kitagawa, our Chairman of the Board, President and Chief Executive Officer, Vernon Hirata, our Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary and Ralph Y. Nakatsuka, our Vice Chairman, Co-Chief Operating Officer. In the event of involuntary or good reason termination of employment, or certain types of termination following a change in control, as set forth in the employment agreements, the employment agreements provide for cash severance benefits that would cost approximately \$7.3 million in the aggregate based on information as of December 31, 2008. For additional information see Management of Territorial Bancorp Inc. Executive Officer Compensation.

We have broad discretion in using the proceeds of the stock offering. Our failure to effectively use such proceeds could reduce our profits.

We will use a portion of the net proceeds to finance the purchase of shares of common stock in the stock offering by the employee stock ownership plan and to redeem up to \$24.0 million of trust preferred securities that we have issued, and may use the remaining net proceeds to pay dividends to stockholders, repurchase shares of common stock, purchase investment securities, deposit funds in Territorial Savings Bank, acquire other financial services companies or for other general corporate purposes. Territorial Savings Bank may use the proceeds it receives to fund new loans, establish or acquire new branches, purchase investment securities, reduce a portion of our borrowings, or for general corporate purposes. We have not identified specific amounts of proceeds for any of these purposes and we

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will have significant flexibility in determining the amount of net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively could reduce our profitability. We have not established a timetable for the effective deployment of the proceeds and we cannot predict how long we will require to effectively deploy the proceeds.

Our stock value may be negatively affected by federal regulations that restrict takeovers.

For three years following the stock offering, Office of Thrift Supervision regulations prohibit any person from acquiring or offering to acquire more than 10% of our common stock without the prior written approval of the Office of Thrift Supervision. See [Restrictions on Acquisition of Territorial Bancorp Inc.](#) for a discussion of applicable Office of Thrift Supervision regulations regarding acquisitions.

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

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

We have never issued common stock and there is no guarantee that a liquid market will develop.

We have never issued capital stock and there is no established market for our common stock. We expect that our common stock will be traded on the Nasdaq Global Market (if we sell less than 10,051,000 shares of common stock in the stock offering) or the Nasdaq Global Select Market, each under the symbol [TBNK](#), subject to completion of the offering and compliance with certain conditions, including the presence of at least three registered and active market makers. Keefe Bruyette & Woods, Inc. has advised us that it intends to make a market in shares of our common stock following the offering, but it is under no obligation to do so or to continue to do so once it begins. While we will attempt before completion of the offering to obtain commitments from at least two other broker-dealers to make a market in shares of our common stock, there can be no assurance that we will be successful in obtaining such commitments.

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We may take other actions to meet the minimum required sales of shares if we cannot find enough purchasers in the community.

If we do not sell enough shares to reach the minimum of the offering range through the subscription and community offerings, shares may be offered for sale to the general public in a syndicated community offering to be managed by Keefe Bruyette & Woods, Inc., acting as our agent. If we are not able to reach the minimum of the offering range after Keefe Bruyette & Woods, Inc., uses its best efforts in a syndicated community offering we may do any of the following: increase the maximum purchase limitations and allow all maximum purchase subscribers to increase their orders to the new maximum purchase limitations; terminate the offering and promptly return all funds; set a new offering range, notifying all subscribers of the opportunity to confirm, cancel or change their orders; or take such other actions as may be permitted by the Office of Thrift Supervision.

The distribution of subscription rights could have adverse income tax consequences.

If the subscription rights granted to certain depositors and borrowers of Territorial Savings Bank are deemed to have an ascertainable value, receipt of such rights may be taxable in an amount equal to such value. Whether subscription rights are considered to have ascertainable value is an inherently factual determination. We have received an opinion that such rights have no value; however, such opinion is not binding on the Internal Revenue Service.

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The following tables set forth selected consolidated historical financial and other data of Territorial Mutual Holding Company and its subsidiaries for the years and at the dates indicated. The information at December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of Territorial Mutual Holding Company beginning at page F-1 of this prospectus. The information at December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 is derived in part from audited consolidated financial statements that are not included in this prospectus.

	2008	2007	At December 31, 2006			2005	2004
			(In thousands)				
Selected Financial Condition Data:							
Total assets	\$ 1,224,446	\$ 1,162,018	\$ 1,299,783	\$ 1,244,834	\$ 1,210,930		
Cash	11,216	19,755	88,512	15,085	48,274		
Investment securities held to maturity	527,767	538,025	621,339	669,853	644,427		
Loans receivable, net	633,160	554,795	546,201	516,090	480,079		
Bank owned life insurance	27,107	26,068	20,026	19,301	18,588		
Federal Home Loan Bank of Seattle stock, at cost	12,348	12,348	12,348	12,348	9,592		
Deposits	923,914	892,316	981,354	1,016,051	1,024,836		
Federal Home Loan Bank of Seattle advances	35,791	72,000	100,000	100,317	75,000		
Securities sold under agreements to repurchase	115,200	55,200	60,545				
Subordinated debentures	24,221	24,199	24,178	24,156			
Equity	99,381	92,479	86,829	79,367	67,262		

	2008	2007	Years Ended December 31, 2006			2005	2004
			(In thousands)				
Selected Operating Data:							
Interest and dividend income	\$ 61,220	\$ 60,947	\$ 61,887	\$ 61,230	\$ 56,049		
Interest expense	25,247	32,368	28,836	21,842	17,993		
Net interest income	35,973	28,579	33,051	39,388	38,056		
Provision (reversal of allowance) for loan losses	149	25	6	(15)	277		
Net interest and dividend income after provision (reversal of allowance) for loan losses	35,824	28,554	33,045	39,403	37,779		
Non-interest income	2,173	3,876	4,013	4,143	6,278		
Non-interest expense	27,003	24,047	25,100	22,666	19,876		
Income before income taxes	10,994	8,383	11,958	20,880	24,181		
Income taxes	3,794	2,615	4,247	7,912	10,198		
Net income	\$ 7,200	\$ 5,768	\$ 7,711	\$ 12,968	\$ 13,983		

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	At or For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets (ratio of net income to average total assets)	0.60%	0.48%	0.62%	1.04%	1.24%
Return on average equity (ratio of net income to average equity)	7.37%	6.35%	8.93%	17.42%	22.96%
Interest rate spread (1)	2.95%	2.25%	2.60%	3.20%	3.43%
Net interest margin (2)	3.14%	2.48%	2.78%	3.30%	3.54%
Efficiency ratio (3)	70.79%	74.09%	67.72%	52.07%	44.83%
Non-interest expense to average total assets	2.25%	2.01%	2.03%	1.82%	1.76%
Average interest-earning assets to average interest-bearing liabilities	108.71%	108.16%	107.18%	105.55%	106.46%
Average equity to average total assets	8.15%	7.58%	6.99%	5.99%	5.41%
Asset Quality Ratios:					
Non-performing assets to total assets	0.02%	0.01%	0.05%	0.01%	0.00%
Non-performing loans to total loans	0.02%	0.02%	0.11%	0.02%	0.00%
Allowance for loan losses to non-performing loans	603.36%	724.53%	129.51%	712.96%	75,000.00%
Allowance for loan losses to total loans	0.14%	0.14%	0.14%	0.15%	0.16%
Capital Ratios (bank-level only):					
Total capital (to risk-weighted assets)	24.97%	25.33%	23.57%	23.60%	22.21%
Tier I capital (to risk-weighted assets)	24.82%	25.17%	23.41%	23.43%	22.02%
Tier I capital (to total assets)	9.89%	9.83%	8.39%	8.11%	7.41%
Other Data:					
Number of full service offices	24	24	24	22	20
Full time equivalent employees	250	244	226	220	200

- (1) The average interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the year.
- (2) The net interest margin represents net interest income as a percent of average interest-earning assets for the year.
- (3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

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The following tables set forth selected consolidated historical financial and other data of Territorial Mutual Holding Company and its subsidiaries for the periods and at the dates indicated. The information at December 31, 2008 is derived in part from, and should be read together with, the audited consolidated financial statements and notes thereto of Territorial Mutual Holding Company beginning at page F-1 of this prospectus. The information at March 31, 2009 and for the three months ended March 31, 2009 and 2008 is unaudited and reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results to be achieved for the remainder of 2009.

	At March 31, 2009	At December 31, 2008
	(In thousands)	
Selected Financial Condition Data:		
Total assets	\$ 1,223,823	\$ 1,224,446
Cash	18,167	11,216
Investment securities held to maturity	521,623	527,767
Loans receivable, net	630,787	633,160
Bank owned life insurance	27,362	27,107
Federal Home Loan Bank of Seattle stock, at cost	12,348	12,348
Deposits	941,584	923,914
Federal Home Loan Bank of Seattle advances		35,791
Securities sold under agreements to repurchase	130,200	115,200
Subordinated debentures	24,226	24,221
Equity	101,967	99,381

	Three Months Ended March 31, 2009 2008	
	(In thousands)	
Selected Operating Data:		
Interest and dividend income	\$ 15,720	\$ 14,940
Interest expense	5,342	7,031
Net interest income	10,378	7,909
Provision for loan losses	1,102	6
Net interest and dividend income after provision for loan losses	9,276	7,903
Non-interest income	1,497	1,160
Non-interest expense	6,635	6,329
Income before income taxes	4,138	2,734
Income taxes	1,467	921
Net income	\$ 2,671	\$ 1,813

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	At or For the Three Months Ended March 31,	
	2009	2008
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on average assets (ratio of net income to average total assets) (1)	0.87%	0.62%
Return on average equity (ratio of net income to average equity) (1)	10.55%	7.71%
Interest rate spread (1)(2)	3.39%	2.61%
Net interest margin (1)(3)	3.54%	2.82%
Efficiency ratio (4)	55.87%	69.79%
Non-interest expense to average total assets (1)	2.17%	2.16%
Average interest-earning assets to average interest-bearing liabilities	108.69%	108.38%
Average equity to average total assets	8.27%	8.02%
Asset Quality Ratios:		
Non-performing assets to total assets	0.10%	0.01%
Non-performing loans to total loans	0.16%	0.03%
Allowance for loan losses to non-performing loans	193.43%	483.65%
Allowance for loan losses to total loans	0.32%	0.13%
Capital Ratios (bank-level only):		
Total capital (to risk-weighted assets)	26.18%	24.75%
Tier I capital (to risk-weighted assets)	25.82%	24.59%
Tier I capital (to total assets)	10.22%	9.77%
Other Data:		
Number of full service offices	24	24
Full time equivalent employees	248	246

- (1) Annualized.
- (2) The average interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
- (3) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
- (4) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.

Comparison of Financial Condition at March 31, 2009 and December 31, 2008

Assets. At March 31, 2009, our assets were \$1.224 billion, a decrease of \$623,000, or 0.1%, from \$1.224 billion at December 31, 2008. The decrease was caused by decreases in investment securities and loans, partially offset by an increase in cash.

Loans. At March 31, 2009, total loans were \$640.3 million, or 52.3% of total assets. During the three months ended March 31, 2009, the loan portfolio decreased \$1.8 million, or 0.3%. The decrease was caused primarily by a decrease in home equity loans and lines of credit of \$3.6 million. One- to four-family residential real estate loans increased \$2.5 million despite our selling \$24.7 million of longer-term, one-to four-family residential real estate loans during the three months ended March 31, 2009.

Securities. At March 31, 2009, our securities portfolio totaled \$521.6 million, or 42.6% of assets. At March 31, 2009, all of such securities were classified as held-to-maturity, and none of the underlying collateral consisted of subprime or Alt-A (traditionally defined as loans having less than full documentation) loans. At March 31, 2009, we held no common or preferred stock of Fannie Mae or Freddie Mac.

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During the three months ended March 31, 2009, our securities portfolio decreased \$6.1 million, or 1.2%, as repayments exceeded purchases of securities.

At March 31, 2009, we owned trust preferred securities with a carrying value of \$4.1 million. This portfolio consists of two securities, which represent investments in a pool of debt obligations issued by Federal Deposit Insurance Corporation-insured financial institutions, insurance companies and real estate investment trusts.

On April 9, 2009, the Financial Accounting Standards Board issued Financial Accounting Standards Board Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, and FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP No. FAS 115-2 and FAS 124-2 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in a company's financial statements. Before the staff position, to conclude that an impairment was not other than temporary an entity was required, among other considerations, to assert that it had the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value in accordance with Securities and Exchange Commission Staff Accounting Bulletin Topic 5M, Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities, and other authoritative literature. As a result of the staff position, an entity should assess whether the entity (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery (for example, if its cash or working capital requirements or contractual or regulatory obligations indicate that the debt security will be required to be sold before the forecasted recovery occurs). We adopted FSP No. FAS 157-4 and FSP No. FAS 115-2 and FAS 124-2 for the quarter ended March 31, 2009.

In reviewing our investment in the trust preferred securities, we concluded that we did not have the intent to sell either trust preferred security, and it was not more likely than not that we would be required to sell either trust preferred security before the anticipated recovery.

The trust preferred securities market is considered to be inactive as only two sales transactions have occurred over the past nine months. In addition, there have been no new issues of pooled trust preferred securities since 2007. Because the trust preferred securities market is inactive, we use a discounted cash flow model to determine the estimated fair value of the trust preferred securities and to determine whether they are other-than-temporarily impaired.

We had previously considered our investment in one of the trust preferred securities other-than-temporarily impaired as of December 31, 2008, and we recorded a \$2.5 million impairment charge during the quarter ended December 31, 2008. Based on our continued review, we considered our investment in this security to have experienced additional other-than-temporary impairment as of March 31, 2009, and recorded an additional \$436,000 impairment charge with respect to this security during the quarter ended March 31, 2009, of which \$298,000 was a credit loss recorded through our income statement as a debit to non-interest income, and \$138,000 was recorded as an increase to other comprehensive loss. In addition, the cumulative effect of our adoption of FSP No. FAS 157-4 and FSP No. FAS 115-2 and FAS 124-2, effective March 31, 2009, resulted in the reclassification of \$1.5 million of securities impairment from retained earnings to accumulated other comprehensive loss.

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In reviewing our investment in the second trust preferred security, our discounted cash flow analysis indicated that we should be able to collect all amounts due according to the original contractual terms of the security and should recover the entire amortized cost basis of the security. Accordingly, as of March 31, 2009, we did not consider our investment in the second trust preferred security to have experienced other-than-temporary impairment as of March 31, 2009. The securities were downgraded as of April 9, 2009. See **Risk Factors** We could record future losses on our holdings of trust preferred securities that we purchased from issuer pools consisting primarily of financial institution holding companies.

We own common stock of the Federal Home Loan Bank of Seattle with an aggregate cost and fair value as of March 31, 2009 of \$12.3 million based on its par value. There is no market for our Federal Home Loan Bank of Seattle common stock.

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the Federal Home Loan Bank of Seattle, could be substantially diminished or reduced to zero. In addition, the Federal Home Loan Bank of Seattle stopped paying dividends during the fourth quarter of 2008. See **Risk Factors** If our investment in the Federal Home Loan Bank of Seattle is classified as other-than-temporarily impaired or as permanently impaired, our earnings and stockholders equity could decrease and The Federal Home Loan Bank of Seattle stopped paying dividends during the fourth quarter of 2008. This will negatively affect our earnings.

Deposits. During the three months ended March 31, 2009, our deposits grew \$17.7 million, or 1.9%. The increase was caused by our continuing to promote higher than market rates for our savings accounts (which increased \$37.0 million during the quarter), offsetting a decrease of \$14.5 million in certificates of deposit. We have lowered the rates we pay on certificates of deposit because of increased liquidity from other sources, such as loan and securities repayments, allowing these deposits to run off.

Borrowings. Historically, our borrowings consisted primarily of advances from the Federal Home Loan Bank of Seattle and funds borrowed under repurchase agreements. During the quarter ended March 31, 2009, our borrowings decreased \$20.8 million, or 13.8%. During the quarter ended March 31, 2009, we repaid all of our outstanding Federal Home Loan Bank advances. Our reverse repurchase agreements increased \$15.0 million, or 13.0%, as we did not require further borrowings to fund our operations. Instead, we funded our operations with additional deposits and principal repayments on loans and mortgage-backed securities.

Equity. At March 31, 2009, our equity was \$102.0 million, an increase of \$2.6 million, or 2.6%, from \$99.4 million at December 31, 2008. The increase resulted from net income of \$2.7 million for the quarter ended March 31, 2009.

Comparison of Operating Results for the Three Months Ended March 31, 2009 and 2008

General. Net income increased \$858,000, or 47.3%, to \$2.7 million for the three months ended March 31, 2009 from \$1.8 million for the three months ended March 31, 2008. The increase was primarily caused by a \$2.5 million increase in net interest income, partially offset by an increase in the provision for loan losses of \$1.1 million and an increase in non-interest expense of \$306,000.

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Net Interest Income. Net interest income increased \$2.5 million, or 31.2%, to \$10.4 million for the three months ended March 31, 2009 from \$7.9 million for the three months ended March 31, 2008. Interest and dividend income increased \$780,000, or 5.2%, as we increased our average balance of loans by \$66.2 million, or 11.6%. Interest expense decreased \$1.7 million, or 24.0%, as declining market interest rates for certificates of deposits allowed us to reduce our deposit expense by \$1.4 million. We also experienced a \$278,000 decrease in interest expense on Federal Home Loan Bank advances. The interest rate spread and net interest margin were 3.39% and 3.54%, respectively, for the three months ended March 31, 2009, compared to 2.61% and 2.82% for the three months ended March 31, 2008. The improvement in the interest rate spread was the result of a decrease in the average cost of interest-bearing liabilities of 74 basis points, and an increase in the average yield on interest-earning assets of four basis points.

Interest and Dividend Income. Interest and dividend income increased \$780,000 to \$15.7 million for the three months ended March 31, 2009 from \$14.9 million for the three months ended March 31, 2008. An increase in interest income on loans was partially offset by a decrease in interest income on investment securities. Interest income on loans increased \$1.1 million, or 13.1%, to \$9.4 million for the three months ended March 31, 2009 from \$8.4 million for the three months ended March 31, 2008, as our average balance of loans increased \$66.2 million, or 11.6%. Interest income on securities decreased \$275,000, or 4.2%, to \$6.3 million for the three months ended March 31, 2009 from \$6.5 million for the three months ended March 31, 2008, as our average balance of investment securities decreased \$16.4 million, or 3.1%. The reduction in our average securities portfolio was caused by repayments on mortgage-backed securities exceeding new purchases. There were no material changes in the rates we earned on loans or investment securities between the periods.

Interest Expense. Interest expense decreased \$1.7 million, or 24.0%, to \$5.3 million for the three months ended March 31, 2009 from \$7.0 million for the three months ended March 31, 2008. Interest expense on deposits decreased \$1.4 million, or 26.8%, caused by a decrease in interest expense on certificates of deposit of \$1.7 million, or 44.7%. The rates we paid on certificates of deposit decreased 164 basis points, and we experienced a \$10.2 million, or 2.6%, decrease in the average balance of certificates of deposit. We have lowered the rates we pay on certificates of deposit because of increased liquidity from other sources, such as loan and securities repayments, allowing these deposits to run off. In addition, interest expense on Federal Home Loan Bank advances decreased \$278,000, or 89.4%. During the quarter ended March 31, 2009, we repaid all of our outstanding Federal Home Loan Bank advances.

Provision for Loan Losses. We recorded a provision for loan losses of \$1.1 million for the three months ended March 31, 2009 compared to a provision of \$6,000 for the three months ended March 31, 2008. The provisions made during 2009 were general reserves for one- to four-family residential real estate loans in recognition of increased non-performing loans and deteriorating environmental factors, in accordance with the methodology described in Management's Discussion and Analysis of Financial Condition and Results of Operations Allowance for Loan Losses. Non-performing loans totaled \$1.0 million at March 31, 2009, or 0.16% of total loans at that date, compared to \$149,000 of non-performing loans at December 31, 2008, \$159,000 of non-performing loans at March 31, 2008 and \$106,000 of non-performing loans at December 31, 2007. Non-performing loans as of March 31, 2009 consisted primarily of one- to four-family residential real estate loans. We experienced net chargeoffs (recoveries) of \$(1,000) and \$5,000 for the three months ended March 31, 2009 and 2008, respectively. The allowance for loan losses to total loans was 0.32% and 0.13% at March 31, 2009 and 2008, respectively. To the best of our knowledge, we have provided for all losses that are both probable and reasonable to estimate at March 31, 2009 and 2008.

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Non-Interest Income. The following table summarizes changes in non-interest income between the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31,		Change	
	2009	2008	\$ Change	% Change
	(In thousands)			
Service fees on loan and deposit accounts	\$ 667	\$ 722	\$ (55)	(7.6)%
Income on bank-owned life insurance	255	261	(6)	(2.3)%
Other-than-temporary impairment loss on investments	(298)		(298)	N/A
Gain on sale of investment securities		65	(65)	(100.0)%
Gain on sale of loans	799		799	N/A
Other	74	112	(38)	(33.9)%
Total	\$ 1,497	\$ 1,160	\$ 337	29.1%

We sold \$24.7 million and \$0 of loans during the three months ended March 31, 2009 and 2008, respectively. We recognized a \$298,000 loss for other-than-temporary impairment on our investments in trust preferred securities in the first quarter of 2009, as described in Comparison of Financial Condition at March 31, 2009 and December 31, 2008 Securities.

Non-Interest Expense. The following table summarizes changes in non-interest expense between the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31,		Change	
	2009	2008	\$ Change	% Change
	(In thousands)			
Salaries and employee benefits	\$ 3,797	\$ 3,563	\$ 234	6.6%
Occupancy	1,130	1,018	112	11.0%
Equipment	704	701	3	0.4%
Federal deposit insurance premiums	134	295	(161)	(54.6)%
Other	870	752	118	15.7%
Total	\$ 6,635	\$ 6,329	\$ 306	4.8%

Salaries and employee benefits expense for the three months ended March 31, 2009 increased from the three months ended March 31, 2008 as compensation expense, payroll tax expense and health insurance expense increased by \$271,000, \$56,000 and \$25,000, respectively. The increase in compensation expense resulted primarily from increases in bonus accruals (\$324,000 for the three months ended March 31, 2009 compared to \$178,000 for the three months ended March 31, 2008) and loan agent commissions (\$60,000 for the three months ended March 31, 2009 compared to \$41,000 for the three months ended March 31, 2008). These increases were partially offset by a decrease of \$136,000 in pension plan expense, resulting from our freezing our pension plan effective December 31, 2008.

Income Tax Expense. Income taxes were \$1.5 million for the three months ended March 31, 2009, reflecting an effective tax rate of 35.5% compared to \$921,000 for the three months ended March

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31, 2008, reflecting an effective tax rate of 33.7%. The change in our effective tax rates was primarily attributable to a decline in tax-exempt interest earned on municipal securities.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the asset quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. We are under no duty to and do not take any obligation to update any forward-looking statements after the date of this prospectus.

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

general economic conditions, either nationally or in our market areas, that are worse than expected;

competition among depository and other financial institutions;

inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;

adverse changes in the securities markets;

changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;

our ability to enter new markets successfully and capitalize on growth opportunities;

our ability to successfully integrate acquired entities, if any;

changes in consumer spending, borrowing and savings habits;

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changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board;

changes in our organization, compensation and benefit plans;

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to redeem up to \$24.0 million of trust preferred securities, depending on how many shares of stock we sell in the offering;

to invest in mortgage-backed securities, collateralized mortgage obligations and debt securities issued by the United States Government and United States Government-sponsored agencies or entities;

to finance the acquisition of financial institutions or other financial service companies;

to pay cash dividends to stockholders;

to repurchase shares of our common stock; and

for other general corporate purposes.

We intend to redeem between \$14.0 million and \$24.0 million of trust preferred securities we have issued, depending on how many shares of stock we sell in the offering. The redemption of the trust preferred securities is effected through the repayment of subordinated debentures that we have issued to the issuer of the actual trust preferred securities. Depending on how much of the trust preferred securities we redeem, we will also incur an expense of up to \$522,000 for costs that are being amortized in future periods relating to the issuance of the trust preferred securities. The trust preferred securities have maturity dates and interest rates as follows:

Amount (In thousands)	Maturity Date	Interest Rate as of December 31, 2008
\$14,000	September 26, 2032	4.87%
\$5,000	June 26, 2033	4.57%
\$5,000	December 17, 2033	4.82%

With the exception of the funding of the loan to the employee stock ownership plan and the redemption of the trust preferred securities, Territorial Bancorp Inc. has not quantified its plans for use of the offering proceeds for each of the foregoing purposes. Initially, we intend to invest a substantial portion of the net proceeds in short-term investments, investment-grade debt obligations and mortgage-backed securities.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the conversion, except to fund equity benefit plans other than stock options or except when extraordinary circumstances exist and with prior regulatory approval.

Territorial Savings Bank may use the net proceeds it receives from the Offering:

to expand its banking franchise by establishing or acquiring new branches, or by acquiring other financial institutions or other financial services companies. We currently intend to open one new branch office per year over the next three years;

to fund new loans;

to repay short-term borrowings;

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to invest in mortgage-backed securities and collateralized mortgage obligations, and debt securities issued by the United States Government and United States Government-sponsored agencies or entities; and

for other general corporate purposes.

Territorial Savings Bank has not quantified its plans for use of the offering proceeds for each of the foregoing purposes. Our short-term and long-term growth plans anticipate that, upon completion of the offering, we will experience growth through increased lending and investment activities and, possibly, acquisitions. We currently have no understandings or agreements to acquire other banks, thrifts, or other financial services companies. There can be no assurance that we will be able to consummate any acquisition. We intend to open a new branch office at a leased facility in Kihei, Hawaii during the first or second quarter of 2009, but we do not intend to use a material portion of the net proceeds with respect to this office. We expect that our capital expenditures will be approximately \$600,000 per branch office that we establish.

Initially, the net proceeds we retain will be invested in short-term investments, investment-grade debt obligations and mortgage-backed securities.

OUR POLICY REGARDING DIVIDENDS

Following completion of the stock offering, our Board of Directors will have the authority to declare dividends on our shares of common stock, subject to statutory and regulatory requirements. However, no decision has been made with respect to the payment of dividends. In determining whether to pay a cash dividend and the amount of such cash dividend, the Board is expected to take into account a number of factors, including capital requirements, our consolidated financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in the future. Special cash dividends, stock dividends or returns of capital, to the extent permitted by Office of Thrift Supervision policy and regulations, may be paid in addition to, or in lieu of, regular cash dividends. We will file a consolidated tax return with Territorial Savings Bank. Accordingly, it is anticipated that any cash distributions made by us to our stockholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes. Additionally, pursuant to Office of Thrift Supervision regulations, during the three-year period following the stock offering, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

Pursuant to our Articles of Incorporation, we are authorized to issue preferred stock. If we issue preferred stock, the holders thereof may have a priority over the holders of our shares of common stock with respect to the payment of dividends. For a further discussion concerning the payment of dividends on our shares of common stock, see Description of Capital Stock Common Stock. Dividends we can declare and pay will depend, in part, upon receipt of dividends from Territorial Savings Bank, because initially we will have no source of income other than dividends from Territorial Savings Bank, earnings from the investment of proceeds from the sale of shares of common stock, and interest payments received in connection with the loan to the employee stock ownership plan. A regulation of the Office of Thrift Supervision imposes limitations on capital distributions by savings institutions. See Supervision and Regulation Federal Banking Regulation Capital Distributions.

Any payment of dividends by Territorial Savings Bank to us that would be deemed to be drawn out of Territorial Savings Bank's bad debt reserves would require a payment of taxes at the then-current

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tax rate by Territorial Savings Bank on the amount of earnings deemed to be removed from the reserves for such distribution. Territorial Savings Bank does not intend to make any distribution to us that would create such a federal tax liability. See Taxation Federal Taxation and State Taxation.

MARKET FOR THE COMMON STOCK

We have never issued capital stock and there is no established market for our shares of common stock. We expect that our common stock will be traded on the Nasdaq Global Select Market or the Nasdaq Global Market under the symbol TBNK, subject to completion of the offering and compliance with certain conditions, including the presence of at least three registered and active market makers. Keefe Bruyette & Woods, Inc. has advised us that it intends to make a market in shares of our common stock following the offering, but it is under no obligation to do so or to continue to do so once it begins. While we will attempt before completion of the offering to obtain commitments from at least two other broker-dealers to make a market in shares of our common stock, there can be no assurance that we will be successful in obtaining such commitments.

The development and maintenance of a public market, having the desirable characteristics of depth, liquidity and orderliness, depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of shares of our common stock at any particular time may be limited, which may have an adverse effect on the price at which shares of our common stock can be sold. There can be no assurance that persons purchasing the shares of common stock will be able to sell their shares at or above the \$10.00 offering purchase price per share. You should have a long-term investment intent if you purchase shares of our common stock and you should recognize that there may be a limited trading market in the shares of common stock.

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HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At December 31, 2008, Territorial Savings Bank exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of Territorial Savings Bank at December 31, 2008, and the pro forma regulatory capital of Territorial Savings Bank, after giving effect to the sale of shares of common stock at a \$10.00 per share purchase price. The table assumes the receipt by Territorial Savings Bank of at least 50% of the net offering proceeds. See How we Intend to Use the Proceeds from the Offering.

	Territorial Savings Bank Historical at December 31, 2008		Pro Forma at December 31, 2008, Based Upon the Sale in the Offering of									
	Amount	Percent of Assets (2)	6,460,000 Shares Amount	Percent of Assets (2)	7,600,000 Shares Amount	Percent of Assets (2)	8,740,000 Shares Amount	Percent of Assets (2)	10,051,000 Shares (1) Amount	Percent of Assets (2)		
					(Dollars in thousands)							
Equity	\$ 119,587	9.78%	\$ 142,739	11.46%	\$ 147,019	11.76%	\$ 151,298	12.06%	\$ 156,220	12.41%		
Tangible capital (3)(4)	\$ 120,928	9.89%	\$ 144,080	11.57%	\$ 148,360	11.87%	\$ 152,639	12.17%	\$ 157,561	12.51%		
Tangible requirement	18,336	1.50	18,683	1.50	18,748	1.50	18,812	1.50	18,886	1.50		
Excess	\$ 102,592	8.39%	\$ 125,397	10.07%	\$ 129,612	10.37%	\$ 133,827	10.67%	\$ 138,675	11.01%		
Core capital (3)(4)	\$ 120,928	9.89%	\$ 144,080	11.57%	\$ 148,360	11.87%	\$ 152,639	12.17%	\$ 157,561	12.51%		
Core requirement (5)	48,896	4.00	49,822	4.00	49,994	4.00	50,165	4.00	50,362	4.00		
Excess	\$ 72,032	5.89%	\$ 94,258	7.57%	\$ 98,366	7.87%	\$ 102,474	8.17%	\$ 107,199	8.51%		
Tier1 risk-based capital	\$ 120,928	24.82%	\$ 144,080	29.29%	\$ 148,360	30.11%	\$ 152,639	30.92%	\$ 157,561	31.85%		
Risk-based requirement	19,492	4.00	19,678	4.00	19,712	4.00	19,746	4.00	19,786	4.00		
Excess	\$ 101,436	20.82%	\$ 124,402	25.29%	\$ 128,648	26.11%	\$ 132,893	26.92%	\$ 137,775	27.85%		
Total risk-based capital (3)	\$ 121,678	24.97%	\$ 144,830	29.44%	\$ 149,110	30.26%	\$ 153,389	31.07%	\$ 158,311	32.01%		
Risk-based requirement	38,985	8.00	39,355	8.00	39,424	8.00	39,492	8.00	39,571	8.00		
Excess	\$ 82,693	16.97%	\$ 105,475	21.44%	\$ 109,686	22.26%	\$ 113,897	23.07%	\$ 118,740	24.01%		

Reconciliation of capital infused into

Territorial Savings Bank:

Net proceeds	\$ 30,904	\$ 36,552	\$ 42,199	\$ 48,694
Less: Common stock acquired by employee stock ownership plan	(5,168)	(6,080)	(6,992)	(8,041)
Less: Common stock acquired by stock-based benefit plans	(2,584)	(3,040)	(3,496)	(4,020)
Pro forma increase	\$ 23,152	\$ 27,432	\$ 31,711	\$ 36,633

- (1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares or changes in market conditions following the commencement of the offering.
- (2) The current Office of Thrift Supervision core capital requirement for financial institutions is 3% of total adjusted assets for financial institutions that receive the highest supervisory rating for safety and soundness and a 4% to 5% core capital ratio requirement for all other financial institutions.
- (3)

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Tangible and core capital levels are shown as a percentage of total adjusted assets. Risk-based capital levels are shown as a percentage of risk-weighted assets.

- (4) Pro forma capital levels assume that we fund the stock-based benefit plans with purchases in the open market of 4% of the outstanding shares of common stock following the stock offering at a price equal to the price for which the shares of common stock are sold in the stock offering, and that the employee stock ownership plan purchases 8% of the shares of common stock to be outstanding immediately following the stock offering with funds we lend. Pro forma GAAP and regulatory capital have been reduced by the amount required to fund both of these plans. See Management of Territorial Bancorp Inc. for a discussion of the stock-based benefit plans and employee stock ownership plan. We may award shares of common stock under one or more stock-based benefit plans in excess of 4% of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering. Accordingly, we may increase the awards beyond current regulatory restrictions and beyond the amounts reflected in this table.
- (5) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

Table of Contents**CAPITALIZATION**

The following table presents the historical consolidated capitalization of Territorial Mutual Holding Company at December 31, 2008 and the pro forma consolidated capitalization of Territorial Bancorp Inc., after giving effect to the conversion and the offering, based upon the assumptions set forth in the Pro Forma Data section.

	Territorial Mutual Holding Company Historical at December 31, 2008	Territorial Bancorp Inc. Pro Forma, Based Upon the Sale in the Offering at \$10.00 per Share of			
		6,460,000 Shares	7,600,000 Shares	8,740,000 Shares	10,051,000 Shares (1)
(Dollars in thousands)					
Deposits (2)	\$ 923,914	\$ 923,914	\$ 923,914	\$ 923,914	\$ 923,914
Borrowings and subordinated debentures	175,212	161,212	155,212	151,212	151,212
Total deposits, borrowed funds and subordinated debentures	\$ 1,099,126	\$ 1,085,126	\$ 1,079,126	\$ 1,075,126	\$ 1,075,126
Stockholders' equity:					
Preferred stock \$0.01 par value, 50,000,000 shares authorized; none issued or outstanding	\$	\$	\$	\$	\$
Common stock \$0.01 par value, 100,000,000 shares authorized; assuming shares outstanding as shown (3)		65	76	87	101
Additional paid-in capital (4)		61,743	73,027	84,311	97,287
Retained earnings (5)	100,897	100,897	100,897	100,897	100,897
Less:					
Accumulated other comprehensive					
loss	(1,516)	(1,516)	(1,516)	(1,516)	(1,516)
Amortized expense recognized on repayment of trust preferred securities		(203)	(282)	(318)	(318)
Common stock to be acquired by employee stock ownership plan (6)		(5,168)	(6,080)	(6,992)	(8,041)
Common stock to be acquired by stock-based benefit plans (7)		(2,584)	(3,040)	(3,496)	(4,020)
Total stockholders' equity	\$ 99,381	\$ 153,234	\$ 163,082	\$ 172,973	\$ 184,390
Total stockholders' equity as a percentage of total assets (2)	8.12%	12.12%	12.86%	13.57%	14.34%

- (1) As adjusted to give effect to an increase in the number of shares of common stock that could occur due to a 15% increase in the offering range to reflect demand for shares or changes in market conditions following the commencement of the subscription and community offerings.
- (2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the conversion and offering. These withdrawals would reduce pro forma deposits and assets by the amount of the withdrawals.
- (3) No effect has been given to the issuance of additional shares of Territorial Bancorp Inc. common stock pursuant to one or more stock-based benefit plans. If these plans are implemented within 12 months following the completion of the stock offering, an amount up to 10% and 4% of the shares of Territorial Bancorp Inc. common stock sold in the offering will be reserved for issuance upon the exercise of stock options and for issuance as restricted stock awards, respectively. See Management of Territorial Bancorp Inc.
- (4) The sum of the par value of the total shares outstanding and additional paid-in capital equals the net stock offering proceeds at the offering price of \$10.00 per share.

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- (5) The retained earnings of Territorial Savings Bank will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion; Plan of Distribution Liquidation Rights and Supervision and Regulation.

(footnotes continue on following page)

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(continued from previous page)

- (6) Assumes that 8% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from Territorial Bancorp Inc. The loan will be repaid principally from Territorial Savings Bank's contributions to the employee stock ownership plan. Since Territorial Bancorp Inc. will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no asset or liability will be reflected on Territorial Bancorp Inc.'s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders' equity.
- (7) Assumes a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering will be purchased for grant by one or more stock-based benefit plans in open market purchases. The dollar amount of common stock to be purchased is based on the \$10.00 per share subscription price in the offering and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As Territorial Bancorp Inc. accrues compensation expense to reflect the vesting of shares pursuant to the stock-based benefit plans, the credit to equity will be offset by a charge to noninterest expense. Implementation of the stock stock-based benefit plans will require stockholder approval. The funds to be used by the stock-based benefit plans will be provided by Territorial Bancorp Inc.

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PRO FORMA DATA

The following tables summarize historical data of Territorial Savings Bank and pro forma data of Territorial Bancorp Inc. at and for the year ended December 31, 2008. This information is based on assumptions set forth below and in the table, and should not be used as a basis for projections of market value of the shares of common stock following the conversion and offering.

The net proceeds in the tables are based upon the following assumptions:

all shares of common stock will be sold in the subscription and community offerings;

374,000 shares of common stock will be purchased by our executive officers and directors, and their associates;

our employee stock ownership plan will purchase 8% of the shares of common stock sold in the stock offering with a loan from Territorial Bancorp Inc. The loan will be repaid in substantially equal payments of principal and interest over a period of 20 years;

Keefe Bruyette & Woods, Inc. will receive a fee equal to 1.0% of the dollar amount of the shares of common stock sold in the stock offering. Shares purchased by our employee benefit plans or by our officers, directors and employees, and their immediate families will not be included in calculating the shares of common stock sold for this purpose; and

expenses of the stock offering, other than fees and expenses to be paid to Keefe Bruyette & Woods, Inc., will be \$2.1 million. We calculated pro forma consolidated net income for the year ended December 31, 2008 as if the estimated net proceeds we received had been invested at an assumed interest rate of 1.00% (0.61% on an after-tax basis). This represents the three-year United States Treasury Note for the week ended December 31, 2008, which, in light of current market interests rates, we consider to more accurately reflect the pro forma reinvestment rate than the arithmetic average of the weighted average yield earned on our interest earning assets and the weighted average rate paid on our deposits, which is the reinvestment rate generally required by Office of Thrift Supervisions regulations.

We calculated historical and pro forma per share amounts by dividing historical and pro forma amounts of consolidated net income and stockholders' equity by the indicated number of shares of common stock. We adjusted these figures to give effect to the shares of common stock purchased by the employee stock ownership plan. We computed per share amounts for each period as if the shares of common stock were outstanding at the beginning of each period, but we did not adjust per share historical or pro forma stockholders' equity to reflect the earnings on the estimated net proceeds.

The pro forma tables give effect to the implementation of stock-based benefit plans. Subject to the receipt of stockholder approval, we have assumed that the stock-based benefit plans will acquire for restricted stock awards a number of shares of common stock equal to 4% of our outstanding shares of common stock at the same price for which they were sold in the stock offering. We assume that shares of common stock are granted under the plans in awards that vest over a five-year period.

We have also assumed that the stock-based benefit plans will grant options to acquire shares of common stock equal to 10% of our outstanding shares of common stock. In preparing the tables below,

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we assumed that stockholder approval was obtained, that the exercise price of the stock options and the market price of the stock at the date of grant were \$10.00 per share and that the stock options had a term of ten years and vested over five years. We applied the Black-Scholes option pricing model to estimate a grant-date fair value of \$3.04 for each option. In addition to the terms of the options described above, the Black-Scholes option pricing model assumed an estimated volatility rate of 25.8% for the shares of common stock, a dividend yield of 0.0%, an expected option life of 6.5 years and a risk-free interest rate of 1.87%.

We may grant options and award shares of common stock under one or more stock-based benefit plans in excess of 10% and 4%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering. In addition, we may grant options and award shares that vest sooner than over a five-year period if the stock-based benefit plans are adopted more than one year following the stock offering.

As discussed under *How We Intend to Use the Proceeds from the Stock Offering*, we intend to contribute at least 50% of the net proceeds from the stock offering to Territorial Savings Bank, and we will retain the remainder of the net proceeds from the stock offering. We will use a portion of the proceeds we retain for the purpose of making a loan to the employee stock ownership plan and retain the rest of the proceeds for future use.

The pro forma table does not give effect to:

withdrawals from deposit accounts for the purpose of purchasing shares of common stock in the stock offering;

our results of operations after the stock offering; or

changes in the market price of the shares of common stock after the stock offering.

The following pro forma information may not represent the financial effects of the stock offering at the date on which the stock offering actually occurs and you should not use the table to indicate future results of operations. Pro forma stockholders' equity represents the difference between the stated amount of our assets and liabilities, computed in accordance with GAAP. We did not increase or decrease stockholders' equity to reflect the difference between the carrying value of loans and other assets and their market value. Pro forma stockholders' equity is not intended to represent the fair market value of the shares of common stock and may be different than the amounts that would be available for distribution to stockholders if we liquidated. Pro forma stockholders' equity does not give effect to the impact of intangible assets, the liquidation account we will establish in the conversion or tax bad debt reserves in the unlikely event we are liquidated.

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	At or For the Year Ended December 31, 2008			
	Based Upon the Sale at \$10.00 Per Share of			
	6,460,000	7,600,000	8,740,000	10,051,000
	Shares	Shares	Shares	Shares (1)
(Dollars in thousands, except per share amounts)				
Gross Proceeds of Offering	\$ 64,600	\$ 76,000	\$ 87,400	\$ 100,510
Less: expenses	(2,792)	(2,897)	(3,002)	(3,122)
Estimated net proceeds	61,808	73,103	84,398	97,388
Less: Repayment of trust preferred securities	(14,000)	(20,000)	(24,000)	(24,000)
Less: Common stock purchased by ESOP (2)	(5,168)	(6,080)	(6,992)	(8,041)
Less: Common stock awarded under stock-based benefit plans (3)	(2,584)	(3,040)	(3,496)	(4,020)
Estimated net cash proceeds	\$ 40,056	\$ 43,983	\$ 49,910	\$ 61,327

For the Year Ended December 31, 2008

Consolidated net income:				
Historical	\$ 7,200	\$ 7,200	\$ 7,200	\$ 7,200
Pro forma income on net proceeds	244	268	304	374
Pro forma interest savings on trust preferred securities	615	864	1,024	1,024
Pro forma ESOP adjustment(2)	(158)	(185)	(213)	(245)
Pro forma stock award adjustment (3)	(315)	(371)	(427)	(490)
Pro forma stock option adjustment (4)	(393)	(462)	(531)	(611)
Pro forma net income	\$ 7,193	\$ 7,314	\$ 7,357	\$ 7,252
Per share net income				
Historical	\$ 1.21	\$ 1.03	\$ 0.89	\$ 0.78
Pro forma income on net proceeds	0.04	0.04	0.04	0.04
Pro forma interest savings on trust preferred securities	0.11	0.12	0.13	0.11
Pro forma ESOP adjustment (2)	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma stock award adjustment (3)	(0.05)	(0.05)	(0.05)	(0.05)
Pro forma stock option adjustment (4)	(0.07)	(0.07)	(0.07)	(0.07)
Pro forma net income per share (5)	\$ 1.21	\$ 1.04	\$ 0.91	\$ 0.78

Offering price as a multiple of pro forma

net earnings per share	8.26x	9.62x	10.99x	12.82x
Number of shares outstanding for pro forma net				
income per share calculations (5)	5,969,040	7,022,400	8,075,760	9,287,124

At December 31, 2008

Stockholders' equity:				
Historical	\$ 99,381	\$ 99,381	\$ 99,381	\$ 99,381
Estimated net proceeds	61,808	73,103	84,398	97,388
Less: Amortized expense recognized on repayment of trust preferred securities (after tax)	(203)	(282)	(318)	(318)
Less: Common stock acquired by ESOP (2)	(5,168)	(6,080)	(6,992)	(8,041)
Less: Common stock awarded under stock-based benefit plans (3) (4)	(2,584)	(3,040)	(3,496)	(4,020)
Pro forma stockholders' equity	\$ 153,234	\$ 163,082	\$ 172,973	\$ 184,390
Stockholders' equity per share:				
Historical	\$ 15.38	\$ 13.08	\$ 11.37	\$ 9.89

Estimated net proceeds	9.57	9.62	9.66	9.69
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