

Territorial Bancorp Inc.  
Form DEF 14A  
April 19, 2011

## SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No. \_\_)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

### **Territorial Bancorp Inc.**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

N/A

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

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N/A

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

N/A

- (4) Proposed maximum aggregate value of transaction:

N/A

- (5) Total fee paid:

N/A

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:

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

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- (3) Filing Party:

N/A

(4) Date Filed:

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[Letterhead of Territorial Bancorp Inc.]

April 18, 2011

Dear Fellow Stockholder:

You are cordially invited to attend the 2011 annual meeting of stockholders of Territorial Bancorp Inc. The meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii on May 24, 2011 at 8:30 a.m., local time.

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

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

We look forward to seeing you at the meeting.

Sincerely,

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

[Territorial Bancorp Inc. Logo]

**1132 Bishop Street, Suite 2200**

**Honolulu, Hawaii 96813**

**(808) 946-1400**

**NOTICE OF 2011 ANNUAL MEETING OF STOCKHOLDERS**

**TIME AND DATE**

8:30 a.m. on May 24, 2011

**PLACE**

1132 Bishop Street, Suite 611  
Honolulu, Hawaii

**ITEMS OF BUSINESS**

- (1) To elect two directors to serve for a term of three years.
- (2) To ratify the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2011.
- (3) To consider a non-binding proposal to approve our executive compensation as described in the proxy statement.
- (4) To consider a non-binding proposal with respect to the frequency that stockholders will vote on our executive compensation.
- (5) To transact such other business as may properly come before the meeting and any adjournment or postponement thereof.

**RECORD DATE**

To vote, you must have been a stockholder at the close of business on April 4, 2011.

**PROXY VOTING**

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

/s/ Vernon Hirata  
Vernon Hirata  
*Corporate Secretary*  
April 18, 2011

**Territorial Bancorp Inc.**

**Proxy Statement**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Territorial Bancorp Inc. (the Company or Territorial Bancorp ) to be used at the annual meeting of stockholders of the Company. The Company is the holding company for Territorial Savings Bank (the Bank ). The annual meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii on Tuesday, May 24, 2011 at 8:30 a.m., local time. This proxy statement and the enclosed proxy card are being mailed to stockholders of record on or about April 18, 2011.

**Voting and Proxy Procedure**

**Who Can Vote at the Meeting**

You are entitled to vote your Company common stock if the records of the Company show that you held your shares as of the close of business on April 4, 2011. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker or other nominee. As the beneficial owner, you have the right to direct your broker how to vote.

As of the close of business on April 4, 2011, there were 12,027,642 shares of Company common stock outstanding. Each share of common stock has one vote. The Company's Articles of Incorporation provide that, subject to certain exceptions, a record owner of the Company's common stock for a person who beneficially owns, either directly or indirectly, in excess of 10% of the Company's outstanding shares, is not entitled to any vote in respect of the shares held in excess of the 10% limit.

**Attending the Meeting**

If you were a stockholder as of the close of business on April 4, 2011, you may attend the meeting. However, if your shares of Company common stock are held by a broker, bank or other nominee (*i.e.*, in street name ), you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from a bank or broker are examples of proof of ownership. If you want to vote your shares of Company common stock held in street name in person at the meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

**Vote Required**

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

also will be counted for purposes of determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

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

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

In voting on the non-binding proposal to approve our executive compensation, you may vote in favor of the proposal, vote against the proposal or abstain from voting. To approve the proposal, the affirmative vote of a majority of the votes cast at the annual meeting is required. While this vote is required by law, it will neither be binding on us or the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on us or the Board of Directors.

In voting on the non-binding proposal with respect to the frequency that stockholders will vote on our executive compensation, a stockholder may select that stockholders: (i) consider the proposal every 1 YEAR ; (ii) consider the proposal every 2 YEARS ; (iii) consider the proposal every 3 YEARS ; or (iv) ABSTAIN from voting on the proposal. Generally, approval of any matter presented to stockholders requires the affirmative vote of a majority of the votes cast. However, because this vote is advisory and non-binding, if none of the frequency options receive a majority of the votes cast, the option receiving the greatest number of votes will be considered the frequency recommended by our stockholders. Even though this vote will neither be binding on us or the Board of Directors, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on us or the Board of Directors, the Board of Directors will take into account the outcome of this vote in making a determination on the frequency that advisory votes on executive compensation will be included in our proxy statements.

#### **Voting by Proxy**

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

vote *for* each of the nominees for director;

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

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

The Board of Directors is not making a recommendation as to how stockholders should vote with respect to how often we should conduct the advisory stockholders' vote on executive compensation.

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

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

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

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

## Corporate Governance

### General

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



### **Code of Ethics and Business Conduct**

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

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

In addition, we have adopted a Code of Ethics for Senior Officers that is applicable to our senior financial officers, including our principal executive officer, principal financial officer, principal accounting officer and all officers performing similar functions. A copy of the Code of Ethics for Senior Officers can be found in the Investor Relations Corporate Governance section of our website, [www.territorialsavings.net](http://www.territorialsavings.net).

### **Meetings of the Board of Directors**

The Company conducts business through meetings of its Board of Directors and through activities of its committees. During 2010, the Board of Directors held 12 meetings (not including committee meetings), and four additional meetings of our independent directors. No director attended fewer than 75% of the total meetings of the Board of Directors and the committees on which such director served (held during the period for which the director has served as a director or committee member, as appropriate).

### **Committees of the Board of Directors**

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

	Nominating and Corporate Governance	Compensation	Audit
	Richard I. Murakami *	Harold H. Ohama*	Howard Y. Ikeda*
	Harold H. Ohama	Howard Y. Ikeda	Harold H. Ohama
	Kirk W. Caldwell	Kirk W. Caldwell	Richard I. Murakami
Number of Meetings in 2010:	1	8	10

\* Denotes Chairperson.

**Audit Committee.** Pursuant to Territorial Bancorp Inc.'s Audit Committee Charter, the Audit Committee assists the Board of Directors in its oversight of the Company's accounting and reporting practices, the quality and integrity of the Company's financial reports and the Company's compliance with applicable laws and regulations. The Audit Committee, which is comprised solely of non-employee directors, all of whom the Board has determined are independent in accordance with the listing standards of the Nasdaq Stock Market, Inc. and applicable regulations of the Securities and Exchange Commission, is also responsible for engaging the Company's independent registered public accounting firm and monitoring its conduct and independence. The Board of Directors has designated Howard Y. Ikeda as an audit committee financial expert under the rules of the Securities and Exchange Commission. The report of the Audit Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See Audit Committee Report.

**Compensation Committee.** Pursuant to Territorial Bancorp Inc.'s Compensation Committee Charter, the Compensation Committee approves the compensation objectives for the Company and Territorial Savings Bank and establishes the compensation for the Chief Executive Officer and other executives. Our Chairman of the Board, President and Chief Executive Officer, provides recommendations to the Compensation Committee on matters of compensation philosophy, plan design and the general guidelines for employee compensation. However, Mr. Kitagawa does not vote on and is not present for any discussion of his own compensation. These recommendations are then considered by the Compensation Committee. The Compensation Committee, which is comprised solely of non-employee directors, all of whom the Board of Directors has determined are independent in accordance with the listing standards of the Nasdaq Stock Market, Inc., reviews all compensation components for the Company's Chief Executive Officer and other highly compensated executive officers' compensation including base salary, annual incentive, long-term incentives and other perquisites. In addition to reviewing competitive market values, the committee also examines the total compensation mix, pay-for-performance relationship, and how all elements, in the aggregate, comprise the executive's total compensation package. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved by the full Board of Directors. The report of the Compensation Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See Compensation Committee Report.

**Nominating and Corporate Governance Committee.** Pursuant to Territorial Bancorp Inc.'s Nominating and Corporate Governance Committee charter, the Nominating and Corporate Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members, in determining the composition of the Board of Directors and its

committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines. The Nominating and Corporate Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of stockholders. The procedures of the Nominating and Corporate Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are included in this proxy statement. See Nominating and Corporate Governance Committee Procedures.

#### **Attendance at the Annual Meeting**

The Board of Directors encourages each director to attend annual meetings of stockholders. All of our directors attended the 2010 Annual Meeting of Stockholders.

#### **Board Leadership Structure**

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

#### **Risk Oversight**

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

entire Board of Directors is regularly informed about such risks. The Board of Directors annually reviews our conflicts of interest policy to ensure all directors are in compliance with the policy.

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

### Stock Ownership

The following table provides information as of April 4, 2011, with respect to persons known by the Company to be the beneficial owners of more than 5% of the Company's outstanding common stock. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared voting or investing power. Percentages are based on 12,027,642 shares of Company common stock issued and outstanding as of April 4, 2011.

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding
Wellington Management Company, LLP (1) 280 Congress Street Boston, Massachusetts 02210	1,111,767	9.2%
Territorial Savings Bank Employee Stock Ownership Plan 1132 Bishop St., Suite 2200 Honolulu, Hawaii 96813	978,650	8.1%

(1) Based on a Schedule 13G filed by Wellington Management Company, LLP with the Securities and Exchange Commission on February 14, 2011.

**Proposal 1 Election of Directors**

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

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

In determining the independence of the directors listed above, the Board of Directors reviewed the following transactions, none of which are required to be reported under Transactions With Certain Related Persons, below. Director Kirk Caldwell has a mortgage loan with Territorial Savings Bank. Director David Murakami performed appraisal services for Territorial Savings Bank. However, Territorial Savings Bank and Mr. Murakami mutually agreed in the fourth quarter of 2010 that he would no longer perform such appraisal services. Director David Murakami also has a mortgage loan, a home equity line of credit and overdraft protection with Territorial Savings Bank. Director Richard Murakami has a mortgage loan and overdraft protection with Territorial Savings Bank.

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

Name	Position(s) Held With Territorial Bancorp Inc.	Age (1)	Director Since (2)	Current Term Expires	Shares	Percent
					Beneficially Owned as of April 4, 2011	of Common Stock
<b>NOMINEES</b>						
Howard Y. Ikeda	Director	65	1988	2011	25,075 (3)	*
David S. Murakami (4)	Director	71	2006	2011	10,900 (5)	*
<b>CONTINUING DIRECTORS</b>						
Allan S. Kitagawa	Chairman of the Board, President and Chief Executive Officer	65	1986	2012	62,524 (6)	*
Richard I. Murakami (4)	Director	83	1981	2012	10,000	*
Kirk W. Caldwell	Director	58	2007	2013	9,260	*
Harold H. Ohama	Director	75	1996	2013	10,000	*
<b>EXECUTIVE OFFICERS</b>						
<b>WHO ARE NOT DIRECTORS</b>						
Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary	58			52,379 (7)	*
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer	55			52,373 (8)	*
Karen J. Cox	Senior Vice President-Administration	65			14,955 (9)	*
Richard K.C. Lau	Senior Vice President and Chief Lending Officer	68			33,948 (10)	*
Melvin M. Miyamoto	Senior Vice President and Treasurer	57			15,335 (11)	*
All Directors and Executive Officers as a Group (11 persons)					296,749	2.5%

\* Less than 1%.

(1) As of December 31, 2010.

(2) Includes services with Territorial Savings Bank.

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

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

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

(6) Includes 25,151 shares held through the Territorial Savings Bank Profit Sharing and 401(k) Plan, 2,373 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.

(7) Represents 34,406 shares held through the Territorial Savings Bank Profit Sharing and 401(k) Plan, 2,373 shares held through the Territorial Savings Bank Employee Stock Ownership Plan and 15,600 shares held in trust.

(8) Includes 2,373 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.

(9) Includes 12,684 shares held through the Territorial Savings Bank Profit Sharing and 401(k) Plan and 1,771 shares held through the Territorial Savings Bank Employee Stock Ownership Plan and 500 shares held as trustee for two grandchildren.

(10) Includes 10,420 shares held through the Territorial Savings Bank Profit Sharing and 401(k) Plan, 2,028 shares held through the Territorial Savings Bank Employee Stock Ownership Plan and 1,500 shares held by a corporation.

(11) Includes 13,585 shares held through the Territorial Savings Bank Profit Sharing and 401(k) Plan and 1,750 shares held through the Territorial Savings Bank Employee Stock Ownership Plan.

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

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

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

**Nominees for Election of Directors**

**The nominees standing for election are:**

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

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

**Directors Continuing in Office**

**The following directors have terms ending in 2012:**

*Allan S. Kitagawa* has served as Chairman of the Board and Chief Executive Officer of Territorial Savings Bank since 1986, and was named President in 2007. Mr. Kitagawa worked with American Savings and Loan Association from 1974 to 1986, including service as Executive Vice President and Chief Executive Officer of the Hawaii Division. Mr. Kitagawa is a Certified Public Accountant. Under Mr. Kitagawa's leadership, Territorial Savings Bank has grown from \$282 million in assets at December 31, 1986 to \$1.4 billion at December 31, 2010, while Territorial Savings Bank's conservative lending practices have resulted in continued low levels of non-performing assets at a time when many financial institutions are experiencing significant asset quality issues.

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

**The following directors have terms ending in 2013:**

*Harold H. Ohama* is a licensed real estate broker and currently acts as a real estate consultant. Mr. Ohama has also served as a trustee for businesses in bankruptcy. Through his business contacts, he is aware of many of the major business transactions and real estate developments and transactions in the State of Hawaii. Mr. Ohama's experience with real estate provides him with extensive insights into Territorial Savings Bank's challenges and opportunities in its lending activities.

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

**Proposal 2 Ratification of Independent Registered Public Accounting Firm**

The Audit Committee of the Board of Directors has appointed KPMG LLP to be the Company's independent registered public accounting firm for the year ending December 31, 2011, subject to ratification by stockholders. A representative of KPMG LLP is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.



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

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

#### Audit Fees

The following table sets forth the fees we paid to KPMG LLP for the years ended December 31, 2010 and 2009.

	2010	2009
Audit fees (1)	\$ 376,000	\$ 472,000
Audit-related fees (2)	\$ 121,000	\$ 186,000
Tax fees (3)	\$ 76,000	\$ 66,000
All other fees	\$	\$

- (1) Audit fees relate to the audit of Territorial Bancorp Inc.'s consolidated financial statements and to SEC registration statements.
- (2) Audit-related fees pertain to the audit of the financial statements of certain employee benefit plans. Fees also include reviews and documentation pertaining to the Sarbanes-Oxley Act.
- (3) Tax fees consist of tax return preparation and other tax matters.

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

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

In addition, the Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm. Requests for services by the independent registered public accounting firm for compliance with the audit or services policy must be specific as to the particular services to be provided. The request may be made with respect to either specific services or a type of service for predictable or recurring services. During each of the years ended December 31, 2010 and 2009, 100% of audit-related fees and tax fees were approved, in advance, by the Audit Committee.

**Proposal 3 Advisory (Non-Binding) Vote on Executive Compensation**

In accordance with recently adopted changes to Section 14A of the Securities Exchange Act of 1934, as amended, stockholders are being given the opportunity to vote on an advisory (non-binding) resolution at the Annual Meeting to approve the compensation of our Named Executive Officers, as described in this proxy statement under Compensation Discussion and Analysis and the compensation tables and narrative disclosure. This proposal, commonly known as a say-on-pay proposal, gives stockholders the opportunity to endorse or not endorse the Company's executive pay program.

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

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

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

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

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

**Proposal 4 Advisory (Non-Binding) Vote on the Frequency of**

**Voting on Executive Compensation**

In accordance with recently adopted changes to Section 14A of the Securities Exchange Act of 1934, as amended stockholders are being given the opportunity to vote on an advisory (non-binding) resolution at the Annual Meeting to approve the compensation of executive officers (the say-on-pay advisory vote in Proposal 3 above) this year and will do so at least once every three years thereafter. Pursuant to recently adopted changes to Section 14A of the Securities Exchange Act of 1934, as amended, at the 2011 Annual Meeting, we are also asking stockholders to vote on whether future say-on-pay advisory votes on executive compensation should occur every year, every two years or every three years.

After careful consideration, the Board of Directors has decided not to make any recommendation with respect to how often future stockholder say-on-pay advisory votes on executive compensation should be conducted. The determination was based upon the premise that the Board should not influence our stockholders as to the frequency of how often the say-on-pay vote should be submitted to our stockholders. The Board believes that some stockholders may prefer an annual vote but other stockholders may prefer a triennial vote, so the Board believes the decision should be left entirely to the stockholders to voice their preference on the frequency of the say-on-pay vote.

**Stockholders will be able to specify one of four choices for this proposal on the proxy card: every year, every two years, every three years or abstain. Unless otherwise instructed, validly executed proxies will be not be voted on this matter.**

#### **Audit Committee Report**

The Company's management is responsible for the Company's internal controls and financial reporting process. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements, issuing an opinion on the conformity of those financial statements with generally accepted accounting principles, and issuing a report on internal control over financial reporting. The Audit Committee oversees the Company's internal controls and financial reporting process on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with generally accepted accounting principles and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 114 (The Auditor's Communication With Those Charged with Governance), including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of the disclosures in the financial statements.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees) and has discussed with the independent registered public accounting firm the firm's independence from the Company and its management. In concluding that the registered public accounting firm is independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the firm were compatible with its independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their audit, their evaluation of the Company's internal controls, and the overall quality of the Company's financial reporting.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent registered public accounting firm who, in their report, express an opinion on the conformity of the Company's financial statements to generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards or that the Company's independent registered public accounting firm is in fact independent.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, for filing with the Securities and Exchange Commission. The Audit Committee also has approved, subject to stockholder ratification, the selection of KPMG LLP as the Company's independent registered public accounting firm for the year ending December 31, 2011.

**Audit Committee of the Board of Directors of**

**Territorial Bancorp Inc.**

Howard Y. Ikeda (Chairman)

Harold H. Ohama

Richard I. Murakami

**Information about Executive Officers**

The following provides information regarding our executive officers who are not directors of the Company.

**Vernon Hirata** has served as Territorial Savings Bank's Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary since 2007. Mr. Hirata joined Territorial Savings Bank in 1986 as Senior Vice President/General Counsel, and was named Executive Vice President/General Counsel and Corporate Secretary in 1987. Previously, Mr. Hirata was employed at American Savings and Loan Association from 1978 to 1986, including service as Senior Vice President and General Counsel.

**Ralph Y. Nakatsuka** joined Territorial Savings Bank in 2007 as Vice Chairman and Co-Chief Operating Officer, and was employed at American Savings Bank from 1980 to 2007, including service as Executive Vice President of Lending and Chief Lending Officer from 1997 to 2007 and Chief Financial Officer from 1987 to 1997. Mr. Nakatsuka is a Certified Public Accountant.

**Karen J. Cox** has served as Senior Vice President of Administration of Territorial Savings Bank since 1984, and has been employed by Territorial Savings Bank since 1968. Ms. Cox previously worked with other financial institutions in the State of Hawaii beginning in 1964.

**Richard K.C. Lau** has served as Senior Vice President and Chief Lending Officer of Territorial Savings Bank since 1985. Mr. Lau was employed at other financial institutions in the State of Hawaii beginning in 1970.

**Melvin M. Miyamoto** has served as Senior Vice President and Treasurer of Territorial Savings Bank since 1986, and has been employed by Territorial Savings Bank since 1984. Mr. Miyamoto is a Certified Public Accountant.

#### **Executive Compensation**

#### **Director Fees**