

Territorial Bancorp Inc.
Form DEF 14A
April 28, 2014

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

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

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 under §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: 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: N/A
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(3)	Filing Party: N/A
(4)	Date Filed: N/A

[Letterhead of Territorial Bancorp Inc.]

April 25, 2014

Dear Fellow Stockholder:

You are cordially invited to attend the 2014 annual meeting of stockholders of Territorial Bancorp Inc. The meeting will be held at 1132 Bishop Street, Suite 601, Honolulu, Hawaii, on May 21, 2014, 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.

As explained in the Proxy Statement, the Board of Directors recommends that you vote for:

- **Proposal 1: The Election of Directors;**
- **Proposal 2: The Ratification of the Appointment of KPMG LLP as our Independent Registered Public Accounting Firm; and**
- **Proposal 3: The Advisory Approval of our Executive Compensation.**

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 2014 ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE

8:30 a.m. on May 21, 2014

PLACE

1132 Bishop Street, Suite 601
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, 2014.
- (3) To consider a nonbinding proposal to approve our executive compensation as described in the proxy statement.
- (4) 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 3, 2014.

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 25, 2014

Territorial Bancorp Inc.

Proxy Statement

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Territorial Bancorp Inc. (the Company) to be used at the annual meeting of stockholders of the Company. The Company is the holding company for Territorial Savings Bank (the Bank). The annual meeting will be held at 1132 Bishop Street, Suite 601, Honolulu, Hawaii, on Wednesday, May 21, 2014, 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 28, 2014.

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 3, 2014. 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 3, 2014, there were 9,880,383 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 3, 2014, 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

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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, vote against the proposal, or abstain from voting. To be approved, this matter requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions will not be counted as votes cast and will have no effect on this proposal.

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

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;
and

- vote *for* the approval of our executive compensation as described in this proxy statement.

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

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

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

Participants in the ESOP and 401(k) Plan

If you participate in the Territorial Savings Bank Employee Stock Ownership Plan (the ESOP) or if you hold Territorial Bancorp Inc. common stock through the Territorial Savings Bank 401(k) Plan (the 401(k) Plan), you will receive vote authorization forms for the plans that reflect all shares you may direct the trustees to vote on your behalf under the plans. Under the terms of the ESOP, the ESOP trustee votes all shares held by the ESOP, but each ESOP participant may direct the trustee how to vote the shares of common stock allocated to his or her account. The ESOP trustee, subject to the exercise of its fiduciary responsibilities, will vote all unallocated shares of Territorial Bancorp Inc. common stock held by the ESOP and allocated shares for which no voting instructions are received in the same proportion as shares for which it has received timely voting instructions. Under the terms of the 401(k) Plan, a participant is entitled to provide voting instructions for all shares credited to his or her 401(k) Plan account and held in the Territorial Bancorp Inc. Stock Fund. Shares for which no voting instructions are given or for which instructions were not timely received will be voted in the same proportion as shares for which voting instructions were received. **The deadline for returning your ESOP and 401(k) Plan voting instructions is May 14, 2014.**

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 Company Info Investor Relations Corporate Governance section of our Web site, www.territorialsavings.net. Amendments to and waivers from our Code of Ethics and Business Conduct will be disclosed in the Company Info Investor Relations Corporate Governance section of our Web site.

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

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

Meetings of the Board of Directors

The Company conducts business through meetings of its Board of Directors and through activities of its committees. During 2013, the Board of Directors held 15 meetings (not including committee meetings), and our independent directors met 12 times in executive session without management present. No director attended fewer than 75% of the total meetings of the Board of Directors and the committees on which such director served (held during the period for which the director has served as a director or committee member, as appropriate).

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 Company Info Investor Relations Corporate Governance section of the Company's Web site, www.territorialsavings.net.

	Nominating and Corporate Governance	Compensation	Audit
	Kirk W. Caldwell *	Kirk W. Caldwell *	Howard Y. Ikeda*
	Francis E. Tanaka	Howard Y. Ikeda	Francis E. Tanaka
	Richard I. Murakami	Richard I. Murakami	Richard I. Murakami David S. Murakami
Number of Meetings in 2013:	1	4	7

* Denotes Chairperson.

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

Compensation Committee. Pursuant to Territorial Bancorp Inc.'s Compensation Committee Charter, the Compensation Committee approves the compensation objectives for the Company and Territorial Savings Bank and establishes the compensation for the Chief Executive Officer and other executives. Our Chairman of the Board, President and Chief Executive Officer, Allan Kitagawa, provides recommendations to the Compensation Committee on matters of compensation philosophy, plan design, and the general guidelines for employee compensation. However, Mr. Kitagawa does not vote on and is not present for any discussion of his own compensation. These recommendations are then considered by the Compensation Committee. The Compensation Committee reviews all compensation components for the Company's Chief Executive Officer and other highly compensated executive officers' compensation including base salary, annual incentive, long-term incentives, and 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. See

Compensation Discussion and Analysis for more information regarding the role of the Compensation Committee in determining and/or recommending the amount or form of executive compensation. The report of the Compensation Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See Compensation Committee Report.

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

Attendance at the Annual Meeting

The Board of Directors encourages each director to attend annual meetings of stockholders. All of our then-current directors attended the 2013 Annual Meeting of Stockholders.

Board Leadership Structure

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

Risk Oversight

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

Risks relating to the direct operations of Territorial Savings Bank are further overseen by its Board of Directors, who are the same individuals who serve on the Board of Directors of Territorial Bancorp Inc. The Board of Directors of Territorial Savings Bank also has additional committees that conduct additional risk oversight. Further, the Board of Directors oversees risks through the establishment of policies and procedures that are designed to guide daily operations in a manner consistent with applicable laws, regulations, and risks acceptable to the organization, such as the requirement that all loan relationships in excess of \$5.0 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 3, 2014, 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 9,880,383 shares of Company common stock issued and outstanding as of April 3, 2014.

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding
Territorial Savings Bank Employee Stock Ownership Plan 1132 Bishop St., Suite 2200 Honolulu, Hawaii 96813	973,230	9.9%
Terry Maltese (1) Sandler O'Neill Asset Management LLC 150 East 52nd St., 30th Floor New York, New York 10022	522,600(1)	5.3%

(1) Based on a Schedule 13G filed with the Securities and Exchange Commission on February 12, 2014.

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 is required to be reported under Transactions with Certain Related Persons below. Director Kirk Caldwell has a mortgage loan with Territorial

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Savings Bank. Director David Murakami has a mortgage loan and two overdraft lines of protection with Territorial Savings Bank. Director Richard Murakami has a mortgage loan and overdraft protection with Territorial Savings Bank. Director Francis Tanaka has a mortgage loan with Territorial Savings Bank.

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

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The table below sets forth certain information regarding our directors, nominees proposed by the Board of Directors, and executive officers. Shares beneficially owned include shares of common stock over which a person has, directly or indirectly, sole or shared voting or investment power. Unless otherwise indicated, none of the shares listed are pledged as security, and each of the named individuals has sole voting power and sole investment power with respect to the number of shares shown. Percentages of common stock owned are based on 9,880,383 shares of Company common stock issued and outstanding as of April 3, 2014.

Name	Position(s) Held With Territorial Bancorp Inc.	Age (1)	Director Since (2)	Current Term Expires	Shares Beneficially Owned as of April 3, 2014	Percent of Common Stock
NOMINEES						
Howard Y. Ikeda	Director	68	1988	2014	71,006(3)	*
David S. Murakami (4)	Director	74	2006	2014	57,504(5)	*
CONTINUING DIRECTORS						
Allan S. Kitagawa	Chairman of the Board, President and Chief Executive Officer	68	1986	2015	309,383(6)	3.1%
Richard I. Murakami (4)	Director	86	1981	2015	61,386(7)	*
Kirk W. Caldwell	Director	61	2007	2016	66,718(8)	*
Francis E. Tanaka	Director	68	2011	2016	3,722(9)	*
EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS						
Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary	61			223,647(10)	2.3%
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer	58			212,118(11)	2.1%
Karen J. Cox	Senior Vice President-Administration	68			39,944(12)	*
Richard K.C. Lau	Senior Vice President and Chief Lending Officer	71			59,188(13)	*
Melvin M. Miyamoto	Senior Vice President and Treasurer	60			40,334(14)	*
All Directors and Executive Officers as a Group (11 persons)					1,144,950	11.6%

* Less than 1%.

(1) As of December 31, 2013.

(2) Includes services with Territorial Savings Bank.

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- (3) Includes 3,200 shares held by an individual retirement account, 10,022 shares owned by Mr. Ikeda's spouse, 20,637 stock options that are exercisable within 60 days of April 3, 2014 and 18,413 unvested shares of restricted stock over which Mr. Ikeda has voting power.
- (4) David S. Murakami and Richard I. Murakami are not related.

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- (5) Includes 900 shares held jointly by David S. Murakami's spouse and his children, 20,637 stock options that are exercisable within 60 days of April 3, 2014 and 18,413 unvested shares of restricted stock over which Mr. David S. Murakami has voting power.
- (6) Includes 25,515 shares held through the Territorial Savings Bank 401(k) Plan, 5,701 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 10,000 shares owned by Mr. Kitagawa's spouse, 102,987 stock options that are exercisable within 60 days of April 3, 2014 and 92,056 unvested shares of restricted stock over which Mr. Kitagawa has voting power.
- (7) Includes 10,000 shares held in trust, 20,637 stock options that are exercisable within 60 days of April 3, 2014 and 18,413 unvested shares of restricted stock over which Mr. Richard I. Murakami has voting power.
- (8) Includes 20,637 stock options that are exercisable within 60 days of April 3, 2014 and 18,413 unvested shares of restricted stock over which Mr. Caldwell has voting power.
- (9) Includes 1,234 stock options that are exercisable within 60 days of April 3, 2014 and 1,641 unvested shares of restricted stock over which Mr. Tanaka has voting power.
- (10) Includes 34,902 shares held through the Territorial Savings Bank 401(k) Plan, 5,701 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 15,600 shares held in trust, 344 shares owned by Mr. Hirata's spouse, 76,965 stock options that are exercisable within 60 days of April 3, 2014 and 60,756 unvested shares of restricted stock over which Mr. Hirata has voting power.
- (11) Includes 5,701 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 73,215 stock options that are exercisable within 60 days of April 3, 2014 and 53,392 unvested shares of restricted stock over which Mr. Nakatsuka has voting power.
- (12) Includes 12,864 shares held through the Territorial Savings Bank 401(k) Plan, 4,721 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 500 shares held as trustee for two grandchildren, 9,762 stock options that are exercisable within 60 days of April 3, 2014 and 7,367 unvested shares of restricted stock over which Ms. Cox has voting power.
- (13) Includes 10,569 shares held through the Territorial Savings Bank 401(k) Plan, 5,157 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 1,500 shares held by a corporation, 9,762 stock options that are exercisable within 60 days of April 3, 2014 and 7,367 unvested shares of restricted stock over which Mr. Lau has voting power.
- (14) Includes 13,766 shares held through the Territorial Savings Bank 401(k) Plan, 4,681 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 9,762 stock options that are exercisable within 60 days of April 3, 2014 and 7,367 unvested shares of restricted stock over which Mr. Miyamoto has voting power.

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

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

All of the nominees and directors continuing in office are long-time residents of the communities served by Territorial Bancorp Inc. and its subsidiaries and many of such individuals have operated, or currently operate, businesses located in such communities. As a result, each nominee and director continuing in office has significant knowledge of the businesses that operate in Territorial Bancorp Inc.'s market area, an understanding of the general real estate market, values and trends in such communities, and an understanding of the overall demographics of

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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 over 40 years. Mr. Ikeda's professional and business experience provide the Board of Directors with valuable insight into the accounting issues Territorial Bancorp Inc. faces and in assessing strategic transactions involving Territorial Bancorp Inc. and Territorial Savings Bank. His experience as a Certified Public Accountant qualifies him to be a member of the Audit Committee as a financial expert for purposes of the rules and regulations of the Securities and Exchange Commission.

David S. Murakami was a Certified Residential Appraiser in the State of Hawaii, and was the owner of DSM Appraisal Company from 1982 until 2011, when he retired. 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 2015:

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 significantly while Territorial Savings Bank's conservative lending practices have resulted in continued low levels of nonperforming assets.

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 2016:

Kirk W. Caldwell was elected Mayor of the City and County of Honolulu in November 2012, and took office January 2, 2013. He previously held this position as acting Mayor from July 2010 to October 2012. Mr. Caldwell served as Managing Director of the City and County of Honolulu, Hawaii, from January 2009 until July 2010. Mr. Caldwell was Of Counsel to the law firm of Ashford & Wriston from 2011 until December 31, 2012, where he had worked from 1984 until 2009, including as partner. 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. Mr. Caldwell provides the Board of Directors with a significant understanding of the communities in which we operate.

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

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, 2014, 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.

Even if the selection of KPMG LLP is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such change is in the best interest of the Company and its stockholders.

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

Audit Fees

The following table sets forth the fees to KPMG LLP for the years ended December 31, 2013 and 2012.

	2013	2012
Audit fees (1)	\$ 388,100	\$ 351,000
Audit-related fees (2)	\$ 65,700	\$ 64,000
Tax fees (3)	\$ 77,500	\$ 35,000
All other fees	\$	\$

(1) Audit fees relate to the audit of Territorial Bancorp Inc.'s consolidated financial statements, the audits of internal controls over financial reporting, reviews of financial statements included in the Company's quarterly reports on Form 10-Q and regulatory and statutory engagements related to the aforementioned statements, and to Securities and Exchange Commission registration statements.

(2) Audit-related fees pertain to the audit of the financial statements of certain employee benefit plans.

(3) Tax fees consist of tax return preparation and other tax matters.

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 and written policy, 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.

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, 2013 and 2012, 100% of audit-related fees and tax fees were approved, in advance, by the Audit Committee.

Proposal 3 Advisory (Nonbinding) Vote on Executive Compensation

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

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

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

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

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.

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 the matters related to the results of the audit in accordance with PCAOB Standard No. 16, *Communications with Audit Committees*; Related Amendments to PCAOB Standards and Transitional Amendments to PCAOB AU 380.

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, 2013, 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, 2014.

**Audit Committee of the Board of Directors of
Territorial Bancorp Inc.**

Howard Y. Ikeda (Chairman)

David S. Murakami

Richard I. Murakami

Francis E. Tanaka

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 Staff Attorney.

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

Each of Territorial Savings Bank's outside directors receives an annual retainer for board meetings of \$32,650 per year and an annual retainer for committee meetings of \$2,450 per year. Each of Territorial Bancorp Inc.'s outside directors receives an annual retainer for board meetings of \$5,100 per year and an annual retainer for committee meetings of \$615 per year. The retainer fees are increased to the following amounts for the following committees: the Chairman of Territorial Savings Bank's Audit Committee receives a committee retainer of \$2,650 and the Chairman of Territorial Bancorp Inc.'s Audit Committee receives a committee retainer of \$8,570; the Chairman of Territorial Savings Bank's Compensation Committee receives a committee retainer of \$4,900; and the Chairman of Territorial Bancorp Inc.'s Compensation Committee receives a committee retainer of \$1,225. Receipt of full retainer payments is based upon a director attending at least 75% of board or committee meetings, as applicable, with reductions for the failure to attend such number of board or committee meetings.

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The following table sets forth for the year ended December 31, 2013, certain information as to the total remuneration we paid to our directors. Mr. Kitagawa does not receive separate fees for service as a director.

Director Compensation Table for the Year Ended December 31, 2013

Name	Fees earned or paid in cash (\$)	All other compensation (1)	Total (\$)
David S. Murakami	40,812	13,748	54,560
Richard I. Murakami	40,812	13,748	54,560
Howard Y. Ikeda	48,960	13,748	62,708
Kirk W. Caldwell	43,872	13,748	57,620
Francis E. Tanaka	40,812	1,225	42,037

(1) Amounts represent cash dividends paid on shares of unvested restricted stock.

At December 31, 2013, Directors David Murakami, Richard Murakami, Ikeda, and Caldwell each had 18,413 shares of unvested restricted stock, and Director Tanaka had 1,641 shares of unvested restricted stock. In addition, at December 31, 2013, Directors David Murakami, Richard Murakami, Ikeda, and Caldwell each had 20,637 vested stock options and 20,638 unvested stock options. Director Tanaka had 1,234 vested stock options and 1,851 unvested stock options.

On August 19, 2010, directors David Murakami, Richard Murakami, Ikeda and Caldwell were each granted 36,821 shares of restricted stock and 41,275 stock options with an exercise price of \$17.36 per option. Shares of restricted stock and options vest at a rate of one-sixth per year beginning August 19, 2011.

On August 19, 2012, director Tanaka was granted 2,735 shares of restricted stock and 3,085 stock options with an exercise price of \$23.62 per option. Shares of restricted stock and options vest at a rate of one-fifth per year beginning August 19, 2012.

The Company has no stock ownership guidelines for directors. However, each director must retain 50% of each restricted stock or stock option award (net of taxes) until their service on the Board ends.

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis, or CD&A, describes our 2013 executive compensation program, as well as certain aspects of the 2014 program. Our compensation program and practices are specifically designed to reward executives consistent with our performance against our short-term goals as well as in reflection of long-term sustained results to our stockholders. In particular, the following pages explain the process, objectives, and structure of the executive compensation decisions undertaken by our Compensation Committee and our Board of Directors for 2013 and 2014. This CD&A is intended to be read in conjunction with the tables beginning on page 35 below, which provide detailed historical compensation information for our named executive officers, described below.

For 2013, our named executive officers are:

Name	Title
Allan S. Kitagawa	Chairman of the Board, President, and Chief Executive Officer
Melvin M. Miyamoto	Senior Vice President and Treasurer
Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel, and Corporate Secretary
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer
Richard K.C. Lau	Senior Vice President and Chief Lending Officer

Our Executive Compensation Practices (What We Do)	Page
• Tie pay to performance	26
• Peer benchmarking	26
• Equity retention provision (50% net of taxes until separation from service)	31
• Compensation Committee use of an independent compensation consultant	25
• Compensation Committee members meet the NASDAQ independence requirement	5

Practices Not in Place (What We Don't Do)	Page
• No compensation programs that are reasonably likely to create material risk to us	33
• No annual equity grants	31

I. Executive Summary

What were the 2013 key performance highlights?

Financial Highlights

In the environment we face today, we believe the value of the performance of any banking institution should not only be based upon profitability, but should also consider the management of credit quality and the institution's capital strength. These factors affect whether positive long-term stockholder returns are achieved.

In 2013, we continued our solid performance in a challenging banking and business environment. To that end we closed a record number of residential mortgage loans without a major increase in loan personnel. In addition we opened our 28th branch in Manoa Marketplace (Oahu). From an overall corporate perspective, we achieved strong financial results that compare favorably to our peers including the following:

- **Total Stockholder Return(1).** A stockholder who invested \$10.00 would have earned a 151.7% total return from July 10, 2009 (the date of our initial public offering) through December 31, 2013, as compared to 54% total return from the SNL U.S. Bank & Thrift Index. Our one-year 2013 total stockholder return is 4.3% and our three-year total stockholder return (2011 to 2013) is 24.8%.
- **Special Dividend.** We paid a special dividend of \$0.10 per share on December 23, 2013 to reflect our performance during the current year, our strong capital position, and as a thank you to stockholders for being supportive over the past four years.
- **Profits Returned to Stockholders.** We returned over 176% of our profits in 2013 back to the shareholders in the form of dividends and stock repurchases. We repurchased approximately 844,088 shares during 2013, and announced a fifth buyback program with plans to repurchase up to 300,000 shares or 3% of outstanding shares. Approximately 21% (2,528,259 shares) of the original number of shares (12,233,125 shares) issued when we went public in 2009 have been repurchased by us. In 2013, we paid a total of five dividends amounting to \$0.62 per share, or an increase of almost 15% over 2012. We continue to focus on building stockholder value through our payment of dividends and our stock repurchase program.
- **Profitability(1).** Our return on average assets (ROAA) over a one-year and three-year average basis were 0.93% and 0.91%, respectively. One-year ROAA is at the 83rd percentile compared to our peer group and three-year ROAA is at the 85th percentile.
- **Earnings Per Share Growth.** In 2013, earnings per share increased from \$1.45 in 2012 to \$1.49 representing a 2.8% increase.
- **Credit Quality.** A bank's number one challenge during the recent economic crisis has been to manage credit risk and asset quality. Mismanagement of these risks has led to banks requiring material recapitalizations, assistance through government-sponsored programs such as TARP, merging to offset credit costs, or failing by being taken over by the Federal Deposit Insurance Corporation. One common measurement of credit management is the ratio of non-performing-assets to total assets (NPA Ratio(2)). Our one-year and three-year NPA ratios are in the top decile of our peer group.

(1) As reported by SNL Financial.

(2) Nonaccrual loans and leases, renegotiated loans and leases, and real estate owned as a percent of fiscal year-end assets.

- **Capitalization.** Another important ratio for banks is their level of capital. How much capital do they have to protect against unforeseen circumstances? One measure of this is tangible equity as a ratio to tangible assets. At the bank level, at December 31, 2013, Territorial Savings Bank had capital ratios of total capital to risk-weighted assets of 31.99% and Tier I capital to total assets of 12.35%.

- **Net Interest Margin.** An important source of bank profitability is the net interest margin. This reflects the level of net interest earnings made on loans to our customers. Our net interest margin increased 4.3% from 3.24% for the fourth quarter of 2012 to 3.38% for the fourth quarter of 2013.

Our long-term performance over a five-year period compared to peers, with peer annual and peer 5 year average information reported by SNL Financial, is as follows (see peer group on page 27):

	Return on Average Assets (ROAA)					5 Year Average
	2009	2010	2011	2012	2013	
Average	0.05	0.23	0.61	0.54	0.86	0.46
25th Percentile	(0.34)	0.33	0.38	0.43	0.62	0.28
50th Percentile	0.39	0.63	0.66	0.66	0.69	0.61
75th Percentile	0.72	0.77	0.81	0.83	0.82	0.79
TBNK	0.66	0.77	0.85	0.95	0.93	0.83
Percent Rank	72%	80%	79%	96%	83%	82%

	Return on Average Equity (ROAE)					5 Year Average
	2009	2010	2011	2012	2013	
Average	1.39	2.69	5.50	4.79	7.14	4.30
25th Percentile	(2.72)	1.83	2.42	2.87	4.79	1.84
50th Percentile	2.54	4.64	4.95	5.05	6.04	4.65
75th Percentile	6.39	7.21	8.11	7.26	8.16	7.43
TBNK	5.50	4.91	5.72	6.78	6.71	5.93
Percent Rank	69%	59%	70%	73%	62%	67%

Historical Financial Comparisons

We use ROAA as our primary performance measure. We consider ROAA to be the most common measurement of profitability for banks and thrifts. We believe it is more useful than return on equity since we still have an abundance of capital from our initial public offering and we do not intend to take undue risk to leverage our capital. This chart compares the changes in ROAA to the changes in total stockholder return as reported by SNL Financial.

What were the key 2013 compensation decisions?

Decisions for 2013

- Base salaries increased 1% for the CEO and 2% for the other named executive officers. Two percent was the general company-wide increase; the CEO received half of this increase.
- We achieved the maximum 2013 Annual Incentive Plan objective in all performance categories, which resulted in cash awards of 100% of salary for the top three executives. Mr. Miyamoto and Mr. Lau received a discretionary bonus for maximum ROAA and individual performance results (25% of salary).

Decisions for 2014

- At the request of Messrs. Kitagawa, Hirata, and Nakatsuka, their approved salary increases for 2014 were voluntarily waived. Two percent was the general company-wide increase; Mr. Miyamoto and Mr. Lau received a 2% increase.

Management Say on Pay Results

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we held an advisory vote on the approval of the compensation of our named executive officers (the Say-on-Pay vote) at our 2013 annual stockholders meeting. The results were that 90% of the stockholders who voted on our Say on Pay proposal voted in favor of it. While we received an overall passing vote, we continued our shareholder outreach

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communication; we made efforts to reach 20 of our largest institutional investors, representing 47.4% of our common shares outstanding, and were able to communicate with seven institutional stockholders, representing 19% of our common shares outstanding, to understand their perspectives on our executive compensation program. In addition, two of these institutional shareholders told us that they did not see a need to have a conference call with them.

The major themes that were heard and acted on were as follows:

- They appreciated our outreach effort, and we decided to continue to have ongoing outreach each year to discuss our compensation philosophy and strategy.
- They liked the 50% retention requirement for vested and/or exercised equity. We will continue this practice.
- Adopted the following anti-hedging policy in 2013: The Company prohibits directors and officers from engaging in short sales or hedging including purchases or sales of puts or calls, collars or other hedging on the Company's Common Stock, and such transactions violate the Company's policies. Directors and executive officers must certify compliance with the Company's policies on these matters annually.
- Added gender to the board of director selection criteria.

II. Compensation Decision Process

What is the Compensation Committee's Philosophy on Named Executive Officer Compensation?

Our Compensation Committee has the responsibility for establishing and reviewing our compensation philosophy and objectives. In this role, the Compensation Committee has sought to design a compensation structure that attracts and retains qualified and experienced officers and, at the same time, is reasonable and competitive, taking into account both short- and long-term incentives. Prior to our initial public offering, our compensation consisted primarily of cash compensation (i.e., salary and bonuses, and retirement benefits). In 2010, we adopted a stock-based benefit plan, which was approved by stockholders at the 2010 annual meeting of stockholders. While the use of incentive compensation programs is an important element in our overall compensation philosophy, it is understood that incentive compensation programs, if not properly structured, could expose us to compensation-related enterprise risks. Therefore, we seek to structure, implement and monitor sound incentive compensation programs that promote the safety and soundness of Territorial Savings Bank and the Company.

When setting the compensation of Messrs. Kitagawa, Hirata, and Nakatsuka, the Compensation Committee generally seeks to provide total compensation (base salary, incentive payments under our Annual Incentive Plan, accruals under our retirement plans, and all other compensation) for these executive officers at the 50th to the 75th percentiles of total compensation for our peer group. This compensation philosophy is supported by upper quartile overall financial performance over the last five years and top quartile performance for credit quality. Subjective adjustments can be made based on Territorial Savings Bank's financial performance or an officer's experience or proven contribution to Territorial Savings Bank over time. Compensation for Messrs. Miyamoto and Lau is determined without reference to targets or peer group information. All Senior Vice Presidents have a discretionary bonus where the annual amount is recommended by the CEO to the Compensation Committee. The bonus is a percentage of salary, not to exceed 30%. The recommendation is based on the return on assets ratio for Territorial Savings Bank meeting or exceeding the target ROA (i.e., median for the Company's peer group) for that year.

What is the role of the Compensation Committee in determining named executive officer compensation?

2013 compensation for the named executive officers was determined under programs adopted by the Compensation Committee and approved by the Board of Directors. The Compensation Committee established our executive compensation philosophy, policy, elements and strategy and reviewed executive compensation proposals for approval by the Board of Directors. Specifically, the Compensation Committee:

- approved salary adjustments for named executive officers other than the CEO (whose salary adjustment was recommended by the Compensation Committee and approved by the independent members of the Board of Directors);
- determined the named executive officers eligible to participate in the Annual Incentive Plan;
- assessed corporate performance results and the CEO's assessment of individual performance results to determine final Annual Incentive Plan award payouts for our named executive officers other than the CEO;
- administered our benefit plans and perquisites; and
- assessed and monitored the performance, design, function and potential risk components of our compensation programs for our named executive officers.

In addition, the Compensation Committee recommended to the Board of Directors for approval: (1) the performance measures and targets for the Annual Incentive Plan; (2) the Annual Incentive Plan award for our CEO; and (3) executive benefits, retirement plans and perquisites.

What is the role of management in determining named executive officer compensation?

Mr. Kitagawa, 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. During 2013, consistent with our Compensation Committee Charter, Mr. Kitagawa did not attend Compensation Committee meetings where his compensation was discussed. Certain members of our management team participate in the Compensation Committee meetings to provide information to the committee on an as-needed basis.

In 2013, the CEO:

- recommended base salaries and cash and equity incentive targets for named executive officers other than the CEO; and
- proposed incentive metrics and budgeted performance levels for the Annual Incentive Plan.

The Compensation Committee reviews and discusses management's recommendations in conjunction with its independent compensation consultant in making compensation decisions or recommendations to the full Board.

Who is the compensation consultant and what is the consultant's role?

In October 2013, the Compensation Committee again retained McLagan, a division of Aon Hewitt to provide the Compensation Committee with independent advice on executive compensation matters and to assist in making compensation recommendations to the Board of Directors. During 2013, McLagan assisted the Compensation Committee by preparing information on competitive executive compensation levels and practices, compiling information relating to executive compensation from selected peer banks (see Peer Group Evaluation for 2013), and advising the Committee regarding its response to the 2013 Say-on-Pay vote. McLagan reported directly to the Compensation Committee, which retains sole authority to select, retain, terminate, and approve the fees and other retention terms of its relationship with McLagan.

In 2013, the Compensation Committee reviewed its relationship with McLagan and Aon Hewitt. Considering all relevant factors, including those set forth in Rule 10C-1(b)(4)(i) through (vi) under the Securities Exchange Act of 1934, the Compensation Committee does not believe McLagan and Aon Hewitt's work has raised a conflict of interest.

What are the elements of 2013 named executive officer compensation?

The following table outlines the major elements of 2013 total compensation for our named executive officers:

Compensation Element	Purpose	Link to Performance	Fixed/ Performance Based	Short/ Long-Term Focus
Base Salary	Attracts and retains executives through market-competitive base pay	Based on individual performance	Fixed	Short-Term
Annual Incentive Plan	Encourages achievement of strategic and financial performance metrics that create long-term stockholder value through the use of one-year and three-year performance measures.	Based on achievement of predefined financial and non-financial measures.	Performance Based	Short-Term & Long-Term
Defined Benefit and Defined Contribution Retirement Plans	Provides market-competitive income security into retirement and creates a retention incentive through use of multi-year vesting <ul style="list-style-type: none"> • Pension Plan frozen • 401(k) Match • ESOP • Supplemental ESOP (Kitagawa, Hirata, Nakatsuka only) • SERP (Kitagawa, Hirata, Nakatsuka only) 	The SERP benefit for Hirata and Nakatsuka is linked to final average compensation.	Fixed	Long-Term
Benefits and Perquisites	Includes health and welfare benefits under employer-wide programs and executive perquisites		Fixed	Short-Term

III. Compensation Decisions for 2013**Do we utilize a peer group for compensation comparisons?**

Yes. In 2013, McLagan provided the Compensation Committee with an analysis of executive total compensation compared to the compensation of the peer group of financial institutions similar to us in size and business profile. This peer group is determined based on banks and thrifts similar to us in asset size and business focus.

The Compensation Committee approved the following peer group of 19 institutions for 2013. Although the Compensation Committee also included Roma Financial Corp. in the peer group, information with respect to Roma Financial Corp. is no longer available due to its being acquired in 2013. Sterling Bancorp acquired Provident New York Bancorp by merger.

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Company Name	State	Total Assets 2013Y (\$000)
Sterling Bancorp	NY	6,667,437
Berkshire Hills Bancorp Inc.	MA	5,672,799
Brookline Bancorp Inc.		