

Territorial Bancorp Inc.
Form DEF 14A
April 17, 2018

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

SCHEDULE 14A

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 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:
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 - (2) Aggregate number of securities to which transaction applies:
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(4) Date Filed:

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April 17, 2018

Dear Fellow Stockholder:

You are cordially invited to attend the 2018 annual meeting of stockholders of Territorial Bancorp Inc. The meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii, on May 17, 2018, 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 Moss Adams 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,

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

2018 Proxy Statement

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1132 Bishop Street, Suite 2200
Honolulu, Hawaii 96813
(808) 946-1400

NOTICE OF 2018 ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE	8:30 a.m. on May 17, 2018
PLACE	1132 Bishop Street, Suite 611 Honolulu, Hawaii
ITEMS OF BUSINESS	<ol style="list-style-type: none">(1) To elect two directors to serve for a term of three years.(2) To ratify the selection of Moss Adams LLP as our independent registered public accounting firm for the year ending December 31, 2018.(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 March 29, 2018.
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.

Vernon Hirata
Corporate Secretary
April 17, 2018

2018 Proxy Statement

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Please Vote

It is very important that you vote to play a part in the future of your Company.

Proposals That Require Your Vote

- | | | | |
|----------|--|---------|-------------------------|
| 1 | To elect two directors to serve for a term of three years | Page 8 | FOR all nominees |
| 2 | To ratify the selection of Moss Adams LLP as our independent registered public accounting firm for the year ending December 31, 2018 | Page 12 | FOR |
| 3 | To consider a nonbinding proposal to approve our executive compensation as described in the proxy statement | Page 13 | FOR |

Vote 24/7
www.proxyvote.com

Dial toll-free 24/7
1-800-690-6903

**Cast your ballot, sign your proxy
card and send by pre-paid mail**

Please Visit Our Annual Meeting Website: annualmeeting.territorialsavings.net

Review and download easy to read versions of our Proxy Statement and Annual Report.

Sign up for future electronic delivery to reduce the impact on the environment.

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Territorial Bancorp Inc.

Proxy Statement

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Territorial Bancorp Inc. (the "Company") to be used at the annual meeting of stockholders of the Company. The Company is the holding company for Territorial Savings Bank (the "Bank"). The annual meeting will be held at 1132 Bishop Street, Suite 611, Honolulu, Hawaii, on Thursday, May 17, 2018, 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 17, 2018.

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 March 29, 2018. 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 March 29, 2018, there were 9,735,030 shares of Company common stock outstanding for voting purposes. 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 March 29, 2018, 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.

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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 addition, the Company has adopted a majority voting policy with respect to the election of directors. For more information, see "Majority Voting Policy."

In voting to ratify the appointment of Moss Adams 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. Broker non-votes and 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:

vot~~f~~or each of the nominees for director;

vot~~f~~or ratification of the appointment of Moss Adams LLP as the Company's independent registered public accounting firm; and

vot~~f~~or 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.

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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 10, 2018.**

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

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Corporate Governance

General

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

Code of Ethics and Business Conduct

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

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 "TSB Investor Relations Corporate Governance" section of our website, www.territorialsavings.net. Amendments to and waivers from our Code of Ethics for Senior Officers will be disclosed in the "TSB Investor Relations Corporate Governance" section of our website.

Meetings of the Board of Directors

The Company conducts business through meetings of its Board of Directors and through activities of its committees. During 2017, the Board of Directors held 14 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

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listing standards of the NASDAQ Stock Market, Inc. Each of these committees operates under a written charter that is available in the "TSB Investor Relations Corporate Governance" section of the Company's website, www.territorialsavings.net.

	Francis E. Tanaka*	Kirk W. Caldwell*	Howard Y. Ikeda*
	Kirk W. Caldwell	Howard Y. Ikeda	Francis E. Tanaka
	Richard I. Murakami	Richard I. Murakami	Richard I. Murakami
			David S. Murakami
Number of Meetings in 2017:	2	7	9

*

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 incentives, 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

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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 2017 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.

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Stock Ownership

The following table provides information as of March 29, 2018, 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 9,735,030 shares of Company common stock issued and outstanding as of March 29, 2018.

Territorial Savings Bank Employee Stock Ownership Plan 1132 Bishop St., Suite 2200 Honolulu, Hawaii 96813	936,173	9.6%
Renaissance Technologies LLC(1) Renaissance Technologies Holdings Corporation 800 Third Avenue New York, New York 10022	574,800	5.9%

(1) As disclosed in Schedule 13G/A filed with the Securities and Exchange Commission on February 14, 2018.

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Proposal 1 Election of Directors

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

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

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

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 9,735,030 shares of Company common stock issued and outstanding as of March 29, 2018.

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NOMINEES

Allan S. Kitagawa	Chairman of the Board, President and Chief Executive Officer	72	1986	2018	281,810(3)	2.9%
Richard I. Murakami(4)	Director	90	1981	2018	46,861(5)	*

CONTINUING DIRECTORS

Kirk W. Caldwell	Director	65	2007	2019	75,502(6)	*
Francis E. Tanaka	Director	72	2011	2019	4,839(7)	*
Howard Y. Ikeda	Director	72	1988	2020	61,575(8)	*
David S. Murakami(4)	Director	78	2006	2020	56,075(9)	*

**EXECUTIVE OFFICERS
WHO ARE NOT DIRECTORS**

Vernon Hirata	Vice Chairman, Co-Chief Operating Officer, General Counsel and Corporate Secretary	65			210,509(10)	2.2%
Ralph Y. Nakatsuka	Vice Chairman and Co-Chief Operating Officer	62			254,838(11)	2.6%
Karen J. Cox	Senior Vice President-Administration	72			47,762(12)	*
Richard K.C. Lau	Senior Vice President and Chief Lending Officer	75			53,881(13)	*
Melvin M. Miyamoto	Senior Vice President, Treasurer and Chief Financial Officer	64			46,978(14)	*
All Directors and Executive Officers as a Group (11 persons)					1,140,630	11.7%

*
Less than 1%.

(1)
As of December 31, 2017.

(2)
Includes service with Territorial Savings Bank.

(3)
Includes 28,446 shares held through the Territorial Savings Bank 401(k) Plan, 9,567 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 10,000 shares owned by Mr. Kitagawa's spouse, 50,000 exercisable stock options and 1,657 restricted stock units.

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

(5)
Includes 10,000 shares held in trust.

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- (6) Includes 41,275 exercisable stock options.
- (7) Includes 3,085 exercisable stock options.
- (8) Includes 3,200 shares held by an individual retirement account, 10,022 shares owned by Mr. Ikeda's spouse, and 21,275 exercisable stock options.
- (9) Includes 900 shares held jointly by David S. Murakami's spouse and his children, and 31,275 exercisable stock options.
- (10) Includes 38,909 shares held through the Territorial Savings Bank 401(k) Plan, 9,567 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 15,600 shares held in trust, 402 shares owned by Mr. Hirata's spouse, 72,410 exercisable stock options and 626 restricted stock units.
- (11) Includes 9,567 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 116,430 exercisable stock options and 626 restricted stock units.
- (12) Includes 14,341 shares held through the Territorial Savings Bank 401(k) Plan, 8,685 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 500 shares held as trustee for two grandchildren, and 9,762 exercisable stock options.

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- (13) Includes 11,781 shares held through the Territorial Savings Bank 401(k) Plan, 9,137 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 1,500 shares held by a corporation and 157 restricted stock units.
- (14) Includes 15,324 shares held through the Territorial Savings Bank 401(k) Plan, 8,348 shares held through the Territorial Savings Bank Employee Stock Ownership Plan, 13,016 exercisable stock options and 135 restricted stock units.

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

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

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

Nominees for Election of Directors

The nominees standing for election are:

Allan S. Kitagawa has served as Chairman of the Board and Chief Executive Officer of Territorial Savings Bank since 1986, and was named President in 2007. Mr. Kitagawa worked with American Savings and Loan Association from 1974 to 1986, including service as Executive Vice President and Chief Executive Officer of the Hawaii Division. Mr. Kitagawa was a Certified Public Accountant who began his career with what is now KPMG LLP. Under Mr. Kitagawa's leadership, Territorial Savings Bank has grown significantly while the 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 in Hawaii and previously was employed for 20 years as a Vice President of a Hawaii-based commercial bank. Mr. Murakami is the lead outside director and chairs every executive session of the Board. He also continues to look after the long-term well-being of our employees by serving as the Chairman of Territorial Savings Bank's Retirement Committee. 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.

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Directors Continuing in Office

The following directors have terms ending in 2019:

Kirk W. Caldwell was re-elected Mayor of the City and County of Honolulu in 2016. He was first elected Mayor in 2012. 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. Moreover, his experience as an attorney that represented financial institutions continues to provide value to the Board since the Bank is regulated by both the state and federal banking regulators.

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 still conducts 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.

The following directors have terms ending in 2020:

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 began his career with what is now KPMG LLP and has been in public accounting for over 40 years. His firm is now one of the larger independent accounting firms in Hawaii. 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. His firm focused on appraising residential real property. 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 business 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.

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Proposal 2 Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has appointed Moss Adams LLP to be the Company's independent registered public accounting firm for the year ending December 31, 2018, subject to ratification by stockholders. A representative of Moss Adams 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 Moss Adams 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 Moss Adams 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 Moss Adams LLP as the Company's independent registered public accounting firm.

Audit Fees

The following table sets forth the fees to Moss Adams LLP for the years ended December 31, 2017 and 2016.

	2017	2016
Audit fees	\$ 500,000	\$ 459,000
Audit-related fees(1)	\$ 72,000	\$ 49,000
Tax fees(2)	\$ 26,500	\$ 28,360
All other fees	\$	\$

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

(2) 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, or such services can be performed in accordance with the Audit Committee's written pre-approval policy. Such approval process ensures that the external auditor does not provide any non-audit services to us that are prohibited by law or regulation.

During each of the years ended December 31, 2017 and 2016, 100% of the fees paid to Moss Adams LLP were either approved, in advance, by the Audit Committee, or pre-approved under the Audit Committee's written pre-approval policy.

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Proposal 3 Advisory (Nonbinding) Vote on Executive Compensation

Based upon a board determination that considered the advice of stockholders at our 2017 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 Public Company Accounting Oversight Board ("PCAOB") Standard 1301, *Communications with Audit Committees*.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Rule 3520 of the PCAOB Auditing Standards 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

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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, 2017, for filing with the Securities and Exchange Commission. The Audit Committee also has approved, subject to stockholder ratification, the selection of Moss Adams LLP as the Company's independent registered public accounting firm for the year ending December 31, 2018.

**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 is in charge of various areas, including

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human resources, information technology, and branch development and maintenance. 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 was named Chief Financial Officer in June 2015, having 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.

The following table sets forth for the year ended December 31, 2017, certain information as to the total remuneration we paid to our directors. Mr. Kitagawa does not receive separate fees for service as a director.

David S. Murakami	44,213	44,213
Richard I. Murakami	44,213	44,213
Howard Y. Ikeda	53,040	53,040
Kirk W. Caldwell	47,528	47,528
Francis E. Tanaka	44,213	44,213

At December 31, 2017, Directors David Murakami, Ikeda, and Caldwell had 31,275, 31,275 and 41,275 vested but unexercised stock options, respectively, each with an exercise price of \$17.36 per option. Director Tanaka had 3,085 vested but unexercised stock options with an exercise price of \$23.62 per option.

The Company has no stock ownership guidelines for directors. However, for previous grants under our 2010 Equity incentive Plan each director must retain an amount equal to 50% of each restricted stock or stock option award (net of taxes) until their service on the Board ends.

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Compensation Discussion and Analysis

The following Compensation Discussion and Analysis, or CD&A, describes our 2017 executive compensation program, including several significant changes that we made based on stockholder feedback. Our compensation program and practices are designed to reward our executives based on our performance against our short- and long-term goals in a risk appropriate manner that enhances the long-term value of the Company. The following pages explain the process, objectives, and structure of the executive compensation decisions undertaken by our Compensation Committee and our Board of Directors during 2017, as well as provide some historical perspective on our evolving pay program. This CD&A is intended to be read in conjunction with the tables included elsewhere in this proxy statement, which provide detailed compensation information for our "Named Executive Officers," or NEOs, described below.

For 2017, our Named Executive Officers are:

Allan S. Kitagawa	Chairman of the Board, President, and Chief Executive Officer
Melvin M. Miyamoto	Senior Vice President, Treasurer and Chief Financial Officer
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

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I. Executive Summary

Company Background and Performance Highlights

Territorial Savings Bank has been serving customers in our Hawaii market for nearly one hundred years. It is a traditional thrift institution that focuses on retail customers, including originating long-term, fixed-rate residential mortgage loans. Well over half of Territorial Savings Bank's deposits are savings deposits (as opposed to certificate of deposits or checking accounts), and well over 90% of its loans are fixed-rate residential mortgage loans.

In 2009, Territorial Savings Bank converted from a mutual savings bank by forming Territorial Bancorp as its holding company and conducting its initial public offering. As a mutual organization, our ability to raise capital was limited. The additional capital raised in the public offering allowed us to better compete in our highly competitive market place while strengthening our regulatory capital position. In 2014, we converted to a Hawaii state-chartered savings bank and became a member bank of the Federal Reserve Bank of San Francisco to provide greater operating flexibility.

Since going public, we have tried to provide key banking services at a reasonable price to our customers while growing organically. We also recognize our responsibility to provide a reasonable return to our shareholders.

In 2017, we paid two special dividends in addition to our quarterly dividends. The total dividends paid for the year were \$1.20 per share.

Since going public, we have paid 33 consecutive quarterly dividends.

Total assets grew by 6.72% in 2017 and exceeded \$2.0 billion at December 31, 2017.

We experienced our sixth consecutive year of double digit loan growth.

We opened our 29th branch in the deposit rich Kapiolani Boulevard area of Honolulu.

We paid all our eligible rank and file employees a special \$1,000 year-end bonus. This was in addition to our usual bonus program for those employees, who also received a \$250 year-end bonus. We also increased our minimum starting pay to \$15.00 per hour.

Our executive compensation program has evolved following our conversion from a mutual ownership structure to a more mature publicly traded institution. Highlights include:

In 2010, as part of our conversion to public company status, we provided stock options and restricted stock awards consistent with regulations issued by the Office of Thrift Supervision. These grants followed practices of other converted thrifts and were intended to create meaningful alignment between our executives and stockholders. These initial awards vested over a six-year period, and became fully vested in 2016.

In 2014, we introduced a cash-based long-term incentive plan to reward long-term performance based on our return on equity and total shareholder return. A cash-based program was used to reinforce a performance orientation since the equity award plan focused on stock and we had limited shares available for grant under the equity award plan.

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In 2016, based on feedback from stockholders, we sought stockholder approval to add a modest number of additional shares to our equity award plan to allow us to provide equity-based performance incentives going forward.

In 2017, we converted our cash-based long-term incentive program to performance shares, an equity-based program aligned with our stockholder preferences. We also increased our TSR metric to

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measure a three-year period, from a two-year period, and we enhanced our annual incentive program metrics to provide more balance from a performance and risk perspective.

Our financial results consistently exceed the performance of our market peers:

As illustrated below, our profitability, reflected by our return on average equity ("ROAE"), return on average assets ("ROAA") and non-performing assets (i.e. asset quality measured by NPA/Assets) has consistently tracked above the median of our market peers, and historically over the 75th percentile.

ROAA
TBNK vs Peer Group

ROAE
TBNK vs Peer Group

NPAs/Assets
TBNK vs Peer Group

Stockholder Engagement and Changes Resulting from our Say on Pay Results

We have actively engaged with stockholders since 2013. Each year we reach out to our largest investors (representing approximately 35% to 40% of our outstanding shares) to request feedback on our executive compensation programs. While a significant number of institutional stockholders do not feel the need to engage with us, we appreciate the feedback from those that do participate. All feedback received is summarized by the Director of Investor Relations and shared with the Compensation Committee and the Board of Directors. As a result, our corporate governance and compensation programs have evolved over the years, in part in direct response to this feedback. We have made many changes to our executive compensation program over the last several years in response to suggestions by institutional investors and feedback from proxy advisory firms. Significant changes were made in 2016 and 2017. In 2018, institutional investors provided positive affirmation of our previous compensation program changes.

The formal stockholder advisory votes on pay ("Say-on-Pay") provides a valuable barometer for how our programs are perceived by the full spectrum of our investors. We take this advisory vote seriously and work diligently to understand the stockholder and proxy advisory firm perspectives. Based on the changes we made during 2016 and 2017, over 95% of the votes cast by stockholders were cast in favor of our Say-on-Pay vote in 2017. We will continue to consider feedback from our stockholders.

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To further improve the executive compensation program, the Compensation Committee decided to bring in a fresh point of view by engaging Meridian Compensation Partners, LLC ("Meridian") at year-end 2016 to serve as the new independent compensation consultant.

Below is a high-level summary of some of the major changes we have made over the last several years based on stockholder feedback:

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As a result of our changes, we have continued to evolve toward a best practices program that will ensure our executives are motivated and rewarded for continuing to sustain our strong performance results and enhancing stockholder value. Below is a summary of our compensation and governance practices.

What We Do:

Pay for Performance:

Provide annual and long-term incentive plans that focus on delivering specific performance results.

Balanced Approach to Total Compensation:

We use a mix of performance metrics across both short- and long-term performance periods, consider both absolute and relative performance in assessing our performance and provide payouts in cash and equity.

Annual Say on Pay Vote:

We conduct an annual Say-on-Pay advisory vote.

Independent Compensation Consultant:

The Compensation Committee engages its own independent compensation consultant to review the Company's executive compensation program and practices.

Robust Stock Ownership and Holding Requirements:

We have stock ownership guidelines requiring our executives to hold significant equity ownership. In addition, our shares issued in 2010 through our equity incentive plan require executives and directors to hold an amount of stock equal to 50% of granted stock, net of stock sold to pay for taxes, until separation from the Company.

Clawback Policy:

Our incentive plans are subject to clawback/recoupment in the event of an accounting restatement due to covered misconduct.

Double Trigger Severance and Equity Vesting Provisions:

We require both a change in control and loss of position before severance is paid. We require the same before equity can vest on change in control.

Stockholder Engagement:

As part of the Company's stockholder outreach program, members of the Compensation Committee and members of management welcome engagement with stockholders to better understand their perceptions and views on our executive compensation program.

Mitigate Inappropriate Risk Taking:

Our compensation programs include features intended to discourage employees from taking unnecessary and excessive risk including balanced performance metrics, emphasis on long-term stockholder value creation, and clawback provisions.

What We Don't Do:

Gross-ups for Excise Taxes:

We don't provide change-in-control tax gross-ups to individuals promoted or hired after 2014 (only three legacy agreements are still in place).

No Repricing of Stock Options:

We prohibit repricing of stock options without stockholder approval.

Hedging and Pledging:

We prohibit hedging and pledging as part of our Insider Trading Policy.

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2017 Compensation Program Summary

For 2017, a significant portion of our NEOs' pay was provided in the form of performance-based incentives. For the NEOs, our long-term incentive program represented 55% of total variable pay based on long-term performance and 45% based on annual performance objectives. This mix was designed to support our focus on long-term profitability results. Our performance metrics are designed to reward profitability and return to our stockholders that preserves our focus on strong credit portfolio. Below is a summary of the measures and weights for our annual and long-term incentive programs.

**Annual Incentive Plan
(cash)**

Net Income	60%
ROAA	20%
Non-Performing Assets/Total Assets	10%
Loan Production	10%

**Long-Term Incentive Program
(equity)**

Return on Equity	80%
Total Shareholder Return	20%

2017 Compensation

The total compensation for 2017 set forth in the Summary Compensation Table for our NEOs includes grants of restricted stock units under the 2017 long-term incentive program and payouts of the outstanding long-term cash awards under two different legacy programs that were replaced by the new equity-based LTIP program introduced in 2017.

The following represents changes in our compensation program that took effect in 2017 and were based on feedback from our stockholders.

Our Long-Term Incentive Program ("LTIP") has shifted from cash awards to being awarded as performance-based restricted stock units 50% is granted as performance units that vest based on pre-defined three-year performance goals and 50% is granted as time-vested units that vest over a three-year period. This means that our cash-based LTIP awards will phase out by the end of 2018 as the performance periods end.

Our LTIP continues to use the same performance metrics (ROAE and TSR as in 2016), **but performance is now measured relative to an objective industry index** (i.e. SNL Thrift Index) as opposed to our smaller custom peer group. We believe this is a better representation of our investors' view of our performance and eliminates the challenges of industry consolidation on the size of the peer group three years later.

Our LTIP performance measure of **Total Shareholder Return is now measured over a three-year period rather than a two-year period**. Going forward all of our LTIP components will be on a three-year basis. We are also **using the same relative performance scale for all LTIP components**.

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Our Annual Incentive Plan ("AIP") has switched from relative performance goals compared to a selected peer group **to absolute performance goals based on our budget** and pre-approved by

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the Compensation Committee. **We added two measures, net income and loan production** to our existing measures of ROAA and asset quality (non-performing assets/assets) to provide a more balanced view of performance.

All NEOs are now on the same AIP and LTIP program beginning in 2017. Prior to this change, some NEOs participated in a separate discretionary cash bonus program, which was not preferred by some stockholders.

Our 2016 Program Compared to the New 2017 Program (Target Pay Opportunities)

Below we illustrate the key changes to the incentive programs, highlighting the shift from cash to equity and the alignment of the time horizon for the long-term incentive plan to a consistent 3-year performance period.

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II. Compensation Decision Process

Our Compensation Philosophy and Program Components

Our Compensation Committee is responsible for establishing and monitoring our compensation philosophy and programs. In this role, the Compensation Committee has sought to design a compensation structure that attracts and retains qualified and experienced officers, recognizes our unique position in the Hawaii market, and at the same time, is reasonable and competitive, taking into account both short- and long-term incentives.

Key Objectives of our Compensation Program include:

Rewarding executives for sustained high performance that delivers long-term value to our stockholders.

Ensuring our executives have a significant equity interest in the Company through robust equity ownership and retention guidelines.

Achieving the proper balance between incentive compensation and maintaining an appropriate risk profile.

Retaining a seasoned management team who have been through the various real estate cycles in Hawaii.

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Elements of Our Executive Compensation Program

The following table outlines the major elements of 2017 total compensation for our Named Executive Officers:

Base Salary	Fixed component of pay to recognize each NEO's role, contribution and performance; reflects component that mitigates risk taking; helps attract and retain executives
Annual Incentive Plan	Encourages achievement of financial performance metrics that create stockholder value through the use of one-year performance measures tied to our business goals and objectives
Long Term Incentive Plan	Encourages financial performance over a multi-year period that is aligned with stockholder value
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
	Pension Plan frozen
	401(k) Match
	ESOP
	Supplemental ESOP
	(Kitagawa, Hirata, Nakatsuka only)
	SERP
	(Kitagawa, Hirata, Nakatsuka only)
Benefits and Perquisites	Includes health and welfare benefits under employer-wide programs and modest executive perquisites

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III. Compensation Decisions for 2017

Benchmarking and Peer Group

The Compensation Committee approved a peer group at the beginning of 2016, which consisted of institutions similar in size and business structure as Territorial Bancorp. These financial institutions represent thrifts with assets between \$750 million and \$5 billion, and which have become public institutions since 2008. The Company was positioned at the 59th percentile based on assets at the time the peer group was approved. Subsequent to the approval of the peer group, ASB Bancorp, Inc., Cape Bancorp, Inc., Fox Chase Bancorp, Inc. and Ocean Shore Holding Co. were acquired by merger.

Oritani Financial Corp.	ORIT
Meridian Bancorp, Inc.	EBSB
Northfield Bancorp, Inc.	NFBK
HomeTrust Bancshares, Inc.	HTBI
First Connecticut Bancorp, Inc.	FBNK
Blue Hills Bancorp, Inc.	BHBK
Waterstone Financial, Inc.	WSBF
BSB Bancorp, Inc.	BLMT
SI Financial Group, Inc.	SIFI
Home Bancorp, Inc.	HBCP
Clifton Bancorp, Inc.	CSBK
Charter Financial Corp.	CHFV
ASB Bancorp, Inc.	ASBB
Cape Bancorp, Inc.	CBNJ
Fox Chase Bancorp, Inc.	FXCB
Ocean Shore Holding Co.	OSHC

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2017 Base Salary Decisions

The Compensation Committee reviews base salaries annually and adjusts them from time to time to align with competitive market levels, as well as individual responsibilities, performance, and experience.

During its 2017 review of base salaries for executives, the Compensation Committee primarily considered:

Market data for peer institutions, direct competitors, and publicly held businesses located in Hawaii, as the cost of living in Hawaii is significantly higher than in the continental United States.

Internal review of the executive's compensation, both individual and relative to others.

Performance of the executive.

Contributions, qualifications and experience of the executive.

Our financial condition and results of operations.

Budget used for company-wide salary increases.

The Compensation Committee considers the recommendation of Mr. Kitagawa (for all executives other than himself) in making base salary adjustments. The base salary for Mr. Kitagawa is recommended by the Compensation Committee and approved by the full Board of Directors.

Based on the Compensation Committee's review, the following base salaries were approved and effective January 1, 2017. Salary increases were 2% for all NEOs except for Mr. Miyamoto who received a 3% increase (equal to the company-wide increase), and except for Mr. Kitagawa who requested again that he not receive an increase in salary.

Base salaries for each of the Named Executive Officers are shown in the tables below.

Allan S. Kitagawa	851,124	851,124	0%
Melvin M. Miyamoto	149,568	154,056	3%
Vernon Hirata	315,084	321,385	2%
Ralph Y. Nakatsuka	315,084	321,385	2%
Richard K.C. Lau	175,492	179,002	2%

In early 2018, salaries were again reviewed by the Compensation Committee with the following increases approved and effective January 2018. Again, for the fifth consecutive year, no increase was made to Mr. Kitagawa's base salary.

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Allan S. Kitagawa	851,124	0%
Melvin M. Miyamoto	161,758	5%
Vernon Hirata	337,454	5%
Ralph Y. Nakatsuka	337,454	5%
Richard K.C. Lau	184,371	3%

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2017 Annual Incentive Plan Payouts

Annual Incentive Plan. The AIP was redesigned in 2017 based on feedback from stockholders and the Compensation Committee's independent compensation consultant. Prior to 2017, the AIP used two performance goals measured on a relative comparison to our peer group. In response to stockholder feedback and market practice, the Compensation Committee added two new measures (net income and loan production) to the current two measures (ROAA and non-performing assets) to provide a more balanced view of performance. In addition, the Compensation Committee changed from measuring annual performance on a relative basis to setting specific pre-approved performance goals.

The AIP is designed to motivate senior executives to attain superior annual performance in key areas that we believe create long-term value to us and our stockholders. Awards under the AIP are now determined based upon absolute performance metrics contained in the business plan adopted by the Board of Directors for 2017 and selected by the Compensation Committee, after consultation with both management and the independent compensation consultant.

All NEOs had a threshold, target and stretch opportunity as shown below. Target opportunities are intentionally targeted to be conservative relative to market median in light of the desire to place more focus on long-term compensation.

Allan S. Kitagawa	15%	30%	45%
Melvin M. Miyamoto	6.75%	13.50%	20.25%
Vernon Hirata	15%	30%	45%
Ralph Y. Nakatsuka	15%	30%	45%
Richard K.C. Lau	6.75%	13.50%	20.25%

Performance Metrics

The Compensation Committee selected Net Income, ROAA, Non-Performing Assets/Assets and Loan Production as the quantitative corporate performance factors for the 2017 AIP. ROAA is a profitability measure while the Non-Performing Asset ("NPA") ratio reinforces the Company's goal of maintaining strong credit quality. A lower NPA ratio mitigates the risk of lowering loan underwriting standards to increase loan production through increased residential mortgage loan volume.

The table below provides the performance required for payouts at the threshold, target and maximum levels:

Net Income (thousands)	60%	\$	14,824	\$	16,471	\$	18,118
ROAA	20%		0.77%		0.86%		0.95%