As filed with the Securities and Exchange Commission on May 14, 2009

Registration No. 333-155388

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

PRE-EFFECTIVE AMENDMENT NO. 3

TO THE

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Territorial Bancorp Inc. and

Territorial Savings Bank Profit Sharing and 401(k) Plan

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**6712**	**Being applied for**
(State or Other Jurisdiction of Incorporation or Organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

1132 Bishop Street

Suite 2200

Honolulu, Hawaii 96813

(808) 946-1400

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

Registrant s Principal Executive Offices)

Mr. Allan S. Kitagawa

Chairman of the Board, President and Chief Executive Officer

1132 Bishop Street

Suite 2200

Honolulu, Hawaii 96813

(808) 946-1400

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

Agent for Service)

Copies to:

Lawrence M.F. Spaccasi, Esq.

Edward A. Quint, Esq.

Luse Gorman Pomerenk & Schick, P.C.

5335 Wisconsin Avenue, N.W., Suite 400

Washington, D.C. 20015

(202) 274-2000

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

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

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

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

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, $0.01 par value per share	12,233,125 shares	$ 10.00	$ 122,331,250(1)	$ 4,808(2)
Participation Interests	939,221 interests			(3)

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

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

Table of Contents

PROSPECTUS

TERRITORIAL BANCORP INC.

(Proposed Holding Company for Territorial Savings Bank)

Up to 10,637,500 Shares of Common Stock

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

We are offering up to 10,637,500 shares of common stock for sale on a best efforts basis. We may sell up to 12,233,125 shares of common stock because of demand for the shares or changes in market conditions without resoliciting subscribers. We must sell a minimum of 7,862,500 shares in order to complete the offering.

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

The minimum number of shares of common stock you may order is 25 shares. The maximum number of shares of common stock that can be ordered through a single qualifying account is 50,000 shares, and no person by himself or with an associate or group of persons acting in concert may purchase more than 100,000 shares. The offering is expected to expire at 3:00 p.m., local time, on June 22, 2009. We may extend this expiration date without notice to you until August 6, 2009, unless the Office of Thrift Supervision approves a later date, which may not be beyond June 26, 2011. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond August 6, 2009, or the number of shares of common stock to be sold is increased to more than 12,233,125 shares or decreased to fewer than 7,862,500 shares. If the offering is extended beyond August 6, 2009, or if the number of shares of common stock to be sold is increased to more than 12,233,125 shares or decreased to fewer than 7,862,500 shares, we will resolicit subscribers, giving them an opportunity to change or cancel their orders. Funds received during the offering will be held in a segregated account at Territorial Savings Bank, or, in our discretion, at another insured depository institution, and will earn interest at %, which is our current passbook savings rate.

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

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

Please read Risk Factors beginning on page 18.

OFFERING SUMMARY

Price: $10.00 per Share

	Minimum	Maximum	Adjusted Maximum
Number of shares	7,862,500	10,637,500	12,233,125
Gross offering proceeds	$ 78,625,000	$ 106,375,000	$ 122,331,000
Estimated offering expenses (excluding selling agent fees and expenses)	$ 2,110,000	$ 2,110,000	$ 2,110,000
Estimated selling agent fees and expenses (1)	$ 811,000	$ 1,066,000	$ 1,213,000

Estimated net proceeds	$ 75,704,000	$ 103,199,000	$ 119,008,000
Estimated net proceeds per share	$ 9.63	$ 9.70	$ 9.73

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

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

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

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

KEEFE, BRUYETTE & WOODS

The date of this prospectus is [prospectus date].

Table of Contents

Table of Contents

TABLE OF CONTENTS

Table of Contents

SUMMARY

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

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

Territorial Savings Bank

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

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

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

Territorial Bancorp Inc.

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

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

Table of Contents

Our Organizational Structure

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

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

Business Strategy

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

- remaining a community-oriented financial institution;
- increasing loan production while maintaining high asset quality;
- emphasizing lower cost core deposits to maintain low funding costs; and
- expanding our branch network.

A full description of our products and services begins on page 90 of this prospectus under the heading Business of Territorial Savings Bank.

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

Reasons for the Conversion

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

- to support our internal growth through lending in communities we serve or may serve in the future and through the establishment of *de novo* branch offices. We currently intend to establish one new branch office per year over the next three years;
- to assist us in the management of interest rate risk;
- to repay trust preferred securities and short-term borrowings;

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

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

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

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

Terms of the Conversion and the Offering

Under Territorial Mutual Holding Company s plan of conversion and reorganization, our organization will convert to a fully public stock holding company structure. In connection with the conversion, we are offering between 7,862,500 and 10,637,500 shares of common stock to eligible depositors and borrowers of Territorial Savings Bank, to our employee benefit plans and, to the extent shares remain available, to the general public. The number of shares of common stock to be sold may be increased to up to 12,233,125 as a result of demand for the shares or changes in the market for financial institution stocks. Unless the number of shares of common stock to be offered is increased to more than 12,233,125 or decreased to less than 7,862,500, or the offering is extended beyond August 6, 2009, subscribers will not have the opportunity to change or cancel their stock orders.

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

Persons Who May Order Shares of Common Stock in the Offering

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

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

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

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

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

Table of Contents

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

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

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

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

How We Determined the Offering Range

The amount of common stock that we are offering is based on an independent appraisal of the estimated market value of Territorial Bancorp Inc., assuming the conversion and the offering are completed. FinPro, Inc., our independent appraiser, has estimated that, as of April 30, 2009, this market value ranged from $78.6 million to $106.4 million, with a midpoint of $92.5 million. Based on this valuation and a $10.00 per share price, the number of shares of common stock being offered for sale by us will range from 7,862,500 shares to 10,637,500 shares. The $10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions.

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

Table of Contents

The appraisal peer group consists of the following companies. Total assets is as of March 31, 2009 for all companies listed except for First Defiance Financial Corp., whose assets is as of December 31, 2008.

Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (in thousands)
First Defiance Financial Corp. (FDEF)	Nasdaq	Defiance, OH	$ 2,010,662
First Financial Northwest, Inc. (FFNW)	Nasdaq	Renton, WA	1,261,782
HF Financial Corp. (HFFC)	Nasdaq	Sioux Falls, SD	1,171,991
Home Federal Bancorp, Inc. (HOME)	Nasdaq	Nampa, ID	692,497
HopFed Bancorp, Inc. (HFBC)	Nasdaq	Hopkinsville, KY	991,131
Meta Financial Group, Inc. (CASH)	Nasdaq	Storm Lake, IA	859,125
MutualFirst Financial, Inc. (MFSF)	Nasdaq	Muncie, IN	1,419,206
NASB Financial, Inc. (NASB)	Nasdaq	Grandview, MO	1,549,748
Pulaski Financial Corp. (PULB)	Nasdaq	St. Louis, MO	1,461,393
Timberland Bancorp, Inc. (TSBK)	Nasdaq	Hoquiam, WA	693,004

The following table presents a summary of selected pricing ratios for Territorial Bancorp Inc. and the peer group companies identified by FinPro, Inc. Our ratios are based on core earnings for the twelve months ended December 31, 2008 and book value as of December 31, 2008. Ratios for the peer group are based on the latest publicly available information (core earnings for the twelve months ended March 31, 2009 or December 31, 2008 and book value as of March 31, 2009 or December 31, 2008). Core earnings, for purposes of the appraisal, are defined as net earnings after taxes, excluding the after-tax portion of income from nonrecurring items. Tangible book value is total equity, less intangible assets. Compared to the median pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a discount of 6.5% on a price-to-core-earnings basis, a discount of 16.3% on a price-to-book value basis and a discount of 22.2% on a price-to-tangible book value basis. The pricing ratios result from our generally having higher levels of equity but lower core earnings than the companies in the peer group on a pro forma basis. The price ratios also reflect recent volatile market conditions, particularly for stock of financial institution holding companies, and the effect of such conditions on the trading market for recent mutual-to-stock conversions. Our Board of Directors, in reviewing and approving the valuation, considered the range of price-to-core earnings multiples and the range of price-to-book value ratios and price-to-tangible book value ratios at the different amounts of shares to be sold in the offering. The appraisal did not consider one valuation approach to be more important than the other.

Table of Contents

	Price-to-core earnings multiple	Price-to-book value ratio	Price-to-tangible book value ratio
Territorial Bancorp Inc. (pro forma)			
Maximum, as adjusted	13.33x	60.13%	60.20%
Maximum	11.36x	56.15%	56.18%
Minimum	8.55x	47.53%	47.57%
Valuation of peer group companies using stock prices as of April 30, 2009			
Averages	29.31x	69.27%	74.92%
Medians	12.15x	67.10%	72.20%

Since December 31, 2007, the stock pricing of the peer group upon which the appraisal is based has declined. The median price to tangible book value was 116.8% at December 31, 2007 compared to 72.2% at April 30, 2009. The median price-to-core earnings per share was 13.**1**x at December 31, 2007 compared to 12.2x at April 30, 2009. In the absence of other factors, these changes would result in the appraisal for our offering being lower than if the appraisal were prepared as of December 31, 2007.

As of November 7, 2008, FinPro, Inc. estimated the market value of Territorial Bancorp Inc., assuming the conversion and the offering were completed, to be between $80.8 million and $109.3 million, with a midpoint of $95.0 million. As of that date, the median price to tangible book value of the peer group upon which the appraisal is based was 76.95%, and the median price-to-core earnings per share was 9.0x. As of February 27, 2009, FinPro, Inc. estimated the market value of Territorial Bancorp Inc., assuming the conversion and the offering were completed, to be between $64.6 million and $87.4 million, with a midpoint of $76.0 million. As of that date, the median price to tangible book value of the peer group upon which the appraisal is based was 59.35%, and the median price-to-core earnings per share was 8.3x. Based upon the changes in the valuation of the peer group companies, as well as recent disinterest in stock offerings of other converting thrift institutions (for which FinPro, Inc. provided a Strong Downward adjustment in the appraisal as of February 27, 2009), FinPro had reduced the estimated market value by 20% between November 7, 2008 and February 27, 2009.

The peer group pricing ratios related to the appraisal as of April 30, 2009 are higher than those set forth above for the appraisal as of February 27, 2009. The current appraisal reflects this increase in the valuation of the peer group companies from February 27, 2009 to April 30, 2009, which reflects improved market conditions for financial conditions between February 27, 2009 and April 30, 2009. The NASDAQ Bank Index increased 13.61% from February 27, 2009 to April 30, 2009. The current appraisal was prepared using the same appraisal methodology as that used as of November 7, 2008 and February 27, 2009.

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

Table of Contents

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

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

The independent appraisal will be updated prior to the completion of the conversion. If the appraised value decreases below $78.6 million or increases above $122.3 million, subscribers may be resolicited with the approval of the Office of Thrift Supervision and be given the opportunity to change or cancel their orders. If you do not respond, we will cancel your stock order and return your subscription funds, with interest, and cancel any authorization to withdraw funds from your deposit accounts for the purchase of shares of common stock. For a more complete discussion of the amount of common stock we are offering for sale and the independent appraisal, see The Conversion; Plan of Distribution Determination of Share Price and Number of Shares to be Issued.

After-Market Stock Price Performance Provided by Independent Appraiser

The following table presents stock price appreciation information for all standard mutual-to-stock conversions completed between January 1, 2007 and April 30, 2009. These companies did not constitute the group of 10 comparable public companies utilized in FinPro, Inc. s valuation analysis.

Table of Contents

Mutual-to-Stock Conversion Offerings with Closing Dates

between January 1, 2007 and April 30, 2009

			Percentage Price Appreciation (Depreciation) From Initial Trading Date			
Company Name and Ticker Symbol	**Conversion Date**	**Exchange**	**One Day**	**One Week**	**One Month**	**Through April 30, 2009**
St. Joseph Bancorp, Inc. (SJBA)	2/2/2009	OTCBB	0.00	0.00	0.00	0.00%(1)
Hibernia Homestead Bancorp, Inc. (HIBE)	1/28/2009	OTCBB	0.00(2)	5.00	5.00	(35.00)
First Savings Financial Group, Inc. (FSFG)	10/7/2008	Nasdaq	(1.00)	(4.00)	(8.00)	3.03
Home Bancorp, Inc. (HBCP)	10/3/2008	Nasdaq	14.90	3.50	3.10	0.52
Cape Bancorp, Inc. (CBNJ)	2/1/2008	Nasdaq	0.50	0.10	(2.00)	32.84
Danvers Bancorp, Inc. (DNBK)	1/10/2008	Nasdaq	(2.60)	(2.20)	2.60	(51.64)
First Advantage Bancorp (FABK)	11/30/2007	Nasdaq	11.70	8.00	6.50	17.10
First Financial Northwest, Inc. (FFNW)	10/10/2007	Nasdaq	17.30	15.30	8.10	32.82
Beacon Federal Bancorp, Inc. (BFED)	10/2/2007	Nasdaq	16.00	19.00	7.50	22.41
Louisiana Bancorp, Inc. (LABC)	7/10/2007	Nasdaq	9.50	3.00	9.40	(25.57)
Quaint Oak Bancorp, Inc. (QNTO)	7/5/2007	OTCBB	(2.00)	(9.50)	(11.00)	17.35
CMS Bancorp, Inc. (CMSB)	7/5/2007	Nasdaq	5.70	5.20	3.20	29.04
ESSA Bancorp, Inc. (ESSA)	4/4/2007	Nasdaq	17.80	21.50	14.60	(15.03)
Hampden Bancorp, Inc. (HBNK)	1/17/2007	Nasdaq	29.20	24.50	23.40	23.56
Average			8.29	6.39	4.46	3.67
Median			7.60	4.25	4.10	10.06

(1) There were no reported trades in St. Joseph Bancorp, Inc. common stock through April 30, 2009.
(2) There were no reported trades in Hibernia Homestead Bancorp, Inc. common stock until January 29, 2009.

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

There can be no assurance that our stock price will not trade below $10.00 per share, as has been the case for some mutual-to-stock conversions. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled Risk Factors beginning on page 18.

Limits on How Much Common Stock You May Purchase

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

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

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

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

Table of Contents

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

How You May Purchase Shares of Common Stock

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

- personal check, bank check or money order, made payable to Territorial Bancorp Inc.; or
- authorizing us to withdraw funds from the types of Territorial Savings Bank deposit accounts permitted on the stock order and certification form.

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

You can subscribe for shares of common stock in the offering by delivering a signed and completed original stock order and certification form, together with full payment or authorization to withdraw from one or more of your Territorial Savings Bank deposit accounts, so that it is received (not postmarked) before 3:00 p.m., local time, on June 22, 2009, which is the expiration of the offering period. For orders paid for by check or money order, the funds will be cashed promptly and held in a segregated account at Territorial Savings Bank, or in our discretion at another insured depository institution. We will pay interest on those funds calculated at Territorial Savings Bank s current passbook savings rate from the date funds are received until completion or termination of the conversion and the offering. Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty; however, if a withdrawal results in a certificate account with a balance less than the applicable minimum balance requirement, the certificate will be canceled at the time of withdrawal without penalty and the remaining balance will be transferred to a savings account and earn interest at our passbook savings rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts with Territorial Savings Bank must be in the accounts at the time the stock order is received. However, funds will not be withdrawn from the accounts until the completion of the conversion and offering and will earn interest at the applicable deposit account rate until that time. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. After we receive your order, your order cannot be changed or canceled unless the number of shares of common stock to be offered is increased to more than 12,233,125 shares or decreased to fewer than 7,862,500 shares, or the offering is extended beyond August 6, 2009.

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

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

Delivery of Stock Certificates

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

How We Intend to Use the Proceeds From the Offering

Assuming we sell 12,233,125 shares of common stock in the stock offering, and we have net proceeds of $119.0 million, we intend to distribute the net proceeds as follows:

- $59.5 million (50.0% of the net proceeds) will be invested in Territorial Savings Bank;
- $9.8 million (8.2% of the net proceeds) will be loaned to our employee stock ownership plan to fund its purchase of our shares of common stock;
- $24.0 million (20.2% of the net proceeds) will be used to redeem trust preferred securities (although we intend to redeem less of our trust preferred securities if we sell less than the maximum number of shares in the offering); and
- $25.7 million (21.6% of the net proceeds) will be retained by us.

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

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

Table of Contents

You May Not Sell or Transfer Your Subscription Rights

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

Deadline for Orders of Common Stock

If you wish to purchase shares of common stock in the offering, we must receive a properly completed original stock order and certification form, together with full payment for the shares of common stock, at the Stock Information Center or any of our branch offices no later than 3:00 p.m., local time, on June 22, 2009. A postmark prior to June 22, 2009 will not entitle you to purchase shares of common stock unless we receive the envelope by 3:00 p.m., local time on June 22, 2009. You may submit your stock order and certification form by mail using the order reply envelope provided, by overnight courier to the indicated address on the order form, or by hand delivery to our Stock Information Center, located at 1132 Bishop Street, Suite 303, Honolulu, Hawaii, or to any of our branch offices. Once we receive it, your order is irrevocable unless the offering is terminated or extended beyond August 6, 2009 or the number of shares of common stock to be sold is decreased to less than 7,862,500 shares or increased to more than 12,233,125 shares. If the offering is extended beyond August 6, 2009, or if the number of shares of common stock to be sold is decreased to less than 7,862,500 shares or is increased to more than 12,233,125 shares, we will, with the approval of the Office of Thrift Supervision, resolicit subscribers, giving them the opportunity to confirm, cancel or change their stock orders during a specified resolicitation period.

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

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

If we do not receive orders for at least 7,862,500 shares of common stock, we may take steps to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

- increase the purchase limitations; and/or

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

Table of Contents

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

Possible Change in the Offering Range

FinPro, Inc. will update its appraisal before we complete the offering. If, as a result of demand for the shares, or changes in market conditions, FinPro, Inc. determines that our pro forma market value has increased, we may sell up to 12,233,125 shares in the offering without further notice to you. If our pro forma market value at that time is either below $78.6 million or above $122.3 million, then, after consulting with the Office of Thrift Supervision, we may:

- terminate the stock offering and promptly return all funds;
- set a new offering range and give all subscribers the opportunity to confirm, modify or rescind their purchase orders for shares of Territorial Bancorp Inc.'s common stock; or
- take such other actions as may be permitted by the Office of Thrift Supervision and the Securities and Exchange Commission.

Possible Termination of the Offering

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

We must sell a minimum of 7,862,500 shares to complete the offering. If we terminate the offering because we fail to sell the minimum number of shares or for any other reason, we will promptly return your funds with interest at our passbook savings rate and we will cancel deposit account withdrawal authorizations.

Purchases by Officers and Directors

We expect our directors and executive officers, together with their associates, to subscribe for 374,000 shares of common stock in the offering, or 4.8% of the shares to be sold at the minimum of the offering range. However, there can be no assurance that any individual director or executive officer, or the directors and executive officers as a group, will purchase any specific number of shares of our common stock. The purchase price paid by our directors and executive officers for their subscribed shares will be the same $10.00 per share price paid by all other persons who purchase shares of common stock in the offering. Purchases by directors, executive officers and their associates will be included in determining whether the required minimum number of shares has been subscribed for in the offering.

Benefits to Management and Potential Dilution to Stockholders Following the Conversion

We expect our tax-qualified employee stock ownership plan to purchase 8% of the total number of shares of common stock that we sell in the offering, or 851,000 shares of common stock, assuming we sell the maximum of the shares proposed to be sold. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 8% of the total number of shares of common stock sold in the offering. This plan is a tax-qualified retirement plan for the benefit of all our employees.

Table of Contents

Purchases by the employee stock ownership plan will be included in determining whether the required minimum number of shares has been sold in the offering. Assuming the employee stock ownership plan purchases 851,000 shares in the offering, we will recognize additional pre-tax compensation expense of $8.5 million over a 20-year period, assuming the shares of common stock have a fair market value of $10.00 per share for the full 20-year period. If, in the future, the shares of common stock have a fair market value greater or less than $10.00, the compensation expense will increase or decrease accordingly.

We also intend to implement one or more stock-based benefit plans no earlier than six months after completion of the conversion. Stockholder approval of these plans will be required, and the stock-based benefit plans cannot be implemented until at least six months after the completion of the conversion pursuant to applicable Office of Thrift Supervision regulations. If adopted within 12 months following the completion of the conversion, the stock-based benefit plan will reserve a number of shares of common stock equal to not more than 4% of the shares sold in the offering, or up to 425,500 shares of common stock at the maximum of the offering range, for restricted stock awards to key employees and directors, at no cost to the recipients. If adopted within 12 months following the completion of the conversion, the stock-based benefit plan will also reserve a number of stock options equal to not more than 10% of the shares of common stock sold in the offering, or up to 1,063,750 shares of common stock at the maximum of the offering range, for key employees and directors. If the stock-based benefit plans are adopted after one year from the date of the completion of the conversion, the 4% and 10% limitations described above will no longer apply. We have not yet determined whether we will present these plans for stockholder approval within 12 months following the completion of the conversion or whether we will present these plans for stockholder approval more than 12 months after the completion of the conversion.

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

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

Table of Contents

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

	Number of Shares to be Granted or Purchased			Dilution Resulting From Issuance of Shares for Stock Benefit Plans	Value of Grants (1)	
	At Minimum of Offering Range	At Maximum of Offering Range	As a Percentage of Common Stock to be Issued (2)		At Minimum of Offering Range	At Maximum of Offering Range
					(Dollars in thousands)	
Employee stock ownership plan	629,000	851,000	8.00%	7.41%	$ 6,290	$ 8,510
Stock awards	314,500	425,500	4.00	3.85%	3,145	4,255
Stock options	786,250	1,063,750	10.00	9.09%	2,390	3,234
Total	1,729,750	2,340,250	22.00%	18.03%	$ 11,825	$ 15,999

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

(2) The stock-based benefit plans may award a greater number of options and shares, respectively, if the plans are adopted more than 12 months after the completion of the conversion.

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

Share Price	314,500 Shares Awarded at Minimum of Offering Range	370,000 Shares Awarded at Midpoint of Offering Range	425,500 Shares Awarded at Maximum of Offering Range	489,325 Shares Awarded at Maximum of Offering Range, As Adjusted
	(In thousands, except share price information)			
$ 8.00	$ 2,516	$ 2,960	$ 3,404	$ 3,915
10.00	3,145	3,700	4,255	4,893
12.00	3,774	4,440	5,106	5,872
14.00	4,403	5,180	5,957	6,851
16.00	5,032	5,920	6,808	7,829

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

14

Exercise Price	Grant-Date Fair Value Per Option	786,250 Options at Minimum of Range	925,000 Options at Midpoint of Range	1,063,750 Options at Maximum of Range	1,223,312 Options at Maximum of Range, As Adjusted
		(In thousands, except share price information)			
$ 8.00	$ 2.43	$ 1,911	$ 2,248	$ 2,585	$ 2,973
10.00	3.04	2,390	2,812	3,234	3,719
12.00	3.65	2,870	3,376	3,883	4,465
14.00	4.26	3,349	3,941	4,532	5,211
16.00	4.87	3,829	4,505	5,180	5,958

The tables presented above are provided for informational purposes only. There can be no assurance that our stock price will not trade below $10.00 per share. Before you make an investment decision, we urge you to carefully read this prospectus, including, but not limited to, the section entitled Risk Factors beginning on page 18.

Market for Common Stock

Depending on the number of shares we sell, we expect that our common stock will be listed on the Nasdaq Global Market or the Nasdaq Global Select Market, each under the symbol TBNK. Keefe, Bruyette & Woods, Inc. currently intends to make a market in the shares of our common stock, but is under no obligation to do so. See Market for the Common Stock.

Our Policy Regarding Dividends

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

- regulatory capital requirements;
- our financial condition and results of operations;
- tax considerations;
- statutory and regulatory limitations; and
- general economic conditions and forecasts.

Recent Economic Downturn in Our Primary Market Area

Our success depends primarily on the general economic conditions in the State of Hawaii, as nearly all of our loans are to customers in the state. On the island of Oahu, the primary real estate market in Hawaii, sales of existing single-family totaled 2,741 units during the year ended December 31, 2008, a decrease of 24.4% compared to similar sales during the year ended December 31, 2007. However, the median home price in Oahu decreased by 3% from December 2007 through December 2008. The number of condominium sales (a notable portion of the overall housing market), declined by 28% during the year ended December 31, 2008 compared to the year ended December 31, 2007, while the median price remained unchanged.

Table of Contents

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

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

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

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

Negative developments in the latter half of 2007 and during 2008 and 2009 in the global credit and securitization markets have resulted in uncertainty in the financial markets. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. Specifically, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of assets rose to 1.88% as of December 31, 2008 compared to 0.94% as of December 31, 2007. For the year ended December 31, 2008, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that return on average assets decreased to 0.12% compared to 0.81% for the year ended December 31, 2007. The NASDAQ Bank Index declined 23.92% between December 31, 2007 and December 31, 2008, and an additional 21.78% between December 31, 2008 and April 30, 2009. At December 31, 2008, our noncurrent assets plus other real estate owned as a percentage of assets was 0.02%, and our return on average assets was 0.60% for the year ended December 31, 2008.

Continued negative developments in the financial industry and the domestic and international credit markets may significantly affect the markets in which we do business, the markets for and value of our loans and investments, and our ongoing operations, costs and profitability. Further, continued declines in the stock market in general, or for stock of financial institutions and their holding companies, could affect our stock performance.

Tax Consequences

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

Table of Contents

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

Conditions to Completion of the Conversion and the Offering

We cannot complete the conversion and the offering unless:

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

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

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

How You Can Obtain Additional Information

Our branch office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or the offering, please call our Stock Information Center, toll free, at [stock info #], Monday through Friday between 8:30 a.m. and 4:00 p.m., local time, or visit the Stock Information Center located at 1132 Bishop Street, Suite 303, Honolulu, Hawaii. The Stock Information Center will be closed on weekends and bank holidays.

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

Table of Contents

RISK FACTORS

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

Risks Related to Our Business

Future changes in interest rates could reduce our profits.

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

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

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

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

Table of Contents

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At December 31, 2008, the fair value of our investment and mortgage-backed securities, all classified as held to maturity, totaled $535.6 million. Gross unrealized gains on these securities totaled $7.8 million at December 31, 2008.

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

Our lending activities provide lower interest rates than financial institutions that originate more commercial loans.

Our principal lending activity consists of originating one- to four-family residential real estate mortgage loans. As of December 31, 2008, these loans totaled $581.3 million, or 90.5% of total loans as of that date. We originate our loans with a focus on limiting credit risk, and not to generate the highest return or create the greatest difference between our cost of funds and the yield on our interest-earning assets (interest rate spread). We intend to continue our focus on residential real estate lending and this lending strategy following the stock offering.

Residential real estate mortgage loans generally have lower interest rates than commercial business loans, commercial real estate loans and consumer loans. As a result, we may generate lower interest rate spreads and rates of return when compared to our competitors who originate more consumer or commercial loans than we do. For the year ended December 31, 2008, our net interest margin was 3.14%, compared to a median of 3.25% for a peer group of publicly traded savings institutions. This may reduce the value of our shares of common stock.

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

We own shares of trust preferred securities with an adjusted cost basis of $4.5 million, and a fair value of $2.1 million at December 31, 2008. These securities had an adjusted cost basis of $4.1 million and a fair value of $1.3 million as of March 31, 2009. The trust preferred securities were issued by two issuer pools (Preferred Term Securities XXIII, Ltd. co-issued by Keefe, Bruyette & Woods, Inc. and First Tennessee (PreTSL XXIII) and Preferred Term Securities XXIV, Ltd. co-issued by Keefe, Bruyette & Woods, Inc. and First Tennessee (PreTSL XXIV)), consisting primarily of financial institution holding companies. Each of these securities is a Class D security, and was originated with a credit rating of BBB. These securities were rated BBB Watch as of March 31, 2009. We recognized a pre-tax loss for other-than-temporary impairment of $2.5 million on one of these two securities (PreTSL XXIV) during the quarter ended December 31, 2008. With our adoption of Financial Accounting Standards Board Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, effective March 31, 2009, we reclassified $1.5 million of this impairment from retained earnings to accumulated other comprehensive loss. We also recognized further pre-tax loss of $298,000 and an increase in other comprehensive loss of $138,000 for the same security during the quarter ended March 31, 2009.

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

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

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

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

For the quarters ended March 31, 2009 and December 31, 2008, we received interest payments totaling $0 and $66,000 on the trust preferred securities, respectively. The continued failure of the trust preferred issuers to make dividend payments for any quarter will reduce our earnings during that quarter.

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

Negative developments in the latter half of 2007 and during 2008 and 2009 in the global credit and securitization markets have resulted in uncertainty in the financial markets. Loan portfolio quality has deteriorated at many institutions. In addition, the values of real estate collateral supporting many commercial loans and home mortgages have declined and may continue to decline. Bank and bank holding company stock prices have been negatively affected, as has the ability of banks and bank holding companies to raise capital or borrow in the debt markets. Specifically, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that noncurrent assets plus other real estate owned as a percentage of assets rose to 1.88% as of December 31, 2008 compared to 0.94% as of December 31, 2007. For the year ended December 31, 2008, the Federal Deposit Insurance Corporation Quarterly Banking Profile has reported that return on average assets decreased to 0.12% compared to 0.81% for the year ended December 31, 2007. The NASDAQ Bank Index declined 23.92% between December 31, 2007 and December 31, 2008, and an additional 21.78% between December 31, 2008 and April 30, 2009.

In response to these developments, Congress adopted the Emergency Economic Stabilization Act of 2008, under which the U.S. Department of the Treasury has the authority to expend up to $700 billion to assist in stabilizing and providing liquidity to the U.S. financial system. Although it was originally contemplated that these funds would be used primarily to purchase troubled assets under the Troubled Asset Relief Program, on October 14, 2008, the U.S. Department of the Treasury announced the Capital Purchase Program, under which it will purchase up to $250 billion of non-voting senior preferred shares

Table of Contents

of certain qualified financial institutions in an attempt to encourage financial institutions to build capital to increase the flow of financing to businesses and consumers and to support the economy. In addition, Congress has temporarily increased Federal Deposit Insurance Corporation deposit insurance from $100,000 to $250,000 per depositor through December 31, 2009. The Federal Deposit Insurance Corporation has also announced the creation of the Temporary Liquidity Guarantee Program which is intended to strengthen confidence and encourage liquidity in financial institutions by temporarily guaranteeing newly issued senior unsecured debt of participating organizations and providing full coverage for noninterest-bearing transaction deposit accounts (such as business checking accounts, interest-bearing transaction accounts paying 50 basis points or less and lawyers trust accounts), regardless of dollar amount until December 31, 2009.

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

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

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

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

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

Recent published reports indicate that certain member banks of the Federal Home Loan Bank System may be subject to accounting rules and asset quality risks that could result in materially lower regulatory capital levels. Specifically, in January 2009, the Federal Home Loan Bank of Seattle announced that it anticipated that it would have a risk-based capital deficiency as of December 31, 2008. In an extreme situation, it is possible that the capitalization of a Federal Home Loan Bank, including the

Table of Contents

Federal Home Loan Bank of Seattle, could be substantially diminished or reduced to zero. Consequently, we believe that there is a risk that our investment in Federal Home Loan Bank of Seattle common stock could be impaired at some time in the future, and if this occurs, it would cause our earnings and stockholders equity to decrease by the after-tax amount of the impairment charge.

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

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

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

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

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

There have been proposals made by members of Congress and others that would reduce the amount distressed borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution s ability to foreclose on mortgage collateral. Were proposals such as these, or other proposals limiting our rights as a creditor, to be implemented, we could experience increased credit losses or increased expense in pursuing our remedies as a creditor.

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

At December 31, 2008, our portfolio of commercial real estate, construction and other non-residential real estate loans totaled $21.0 million, or 3.3% of total loans, compared to $8.6 million, or 1.7% of total loans at December 31, 2005. These loans generally expose us to a greater risk of non-payment and loss than residential real estate loans because repayment of such loans often depends on the successful operations and income stream of the borrowers. Additionally, such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans.

We target our business lending and marketing strategy towards small to medium-sized businesses. These small to medium-sized businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact these businesses, our results of operations and financial condition may be adversely affected.

Table of Contents

Strong competition within our market areas may limit our growth and profitability.

Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do, which could affect our ability to grow and remain profitable on a long-term basis. Our profitability depends upon our continued ability to successfully compete in our market areas. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. For additional information see Business of Territorial Savings Bank Competition.

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

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

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

Concentration of loans in our primary market area, which has recently experienced an economic downturn, may increase risk.

Our success depends primarily on the general economic conditions in the State of Hawaii, as nearly all of our loans are to customers in the state. Accordingly, the local economic conditions in the State of Hawaii have a significant impact on the ability of borrowers to repay loans as well as our ability to originate new loans. As such, a decline in real estate valuations in this market would lower the value of the collateral securing those loans. In addition, a significant weakening in general economic conditions such as inflation, recession, unemployment or other factors beyond our control could negatively affect our financial results.

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

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

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

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

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

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

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

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

Because all of our office locations are located in the State of Hawaii, severe weather or natural disasters, such as tsunamis, hurricanes and earthquakes and other adverse external events could have a significant affect on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing

Table of Contents

loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Accordingly, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could adversely affect our financial condition and results of operations.

Risks Related to this Stock Offering

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

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

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

Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. For the year ended December 31, 2008, our return on average equity was 7.37%. Following the stock offering, we expect our consolidated equity to increase from $99.4 million to between $165.4 million at the minimum of the offering range and $203.4 million at the adjusted maximum of the offering range. Based upon our earnings for the year ended December 31, 2008, and these pro forma equity levels, our return on equity would be 4.32% and 3.51% at the minimum and adjusted maximum of the offering range, respectively. We expect our return on equity to remain lower until we are able to leverage the additional capital we receive from the stock offering. Although we will be able to increase net interest income using proceeds of the stock offering, our return on equity will be reduced by the capital raised in the stock offering, higher expenses from the costs of being a public company, and added expenses associated with our employee stock ownership plan and the stock-based benefit plan we intend to adopt. Until we can increase our net interest income and non-interest income, we expect our return on equity to remain lower, which may reduce the value of our shares of common stock.

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

Upon completion of the stock offering, we will become a public reporting company. The federal securities laws and regulations of the Securities and Exchange Commission require that we file annual, quarterly and current reports, and that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We expect that the obligations of being a public company, including substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. These obligations will increase our operating expenses and could divert management s attention from our banking operations. Compliance with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission will require us to certify the adequacy of our internal controls and procedures, which could require us to upgrade our systems, and/or hire additional staff, which will increase our operating costs.

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

We anticipate that our employee stock ownership plan will purchase 8% of the total shares of common stock sold in the stock offering, with funds borrowed from Territorial Bancorp Inc. The cost of acquiring the shares of common stock for the employee stock ownership plan will be between $6.3 million at the minimum of the offering range and $9.8 million at the adjusted maximum of the offering range. We will record annual employee stock ownership plan expense in an amount equal to the fair value of shares of common stock committed to be released to employees. If shares of common stock appreciate in value over time, compensation expense relating to the employee stock ownership plan will increase.

We also intend to adopt a stock-based benefit plan after the stock offering under which plan participants would be awarded shares of our common stock (at no cost to them) and/or options to purchase shares of our common stock. The number of shares of restricted stock or stock options reserved for issuance under any initial stock-based benefit plan may not exceed 4% and 10%, respectively, of our total outstanding shares, if these plans are adopted within 12 months after the completion of the conversion. We may grant shares of common stock and stock options in excess of these amounts provided the stock-based benefit plan is adopted more than one year following the stock offering. Assuming the market price of the common stock is $10.00 per share; the options are granted with an exercise price of $10.00 per share; the dividend yield on the stock is 0%; the expected option life is 6.5 years; the risk free interest rate is 1.87% (based on the seven-year Treasury rate) and the volatility rate on the shares of common stock is 25.8% (based on an index of publicly traded thrift institutions), the estimated grant-date fair value of the options utilizing a Black-Scholes option pricing analysis is $3.04 per option granted. Assuming this value is amortized over a five-year vesting period, the corresponding annual pre-tax expense associated with the stock options would be $744,000 at the adjusted maximum. In addition, assuming that all shares of restricted stock are awarded at a price of $10.00 per share, and that the awards vest over a five-year period, the corresponding annual pre-tax expense associated with shares awarded under the stock-based benefit plan would be $979,000 at the adjusted maximum. However, if we grant shares of stock or options in excess of these amounts, such grants would increase our costs further.

The shares of restricted stock granted under the stock-based benefit plan will be expensed by us over their vesting period at the fair market value of the shares on the date they are awarded. If the shares of restricted stock to be granted under the plan are repurchased in the open market (rather than issued directly from authorized but unissued shares by Territorial Bancorp Inc.) and cost the same as the purchase price in the stock offering, the reduction to stockholders equity due to the plan would be between $3.1 million at the minimum of the offering range and $4.9 million at the adjusted maximum of the offering range. To the extent we repurchase shares of common stock in the open market to fund the grants of shares under the plan, and the price of such shares exceeds the offering price of $10.00 per share, the reduction to stockholders equity would exceed the range described above. Conversely, to the extent the price of such shares is below the offering price of $10.00 per share, the reduction to stockholders equity would be less than the range described above.

The implementation of stock-based benefit plans will dilute your ownership interest. Historically, the overwhelming majority of stock-based benefit plans adopted by savings institutions and their holding companies following mutual-to-stock conversions have been approved by stockholders.

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

Although the implementation of the stock-based benefit plan will be subject to stockholder approval, historically, the overwhelming majority of stock-based benefit plans adopted by savings institutions and their holding companies following mutual-to-stock conversions have been approved by stockholders.

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

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

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

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

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

We will use a portion of the net proceeds to finance the purchase of shares of common stock in the stock offering by the employee stock ownership plan and to redeem up to $24.0 million of trust preferred securities that we have issued, and may use the remaining net proceeds to pay dividends to stockholders, repurchase shares of common stock, purchase investment securities, deposit funds in Territorial Savings Bank, acquire other financial services companies or for other general corporate purposes. Territorial Savings Bank may use the proceeds it receives to fund new loans, establish or acquire new branches, purchase investment securities, reduce a portion of our borrowings, or for general corporate purposes. We have not identified specific amounts of proceeds for any of these purposes and we will have significant flexibility in determining the amount of net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively could reduce our profitability. We have not established a timetable for the effective deployment of the proceeds and we cannot predict how long we will require to effectively deploy the proceeds.

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

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

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

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

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

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

Table of Contents

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

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

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

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

Table of Contents

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

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

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

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

Table of Contents

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

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

Table of Contents

RECENT DEVELOPMENTS

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

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

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

	At or For the Three Months Ended March 31,	
	2009	2008
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on average assets (ratio of net income to average total assets) (1)	0.87%	0.62%
Return on average equity (ratio of net income to average equity) (1)	10.55%	7.71%
Interest rate spread (1)(2)	3.39%	2.61%
Net interest margin (1)(3)	3.54%	2.82%
Efficiency ratio (4)	55.87%	69.79%
Non-interest expense to average total assets (1)	2.17%	2.16%
Average interest-earning assets to average interest-bearing liabilities	108.69%	108.38%
Average equity to average total assets	8.27%	8.02%
Asset Quality Ratios:		
Non-performing assets to total assets	0.10%	0.01%
Non-performing loans to total loans	0.16%	0.03%
Allowance for loan losses to non-performing loans	193.43%	483.65%
Allowance for loan losses to total loans	0.32%	0.13%
Capital Ratios (bank-level only):		
Total capital (to risk-weighted assets)	26.18%	24.75%
Tier I capital (to risk-weighted assets)	25.82%	24.59%
Tier I capital (to total assets)	10.20%	9.77%
Other Data:		
Number of full service offices	24	24
Full time equivalent employees	248	246

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

Net Interest Income. Net interest income increased $2.5 million, or 31.2%, to $10.4 million for the three months ended March 31, 2009 from $7.9 million for the three months ended March 31, 2008.

Table of Contents

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

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

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

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

Table of Contents

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

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

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

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

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

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

Income Tax Expense. Income taxes were $1.5 million for the three months ended March 31, 2009, reflecting an effective tax rate of 35.5% compared to $921,000 for the three months ended March 31, 2008, reflecting an effective tax rate of 33.7%. The change in our effective tax rates was primarily attributable to a decline in tax-exempt interest earned on municipal securities.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

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

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

- general economic conditions, either nationally or in our market areas, that are worse than expected;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments;
- adverse changes in the securities markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate acquired entities, if any;
- changes in consumer spending, borrowing and savings habits;

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

changes in our organization, compensation and benefit plans;

Table of Contents

changes in our financial condition or results of operations that reduce capital available to pay dividends; and

changes in the financial condition or future prospects of issuers of securities that we own.

Because of these and a wide variety of other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see Risk Factors beginning on page 18.

HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the net proceeds will be between $75.7 million and $103.2 million, or $119.0 million if the offering range is increased by 15%.

We intend to distribute the net proceeds from the stock offering as follows:

	Based Upon the Sale at $10.00 Per Share of							
	7,862,500 Shares		9,250,000 Shares		10,637,500 Shares		12,233,125 Shares (1)	
	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds
	(Dollars in thousands)							
Stock offering proceeds	$ 78,625		$ 92,500		$ 106,375		$ 122,331	
Less offering expenses	(2,921)		(3,049)		(3,176)		(3,323)	
Net offering proceeds	$ 75,704	100.0%	$ 89,451	100.0%	$ 103,199	100.0%	$ 119,008	100.0%
Use of net proceeds:								
To Territorial Savings Bank	$ (37,852)	50.00%	$ (44,726)	50.00%	$ (51,600)	50.00%	$ (59,504)	50.00
To redeem trust preferred securities	(14,000)	18.49	(20,000)	22.36	(24,000)	23.26	(24,000)	20.17
To fund loan to employee stock ownership plan	(6,290)	8.31	(7,400)	8.27	(8,510)	8.25	(9,787)	8.22
Retained by Territorial Bancorp Inc.	$ 17,562	23.20%	$ 17,325	19.37%	$ 19,089	18.49%	$ 25,717	21.61%

(1) As adjusted to give effect to an increase in the number of shares, which could occur due to a 15% increase in the offering range to reflect demand for the shares or changes in market conditions following the commencement of the offering.

Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of Territorial Savings Bank s deposits. The net proceeds may vary because the total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a syndicated community offering were used to sell shares of common stock not purchased in the subscription and community offerings.

Territorial Bancorp Inc. may use the proceeds it retains from the stock offering:

Table of Contents

to fund a loan to the employee stock ownership plan to purchase shares of common stock in the stock offering;

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

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

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

to pay cash dividends to stockholders;

to repurchase shares of our common stock; and

for other general corporate purposes.

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

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

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

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

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

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

- to fund new loans;
- to repay short-term borrowings;
- to invest in mortgage-backed securities and collateralized mortgage obligations, and debt securities issued by the United States Government and United States Government-sponsored agencies or entities; and
- for other general corporate purposes.

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

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

OUR POLICY REGARDING DIVIDENDS

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

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

Table of Contents

Supervision imposes limitations on capital distributions by savings institutions. See Supervision and Regulation Federal Banking Regulation Capital Distributions.

Any payment of dividends by Territorial Savings Bank to us that would be deemed to be drawn out of Territorial Savings Bank s bad debt reserves would require a payment of taxes at the then-current tax rate by Territorial Savings Bank on the amount of earnings deemed to be removed from the reserves for such distribution. Territorial Savings Bank does not intend to make any distribution to us that would create such a federal tax liability. See Taxation Federal Taxation and State Taxation.

MARKET FOR THE COMMON STOCK

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

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

Table of Contents

HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

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

	Territorial Savings Bank Historical at December 31, 2008		Pro Forma at December 31, 2008, Based Upon the Sale in the Offering of							
			7,862,500 Shares		9,250,000 Shares		10,637,500 Shares		12,233,125 Shares (1)	
	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)	Amount	Percent of Assets (2)
					(Dollars in thousands)					
Equity	$ 119,587	9.78%	$ 148,004	11.83%	$ 153,213	12.20%	$ 158,422	12.56%	$ 164,411	12.97%
Tangible capital (3)(4)	$ 120,928	9.89%	$ 149,345	11.94%	$ 154,554	12.30%	$ 159,763	12.67%	$ 165,752	13.08%
Tangible requirement	18,336	1.50	18,762	1.50	18,841	1.50	18,919	1.50	19,009	1.50
Excess	$ 102,592	8.39%	$ 130,583	10.44%	$ 135,713	10.80%	$ 140,844	11.17%	$ 146,743	11.58%
Core capital (3)(4)	$ 120,928	9.89%	$ 149,345	11.94%	$ 154,554	12.30%	$ 159,763	12.67%	$ 165,752	13.08%
Core requirement (5)	48,896	4.00	50,033	4.00	50,241	4.00	50,450	4.00	50,689	4.00
Excess	$ 72,032	5.89%	$ 99,312	7.94%	$ 104,313	8.30%	$ 109,313	8.67%	$ 115,063	9.08%
Tier 1 risk-based capital	$ 120,928	24.82%	$ 149,345	30.29%	$ 154,554	31.28%	$ 159,763	32.27%	$ 165,752	33.40%
Risk-based requirement	19,492	4.00	19,720	4.00	19,761	4.00	19,803	4.00	19,851	4.00
Excess	$ 101,436	20.82%	$ 129,625	26.29%	$ 134,793	27.28%	$ 139,960	28.27%	$ 145,901	29.40%
Total risk-based capital (3)	$ 121,678	24.97%	$ 150,095	30.45%	$ 155,304	31.44%	$ 160,513	32.42%	$ 166,502	33.55%
Risk-based requirement	38,985	8.00	39,440	8.00	39,523	8.00	39,606	8.00	39,702	8.00
Excess	$ 82,693	16.97%	$ 110,655	22.45%	$ 115,781	23.44%	$ 120,907	24.42%	$ 126,800	25.55%
Reconciliation of capital infused into Territorial Savings Bank:										
Net proceeds			$ 37,852		$ 44,726		$ 51,600		$ 59,504	
			(6,290)		(7,400)		(8,510)		(9,787)	

Less: Common stock acquired by employee stock ownership plan				
Less: Common stock acquired by stock-based benefit plans	(3,145)	(3,700)	(4,255)	(4,893)
Pro forma increase	$ 28,417	$ 33,626	$ 38,835	$ 44,824

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares or changes in market conditions following the commencement of the offering.

(2) The current Office of Thrift Supervision core capital requirement for financial institutions is 3% of total adjusted assets for financial institutions that receive the highest supervisory rating for safety and soundness and a 4% to 5% core capital ratio requirement for all other financial institutions.

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

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

(5) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

Table of Contents

CAPITALIZATION

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

	Territorial Mutual Holding Company Historical at December 31, 2008	Territorial Bancorp Inc. Pro Forma, Based Upon the Sale in the Offering at $10.00 per Share of			
		7,862,500 Shares	9,250,000 Shares	10,637,500 Shares	12,233,125 Shares (1)
			(Dollars in thousands)		
Deposits (2)	$ 923,914	$ 923,914	$ 923,914	$ 923,914	$ 923,914
Borrowings and subordinated debentures	175,212	161,212	155,212	151,212	151,212
Total deposits, borrowed funds and subordinated debentures	$ 1,099,126	$ 1,085,126	$ 1,079,126	$ 1,075,126	$ 1,075,126
Stockholders equity:					
Preferred stock $0.01 par value, 50,000,000 shares authorized; none issued or outstanding	$	$	$	$	$
Common stock $0.01 par value, 100,000,000 shares authorized; assuming shares outstanding as shown (3)		79	93	106	122
Additional paid-in capital (4)		75,625	89,358	103,093	118,886
Retained earnings (5)	100,897	100,897	100,897	100,897	100,897
Less:					
Accumulated other comprehensive loss	(1,516)	(1,516)	(1,516)	(1,516)	(1,516)
Amortized expense recognized on repayment of trust preferred securities		(203)	(282)	(318)	(318)
Common stock to be acquired by employee stock ownership plan (6)		(6,290)	(7,400)	(8,510)	(9,787)
Common stock to be acquired by stock-based benefit plans (7)		(3,145)	(3,700)	(4,255)	(4,893)
Total stockholders equity	$ 99,381	$ 165,447	$ 177,450	$ 189,497	$ 203,391
Total stockholders equity as a percentage of total assets (2)	8.12%	12.96%	13.83%	14.68%	15.59%

(1) As adjusted to give effect to an increase in the number of shares of common stock that could occur due to a 15% increase in the offering range to reflect demand for shares or changes in market conditions following the commencement of the subscription and community offerings.

(2) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the conversion and offering. These withdrawals would reduce pro forma deposits and assets by the amount of the withdrawals.

(3) No effect has been given to the issuance of additional shares of Territorial Bancorp Inc. common stock pursuant to one or more stock-based benefit plans. If these plans are implemented within 12 months following the completion of the stock offering, an amount up to 10% and 4% of the shares of Territorial Bancorp Inc. common stock sold in the offering will be reserved for issuance upon the exercise of stock options and for issuance as restricted stock awards, respectively. See Management of Territorial Bancorp Inc.

(4) The sum of the par value of the total shares outstanding and additional paid-in capital equals the net stock offering proceeds at the offering price of $10.00 per share.

(5)

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

(footnotes continue on following page)

Table of Contents

(continued from previous page)

(6) Assumes that 8% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from Territorial Bancorp Inc. The loan will be repaid principally from Territorial Savings Bank s contributions to the employee stock ownership plan. Since Territorial Bancorp Inc. will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no asset or liability will be reflected on Territorial Bancorp Inc. s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders equity.

(7) Assumes a number of shares of common stock equal to 4% of the shares of common stock to be sold in the offering will be purchased for grant by one or more stock-based benefit plans in open market purchases. The dollar amount of common stock to be purchased is based on the $10.00 per share subscription price in the offering and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As Territorial Bancorp Inc. accrues compensation expense to reflect the vesting of shares pursuant to the stock-based benefit plans, the credit to equity will be offset by a charge to noninterest expense. Implementation of the stock stock-based benefit plans will require stockholder approval. The funds to be used by the stock-based benefit plans will be provided by Territorial Bancorp Inc.

Table of Contents

PRO FORMA DATA

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

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

- all shares of common stock will be sold in the subscription and community offerings;
- 374,000 shares of common stock will be purchased by our executive officers and directors, and their associates;
- our employee stock ownership plan will purchase 8% of the shares of common stock sold in the stock offering with a loan from Territorial Bancorp Inc. The loan will be repaid in substantially equal payments of principal and interest over a period of 20 years;
- Keefe Bruyette & Woods, Inc. will receive a fee equal to 1.0% of the dollar amount of the shares of common stock sold in the stock offering. Shares purchased by our employee benefit plans or by our officers, directors and employees, and their immediate families will not be included in calculating the shares of common stock sold for this purpose; and
- expenses of the stock offering, other than fees and expenses to be paid to Keefe Bruyette & Woods, Inc., will be $2.1 million.

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

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

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

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

Table of Contents

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

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

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

The pro forma table does not give effect to:

- withdrawals from deposit accounts for the purpose of purchasing shares of common stock in the stock offering;
- our results of operations after the stock offering; or
- changes in the market price of the shares of common stock after the stock offering.

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

Table of Contents

	At or For the Year Ended December 31, 2008 Based Upon the Sale at $10.00 Per Share of			
	7,862,500 Shares	9,250,000 Shares	10,637,500 Shares	12,233,125 Shares (1)
	(Dollars in thousands, except per share amounts)			
Gross Proceeds of Offering	$ 78,625	$ 92,500	$ 106,375	$ 122,331
Less: expenses	(2,921)	(3,049)	(3,176)	(3,323)
Estimated net proceeds	75,704	89,451	103,199	119,008
Less: Repayment of trust preferred securities	(14,000)	(20,000)	(24,000)	(24,000)
Less: Common stock purchased by ESOP (2)	(6,290)	(7,400)	(8,510)	(9,787)
Less: Common stock awarded under stock-based benefit plans (3)	(3,145)	(3,700)	(4,255)	(4,893)
Estimated net cash proceeds	$ 52,269	$ 58,351	$ 66,434	$ 80,328
For the Year Ended December 31, 2008				
Consolidated net income:				
Historical	$ 7,200	$ 7,200	$ 7,200	$ 7,200
Pro forma income on net proceeds	319	356	405	490
Pro forma interest savings on trust preferred securities	615	864	1,024	1,024
Pro forma ESOP adjustment(2)	(192)	(226)	(260)	(298)
Pro forma stock award adjustment (3)	(384)	(451)	(519)	(597)
Pro forma stock option adjustment (4)	(478)	(562)	(647)	(744)
Pro forma net income	$ 7,080	$ 7,181	$ 7,203	$ 7,075
Per share net income				
Historical	$ 0.99	$ 0.85	$ 0.73	$ 0.64
Pro forma income on net proceeds	0.04	0.04	0.04	0.05
Pro forma interest savings on trust preferred securities	0.09	0.10	0.11	0.09
Pro forma ESOP adjustment (2)	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma stock award adjustment (3)	(0.05)	(0.05)	(0.05)	(0.05)
Pro forma stock option adjustment (4)	(0.07)	(0.07)	(0.07)	(0.07)
Pro forma net income per share (5)	$ 0.97	$ 0.84	$ 0.73	$ 0.63
Offering price as a multiple of pro forma net earnings per share	10.31x	11.90x	13.70x	15.87x
Number of shares outstanding for pro forma net income per share calculations (5)	7,264,950	8,547,000	9,829,050	11,303,408
At December 31, 2008				
Stockholders equity:				
Historical	$ 99,381	$ 99,381	$ 99,381	$ 99,381
Estimated net proceeds	75,704	89,451	103,199	119,008
Less: Amortized expense recognized on repayment of trust preferred securities (after tax)	(203)	(282)	(318)	(318)
Less: Common stock acquired by ESOP (2)	(6,290)	(7,400)	(8,510)	(9,787)
Less: Common stock awarded under stock-based benefit plans (3) (4)	(3,145)	(3,700)	(4,255)	(4,893)
Pro forma stockholders equity	$ 165,447	$ 177,450	$ 189,497	$ 203,391
Stockholders equity per share:				
Historical	$ 12.64	$ 10.74	$ 9.34	$ 8.13

Estimated net proceeds	9.63	9.67	9.70	9.73
Less: Amortized expense recognized on repayment of trust preferred securities (after tax)	(0.03)	(0.03)	(0.03)	(0.03)
Less: Common stock acquired by ESOP (2)	(0.80)	(0.80)	(0.80)	(0.80)
Less: Common stock awarded under stock-based benefit plans (3) (4)	(0.40)	(0.40)	(0.40)	(0.40)
Pro forma stockholders equity per share (6)	$ 21.04	$ 19.18	$ 17.81	$ 16.63
Offering price as percentage of pro forma stockholders equity per share	47.53%	52.14%	56.15%	60.13%
Number of shares outstanding for pro forma book value per share calculations	7,862,500	9,250,000	10,637,500	12,233,125

(footnotes begin on following page)

Table of Contents

(Footnotes from previous page)

(1) As adjusted to give effect to an increase in the number of shares which could occur due to a 15% increase in the offering range to reflect demand for the shares or changes in market conditions following the commencement of the offering.

(2) Assumes that 8% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from Territorial Bancorp Inc. Territorial Savings Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. Territorial Savings Bank s total annual payments on the employee stock ownership plan debt are based upon 20 equal annual installments of principal and interest. Statement of Position 93-6, Employers Accounting for Employee Stock Ownership Plans (SOP 93-6), requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by Territorial Savings Bank, the fair value of the common stock remains equal to the subscription price and the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 39.0%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders equity. No reinvestment is assumed on proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 31,450, 37,000, 42,550 and 48,933 shares were committed to be released during the period at the minimum, midpoint, maximum, and adjusted maximum of the offering range, respectively, and in accordance with SOP 93-6, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of income per share calculations.

(3) If approved by Territorial Bancorp Inc. s stockholders, one or more stock-based benefit plans plan may purchase an aggregate number of shares of common stock equal to 4% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion). Stockholder approval of the stock-based benefit plans, and purchases by the plan may not occur earlier than six months after the completion of the conversion. The shares may be acquired directly from Territorial Bancorp Inc. or through open market purchases. The funds to be used by the stock-based benefit plans to purchase the shares will be provided by Territorial Bancorp Inc. The table assumes that (i) the stock-based benefit plans acquire the shares through open market purchases at $10.00 per share, (ii) 20% of the amount contributed to the stock-based benefit plans is amortized as an expense during the year ended December 31, 2008 and (iii) the stock-based benefit plans expense reflects an effective combined federal and state tax rate of 39%. Assuming stockholder approval of the stock-based benefit plans and that shares of common stock (equal to 4% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 3.9%.

The following table shows pro forma earnings per share and stockholders equity per share, assuming all the shares to fund the stock awards are obtained from authorized but unissued shares, based on the sale of shares as indicated.

For the Year Ended December 31, 2008	**7,862,500 Shares**	**9,250,000 Shares**	**10,637,500 Shares**	**12,233,125 Shares**
Pro forma earnings per share	$ 0.94	$ 0.81	$ 0.70	$ 0.60
Stockholders equity per share	$ 20.62	$ 18.83	$ 17.51	$ 16.37

(4) If approved by Territorial Bancorp Inc. s stockholders, one of more stock-based benefit plans may grant options to acquire an aggregate number of shares of common stock equal to 10% of the shares to be sold in the offering (or possibly a greater number of shares if the plan is implemented more than one year after completion of the conversion). Stockholder approval of the stock-based benefit plans may not occur earlier than six months after the completion of the conversion. In calculating the pro forma effect of the stock options to be granted under stock-based benefit plans, it is assumed that the exercise price of the stock options and the trading price of the common stock at the date of grant were $10.00 per share, the estimated grant-date fair value determined using the Black-Scholes option pricing model was $3.04 for each option, the aggregate grant-date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options. The actual expense of the stock options to be granted under the stock-based benefit plans will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted. Under the above assumptions, the adoption of the stock-based benefit plans will result in no additional shares under the treasury stock method for purposes of calculating earnings per share. There can be no assurance that the actual exercise price of the stock options will be equal to the $10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock-based benefit plans is obtained from the issuance of authorized but unissued shares, our net income per share and stockholders equity per share would decrease. Assuming stockholder approval of the stock-based benefit plans and that shares of common stock used to fund stock options (equal to 10% of the shares sold in the offering) are awarded through the use of authorized but unissued shares of common stock, stockholders would have their ownership and voting interests diluted by approximately 10%.

Table of Contents

(5) Income per share computations are determined by taking the number of shares assumed to be sold in the offering and, in accordance with SOP 93-6, subtracting the employee stock ownership plan shares that have not been committed for release during the period and subtracting non-vested stock awards granted under one or more stock-based benefit plans. See note 2, above.

(6) The retained earnings of Territorial Savings Bank will be substantially restricted after the conversion. See Our Policy Regarding Dividends, The Conversion; Plan of Distribution Liquidation Rights and Supervision and Regulation. The number of shares used to calculate pro forma stockholders equity per share is equal to the total number of shares to be outstanding upon completion of the offering

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

This section is intended to help potential investors understand our financial performance through a discussion of the factors affecting our financial condition at December 31, 2008 and 2007, and our consolidated results of operations for the years ended December 31, 2008, 2007 and 2006. This section should be read in conjunction with the Consolidated Financial Statements and notes to the consolidated financial statements that appear elsewhere in this prospectus. Territorial Bancorp Inc. had not engaged in any significant activities at December 31, 2008; therefore, the information reflected in this section reflects the financial performance of Territorial Mutual Holding Company and its subsidiaries.

Overview

We have historically operated as a traditional thrift institution. The significant majority of our assets consist of long-term, fixed rate residential mortgage loans and mortgage backed securities, which we have funded primarily with deposit accounts, reverse repurchase agreements and Federal Home Loan Bank advances. This has resulted in our being particularly vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. As a result, our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) decreased to 2.25% for the year ended December 31, 2007 from 2.60% for the year ended December 31, 2006. This resulted in a corresponding decrease in net interest income (the difference between interest income and interest expense) to $28.6 million for the year ended December 31, 2007 from $33.1 million for the year ended December 31, 2006. However, during the year ended December 31, 2008, our net interest income increased to $36.0 million and our net interest rate spread increased to 2.95%, as interest rates decreased.

Our operations in 2008 and 2007 have been affected by our efforts to manage our interest rate risk position. Specifically, in 2007, we sold $43.0 million of 10-, 15- and 20-year fixed-rate mortgage loans and $21.7 million of fixed-rate mortgage-backed securities classified as held to maturity where we had already received a substantial portion (at least 85%) of the principal outstanding at the acquisition date due to prepayments or scheduled repayments (as permitted by paragraph 11.b. of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities), and used the net proceeds of the sales to repay short-term borrowings. The loan sales resulted in a loss on loan sales during 2007 of $1.1 million, while the securities sales resulted in gains on securities sales during 2007 of $731,000. We continued our efforts to reduce interest rate risk in 2008 by obtaining an additional $60.0 million of long-term, fixed-rate reverse repurchase agreements and through the purchase of $36.8 million of shorter-duration mortgage-backed securities. See Management of Market Risk for a discussion of all of the actions we took in 2007 and 2008 in managing interest rate risk.

We have continued our focus on originating one- to four-family residential real estate loans, and intend to continue this strategy following the conversion. Our emphasis on conservative loan underwriting has resulted in low levels of non-performing assets at a time when many financial institutions are experiencing significant asset quality issues. Our non-performing assets totaled $280,000 or 0.02% of total assets at December 31, 2008, compared to $106,000 or 0.01% of total assets at December 31, 2007, and $593,000 or 0.05% of total assets at December 31, 2006. As of December 31, 2008, we had $131,000 of real estate owned and three delinquent mortgage loans totaling $871,000. Total loan delinquencies as of December 31, 2008 were $874,000. Our non-performing loans and loss experience has enabled us to maintain a relatively low allowance for loan losses in relation to other peer

Table of Contents

institutions and correspondingly resulted in low levels of provisions for loan losses. Our provision for loan losses was $149,000, $25,000 and $6,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Other than our loans for the construction of one- to four-family residential mortgage loans, we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation). Although we participate in Fannie Mae s Expanded Approval program and Freddie Mac s A Minus program, which previously did not require income verification, we still verified income for these types of loans. We also do not own any private label mortgage-backed securities that are collateralized by ALT-A, low or no documentation or subprime mortgage loans.

All of the Bank s mortgage-backed securities have been issued by Freddie Mac, Fannie Mae or Ginnie Mae, U.S. government-sponsored enterprises. These agencies guaranty the payment of principal and interest on Bank s mortgage-backed securities. We do not own any preferred stock issued by Fannie Mae or Freddie Mac. As of December 31, 2008, our available credit lines and other sources of liquidity had not been reduced compared to levels from December 31, 2007 or 2006.

We own shares of trust preferred securities with an adjusted cost basis of $4.5 million, and a fair value of $2.1 million at December 31, 2008. The trust preferred securities were issued by two issuer pools consisting primarily of financial institution holding companies. We recognized a pre-tax loss for other-than-temporary impairment of $2.5 million on one of these two securities during the quarter ended December 31, 2008. A number of factors or combinations of factors could cause us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these securities constitutes an additional impairment that is other than temporary. Any such loss may be material to our statement of condition and results of operations. These factors include, but are not limited to, continued failure to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of the trust preferred securities could decline if the overall economy and the financial condition of some of the issuers continue to deteriorate and there remains limited liquidity for these securities.

Business Strategy

Our primary objective is to operate as a profitable, community-oriented financial institution serving customers in our primary market areas. We have sought to accomplish this objective through the adoption of a business strategy designed to maintain a strong capital position and high asset quality. This business strategy includes the following elements:

Table of Contents

Remaining a community-oriented financial institution. We were established in 1921 and have been operating continuously since that time. We are committed to meeting the financial needs of the communities in which we operate, and we are dedicated to providing quality personal service to our customers. We provide a broad range of consumer and business financial services from our 24 branch offices.

Increasing loan production while maintaining high asset quality. We have grown our loan portfolio to $642.1 million at December 31, 2008 from $486.1 million at December 31, 2004. In growing the loan portfolio, we have emphasized maintaining strong asset quality by following conservative underwriting guidelines, and primarily originating loans secured by residential real estate. We also underwrite all of our loans in our main office in Honolulu to ensure uniformity and consistency in underwriting decisions. Our non-performing assets at December 31, 2008 were $280,000, or 0.02% of total assets, compared to $106,000 or 0.01% of total assets at December 31, 2007, and $593,000 or 0.05% of total assets at December 31, 2006.

Emphasizing lower cost core deposits to maintain low funding costs. We believe that it is easier to increase net income by controlling the cost of funds instead of trying to maximize asset yields, as loans with high yields often involve greater credit risk or may be repaid during periods of decreasing market interest rates. We promote passbook and statement savings accounts, regular and commercial checking accounts and Super NOW accounts, which generally are lower-cost sources of funds than certificates of deposits, and are less sensitive to withdrawal when interest rates fluctuate. We intend to grow our core deposit base through branch expansion. In addition, we attract and retain deposits by offering competitive products and interest rates and by emphasizing quality customer service, and through our convenient locations and our advertising program.

Expanding our branch network. We currently operate from 24 banking offices. We intend to evaluate additional branch expansion opportunities, through acquisitions and *de novo* branching, to expand our presence in the State of Hawaii. In addition, we intend to evaluate acquisitions of other financial institutions, as opportunities present themselves. We would like to expand our branch office network by at least three de novo branch offices over the next three years with a focus on areas of the State of Hawaii that we do not currently serve. We plan to open a new branch office in Kihei, Maui in 2009.

Anticipated Increase in Non-Interest Expense

Following the completion of the conversion and offering, we anticipate that our non-interest expense will increase as a result of the increased costs associated with managing a public company, increased compensation expenses associated with the purchases of shares of common stock by our employee stock ownership plan, and the adoption of one or more stock-based benefit plans, if approved by Territorial Bancorp Inc. s stockholders.

Assuming that the adjusted maximum number of shares are sold in the offering (12,233,125 shares):

our employee stock ownership plan would acquire 978,650 shares of common stock with a $9.8 million loan that is expected to be repaid over 20 years, resulting in an

Table of Contents

annual pre-tax expense of approximately $489,000 (assuming that the common stock maintains a value of $10.00 per share);

our stock-based benefit plans would grant stock options to purchase shares equal to 10% of the total shares issued in the offering, or 1,223,312 shares, to eligible participants, which would result in compensation expense over the vesting period of the options. Assuming the market price of the common stock is $10.00 per share; all stock options are granted with an exercise price of $10.00 per share and have a term of 6.5 years; the dividend yield on the stock is 0%; the risk free interest rate is 1.87%; and the volatility rate on the common stock is 25.8%, the estimated grant-date fair value of the stock options utilizing a Black-Scholes option pricing analysis is $3.04 per option granted. Assuming this value is amortized over the five-year vesting period, the corresponding annual pre-tax expense associated with stock options granted under the stock-based benefit plans would be approximately $744,000; and

our stock-based benefit plans would award a number of shares equal to 4% of the shares issued in the offering, or 489,325 shares, to eligible participants, which would be expensed as the awards vest. Assuming that all shares are awarded under the stock-based benefit plans at a price of $10.00 per share, and that the awards vest over a five-year period, the corresponding annual pre-tax expense associated with shares awarded under the stock-based benefit plans would be approximately $979,000.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of the shares of common stock as they are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, increases in the stock price above $10.00 per share will increase the total employee stock ownership plan expense, and any accelerated repayment of the loan would increase the annual employee stock ownership plan expense. Additionally, the actual expense of shares awarded under one or more stock-based benefit plans will be determined by the fair market value of the stock on the grant date, which might be greater than $10.00 per share. Further, the actual expense of stock options granted under one or more stock-based benefit plans would be determined by the grant-date fair value of the options, which would depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately used.

We may award shares of common stock and grant options in excess of 4% and 10%, respectively, of our shares of stock sold in the stock offering if our stock-based benefit plans are adopted more than one year following the stock offering. This would further increase our expenses associated with stock-based benefit plans.

Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies:

Allowance for Loan Losses. We maintain an allowance for loan losses at an amount estimated to equal all credit losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. We establish specific allowances for impaired loans, and general allowances for the remaining loans in our loan portfolio. To estimate credit losses on impaired loans (in accordance with

Table of Contents

Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended by Statement of Financial Accounting Standards No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures), we evaluate numerous factors, as described below in Allowance for Loan Losses. Based on our estimate of the level of allowance for loan losses required, we record a provision for loan and lease losses to maintain the allowance for loan losses at an appropriate level.

Since we cannot predict with certainty the amount of loan charge-offs that will be incurred and because the eventual level of loan charge-offs is affected by numerous conditions beyond our control, a range of loss estimates can reasonably be used to determine the allowance for loan losses and the related provisions for loan losses. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review our allowance for loan losses. Such agencies may require that we recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Accordingly, actual results could differ from those estimates.

Deterioration in the Hawaii real estate market could result in an increase in loan delinquencies, additional increases in our allowance for loan losses and provision for loan losses, as well as an increase in loan charge-offs.

Securities Impairment. We periodically perform analyses to determine whether there has been an other-than-temporary decline in the value of one or more of our securities. Our securities, all of which are classified as held to maturity, consist primarily of debt securities for which we have a positive intent and ability to hold to maturity, and are carried at amortized cost. We conduct a quarterly review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to estimated fair market value through a charge to current period operations. The market values of our securities are affected by changes in interest rates as well as shifts in the market s perception of the issuers. The fair value of investment securities is usually based on quoted market prices or dealer quotes. However, if there are no observable market inputs (for securities such as trust preferred securities), we estimate the fair value using unobservable inputs. We obtain estimates of the fair value of trust preferred securities from pricing services and by discounting projected cash flows using a risk-adjusted discount rate in accordance with FSP FAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. The fair value of the trust preferred securities for disclosure purposes is estimated by considering the reasonableness of the range of fair value estimates provided by a pricing service and the discounted cash values.

Deferred Tax Assets. Deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards. A valuation allowance may be required if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In determining whether a valuation allowance is necessary, we consider the level of taxable income in prior years, to the extent that carrybacks are permitted under current tax laws, as well as estimates of future taxable income and tax planning strategies that could be implemented to accelerate taxable income if necessary. If our estimates of future taxable income were materially overstated or if our assumptions regarding the tax consequences of tax planning strategies were inaccurate, some or all of our deferred tax assets may not be realized, which would result in a charge to earnings.

Table of Contents

Defined Benefit Retirement Plan. Defined benefit plan obligations and related assets of our defined benefit retirement plan are presented in Note 13 to the Consolidated Financial Statements. Effective December 31, 2008, the defined benefit retirement plan was frozen and all plan benefits were fixed as of that date. Plan assets, which consist primarily of marketable equity and debt securities, are typically valued using market quotations. Plan obligations and the annual pension expense are determined by independent actuaries through the use of a number of assumptions. Key assumptions in measuring the plan obligations include the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate, we utilize a yield that reflects the top 50% of the universe of bonds, ranked in the order of the highest yield. Asset returns are based upon the anticipated average rate of earnings expected on the invested funds of the plans.

At December 31, 2008, we used weighted-average discount rates of 6.0% and 6.30% for calculating annual pension expense and projected plan liabilities, respectively, and an expected long-term rate of return on plan assets of 8.0% for calculating annual pension expense. At December 31, 2007, we used a weighted-average discount rate of 6.0% for calculating each of annual pension expense and projected plan liabilities and an expected long-term rate of return on plan assets of 8.0% calculating annual pension expense. For both the discount rate and the asset return rate, a range of estimates could reasonably have been used which would affect the amount of pension expense and pension liability recorded.

An increase in the discount rate or asset return rate would reduce pension expense in 2008, while a decrease in the discount rate or asset return rate would have the opposite effect. A 25 basis points decrease in the discount rate assumptions would increase 2008 pension expense by $57,166 and year-end 2008 pension liability by $317,849, while a 25 basis points decrease in the asset return rate would increase 2008 pension expense by $22,063.

Balance Sheet Analysis

Assets. At December 31, 2008, our assets were $1.224 billion, an increase of $62.4 million, or 5.4%, from $1.162 billion at December 31, 2007. The increase was caused by an increase in total loans of $80.8 million, or 14.4%, which increase we funded with increased deposits, and increased securities sold under agreements to repurchase.

Loans. At December 31, 2008, total loans were $642.1 million, or 52.4% of total assets. During the year ended December 31, 2008, the loan portfolio grew $80.8 million, or 14.4%. The increase was caused primarily by an increase in one- to four-family residential real estate loans of $74.8 million, or 14.8%.

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio at the dates indicated. There were no loans held for sale at December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

	At December 31,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
First mortgage:										
One- to four-family residential	$ 581,251	90.52%	$ 506,410	90.21%	$ 516,554	93.26%	$ 498,809	95.69%	$ 463,851	95.43%
Multi-family residential	3,756	0.58	4,488	0.80	4,983	0.90	4,759	0.91	6,592	1.36
Construction, commercial and other	21,042	3.28	17,041	3.04	14,784	2.67	8,625	1.65	10,588	2.18
Home equity loans and lines of credit	29,956	4.67	26,828	4.78	12,763	2.30	5,879	1.13	2,206	0.45
Other loans	6,097	0.95	6,579	1.17	4,830	0.87	3,232	0.62	2,823	0.58
Total loans	642,102	100.00%	561,346	100.00%	553,914	100.00%	521,304	100.00%	486,060	100.00%
Other items:										
Unearned fees and discounts, net	(5,100)		(4,375)		(4,415)		(4,095)		(3,719)	
Undisbursed loan funds	(2,943)		(1,408)		(2,530)		(349)		(1,512)	
Allowance for loan losses	(899)		(768)		(768)		(770)		(750)	
Loans receivable, net	$ 633,160		$ 554,795		$ 546,201		$ 516,090		$ 480,079	

Table of Contents

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2008. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to four-family residential real estate		Multi-family residential real estate		Construction, commercial and other real estate	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending December 31,						
2009	$ 49	6.88%	$ —	—%	$ 3,479	7.66%
2010	—	—	—	—	387	6.50
2011	15	6.00	58	7.25	726	6.50
2012 to 2013	587	6.23	320	7.00	1,001	6.39
2014 to 2018	11,719	5.11	984	7.36	5,032	6.78
2019 to 2023	33,366	5.46	672	6.81	217	7.00
2024 and beyond	535,515	5.61	1,722	7.15	10,200	6.41
Total	$ 581,251	5.59%	$ 3,756	7.14%	$ 21,042	6.71%

	Home equity loans and lines of credit		Other loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending December 31,						
2009	$ 262	7.12%	$ 1,741	6.01%	$ 5,531	7.11%
2010	1,628	7.01	312	6.43	2,327	6.85
2011	2,050	7.30	130	8.70	2,979	7.16
2012 to 2013	1,406	7.80	1,433	7.15	4,747	7.06
2014 to 2018	3,265	7.22	1,086	6.13	22,086	5.95
2019 to 2023	950	6.93	1,395	7.00	36,600	5.59
2024 and beyond	20,395	6.76	—	—	567,832	5.67
Total	$ 29,956	6.92%	$ 6,097	6.60%	$ 642,102	5.71%

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2008 that are contractually due after December 31, 2009.

	Due After December 31, 2009		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
First mortgage:			
One- to four-family residential	$ 571,560	$ 9,642	$ 581,202

Multi-family residential	3,581	175	3,756
Construction, commercial and other	13,926	3,637	17,563
Home equity loans and lines of credit	21,444	8,250	29,694
Other loans	4,303	53	4,356
Total loans	$ 614,814	$ 21,757	$ 636,571

Securities. At December 31, 2008, our securities portfolio totaled $527.8 million, or 43.1% of assets. At that date, our securities portfolio consisted primarily of securities with the following amortized cost: $411.8 million of mortgage-backed securities issued by Fannie Mae or Freddie Mac; $111.3 million of collateralized mortgage obligations (all of which are issued by government agencies or government

Table of Contents

sponsored enterprises) and $4.5 million of trust preferred securities. At December 31, 2008, all of such securities were classified as held-to-maturity, and none of the underlying collateral consisted of subprime or Alt-A (traditionally defined as loans having less than full documentation) loans. At December 31, 2008, we held no common or preferred stock of Fannie Mae or Freddie Mac.

During the year ended December 31, 2008, our securities portfolio decreased $10.3 million, or 1.9%, as we used excess cash to fund loan originations instead of purchasing securities. The decrease reflected the sale of all $10.5 million of the municipal bonds we held at December 31, 2007.

The following table sets forth the amortized cost and estimated fair value of our securities portfolios (excluding Federal Home Loan Bank of Seattle common stock) at the dates indicated. All of such securities were classified as held to maturity at the dates indicated.

	At December 31,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
U.S. government sponsored mortgage-backed securities:						
Fannie Mae	$ 103,313	$ 105,272	$ 115,004	$ 113,040	$ 146,090	$ 142,205
Freddie Mac	308,522	315,823	316,546	310,614	354,458	342,186
Collateralized mortgage obligations	111,328	112,358	88,779	88,481	100,645	97,882
Other	65	61	83	80	2,498	2,576
Total U.S. government sponsored mortgage-backed securities	523,228	533,514	520,412	512,215	603,691	584,849
Municipal bonds			10,539	10,592	10,548	10,489
Trust preferred securities	4,539	2,076	7,074	6,500	7,100	7,121
Total	$ 527,767	$ 535,590	$ 538,025	$ 529,307	$ 621,339	$ 602,459

Unrealized losses on individual mortgage-backed securities as of December 31, 2008, 2007 and 2006 were caused by increases in current market interest rates. All of our mortgage-backed securities are guaranteed by U.S. government-sponsored enterprises. Since the decline in market value had been attributable to changes in interest rates and not credit quality, and we have had, and continue to have, the intent and ability to hold these investments to maturity, we have not considered these investments to be other-than-temporarily impaired as of December 31, 2008, 2007 or 2006.

We sold our municipal bonds in 2008 because $5.5 million of these securities had experienced a credit downgrade and because of the possibility of a potential downgrade of both the issuers of and the insurers on the remaining bonds. The unrealized losses on our investment in municipal bonds at December 31, 2007 and December 31, 2006 were caused by increases in current market interest rates. All of the municipal bonds were rated AA or better by S&P and/or Moody s and insured. Prior to sale, we expected full repayment at maturity, and had the ability to hold these investments to maturity. Therefore, we did not consider these investments to be other-than-temporarily impaired as of December 31, 2007 or 2006.

At December 31, 2008, we owned trust preferred securities with a carrying value of $4.5 million. This portfolio consists of two securities, which represent investments in a pool of debt obligations issued by Federal Deposit Insurance Corporation-insured financial institutions, insurance companies and real estate investment trusts.

The trust preferred securities market is considered to be inactive as no transactions have occurred over the past three months. We used a discounted cash flow model to determine the estimated fair value of the trust preferred securities and whether they are other-than-temporarily impaired. Based on our review, we considered our investment in one of the trust preferred securities other-than-temporarily impaired as of December 31, 2008, we recorded a $2.5 million impairment charge. The second security had not been downgraded as of December 31, 2008, and we continued to receive full interest payments. We also reviewed a stress test of this security that indicated it could absorb additional deferrals or defaults in the collateral pool in excess of what we believe is likely before the interest payments on this security are negatively impacted. We have had, and continue to have, the ability and intent to hold this second security to maturity, and we did not consider this investment to be other-than-temporarily impaired as of December 31, 2008.

As of December 31, 2007 and 2006, we had continued to receive full interest payments on each of the trust preferred securities, and they had not been downgraded. The cash flows indicated that the trust preferred securities were performing in accordance with their original contractual terms. As of December 31, 2007 and 2006, we had, and continued to have, the ability and intent to hold these securities to maturity, and we did not consider these two investments to be other-than-temporarily impaired as of December 31, 2007 or December 31, 2006.

At December 31, 2008, we had no investments in a single company or entity that had an aggregate book value in excess of 10% of our consolidated equity.

Bank Owned Life Insurance. We invest in bank owned life insurance to provide us with a funding source for our benefit plan obligations. Bank owned life insurance also generally provides us non-interest income that is non-taxable. Federal regulations generally limit our investment in bank owned life insurance to 25% of our Tier 1 capital plus our allowance for loan losses. At December 31, 2008, this limit was $30.4 million, and we had invested $27.1 million in bank owned life insurance at that date.

Table of Contents

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2008 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. No tax-equivalent adjustments have been made, as we did not hold any tax-free investment securities at December 31, 2008.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
U.S. government sponsored mortgage-backed securities											
Fannie Mae	$	%	$	%	$	%	$ 103,313	5.10%	$ 103,313	$ 105,272	5.10%
Freddie Mac							308,522	4.97	308,522	315,823	4.97
Collateralized mortgage obligations			7,431	5.50	28,189	4.40	75,708	5.11	111,328	112,358	4.96
Other							65	4.97	65	61	4.97
Total U.S. government sponsored mortgage-backed securities			7,431	5.50	28,189	4.40	487,608	5.02	523,228	533,514	4.99
Trust preferred securities							4,539	4.07	4,539	2,076	4.07
Total	$	%	$ 7,431	5.50%	$ 28,189	4.40%	$ 492,147	5.01%	$ 527,767	$ 535,590	4.99%

Table of Contents

Deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing, convenient locations and customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of passbook and statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and Super NOW accounts. Historically, we have not accepted brokered deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

During the year ended December 31, 2008, our deposits grew $31.6 million, or 3.5% (although average deposits decreased from 2007 to 2008). The increase was caused by our promoting higher than market rates for our passbook and statement savings accounts and our advertising certificates of deposit at market rates.

At December 31, 2008, we had a total of $397.2 million in certificates of deposit, of which $369.4 million had remaining maturities of one year or less. Based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity.

The following tables set forth the distribution of our average total deposit accounts (including interest-bearing and non-interest bearing deposits), by account type, for the periods indicated.

	For the Years Ended December 31,					
	2008			2007		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Deposit type:						
Noninterest bearing	$ 13,303	1.4%	%	$ 12,319	1.4%	%
Savings accounts	392,041	43.0	1.53%	396,209	42.5	1.40%
Certificates of deposit	403,405	44.3	3.09%	422,173	45.3	4.32%
Money market	81,691	9.0	0.06%	80,283	8.6	0.07%
Checking and Super NOW	20,530	2.3	0.05%	20,799	2.2	0.07%
Total deposits	$ 910,970	100.0%	2.03%	$ 931,783	100.0%	2.56%

	For the Year Ended December 31, 2006		
	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)		
Deposit type:			
Noninterest bearing	$ 10,873	1.1%	%
Savings accounts	520,476	53.2	1.55%
Certificates of deposit	347,852	35.6	3.88%
Money market	78,160	8.0	0.11%
Checking and Super NOW	20,223	2.1	0.10%
Total deposits	$ 977,584	100.0%	2.22%

Table of Contents

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At December 31, 2008	2007	2006
		(In thousands)	
Interest Rate:			
Less than 2.00%	$ 130,699	$	$ 193
2.00% to 2.99%	161,221	30,116	14,802
3.00% to 3.99%	101,307	81,918	50,119
4.00% to 4.99%	3,942	285,906	319,123
5.00% to 5.99%		100	34,049
Total	$ 397,169	$ 398,040	$ 418,286

The following table sets forth, by interest rate ranges, information concerning our certificates of deposit.

	At December 31, 2008 Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years	Total	Percent of Total
	(Dollars in thousands)					
Interest Rate Range:						
2.99% and below	$ 287,194	$ 3,630	$ 1,096	$	$ 291,920	73.5%
3.00% to 3.99%	79,815	17,517	215	3,760	101,307	25.5
4.00% to 4.99%	2,357	210	1,274	101	3,942	1.0
Total	$ 369,366	$ 21,357	$ 2,585	$ 3,861	$ 397,169	100.0%

As of December 31, 2008, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $185.2 million. The following table sets forth the maturity of those certificates as of December 31, 2008.

	At December 31, 2008 (In thousands)
Three months or less	$ 125,299
Over three months through six months	16,016
Over six months through one year	37,092
Over one year to three years	5,020
Over three years	1,818
Total	$ 185,245

Borrowings. Our borrowings consist primarily of advances from the Federal Home Loan Bank of Seattle and funds borrowed under repurchase agreements. At December 31, 2008, our repurchase agreements totaled $115.2 million, or 10.2% of total liabilities, and our Federal Home Loan Bank advances totaled $35.8 million, or 3.2% of total liabilities. At December 31, 2008, we had access to additional Federal Home Loan Bank advances of up to $270.0 million.

During the year ended December 31, 2008, our borrowings grew $23.8 million, or 18.7%. The increase was caused by our using borrowings, along with cash on hand and increased deposits, to fund an increase in the loan portfolio. In addition, during 2008 Federal Home Loan Bank advances decreased by

Table of Contents

$36.2 million while we added $60.0 million of long-term, fixed-rate reverse repurchase agreements. The shift from Federal Home Loan Bank advances to longer-term reverse purchase agreements, along with our purchase of $36.8 million of shorter-duration mortgage-backed securities, is part of our continued effort to reduce interest rate risk. See Management of Market Risk.

The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances at the dates and for the years indicated.

	At or For the Years Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Balance at end of year	$ 35,791	$ 72,000	$ 100,000
Average balance during year	$ 21,033	$ 70,178	$ 91,571
Maximum outstanding at any month end	$ 43,875	$ 127,659	$ 114,820
Weighted average interest rate at end of year	0.63%	4.62%	5.33%
Average interest rate during year	2.45%	5.28%	3.98%

The following table sets forth information concerning balances and interest rates on our repurchase agreements at the dates and for the years indicated.

	At or For the Years Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Balance at end of year	$ 115,200	$ 55,200	$ 60,545
Average balance during year	$ 110,871	$ 48,912	$ 27,038
Maximum outstanding at any month end	$ 123,200	$ 61,422	$ 63,304
Weighted average interest rate at end of year	3.95%	4.85%	5.35%
Average interest rate during year	4.05%	5.26%	5.33%

Equity. At December 31, 2008, our equity was $99.4 million, an increase of $6.9 million, or 7.5%, from $92.5 million at December 31, 2007. The increase resulted from net income of $7.2 million for the year ended December 31, 2008, offset by $295,000 of adjustments to other comprehensive income resulting from retirement plan benefits.

Table of Contents

Average Balances and Yields

The following tables set forth average balance sheets, average yields and rates, and certain other information at and for the years indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of net deferred costs, discounts and premiums that are amortized or accreted to interest income.

	At December 31, 2008	For the Year Ended December 31, 2008		
	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
		(Dollars in thousands)		
Interest-earning assets:				
Loans:				
Real estate loans:				
First mortgage:				
One- to four-family residential	5.59%	$ 544,920	$ 31,087	5.70%
Multi-family residential	7.14	4,174	301	7.21
Construction, commercial and other	6.80	19,168	1,319	6.88
Home equity loans and lines of credit	6.92	28,910	2,012	6.96
Other loans	6.60	6,074	434	7.15
Total loans	5.71	603,246	35,153	5.83
Investment securities				
U.S. government sponsored mortgage-backed securities	4.99	519,400	25,439	4.90
Municipal bonds		3,000	112	3.73
Trust preferred securities	4.07	7,049	361	5.12
Other		459	9	1.96
Total securities	4.99	529,908	25,921	4.89
Other		13,957	146	1.05
Total interest-earning assets	5.32	1,147,111	61,220	5.34
Non-interest-earning assets		50,362		
Total assets		$ 1,197,473		
Interest-bearing liabilities:				
Savings accounts	1.59%	$ 392,041	6,003	1.53%
Certificates of deposit	2.40	403,405	12,457	3.09
Money market accounts	0.06	81,691	51	0.06
Checking and Super NOW accounts	0.06	20,530	10	0.05
Total interest-bearing deposits	1.77	897,667	18,521	2.06
Federal Home Loan Bank advances	0.63	21,033	515	2.45
Other borrowings	4.12	136,493	6,211	4.55
Total interest-bearing liabilities	2.03	1,055,193	25,247	2.39
Non-interest-bearing liabilities		44,642		
Total liabilities		1,099,835		
Equity		97,638		

Total liabilities and equity		$ 1,197,473		
Net interest income			$ 35,973	
Net interest rate spread (1)	3.29%			2.95%
Net interest-earning assets (2)		$ 91,918		
Net interest margin (3)	3.45%			3.14%
Average interest-earning assets to interest-bearing liabilities	108.29%	108.71%		

(footnotes on following page)

Table of Contents

	For the Years Ended December 31, 2007			2006		
	Average Outstanding Balance	Interest	Yield/ Rate	Average Outstanding Balance	Interest	Yield/ Rate
	(Dollars in thousands)					
Interest-earning assets:						
Loans:						
Real estate loans:						
First mortgage:						
One- to four-family residential	$ 521,348	$ 29,524	5.66%	$ 504,557	$ 28,095	5.57%
Multi-family residential	4,746	343	7.23	5,112	370	7.24
Construction, commercial and other	12,946	952	7.35	9,563	688	7.19
Home equity loans and lines of credit	18,060	1,293	7.16	8,130	566	6.96
Other loans	5,472	402	7.35	4,078	287	7.04
Total loans	562,572	32,514	5.78	531,440	30,006	5.65
Investment securities						
U.S. government sponsored mortgage-backed securities	556,629	27,356	4.91	633,206	31,352	4.95
Municipal bonds	10,544	392	3.72	10,554	393	3.72
Trust preferred securities	7,096	539	7.60	1,179	89	7.55
Other	150	13	8.67			
Total securities	574,419	28,300	4.93	644,939	31,834	4.94
Other	13,528	133	0.98	12,982	47	0.36
Total interest-earning assets	1,150,519	60,947	5.30	1,189,361	61,887	5.20
Non-interest-earning assets	47,400			45,864		
Total assets	$ 1,197,919			$ 1,235,225		
Interest-bearing liabilities:						
Savings accounts	$ 396,209	$ 5,546	1.40%	$ 520,476	$ 8,088	1.55%
Certificates of deposit	422,173	18,243	4.32	347,852	13,484	3.88
Money market accounts	80,283	60	0.07	78,160	85	0.11
Checking and Super NOW accounts	20,799	14	0.07	20,223	21	0.10
Total interest-bearing deposits	919,464	23,863	2.60	966,711	21,678	2.24
Federal Home Loan Bank advances	70,178	3,709	5.29	91,571	3,647	3.98
Other borrowings	74,051	4,796	6.48	51,398	3,511	6.83
Total interest-bearing liabilities	1,063,693	32,368	3.05	1,109,680	28,836	2.60
Non-interest-bearing liabilities	43,379			39,207		
Total liabilities	1,107,072			1,148,887		
Equity	90,847			86,338		
Total liabilities and equity	$ 1,197,919			$ 1,235,225		
Net interest income		$ 28,579			$ 33,051	
Net interest rate spread (1)			2.25%			2.60%
Net interest-earning assets (2)	$ 86,826			$ 79,681		
Net interest margin (3)			2.48%			2.78%

Average of interest-earning assets to interest-bearing liabilities	108.16%	107.18%

(1) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(2) Net interest-earning assets represents total interest-earning assets less total interest-bearing liabilities.
(3) Net interest margin represents net interest income divided by average total interest-earning assets.

Table of Contents

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the years indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately based on the changes due to rate and the changes due to volume.

	Years Ended December 31, 2008 vs. 2007			Years Ended December 31, 2007 vs. 2006		
	Increase (Decrease) Due to		Total Increase	Increase (Decrease) Due to		Total Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Loans:						
Real estate loans:						
First mortgage:						
One- to four-family residential	$ 1,343	$ 220	$ 1,563	$ 945	$ 484	$ 1,429
Multi-family residential	(41)	(1)	(42)	(26)	(1)	(27)
Construction, commercial and other	424	(57)	367	248	16	264
Home equity loans and lines of credit	754	(35)	719	710	17	727
Other loans	43	(11)	32	102	13	115
Total loans	2,523	116	2,639	1,979	529	2,508
Investment securities						
U.S. government sponsored mortgage-backed securities	(1,824)	(93)	(1,917)	(3,765)	(231)	(3,996)
Municipal bonds	(282)	2	(280)		(1)	(1)
Trust preferred securities	(4)	(174)	(178)	449	1	450
Other	(6)	2	(4)	13		13
Total securities	(2,116)	(263)	(2,379)	(3,303)	(231)	(3,534)
Other	4	9	13	2	84	86
Total interest-earning assets	$ 411	$ (138)	$ 273	$ (1,322)	$ 382	$ (940)
Interest-bearing liabilities:						
Savings accounts	$ (58)	$ 515	$ 457	$ (1,796)	$ (746)	$ (2,542)
Certificates of deposit	(780)	(5,006)	(5,786)	3,096	1,663	4,759
Money market accounts	1	(10)	(9)	2	(27)	(25)
Checking and Super NOW accounts		(4)	(4)	1	(8)	(7)
Total interest-bearing deposits	(837)	(4,505)	(5,342)	1,303	882	2,185
Federal Home Loan Bank advances	(1,808)	(1,386)	(3,194)	(155)	217	62
Other borrowings	2,186	(771)	1,415	1,456	(171)	1,285
Total interest-bearing liabilities	$ (459)	$ (6,662)	$ (7,121)	$ 2,604	$ 928	$ 3,532
Change in net interest income	$ 870	$ 6,524	$ 7,394	$ (3,926)	$ (546)	$ (4,472)

Comparison of Operating Results for the Years Ended December 31, 2008, 2007 and 2006

General. Net income increased $1.4 million, or 24.8%, to $7.2 million for the year ended December 31, 2008 from $5.8 million for the year ended December 31, 2007. The increase was primarily caused by a $7.4 million increase in net interest income, partially offset by an increase in non-interest expense of $3.0 million and a decrease in non-interest income of $1.7 million.

Net income decreased $1.9 million, or 25.2%, to $5.8 million for the year ended December 31, 2007 from $7.7 million for the year ended December 31, 2006. The decrease was primarily caused by a $4.5 million decrease in net interest income offset by a $1.1 million decrease in non-interest expense and a decrease of $1.6 million in income taxes.

Net Interest Income. Net interest income increased $7.4 million, or 25.9%, for the year ended December 31, 2008, compared to the prior year. Interest expense decreased $7.1 million as declining market interest rates for certificates of deposits allowed us to reduce our deposit expense by $5.3 million. A $3.2 million decrease in interest expense on Federal Home Loan Bank advances was partially offset by an increase in expense on other borrowings (including debentures relating to trust preferred securities) of $1.4 million. Interest and dividend income increased $273,000 as interest income on loans increased $2.6 million due to portfolio growth and interest income on investment securities declined by $2.4 million primarily due to a lower average balance of securities. The interest rate spread and net interest margin were 2.95% and 3.14%, respectively, for the year ended December 31, 2008, compared to 2.25% and 2.48% for 2007. The improvement in the interest rate spread was the result of a decrease in the average cost of interest-bearing liabilities of 66 basis points, and an increase in the average yield on interest-earning assets of four basis points.

Net interest income decreased $4.5 million, or 13.5%, for the year ended December 31, 2007, compared to the prior year. Interest expense increased $3.5 million as expense on deposits increased $2.2 million during a period of rising interest rates, and interest expense on other borrowings (primarily reverse repurchase agreements) increased $1.3 million due to increased balances. Interest and dividend income decreased $940,000 in 2007 due primarily to a $3.5 million decrease in interest income on investment securities resulting from a $70.5 million decrease in the average balance of securities, offset by an increase of $2.5 million in interest income on loans due to portfolio growth. The interest rate spread and net interest margin were 2.25% and 2.48%, respectively, for 2007, compared to 2.60% and 2.78% for 2006. The decline in the interest rate spread was the result of an increase in the average cost of interest-bearing liabilities of 45 basis points, offset by an increase in the average yield on interest-earning assets of ten basis points.

Interest and Dividend Income. Interest and dividend income increased $273,000 to $61.2 million for the year ended December 31, 2008 from $60.9 million for the year ended December 31, 2007. An increase in interest income on loans offset a decrease in interest income on investment securities. Interest income on loans increased $2.6 million, or 8.1%, to $35.2 million for the year ended December 31, 2008 from $32.5 million for the year ended December 31, 2007, as our average balance of loans increased $40.7 million, or 7.2%. Our average balance of loans increased despite our selling $43.0 million of 10-, 15- and 20-year fixed-rate residential mortgage loans in November 2007 as part of our efforts to manage interest rate risk. Interest income on securities decreased $2.4 million, or 8.4%, to $25.9 million for the year ended December 31, 2008 from $28.3 million for the year ended December 31, 2007, as our average balance of investment securities decreased $44.5 million, or 7.7%. In an effort to manage interest rate risk, we sold $21.7 million of fixed-rate mortgage-backed securities in May 2007 and used the proceeds of the sales to repay borrowings. We sold these securities, which were classified as held to maturity, without reclassifying the remainder of our mortgage-backed securities portfolio to available for sale, as permitted by the guidance in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, as we had received a substantial portion (at least 85%) of the principal outstanding at the acquisition date due to prepayments or scheduled repayments in the securities sold. The remaining reduction in our average securities portfolio was caused by principal repayments exceeding securities purchases. There were no material changes in the rates we earned on loans or investment securities between the years.

Interest and dividend income decreased $940,000, or 1.5%, to $60.9 million for the year ended December 31, 2007 from $61.9 million for the year ended December 31, 2006. A decrease in interest income on investment securities offset an increase in interest income on loans. Interest income on securities decreased $3.5 million, or 11.1%, to $28.3 million for the year ended December 31, 2007 from $31.8 million for the year ended December 31, 2006, as our average balance of investment securities decreased $70.5 million, or 10.9%. In an effort to manage interest rate risk, we sold $21.7 million of fixed-rate mortgage-backed securities in May 2007 and used the proceeds of the sales to repay borrowings. We sold these securities, which were classified as held to maturity, without reclassifying the remainder of our mortgage-backed securities portfolio to available for sale, as permitted by the guidance in Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities. The remaining reduction in our average securities portfolio was caused by principal repayments exceeding securities purchases. Interest income on loans increased $2.5 million, or 8.4%, to $32.5 million for the year ended December 31, 2007 from $30.0 million for the year ended December 31, 2006, as our average balance of loans increased $31.1 million, or 5.9%. We were able to grow our loan portfolio despite our selling $43.0 million of 10-, 15- and 20-year fixed-rate residential mortgage loans in November 2007 as part of our efforts to manage interest rate risk. There were no material changes in the rates we earned on loans or investment securities between the years.

Interest Expense. Interest expense decreased $7.1 million, or 22.0%, to $25.2 million for the year ended December 31, 2008 from $32.4 million for the year ended December 31, 2007. Interest expense on deposits decreased $5.3 million, or 22.4%, caused by a decrease in interest expense on certificates of deposit of $5.8 million, or 31.7%. We were able to maintain the significant majority of our certificates of deposit during a period of declining market interest rates, as the rates we paid on certificates of deposit decreased 123 basis points. In addition, interest expense on Federal Home Loan Bank advances decreased $3.2 million, or 86.1%, offsetting an increase in interest expense on other borrowings (primarily reverse repurchase agreements) of $1.4 million, or 29.5%. We experienced this modest increase in interest expense on other borrowings despite an increase in the average balance of such borrowings of $62.4 million, or 84.3%, as the rate we paid on other borrowings decreased 193 basis points during a period of declining market interest rates. We increased our balances of reverse repurchase agreements to lengthen the term of our liabilities in an effort to reduce interest rate risk.

Interest expense increased $3.5 million, or 12.2%, to $32.4 million for the year ended December 31, 2007 from $28.8 million for the year ended December 31, 2006. Interest expense on deposits increased $2.2 million, or 10.1%. The rates we paid on interest-bearing deposits increased 36 basis points during a period of rising interest rates, offsetting a decrease in the average balance of deposits between the years. In addition, interest expense on other borrowings (primarily reverse repurchase agreements and debentures related to trust preferred securities) increased $1.3 million, or 36.6%, as we increased our balances of reverse repurchase agreements by lengthening the term of our liabilities in an effort to reduce interest rate risk.

Table of Contents

Provision for Loan Losses. Based on our analysis of the factors described in Allowance for Loan Losses, we recorded a provision for loan losses of $149,000 for the year ended December 31, 2008 compared to provisions of $25,000 and $6,000 for the years ended December 31, 2007 and 2006, respectively. The provisions for loan losses reflected net chargeoffs of $18,000, $25,000 and $8,000 for the years ended December 31, 2008, 2007 and 2006. The provisions recorded resulted in ratios of the allowance for loan losses to total loans of 0.14%, 0.14% and 0.14% at December 31, 2008, 2007 and 2006, respectively. Non-accrual loans totaled $149,000, $106,000 and $593,000 at December 31, 2008, 2007 and 2006, respectively. To the best of our knowledge, we have provided for all losses that are both probable and reasonable to estimate at December 31, 2008, 2007 and 2006.

Non-Interest Income. The following table summarizes changes in non-interest income between the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,			Change 2008/2007		Change 2007/2006	
	2008	2007	2006	$ Change	% Change	$ Change	% Change
				(In thousands)			
Service fees on loan and deposit accounts	$ 2,918	$ 2,729	$ 2,681	$ 189	6.9%	$ 48	1.8%
Income on bank-owned life insurance	1,038	942	726	96	10.2%	216	29.8%
Other-than-temporary-impairment loss on investments	(2,483)			(2,483)			
Gain on sale of investment securities	146	731	30	(585)	(80.0)%	701	2,336.7%
Loss on sale of loans	2	(1,062)		1,064	(100.2)%	(1,062)	%
Other	552	536	576	16	3.0%	(40)	(6.9)%
Total	$ 2,173	$ 3,876	$ 4,013	$ (1,703)	(43.9)%	$ (137)	(3.4)%

We recognized a $2.5 million loss for other-than-temporary impairment on our investments in trust preferred securities in 2008, as described in Balance Sheet Analysis Securities. Gain on sale of investment securities decreased from the year ended December 31, 2007 to the year ended December 31, 2008 due to the sale of $21.7 million of mortgage-backed securities during the year ended December 31, 2007. As permitted by paragraph 11.b. of Statement of Financial Accounting Standards 115, Accounting for Certain Investments in Debt and Equity Securities, these sales did not require us to reclassify our remaining securities held to maturity as available for sale because we had already received a substantial portion (at least 85%) of the principal outstanding at the acquisition date due to prepayments or scheduled repayments. We also sold $14.8 million of securities in 2007 from our available-for-sale securities portfolio. We sold $9.7 million of available-for-sale mortgage-backed securities during the year ended December 31, 2008 as well as $10.5 million of municipal bonds that were classified as held to maturity. Of these municipal bonds, $5.5 million had experienced credit downgrades of two or more credit grades, thereby exhibiting a significant decline in credit quality. The remaining bonds exhibited inherent credit risks because of the concerns of potential downgrades of both the bond issuers and the bonds insurers. There were no securities classified as available for sale at December 31, 2008, 2007 or 2006. Service fees on loan and deposit accounts increased in 2008 due primarily to an increase in return item fees and in service fees on loans serviced for others. We sold $1.4 million, $43.0 million and $0 of loans during the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents

Non-Interest Expense. The following table summarizes changes in non-interest expense between the years ended December 31, 2008, 2007 and 2006.

	Years Ended December 31,			Change 2008/2007		Change 2007/2006	
	2008	2007	2006	$ Change	% Change	$ Change	% Change
				(In thousands)			
Salaries and employee benefits	$ 15,430	$ 13,447	$ 15,526	$ 1,983	14.7%	$ (2,079)	(13.4)%
Occupancy	4,291	3,990	3,758	301	7.5%	232	6.2%
Equipment	2,866	2,858	2,414	8	0.3%	444	18.4%
Federal deposit insurance premiums	1,079	548	130	531	96.9%	418	321.5%
Other	3,337	3,204	3,272	133	4.2%	(68)	(2.1)%
Total	$ 27,003	$ 24,047	$ 25,100	$ 2,956	12.3%	$ (1,053)	(4.2)%

Salaries and employee benefits expense increased between 2008 and 2007 primarily as we have accrued for higher cash bonuses under our Executive Incentive Compensation Plan (which plan is described in Management Executive Officer Compensation Executive Incentive Compensation Plan) and for other senior executive officers, and because of a bank-wide budgeted salary increase of approximately 3.5%. Bonus expense totaled $1.3 million and $469,000 for the years ended December 31, 2008 and 2007, respectively. Federal deposit insurance premiums increased due to higher insurance rates in 2008 and a one-time credit of $363,000 that we applied in 2007 resulting from the Federal Deposit Insurance Reform Act of 2005.

Salaries and employee benefits expense decreased between 2007 and 2006 as we paid lower cash bonuses under our Executive Incentive Compensation Plan and as we reduced executive compensation following a comprehensive review of peer group executive compensation. Bonus expense totaled $469,000 and $1.5 million for the years ended December 31, 2007 and 2006, respectively.

Income Tax Expense. Income taxes were $3.8 million for 2008, reflecting an effective tax rate of 34.5% compared to $2.6 million for 2007, reflecting an effective tax rate of 31.2%, and $4.2 million for 2006, reflecting an effective tax rate of 35.5%. The changes in our effective tax rates were primarily attributable to the relative amounts of income from bank-owned life insurance and municipal securities, each of which is tax-free for federal and state tax purposes, to total pre-tax income for each year.

Non-performing and Problem Assets

When a residential mortgage loan or home equity line of credit is 15 days past due, we attempt personal, direct contact with the borrower to determine when payment will be made. On the first day of the following month, we mail a letter reminding the borrower of the delinquency, and will send an additional letter when a loan is 60 days or more past due. If necessary, subsequent late charges are issued and the account will be monitored on a regular basis thereafter. By the 75th day of delinquency, unless the borrower has made arrangements to bring the loan current on its payments, we will refer the loan to legal counsel to commence foreclosure proceedings. Upon the recommendation of our Vice President of Mortgage Loan Servicing, our Senior Vice President of Special Credits can shorten these time frames.

Commercial business loans, commercial real estate loans and consumer loans are generally handled in the same manner as residential mortgage loans or home equity lines of credit. All commercial business loans that are 15 days past due are immediately referred to our senior lending officer. In addition, we generate past due notices and attempt direct contact with a borrower when a consumer loan is 10 days past due. Because of the nature of the collateral securing consumer loans, we may commence

Table of Contents

collection procedures faster for consumer loans than for residential mortgage loans or home equity lines of credit.

Loans are placed on non-accrual status when payment of principal or interest is more than 90 days delinquent. Loans are also placed on non-accrual status if collection of principal or interest in full is in doubt. When loans are placed on a non-accrual status, unpaid accrued interest is fully reversed, and further income is recognized only to the extent received. The loan may be returned to accrual status if both principal and interest payments are brought current and full payment of principal and interest is expected.

[Table of Contents](#)

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At December 31, 2008, 2007, 2006, 2005 and 2004, we had troubled debt restructurings (loans for which a portion of interest or principal has been forgiven and loans modified at interest rates less than current market rates) of $309,000, $0, $0, $0 and $0, respectively.

	At December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
First mortgage:					
One- to four-family residential	$	$ 99	$ 561	$ 104	$
Multi-family residential					
Construction, commercial and other					
Home equity loans and lines of credit	149		32		
Other loans		7		4	1
Total non-accrual loans	149	106	593	108	1
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
First mortgage:					
One- to four-family residential					
Multi-family residential					
Construction, commercial and other					
Home equity loans and lines of credit					
Other loans					
Total loans delinquent 90 days or greater and still accruing					
Total non-performing loans	149	106	593	108	1
Real estate owned:					
Real estate loans:					
First mortgage:					
One- to four-family residential	131				
Multi-family residential					
Construction, commercial and other					
Home equity loans and lines of credit					
Other loans					
Total real estate owned	131				
Total non-performing assets	$ 280	$ 106	$ 593	$ 108	$ 1

Ratios:

Non-performing loans to total loans	0.02%	0.02%	0.11%	0.02%	0.00%
Non-performing assets to total assets	0.02	0.01	0.05	0.01	0.00

For the year ended December 31, 2008, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $3,000. We did not recognize any interest income on such non-accruing loans on a cash basis during the year.

Table of Contents

Delinquent Loans. The following table sets forth our loan delinquencies by type and by amount at the dates indicated.

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At December 31, 2008						
Real estate loans:						
First mortgage:						
One- to four-family residential	3	$ 871		$	3	$ 871
Multi-family residential						
Construction, commercial and other						
Home equity loans and lines of credit						
Other loans	1	3			1	3
Total loans	4	$ 874		$	4	$ 874
At December 31, 2007						
Real estate loans:						
First mortgage:						
One- to four-family residential		$	1	$ 99	1	$ 99
Multi-family residential						
Construction, commercial and other						
Home equity loans and lines of credit	1	55			1	55
Other loans	3	4	2	7	5	11
Total loans	4	$ 59	3	$ 106	7	$ 165
At December 31, 2006						
Real estate loans:						
First mortgage:						
One- to four-family residential	1	$ 99	2	$ 561	3	$ 660
Multi-family residential						
Construction, commercial and other						
Home equity loans and lines of credit			1	32	1	32
Other loans	1	3			1	3
Total loans	2	$ 102	3	$ 593	5	$ 695
At December 31, 2005						
Real estate loans:						
First mortgage:						
One- to four-family residential		$	1	$ 104	1	$ 104
Multi-family residential						
Construction, commercial and other						
Home equity loans and lines of credit						
Other loans	3	8	2	4	5	12
Total loans	3	$ 8	3	$ 108	6	$ 116
At December 31, 2004						
Real estate loans:						

First mortgage:						
One- to four-family residential		$		$		$
Multi-family residential						
Construction, commercial and other						
Home equity loans and lines of credit						
Other loans	3	4	1	1	4	5
Total loans	3	$ 4	1	$ 1	4	$ 5

Table of Contents

Real Estate Owned. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. When property is acquired it is recorded at estimated fair market value at the date of foreclosure less the cost to sell, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At December 31, 2008, we had real estate owned of $131,000, and at December 31 2007, 2006, 2005 and 2004, we had no real estate owned.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are required to be designated as special mention. As of December 31, 2008, we had no assets designated as special mention.

We maintain an allowance for loan losses at an amount estimated to equal all credit losses incurred in our loan portfolio that are both probable and reasonable to estimate at a balance sheet date. Our determination as to the classification of our assets and the amount of our loss allowances is subject to review by our principal federal regulator, the Office of Thrift Supervision, which can require that we establish additional loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at December 31, 2008, classified assets consisted of substandard assets of $440,000, no doubtful assets and loss assets of $149,000. The classified assets total at December 31, 2008 includes $149,000 of nonperforming loans.

Allowance for Loan Losses

We provide for loan losses based upon the consistent application of our documented allowance for loan loss methodology. All loan losses are charged to the allowance for loan losses and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with GAAP. The allowance for loan losses consists primarily of two components:

(1) specific allowances established for impaired loans (generally defined as loans delinquent 90 days or greater). The amount of impairment provided for as a specific allowance is represented by the deficiency, if any, between the estimated fair value of the loan, or the loan s observable market price, if any, or the underlying collateral, if the loan is collateral dependent, and the carrying value of the loan. Impaired loans for which the estimated fair

value of the loan, or the loan s observable market price or the fair value of the underlying collateral, if the loan is collateral dependent, exceeds the carrying value of the loan are not considered in establishing specific allowances for loan losses; and

(2) general allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan, as amended by Statement of Financial Accounting Standards No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The portfolio is grouped into similar risk characteristics, primarily loan type, loan-to-value, if collateral dependent, and delinquency status. We apply an estimated loss rate to each loan group. The loss rates applied are based upon our loss experience adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the allowance for loan losses we have established, which could have a material negative effect on our financial results.

The adjustments to historical loss experience are based on our evaluation of several qualitative and environmental factors, including:

- changes in lending policies and procedures, including changes in underwriting standards and collections, chargeoff and recovery practices;
- changes in international, national, and local economic trends;
- changes in the types of loans in the loan portfolio;
- changes in the experience and ability of personnel in the mortgage loan origination and loan servicing departments;
- changes in the number and amount of delinquent loans and classified assets;
- changes in the type and volume of loans being originated;
- changes in the value of underlying collateral for collateral dependent loans;
- changes in any concentration of credit; and
- external factors such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing loan portfolio.

In addition, if we have a limited loss experience for any segment of our portfolio, we may utilize the loan loss experience of other financial institutions in the State of Hawaii. The unallocated allowance is established to provide for probable losses that have been incurred as of the reporting date but are not reflected in the allocated allowance.

We evaluate the allowance for loan losses based upon the combined total of the specific and general components. Generally when the loan portfolio increases, absent other factors, the allowance for

loan loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

Commercial real estate loans generally have greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related business and thus may be subject to a greater extent to adverse conditions in the real estate market and in the general economy.

Construction loans generally have greater credit risk than traditional one- to four-family residential mortgage loans. The repayment of these loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make a loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated. An increase in the balances or concentration of these loans generally results in an increase to our allowance for loan losses.

We evaluate the loan portfolio on a quarterly basis and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, as an integral part of their examination process, the Office of Thrift Supervision will periodically review the allowance for loan losses. The Office of Thrift Supervision may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

Table of Contents

The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or For the Years Ended December 31,				
	2008	2007	2006	2005	2004
Balance at beginning of period	$ 768	$ 768	$ 770	$ 750	$ 743
Charge-offs:					
Real estate loans:					
First mortgage:					
One- to four-family residential					268
Multi-family residential					
Construction, commercial and other					
Home equity loans and lines of credit				5	
Other loans	23	27	10	5	3
Total charge-offs	23	27	10	10	271
Recoveries:					
Real estate loans:					
First mortgage:					
One- to four-family residential					1
Multi-family residential					
Construction, commercial and other					
Home equity loans and lines of credit					
Other loans	5	2	2	45	
Total recoveries	5	2	2	45	1
Net (charge-offs) recoveries	(18)	(25)	(8)	35	(270)
Provision (recovery to allowance) for loan losses	149	25	6	(15)	277
Balance at end of year	$ 899	$ 768	$ 768	$ 770	$ 750
Ratios:					
Net charge-offs (recoveries) to average loans outstanding	0.00%	0.00%	0.00%	(0.01%)	0.06%
Allowance for loan losses to non-performing loans at end of year	603.36%	724.53%	129.51%	712.96%	75,000.00%
Allowance for loan losses to total loans at end of year	0.14%	0.14%	0.14%	0.15%	0.16%

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories. We have reduced the amount of the unallocated portion of the allowance for loan losses in recent years as a result of refinements to our allowance for loan loss methodology. The allowance for loan losses for each category is affected by external factors affecting the national and Hawaii economies, specific industries and sectors and interest rates. In prior years, the effect of these external factors was reflected in the unallocated category of the allowance for loan losses; however, beginning in 2007 these factors are largely reflected in the allowance for loan losses allocated to each specific loan portfolio.

Table of Contents

	At December 31,					
	2008		2007		2006	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
First mortgage:						
One- to four-family residential	$ 53	90.52%	$ 17	90.21%	$ 17	93.26%
Multi-family residential	5	0.58		0.80		0.90
Construction, commercial and other	171	3.28	169	3.04	109	2.67
Home equity loans and lines of credit	405	4.67	260	4.78	221	2.30
Other loans	222	0.95	238	1.17	174	0.87
Total allocated allowance	856	100.00	684	100.00	521	100.00
Unallocated	43		84		247	
Total	$ 899	100.00%	$ 768	100.00%	$ 768	100.00%

	At December 31,			
	2005		2004	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
First mortgage:				
One- to four-family residential	$ 17	95.69%	$ 15	95.43%
Multi-family residential		0.91		1.36
Construction, commercial and other	114	1.65	145	2.18
Home equity loans and lines of credit	134	1.13	45	0.45
Other loans	124	0.62	109	0.58
Total allocated allowance	389	100.00	314	100.00
Unallocated	381		436	
Total	$ 770	100.00%	$ 750	100.00%

Management of Market Risk

General. Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Our Board of Directors has established an Asset/Liability Management Committee, which is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the Board of Directors.

Because we have historically operated as a traditional thrift institution, the significant majority of our assets consist of long-term, fixed rate residential mortgage loans and mortgage backed securities, which we have funded primarily with checking and savings accounts and short-term borrowings. In addition, there is little demand for adjustable rate mortgage loans in the Hawaii market area. This has

Table of Contents

resulted in our being particularly vulnerable to increases in interest rates, as our interest-bearing liabilities mature or reprice more quickly than our interest-earning assets. As a result, our net interest rate spread (the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities) decreased to 2.25% for the year ended December 31, 2007 from 2.60% for the year ended December 31, 2006, but increased to 2.95% during the year ended December 31, 2008 as interest rates have decreased. This resulted in a corresponding decrease in net interest income (the difference between interest income and interest expense) to $28.6 million for the year ended December 31, 2007 from $33.1 million for the year ended December 31, 2006, but an increase to $36.0 million for 2008 as interest rates have decreased.

In 2007, our Board of Directors adopted an Interest Rate Risk Reduction Plan to assist us in reversing this trend and the negative effect on our net income. We hired an outside third-party consultant to assist us in formulating strategies to restructure our balance sheet and reduce our interest rate risk. Following our review of the consultant s suggestions, we have implemented the following strategies to manage our interest rate risk:

- Selling $43.0 million of 10-, 15- and 20-year fixed-rate mortgage loans in November 2007 and using the net proceeds of the loan sales to repay short-term borrowings;

- Extending the maturity of our liabilities by obtaining $55.2 million of long-term, fixed-rate reverse repurchase agreements at interest rates that were approximately 30 basis points lower than the rates paid on then-available Federal Home Loan Bank advances;

- Using cash generated from repayments on fixed-rate mortgage-backed securities to fund savings withdrawals; and

- Selling $21.7 million of fixed-rate mortgage-backed securities in May 2007 classified as held to maturity where we had already received a substantial portion (at least 85%) of the principal outstanding at the acquisition date due to prepayments or scheduled repayments (as permitted by paragraph 11.b. of Statement of Financial Accounting Standards 115, Accounting for Certain Investments in Debt and Equity Securities) and using the net proceeds of the sales to repay short-term borrowings.

We continued our efforts to reduce interest rate risk in 2008 by obtaining an additional $60.0 million of long-term, fixed-rate reverse repurchase agreements and through the purchase of $36.8 million of shorter-duration mortgage-backed securities. We believe that the net proceeds we raise from the stock offering will assist us in managing interest rate risk. In addition, we may utilize the following strategies to further reduce our interest rate risk:

- Continuing our efforts to increase our personal and business checking accounts, which are less rate-sensitive than certificates of deposit and which provide us with a stable, low-cost source of funds;

- Continuing to repay short-term borrowings;

- Purchasing mortgage-backed securities with shorter durations; and

Table of Contents

Subject to the maintenance of our credit quality standards, originating commercial loans and home equity lines of credit, which have adjustable interest rates and shorter average lives than first mortgage loans.

Our policies do not permit hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities. We have no current intention to sell additional loans classified as held for investment at this time.

Net Portfolio Value. The Office of Thrift Supervision requires the computation of amounts by which the difference between the present value of an institution s assets and liabilities (the institution s net portfolio value or NPV) would change in the event of a range of assumed changes in market interest rates. The Office of Thrift Supervision provides all institutions that file a Consolidated Maturity/Rate Schedule as a part of their quarterly Thrift Financial Report with a report that measures the sensitivity of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. Historically, the Office of Thrift Supervision model estimated the economic value of each type of asset, liability and off-balance sheet contract using the current interest rate yield curve with instantaneous increases or decreases of 100 to 300 basis points in 100 basis point increments. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the Change in Interest Rates column below. Given the current relatively low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared. The Office of Thrift Supervision provides us the results of the interest rate sensitivity model, which is based on information we provide to the Office of Thrift Supervision to estimate the sensitivity of our net portfolio value.

The table below sets forth, as of December 31, 2008, the Office of Thrift Supervision s calculation of the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the interest rate yield curve. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results**.**

Change in Interest Rates (bp) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV	Percentage Change in NPV	NPV Ratio as a Percent of Present Value of Assets (3)(4)	Increase (Decrease) in NPV Ratio as a Percent or Present value of Assets (3)(4)
+300	$ 99,189	$ (74,696)	(42.96)%	8.28%	(5.25)%
+200	$ 133,447	$ (40,438)	(23.26)%	10.79%	(2.73)%
+100	$ 162,046	$ (11,839)	(6.81)%	12.77%	(0.76)%
0	$ 173,885			13.53%	
(100)	$ 171,403	$ (2,482)	(1.43)%	13.32%	(0.21)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the difference between the present value of an institution s assets and liabilities.

Table of Contents

(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at December 31, 2008, in the event of a 200 basis point increase in interest rates, we would experience a 23.26% decrease in net portfolio value. In the event of a 100 basis point decrease in interest rates, we would experience a 1.43% decrease in net portfolio value.

For the quarter ended December 31, 2008, the Office of Thrift Supervision classified Territorial Savings Bank as having minimal interest rate risk. However, the Office of Thrift Supervision had previously classified Territorial Savings Bank as having significant interest rate risk. The improvement in interest rate risk position was primarily due to the unusually low market interest rates at December 31, 2008. However, future increases in interest rates may result in Territorial Savings Bank being classified as having additional interest rate risk.

In addition to the Office of Thrift Supervision s calculations with respect to the effects of changes in interest rates on net portfolio value, we prepare our own internal calculations, which utilizes a single interest rate scenario and prepayment assumption in calculating the market value of fixed- and adjustable-rate loans (compared to the Office of Thrift Supervision model, which uses an option-based pricing methodology). Our model also calculates the average life and value for core deposit intangibles that is based on a core deposit study we completed in 2006, whereas the Office of Thrift Supervision model uses a nationwide study to estimate the average life and value for core deposit intangibles. The following table presents our internal calculations of the estimated changes in our net portfolio value that would result from the designated instantaneous changes in the interest rate yield curve.

Change in Interest Rates (bp) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV	Percentage Change in NPV	NPV Ratio as a Percent of Present Value of Assets (3)(4)	Increase (Decrease) in NPV Ratio as a Percent or Present value of Assets (3)(4)
+300	$ 81,986	$ (54,441)	(39.90)%	6.96%	(4.00)%
+200	$ 105,949	$ (30,478)	(22.34)%	8.79%	(2.17)%
+100	$ 127,169	$ (9,258)	(6.79)%	10.33%	(0.63)%
0	$ 136,427			10.96%	
(100)	$ 114,856	$ (21,571)	(15.81)%	9.35%	(1.61)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in net portfolio value. Modeling changes in net portfolio value require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net portfolio value tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assume that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net portfolio value tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Table of Contents

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the Federal Home Loan Bank of Seattle, reverse repurchase agreements, maturities and principal repayments on held-to-maturity and available for sale securities and the sale of available-for-sale securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. We have established a committee, consisting of our President and Chief Executive Officer, our Vice Chairman and Co-Chief Operating Officer, our Senior Vice President and Treasurer and our Vice President and Controller, which is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of December 31, 2008. We anticipate that we will maintain higher liquidity levels following the completion of the stock offering.

We regularly monitor and adjust our investments in liquid assets based upon our assessment of:

(i) expected loan demand;

(ii) expected deposit flows and borrowing maturities;

(iii) yields available on interest-earning deposits and securities; and

(iv) the objectives of our asset/liability management program.

Excess liquid assets are invested generally in interest-earning deposits and short-term securities and are also used to pay off short-term borrowings.

Our most liquid asset is cash. The level of this asset is dependent on our operating, financing, lending and investing activities during any given period. At December 31, 2008, cash totaled $11.2 million. On that date, we had $35.8 million in Federal Home Loan Bank advances outstanding and $115.2 million in reverse repurchase agreements outstanding, with the ability to borrow an additional $270.0 million under Federal Home Loan Bank advances. We also had the ability to borrow an additional $34.8 million using reverse repurchase agreements.

Through statutory trusts formed under the laws of the State of Connecticut, we have sold adjustable-rate trust preferred securities in the aggregate principal amount of $24.0 million, all in pooled trust preferred securities offerings. The proceeds from these sales were paid to Territorial Savings Group, Inc. in exchange for adjustable-rate junior subordinated debentures, which have the same terms as the trust preferred securities. The sole asset of the statutory trusts is the debentures. The payment of dividends on the trust preferred securities depends on our payment of interest on the debentures, which payments are made on a quarterly basis. Depending on the amount of proceeds from our stock offering, we expect that we will use a portion of the net proceeds of our stock offering to redeem some or all of the trust preferred securities. Depending on how much of the trust preferred securities we redeem, we will also incur an expense of up to $522,000 for costs that are being amortized in future periods relating to the issuance of the trust preferred securities.

Table of Contents

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At December 31, 2008, we had $8.3 million in loan commitments outstanding, all of which were for fixed-rate loans. In addition to commitments to originate loans, we had $15.2 million in unused lines of credit to borrowers. Certificates of deposit due within one year of December 31, 2008 totaled $369.4 million, or 40.0% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, brokered deposits, reverse repurchase agreements and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before December 31, 2009. We believe, however, based on past experience, that a significant portion of such deposits will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activity is originating loans. During the years ended December 31, 2008, 2007 and 2006, we originated $149.0 million, $114.7 million and $107.4 million of loans, respectively. During these years, we purchased $62.8 million, $14.9 million and $36.6 million of securities, respectively.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in deposits of $31.6 million for the year ended December 31, 2008 compared to a net decrease in total deposits of $89.0 million for the year ended December 31, 2007. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank of Seattle, which provide an additional source of funds. We also utilize securities sold under agreements to repurchase as another borrowing source. Federal Home Loan Bank advances decreased by $36.2 million for the year ended December 31, 2008, compared to a decrease of $28.0 million for the year ended December 31, 2007. At December 31, 2008, we had the ability to borrow up to an additional $270.0 million from the Federal Home Loan Bank of Seattle. Securities sold under agreements to repurchase increased by $60.0 million for the year ended December 31, 2008, compared to a decrease of $5.3 million for the year ended December 31, 2007.

Territorial Savings Bank is subject to various regulatory capital requirements, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At December 31, 2008, Territorial Savings Bank exceeded all regulatory capital requirements. Territorial Savings Bank is considered well capitalized under regulatory guidelines. See Supervision and Regulation Federal Banking Regulation Capital Requirements and Note 15 of the Notes to the Consolidated Financial Statements.

The net proceeds from the stock offering will significantly increase our liquidity and capital resources. Over time, the initial level of liquidity will be reduced as net proceeds from the stock offering are used for general corporate purposes, including the funding of loans. Our financial condition and results of operations will be enhanced by the net proceeds from the stock offering, resulting in increased net interest-earning assets and net interest income. However, due to the increase in equity resulting from the net proceeds raised in the stock offering, our return on equity will be adversely affected following the stock offering.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our potential future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. In addition, we enter into commitments to sell mortgage loans. For additional information, see Note 14 of the Notes to our Consolidated Financial Statements.

Contractual Obligations. In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities and agreements with respect to investments.

The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at December 31, 2008. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	**One year or less**	**More than one year to three years**	**More than three years to five years (In thousands)**	**More than five years**	**Total**
Long-term debt	$ 35,791	$ 68,900	$ 46,300	$	$ 150,991
Operating leases	2,225	3,982	2,589	2,039	10,835
Capitalized leases					
Purchase obligations	2,016	3,813	2,736	1,356	9,921
Certificates of deposit	369,366	23,942	3,861		397,169
Other long-term liabilities				24,221	24,221
Total	$ 409,398	$ 100,637	$ 55,486	$ 27,616	$ 593,137
Commitments to extend credit	$ 8,286	$	$	$	$ 8,286

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. The pronouncement applies under other accounting standards that require or permit fair value measurements. Accordingly, the statement does not require any new fair value measurement. We adopted the provisions of SFAS 157 on January 1, 2008 and such adoption did not have a material impact on our consolidated financial statements.

In February 2008, the Financial Accounting Standards Board amended SFAS 157 through the issuance of FSP FAS No. 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2). FSP FAS 157-2 is effective upon issuance and delays the effective date of SFAS 157 to fiscal years beginning

Table of Contents

after November 15, 2008, for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). As permitted under SFAS 157, we plan to adopt the provisions of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in our financial statements on a recurring basis effective January 1, 2009. We do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial statements.

In October 2008, the Financial Accounting Standards Board issued FSP FAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including prior periods for which financial statements have not been issued. We adopted the provisions of FSP FAS 157-3 and such adoption did not have a material impact on our consolidated financial statements.

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 on January 1, 2008 and such adoption did not have a material impact on our consolidated financial statements.

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value through Earnings (SAB 109). SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SAB 109 is effective for loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. We adopted SAB 109 on January 1, 2008 and such adoption did not have a material impact on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued SFAS No. 141(R), Business Combinations (SFAS 141(R)). SFAS 141(R) establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest (minority interest) in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination or a gain from a bargain purchase and determining what information should be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

In December 2007, the Financial Accounting Standards Board issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the

Table of Contents

noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement 133 (SFAS 161). SFAS 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how (a) an entity uses derivative instruments; (b) derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ; and (c) derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Specifically, SFAS 161 requires (1) disclosure of the objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation; (2) disclosure of the fair values of derivative instruments and their gains and losses in a tabular format; (3) disclosure of information about credit-risk-related contingent features; and (4) cross-reference from the derivative footnote to other footnotes in which derivative-related information is disclosed. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We do not expect the adoption of this statement to have a material impact on our consolidated financial statements.

In May 2008, the Financial Accounting Standards Board issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendments to Audit Standards Section 411. We do not expect the adoption of SFAS 162 to have any impact on our consolidated financial statements.

In June 2008, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 08-3, Accounting by Lessees for Maintenance Deposits (EITF 08-3). EITF 08-3 states that lessees shall account for nonrefundable maintenance deposits as a deposit asset if it is probable that the maintenance activities will occur and the deposit is realizable. EITF 08-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We do not expect the adoption of this statement to have any impact on our consolidated financial statements.

In December 2008, the Financial Accounting Standards Board issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends SFAS 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 also includes a technical amendment to SFAS 132(R) that requires a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. Upon initial application, the provisions of FSP FAS 132(R)-1 are not required for earlier periods that are presented for comparative purposes. Early adoption is permitted. The technical amendment to SFAS 132(R) was effective upon issuance of FSP FAS 132(R)-1. We do not expect the adoption of FSP FAS 132(R)-1 to have a material impact on our consolidated financial statements.

In January 2009, the Financial Accounting Standards Board issued FSP EITF No. 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (FSP EITF 99-20-1). FSP EITF 99-20-1 amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets . The Financial Accounting Standards Board believes this guidance will achieve a more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. We adopted the provisions of FSP EITF No. 99-20-1 on December 31, 2008 and such provisions were included in the assessment of whether to reduce the carrying amount of certain investment securities to fair value.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP. U.S. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

BUSINESS OF TERRITORIAL BANCORP INC.

Territorial Bancorp Inc. is incorporated in the State of Maryland. We have not engaged in any business to date. Upon completion of the conversion, we will own all of the issued and outstanding stock of Territorial Savings Bank. We will retain up to 50% of the net proceeds from the offering and initially invest the remaining net proceeds in Territorial Savings Bank as additional capital of Territorial Savings Bank. Territorial Bancorp Inc. will use a portion of the net proceeds to make a loan to the employee stock ownership plan and to pay down all or a portion of our trust preferred securities. At a later date, we may use the net proceeds to pay dividends to stockholders and may repurchase shares of common stock, subject to regulatory limitations. We will invest our initial capital as discussed in How We Intend to Use the Proceeds from the Offering.

In the future, Territorial Bancorp Inc., as the holding company of Territorial Savings Bank, will be authorized to pursue other business activities permitted by applicable laws and regulations, which may include the acquisition of banking and financial services companies. See Supervision and Regulation Holding Company Regulation for a discussion of the activities that are permitted for savings and loan holding companies. We currently have no understandings or agreements to acquire other financial institutions. We may also borrow funds for reinvestment in Territorial Savings Bank.

Following the offering, our cash flow will depend on earnings from the investment of the net proceeds from the offering that we retain, and any dividends we receive from Territorial Savings Bank.

Table of Contents

Initially, Territorial Bancorp Inc. will neither own nor lease any property, but will instead pay a fee to Territorial Savings Bank for the use of its premises, equipment and furniture. At the present time, we intend to employ only persons who are officers of Territorial Savings Bank to serve as officers of Territorial Bancorp Inc. We will, however, use the support staff of Territorial Savings Bank from time to time. We will pay a fee to Territorial Savings Bank for the time devoted to Territorial Bancorp Inc. by employees of Territorial Savings Bank. However, these persons will not be separately compensated by Territorial Bancorp Inc. Territorial Bancorp Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

BUSINESS OF TERRITORIAL SAVINGS BANK

General

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

Our website address is www.territorialsavings.net. Information on our website is not incorporated into this prospectus and should not be considered a part of this prospectus.

Market Area

We conduct our operations from our operations center and from our 24 full-service branch offices located throughout the State of Hawaii.

The two largest components of Hawaii s economy are tourism and the federal government, including the military. However, the State of Hawaii has been striving to diversify the state s economy by attracting more high-technology businesses to the state. The Hawaii Department of Business, Economic Development and Tourism reported a 24.2% decline in tourists from August 2007 to August 2008, representing the largest year-to-year reduction recorded in the state s history. Tourism also declined 15.9% for the month of November 2008 compared to the month of November 2007, and 10.2% when comparing the first 11 months of 2008 to the first 11 months of 2007. Some of the largest individual private employers in the state include a staffing company, financial services companies, the University of Hawaii System of higher education and research and health services companies.

The population in the State of Hawaii grew at an annualized rate of 1.0% from 2000 to 2008, compared to an annualized growth rate of 1.2% for the United States as a whole during that time period. Median household income increased to $62,000 in 2008, representing an annualized growth rate of 3.1% from 2000, compared to median household income of $55,000 in 2008 for the United States as a whole, and an annualized growth rate of 3.8% from 2000. The unemployment rate for the State of Hawaii was 4.2% as of August 2008, representing an increase from a rate of 2.7% as of August 2007. This was lower than the increase in the unemployment rate for the United States as a whole during the same time period, which increased to 6.1% as of August 2008 from 4.7% from August 2007.

Table of Contents

Through December 2008, the Hawaiian real estate market has experienced trends similar to the mainland, although sales activity and prices have not declined to a similar extent.

On the island of Oahu, the primary real estate market in Hawaii, sales of existing single-family totaled 2,741 units during the year ended December 31, 2008, a decrease of 24.4% compared to similar sales during the year ended December 31, 2007. However, the median home price in Oahu increased by 3% from December 2007 through December 2008. The number of condominium sales (a notable portion of the overall housing market), declined by 28% during the year ended December 31, 2008 compared to the year ended December 31, 2007. The median prices paid for Oahu properties during 2008 were $624,000 for single family homes (a decrease of 3.0% compared to the median price for 2007) and $325,000 for condominiums (no change compared to the median price for 2007).

On the island of Maui, the second largest real estate market, sales of existing single-family homes totaled 907 units for 2008, a decrease of 20.5% compared to 2007, while the median price for the year ended December 31, 2008 declined by 8% compared to the median price for the year ended December 31, 2007. The number of condominium sales declined by 33.6% between 2007 and 2008. However, the median price of condominiums did not change between 2007 and 2008. Residential real estate prices are more volatile on the island of Maui due to a lower number of sales transactions.

The slowing Hawaiian economy has also resulted in a rise in delinquency and foreclosure rates, however such rates compare favorably to national averages. Based on data for the month of November 2008, Hawaii s foreclosure rate of one filling per 1,272 households was ranked 27th highest in the nation, significantly better than the national average of one foreclosure for every 488 households. However, the number of foreclosures has recently increased from an average of approximately 150 foreclosure filings per month for the eight months ended August 2008 to over 300 foreclosures per month during the months of September, October, November and December of 2008. Approximately one in 18 Hawaiian homeowners was more than one month behind in mortgage payments as of September 2008, which was lower than the national average of one in ten homeowners.

Competition

We face intense competition in our market area both in making loans and attracting deposits. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies and investment banking firms. Some of our competitors have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices, located in all four counties in the State of Hawaii. As of June 30, 2008 (the latest date for which information is publicly available), we ranked fifth in deposit market share (out of 11 banks and thrift institutions with offices in Hawaii) in the State of Hawaii, with a 3.60% market share. As of that date, our largest market share was in the County of Honolulu, where we ranked fifth in deposit market share (out of 11 banks and thrift institutions with offices in Hawaii) with a 3.82% market share.

Lending Activities

Our primary lending activity is the origination of one- to four-family residential mortgage loans. To a much lesser extent, we also originate home equity loans and lines of credit, construction, commercial

Table of Contents

and other non-residential real estate loans, consumer loans, multi-family mortgage loans and commercial business loans.

One- to Four-Family Residential Mortgage Loans. At December 31, 2008, $581.3 million, or 90.5% of our total loan portfolio, consisted of one- to four-family residential mortgage loans. We offer conforming, fixed-rate and adjustable-rate residential mortgage loans with maturities generally up to 30 years, and to a much more limited extent, of up to 40 years and non-conforming loans with maturities of up to 50 years. There has been little demand for adjustable rate mortgage loans in our market area.

One- to four-family residential mortgage loans are generally underwritten according to Fannie Mae and Freddie Mac guidelines, and we refer to loans that conform to such guidelines as conforming loans. We generally originate both fixed- and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which is currently $625,500 for single-family homes located in the State of Hawaii. We also originate loans above this amount for conforming loans, which are referred to as jumbo loans. Our maximum loan amount for these loans is generally $1.0 million. We originate fixed-rate jumbo loans with terms of up to 30 years due to customer preference for fixed-rate loans. We have not originated significant amounts of adjustable-rate jumbo loans in recent years due to customer preference for fixed-rate loans in our market area. We generally underwrite jumbo loans in a manner similar to conforming loans. Jumbo loans are not uncommon in our market area.

We will originate loans with loan-to-value ratios in excess of 80%, up to and including a loan-to-value ratio of 100%. We generally require private mortgage insurance for loans with loan-to-value ratios in excess of 80%. During the year ended December 31, 2008, we originated $18.7 million of one- to four-family residential mortgage loans with loan-to-value ratios in excess of 80%. We currently retain the servicing rights on loans sold to generate fee income. For the year ended December 31, 2008, we received servicing fees of $242,000. As of December 31, 2008, the principal balance of loans serviced for others totaled $63.2 million.

We offer a variety of credit programs for low- to moderate-income and first-time home purchasers. These include our first time home purchaser program, where the borrower will receive a free appraisal and a 100 basis points reduction in points charged in connection with the loan. We will also originate first mortgage loans to lower-income individuals who reside in rural census tracts where the U.S. Department of Agriculture will issue a second mortgage and complete the underwriting of the loan, subject to our review before origination. We also offer both FHA and VA fixed-rate loans.

Other than our loans for the construction of one- to four-family residential mortgage loans (described under Nonresidential Real Estate Loans), we do not offer interest only mortgage loans on one- to four-family residential properties (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan). We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (traditionally defined as loans having less than full documentation). Although we participate in Fannie Mae s Expanded Approval program and Freddie Mac s A Minus program, which previously did not require income verification, we still verified income for these types of loans.

Table of Contents

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage loans, we offer home equity loans and home equity lines of credit that are secured by the borrower s primary residence. Home equity lines of credit have a maximum term of 10 years during which time the borrower is required to make payments to principal based on the amortization of 0.125% of principal outstanding per month. The borrower is permitted to draw against the line during the entire term. Our home equity lines of credit are originated with adjustable rates of interest or with fixed rates of interest that convert to adjustable rates of interest after an initial period of up to three years. Our home equity loans are originated with fixed rates of interest and with terms of up to 30 years. Home equity loans and lines of credit are generally underwritten with the same criteria that we use to underwrite one- to four-family residential mortgage loans. Home equity loans may be underwritten with a loan-to-value ratio of 80% when combined with the principal balance of the existing mortgage loan, while lines of credit for owner-occupied properties and investment properties may be underwritten with loan-to-value ratios of 75% and 65%, respectively, when combined with the principal balance of the existing mortgage loan. We require appraisals on home equity loans and lines of credit when the aggregate loan amount exceeds 60% of the property s tax assessed value or when the home equity loan or line of credit is $250,000 or greater. At the time we close a home equity loan or line of credit, we record a mortgage to perfect our security interest in the underlying collateral. At December 31, 2008, the outstanding balance of home equity loans totaled $21.5 million, or 3.3% of our total loan portfolio, and the outstanding balance of home equity lines of credit totaled $8.5 million, or 1.3% of our total loan portfolio.

Nonresidential Real Estate Loans. Our non-residential real estate loans consist primarily of commercial real estate loans and construction loans for residential real estate projects. These loans totaled $21.0 million, or 3.3% of our loan portfolio as of December 31, 2008. The commercial real estate properties primarily include owner-occupied light industrial properties. We seek to originate commercial real estate loans with initial principal balances of $1.0 million or less. Loans secured by commercial real estate totaled $8.9 million, or 1.4%, of our total loan portfolio at December 31, 2008, and consisted of 16 loans outstanding with an average loan balance of approximately $555,000, although we originate loans with balances greater than this average. All of our nonresidential real estate loans are secured by properties located in our primary market area. At December 31, 2008, our largest commercial real estate loan had a principal balance of $1.9 million and was secured by real property and a warehouse office building. This loan was performing in accordance with its terms at December 31, 2008.

In the underwriting of commercial real estate loans, we generally lend up to the lesser of 75% of the property s appraised value or purchase price. We base our decision to lend primarily on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property s projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 115%), computed after deduction for a vacancy factor and property expenses we deem appropriate. Personal guarantees are usually obtained from commercial real estate borrowers. We require title insurance, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property. Almost all of our commercial real estate loans are generated internally by our loan officers.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate loans, however, entail greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate than residential properties.

We also originate a limited amount of construction loans to experienced developers, almost exclusively for the construction of residential real estate projects. Construction loans are also made to individuals for the construction of their personal residences. Construction loans to individuals are generally interest-only loans during the construction period, and convert to permanent, amortizing financing following the completion of construction. At December 31, 2008, construction loans totaled $5.8 million, or 0.9% of total loans receivable. At December 31, 2008, the additional unadvanced portion of these construction loans totaled $2.9 million.

Advances on construction loans are made in accordance with a schedule reflecting the cost of construction, but are generally limited to an 80% loan-to-completed-appraised-value ratio. Repayment of construction loans on residential properties is normally expected from the sale of units to individual purchasers. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. We typically provide the permanent mortgage financing on our construction loans on income-producing property.

Before making a commitment to fund a construction loan, we require an appraisal of the property by a licensed appraiser. We review and inspect properties before disbursement of funds during the term of the construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction cost is inaccurate, we may be required to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. In the event we make a land acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

Loan Originations, Purchases, Sales, Participations and Servicing. All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate standard underwriting guidelines, including those of Freddie Mac and Fannie Mae, to the extent applicable. We originate both adjustable-rate and fixed-rate loans. However, in our market area, customer demand is primarily for fixed-rate loans. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. Most of our one- to four-family residential mortgage loan originations are generated by our branch managers and employees located in our banking offices and our additional commissioned loan officers located in our corporate headquarters. We also advertise throughout our market area.

Historically, we have retained in our portfolio the significant majority of loans that we originate. In 2007, in an effort to manage interest rate risk, we sold $43.0 million of fixed-rate loans with terms of 10, 15 and 20 years that we had been holding in our portfolio. In addition, we are authorized to sell loans as originated to assist us in managing interest rate risk. We sold $1.4 million and $43.0 million of

Table of Contents

residential mortgage loans (all fixed-rate loans, with terms of 10 years or longer) during the years ended December 31, 2008 and 2007, respectively. We have sold residential mortgage loans with low interest rates (generally, below 5.0%) during the first quarter of 2009 as market interest rates have decreased. We had no loans classified as held for sale at December 31, 2008.

We sell our loans without recourse, except for normal representations and warranties provided in sales transactions. Historically, we have retained the servicing rights on residential mortgage loans that we sell, and we intend to continue this practice in the future, subject to the pricing of retaining such servicing rights. At December 31, 2008, we were servicing loans owned by others with a principal balance of $63.2 million. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities. We have not entered into loan participations in recent years.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and value of the property that will secure the loan. To assess the borrower s ability to repay, we review the borrower s employment and credit history and information on the historical and projected income and expenses of the borrower. We require full documentation on all of our loan applications.

Our policies and loan approval limits are established by the board of directors. Aggregate lending relationships in amounts up to $2.0 million can be approved by designated individual officers or officers acting together with specific lending approval authority. Relationships in excess of $2.0 million require the approval of the board of directors.

Territorial Savings Bank also uses automated underwriting systems to review one- to four-family residential mortgage loans. We require appraisals of all real property securing one- to four-family residential real estate loans, and on property securing home equity lines of credit when the aggregate loan amount exceeds 60% of the property s tax assessed value or when the line of credit is $250,000 or greater. All appraisers are licensed appraisers and all third-party appraisers are approved by the board of directors annually.

Investments

Our board of directors has primary responsibility for establishing and overseeing our investment policy. The board of directors has delegated authority to implement the investment policy to our Investment Committee, consisting of the same members as our Asset/Liability Management Committee. The investment policy is reviewed at least annually by the Investment Committee, and any changes to the policy are subject to approval by the full board of directors. The overall objectives of the Investment Policy are to maintain a portfolio of high quality and diversified investments to maximize interest income over the long term and to minimize risk, to provide collateral for borrowings, to provide additional earnings when loan production is low, and to reduce our tax liability. The policy dictates that investment decisions give consideration to the safety of principal, liquidity requirements and potential returns. Our Senior Vice President and Treasurer executes our securities portfolio transactions as directed by the Investment Committee. All purchase and sale transactions are reported to the Board of Directors on a monthly basis.

Table of Contents

Our current investment policy permits investments in securities issued by the United States Government as well as mortgage backed securities and direct obligations of Fannie Mae, Freddie Mac and Ginnie Mae. The investment policy also permits, with certain limitations, investments in certificates of deposit, bank owned life insurance, collateralized mortgage obligations, trust preferred securities and municipal securities.

Our current investment policy does not permit investment in stripped mortgage-backed securities, complex securities and derivatives as defined in federal banking regulations and other high-risk securities. As of December 31, 2008, we held no asset-backed securities other than mortgage-backed securities. As a federal savings bank, Territorial Savings Bank is not permitted to invest in equity securities. This general restriction does not apply to Territorial Bancorp Inc.

Our current policies do not permit hedging activities, such as engaging in futures, options or swap transactions, or investing in high-risk mortgage derivatives, such as collateralized mortgage obligation residual interests, real estate mortgage investment conduit residual interests or stripped mortgage backed securities.

Statement of Financial Accounting Standards No. 115, Investments in Debt and Equity Securities, requires that, at the time of purchase, we designate a security as either held to maturity, available-for-sale, or trading, based upon our ability and intent. Securities available-for-sale and trading securities are reported at market value and securities held to maturity are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the fair value of any security has declined below its carrying value and whether such decline is other-than-temporary. If such decline is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings. The fair values of our securities, which, at December 31, 2008, consisted primarily of mortgage-backed-securities, are based on published or securities dealers market values.

Our securities portfolio at December 31, 2008, consisted primarily of securities with the following amortized cost: $411.8 million of mortgage-backed securities issued by Fannie Mae or Freddie Mac; $111.3 million of collateralized mortgage obligations and $4.5 million of trust preferred securities, all of which were issued by pools of issuers consisting primarily of financial institution holding companies. At December 31, 2008, all of such securities were classified as held-to-maturity. At December 31, 2008, none of the collateral underlying our securities portfolio was considered subprime or Alt-A, and we did not hold any common or preferred stock issued by Freddie Mac or Fannie Mae as of that date. See Management s Discussion of Financial Condition and Results of Operations Balance Sheet Analysis Securities for a discussion of the recent performance of our securities portfolio.

We purchase mortgage-backed securities insured or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae. Historically, we invested in mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense and to lower our credit risk as a result of the guarantees provided by Freddie Mac, Fannie Mae or Ginnie Mae. However, in September 2008, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. The U.S. Treasury Department has established financing agreements to ensure that Freddie Mac and Fannie Mae meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed. These actions have not affected the markets for mortgage-backed securities issued by Freddie Mac or Fannie Mae.

Mortgage-backed securities are securities issued in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as pass-through certificates because the principal and interest of the underlying loans is passed through to

Table of Contents

investors, net of certain costs, including servicing and guarantee fees. Mortgage-backed securities typically are collateralized by pools of one- to four-family or multifamily mortgages, although we invest primarily in mortgage-backed securities backed by one- to four-family mortgages. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as Territorial Savings Bank. The interest rate of the security is lower than the interest rates of the underlying loans to allow for payment of servicing and guaranty fees. Ginnie Mae, a United States Government agency, and government sponsored enterprises, such as Fannie Mae and Freddie Mac, either guarantee the payments or guarantee the timely payment of principal and interest to investors. Mortgage-backed securities are more liquid than individual mortgage loans since there is an active trading market for such securities. In addition, mortgage-backed securities may be used to collateralize our borrowings. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on our securities. Current prepayment speeds determine whether prepayment estimates require modification that could cause amortization or accretion adjustments.

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. We also borrow from the Federal Home Loan Bank of Seattle and from securities dealers to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are scheduled loan payments, maturing investments, loan repayments, retained earnings, income on other earning assets and the proceeds of loan sales.

Deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our competitive pricing and products, convenient locations and quality customer service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of passbook and statement savings accounts, certificates of deposit, money market accounts, commercial and regular checking accounts and Super NOW accounts. Historically, we have not accepted brokered deposits.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements and our deposit growth goals.

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank of Seattle and funds borrowed from securities dealers under repurchase agreements. At December 31, 2008, our repurchase agreements totaled $115.2 million, or 10.2% of total liabilities, and our Federal Home Loan Bank advances totaled $35.8 million, or 3.2% of total liabilities. At December 31, 2008, we had access to additional Federal Home Loan Bank advances of up to $270.0 million. Advances from the Federal Home Loan Bank of Seattle are secured by our investment in the common stock of the Federal Home Loan Bank of Seattle as well as by a blanket pledge on our assets not otherwise pledged. Repurchase agreements are secured by mortgage-backed securities.

Trust preferred securities. Through statutory trusts formed under the laws of the State of Connecticut, we have sold adjustable-rate trust preferred securities in the aggregate principal amount of $24.0 million, all in pooled trust preferred securities offerings. The proceeds from these sales were paid to Territorial Savings Group, Inc. in exchange for adjustable-rate junior subordinated debentures, which have the same terms as the trust preferred securities. The sole asset of the statutory trusts is the

Table of Contents

debentures. The payment of dividends on the trust preferred securities depends on our payment of interest on the debentures, which payments are made on a quarterly basis. Depending on the amount of proceeds from our stock offering, we expect that we will use a portion of the net proceeds of our stock offering to redeem some or all of the trust preferred securities.

Properties

We operate from our corporate office in Honolulu, Hawaii, and from our 24 full-service branches located in the State of Hawaii. The net book value of our premises, land and equipment was $4.4 million at December 31, 2008. At December 31, 2008, we had construction in progress of $676,000, all of which was for leasehold improvements at various branch offices. The following table sets forth information with respect to our full-service banking offices, including the expiration date of leases with respect to leased facilities.

ALA MOANA CENTER 1450 Ala Moana Blvd. Honolulu, Oahu 96814 1/31/2010	**KAILUA** 19 Oneawa Street Kailua, Oahu 96734	**KAPOLEI** Ace Center at Kapolei 480 Kamokila Blvd. Kapolei, Oahu 96707 7/31/2014	**NUUANU** Nuuanu Shopping Center 1613 Nuuanu Avenue Honolulu, Oahu 96817 7/22/2016
DOWNTOWN 1000 Bishop Street Honolulu, Oahu 96813 12/31/2015	**KAIMUKI** 1108 12th Avenue Honolulu, Oahu 96816 12/31/2018	**KAUAI** Kukui Grove Shopping Center 4393 Kukui Grove Street Lihue, Kauai 96766 2/28/2013	**PEARL CITY** Pearl City Shopping Center 850 Kamehameha Highway Pearl City, Oahu 96782 9/22/2009
HAWAII KAI Hawaii Kai Shopping Center 377 Keahole Street Honolulu, Oahu 96825 9/30/2013	**KALIHI-KAPALAMA** 1199 Dillingham Boulevard Honolulu, Oahu 96817 8/31/2012	**KONA** Crossroads Shopping Center 75-1027 Henry Street Kailua-Kona, Hawaii 96740 8/31/2015	**PEARLRIDGE** 98-084 Kamehameha Highway Aiea, Oahu 96701 6/30/2012
HILO Waiakea Center 315 Makaala Street Hilo, Hawaii 96720 12/31/2018	**KAMEHAMEHA SHOPPING CENTER** 1620 North School St. Honolulu, Oahu 96817 9/30/2015	**LAHAINA** Old Lahaina Center 170 Papalaua Street Lahaina, Maui 96761 3/31/2013	**SALT LAKE** Salt Lake Shopping Center 848 Ala Lilikoi Street Honolulu, Oahu 96818 1/31/2011
KAHALA	**KANEOHE**	**McCULLY**	**WAIPAHU**

4819 Kilauea Avenue Honolulu, Oahu 96816 3/16/2015	46-005 Kawa Street Kaneohe, Oahu 96744 12/31/2014	1111 McCully Street Honolulu, Oahu 96826 5/31/2013	Waipahu Town Center 94-050 Farrington Highway Waipahu, Oahu 96797 12/31/2014
KAHULUI	**KAPAHULU**	**MILILANI**	**WAIPIO**
Kaahumanu Center 275 W. Kaahumanu Ave. Kahului, Maui 96732 12/31/2009	Kilohana Square 1016 Kapahulu Avenue Honolulu, Oahu 96816 11/14/2013	Town Center of Mililani 95-1249 Meheula Parkway Mililani, Oahu 96789 10/11/2014	Laniakea Plaza 94-1221 Ka Uka Blvd. Waipahu, Oahu 96797 9/30/2016

Subsidiary Activities

In addition to owning all of the outstanding capital stock of Territorial Savings Bank, Territorial Savings Group, Inc. owns all of the common stock of three statutory trusts formed under the laws of the State of Connecticut: Territorial Savings Statutory Trust I, Territorial Savings Statutory Trust II and

Table of Contents

Territorial Savings Statutory Trust III. The three statutory trusts were formed to issue a total of $24.0 million of trust preferred securities. At December 31, 2008, Territorial Savings Group, Inc. s investment in the statutory trusts totaled $743,000, and these entities had assets of $24.8 million at that date.

Territorial Savings Bank owns 100% of the common stock of Territorial Holdings, Inc., a Hawaii corporation, which in turn owns 100% of the voting common stock of Territorial Realty, Inc. Territorial Realty, Inc. is a Hawaii real estate investment trust that holds mortgage loans and mortgage-backed securities. These entities enable Territorial Savings Bank to segregate certain assets for management purposes, and promote Territorial Savings Bank s ability to raise regulatory capital in the future through the sale of preferred stock or other capital-enhancing securities by these entities. At December 31, 2008, Territorial Savings Bank s investment in Territorial Holdings, Inc. was $480.5 million, and Territorial Holdings, Inc. had assets of $480.6 million at that date. At December 31, 2008, Territorial Holdings, Inc. s investment in Territorial Realty, Inc. was $480.5 million, and Territorial Realty, Inc. had $480.4 million in assets at that date.

Territorial Savings Bank owns 100% of the common stock of Territorial Financial Services, Inc., a Hawaii corporation that engages primarily in insurance activities. At December 31, 2008, Territorial Savings Bank s investment in Territorial Financial Services, Inc. was $12,000, and Territorial Financial Services, Inc. had assets of $53,000 at that date. Territorial Savings Bank also owns 100% of the common stock of Territorial Real Estate Co., Inc., an inactive Hawaii corporation that is authorized to manage and dispose of troubled real estate.

Legal Proceedings

Territorial Mutual Holding Company, Territorial Savings Group, Inc., Territorial Savings Bank and Territorial Realty, Inc. (our real estate investment trust subsidiary) have filed appeals with the Tax Appeal Court of the State of Hawaii seeking refunds of approximately $4.5 million in taxes paid to the State of Hawaii from 2004 through 2007. The refunds represent 70% of the amount of dividends paid to Territorial Savings Bank by Territorial Realty, Inc. from 2004 to 2007. The claim for the refunds is based on a 70% dividends-received deduction under Hawaii statutes, which refunds have been denied by the State of Hawaii Department of Taxation. Trial has been set for March 2010. At this time, we are unable to predict an outcome, favorable or unfavorable, with respect to these actions.

Other than as disclosed in the preceding paragraph, at December 31, 2008, we were not involved in any legal proceedings the outcome of which we believe would be material to our financial condition or results of operations.

Expense and Tax Allocation

Territorial Savings Bank will enter into an agreement with Territorial Bancorp Inc. to provide it with certain administrative support services, whereby Territorial Savings Bank will be compensated at not less than the fair market value of the services provided. In addition, Territorial Savings Bank and Territorial Bancorp Inc. will enter into an agreement to establish a method for allocating and for reimbursing the payment of their consolidated tax liability.

Personnel

As of December 31, 2008, we had 244 full-time employees and 12 part-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have a good working relationship with our employees.

Table of Contents

SUPERVISION AND REGULATION

General

Territorial Savings Bank is examined and supervised by the Office of Thrift Supervision and is subject to examination by the Federal Deposit Insurance Corporation. This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the Federal Deposit Insurance Corporation s deposit insurance funds and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Territorial Savings Bank also is a member of and owns stock in the Federal Home Loan Bank of Seattle, which is one of the twelve regional banks in the Federal Home Loan Bank System. Territorial Savings Bank also is regulated to a lesser extent by the Board of Governors of the Federal Reserve System, governing reserves to be maintained against deposits and other matters. The Office of Thrift Supervision examines Territorial Savings Bank and prepares reports for the consideration of its Board of Directors on any operating deficiencies. Territorial Savings Bank s relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of Territorial Savings Bank s loan documents.

Any change in these laws or regulations, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on Territorial Bancorp Inc., Territorial Savings Bank and their operations.

Territorial Bancorp Inc., as a savings and loan holding company following the conversion, will be required to file certain reports with, will be subject to examination by, and otherwise must comply with the rules and regulations of the Office of Thrift Supervision. Territorial Bancorp Inc. will also be subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

Certain of the regulatory requirements that are or will be applicable to Territorial Savings Bank and Territorial Bancorp Inc. are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on Territorial Savings Bank and Territorial Bancorp Inc. and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Banking Regulation

Business Activities. A federal savings bank derives its lending and investment powers from the Home Owners Loan Act, as amended, and the regulations of the Office of Thrift Supervision. Under these laws and regulations, Territorial Savings Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. Territorial Savings Bank also may establish subsidiaries that may engage in activities not otherwise permissible for Territorial Savings Bank, including real estate investment and securities and insurance brokerage.

Capital Requirements. Office of Thrift Supervision regulations require savings banks to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for savings banks receiving the highest rating on the CAMELS rating system) and an 8% risk-based capital ratio.

The risk-based capital standard for savings banks requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100%, assigned by the Office of Thrift Supervision, based on the risks believed inherent in the type of asset. Core capital is defined as common stockholders equity (including retained earnings), certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings bank that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings bank. In assessing an institution s capital adequacy, the Office of Thrift Supervision takes into consideration not only these numeric factors but also qualitative factors as well, and has the authority to establish higher capital requirements for individual associations where necessary.

At December 31, 2008, Territorial Savings Bank s capital exceeded all applicable requirements. See Historical and Pro Forma Regulatory Capital Compliance.

Loans-to-One Borrower. Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2008, Territorial Savings Bank s largest lending relationship with a single or related group of borrowers totaled $6.0 million, which represented 6.1% of unimpaired capital and surplus. Therefore, Territorial Savings Bank was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings bank, Territorial Savings Bank must satisfy the qualified thrift lender, or QTL, test. Under the QTL test, Territorial Savings Bank must maintain at least 65% of its portfolio assets in qualified thrift investments (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period. Portfolio assets generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings bank s business.

Territorial Savings Bank also may satisfy the QTL test by qualifying as a domestic building and loan association as defined in the Internal Revenue Code.

A savings bank that fails the qualified thrift lender test must either convert to a commercial bank charter or operate under specified restrictions set forth in the Home Owners Loan Act. At December 31, 2008, Territorial Savings Bank maintained approximately 96.7% of its portfolio assets in qualified thrift investments and, therefore, satisfied the QTL test.

Capital Distributions. Office o