

TFS Financial CORP  
Form DEF 14A  
January 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

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

**TFS FINANCIAL CORPORATION**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount Previously Paid:

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

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To our Stockholders:

The 2012 annual meeting of stockholders of TFS Financial Corporation (the Company) will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time, for the following purposes:

1. To elect five directors, two to hold office for two-year terms and three to hold office for three-year terms, each until his or her successor has been duly elected and qualified;
2. To ratify the selection of Deloitte & Touche LLP as the Company's independent accountant for the Company's fiscal year ending September 30, 2012; and
3. To transact all other business that properly comes before the meeting.

Only stockholders of record at the close of business on December 27, 2011 will be entitled to notice of and to vote at the meeting or any adjournment thereof. You are invited to attend the annual meeting, and we request that you vote on the proposals described in this proxy statement. You do not need to attend the meeting to vote your shares. Instead, you may simply complete, date and sign the available proxy card and return it to the Company. Alternatively, you may vote via telephone or over the Internet.

All stockholders of record entitled to vote at the annual meeting should receive a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability). The Notice of Internet Availability will instruct you as to how you may access and review all of the important information contained in the proxy materials. If you received a Notice of Internet Availability by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability. The principal address of the Company is 7007 Broadway Avenue, Cleveland, Ohio 44105.

By order of the Board of Directors,

David S. Huffman

*Secretary*

January 9, 2012

**YOUR VOTE IS IMPORTANT. PLEASE SIGN, DATE AND RETURN THE AVAILABLE  
PROXY CARD OR VOTE VIA TELEPHONE OR OVER THE INTERNET.**

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**TFS FINANCIAL CORPORATION**

**7007 Broadway Avenue**

**Cleveland, Ohio 44105**

**PROXY STATEMENT**

Our Board of Directors is providing this proxy statement to ask for your vote as a stockholder of TFS Financial Corporation (the Company, we, us or our) on certain matters to be voted on at our upcoming annual meeting of stockholders, which will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time. We are making these proxy materials, along with our 2011 Annual Report to Stockholders, available to you electronically on or about January 9, 2012.

**ABOUT THE MEETING**

**What Is the Purpose of the Annual Meeting of Stockholders?**

At our annual meeting of stockholders, stockholders will act upon the matters outlined in the accompanying notice of meeting, including the election of five directors and a proposal to ratify the selection of Deloitte & Touche LLP as the Company's independent accountant for the Company's fiscal year ending September 30, 2012. We are not aware of any other matter that will be presented for your vote at the meeting.

**Who Is Entitled to Vote?**

Only stockholders of record at the close of business on the record date, December 27, 2011, are entitled to receive notice of and to vote the shares of our common stock that they held on the record date at the meeting, or any postponement or adjournment of the meeting. Each outstanding share of common stock entitles its holder as of the record date to cast one vote on each matter acted upon at the meeting. As of the record date, the Company had outstanding 308,915,893 shares of common stock.

**What if My Shares Are Held in the Third Federal Savings Associate Stock Ownership Plan or the Third Federal Savings 401(k) Savings Plan?**

If you are a participant in the Third Federal Savings Associate Stock Ownership Plan (the ASOP) or the Third Federal Savings 401(k) Savings Plan (the 401(k) Plan) and you own shares of our common stock through those plans, you have been provided voting instruction forms with respect to shares you may vote under those plans. Although the trustee or administrator for each plan votes all shares of our common stock held by that plan, each participant may direct the trustee or administrator how to vote the shares of our common stock allocated to his or her plan account. You must provide voting instructions to the trustee or administrator by February 18, 2012 for them to be effective. If you own shares of our common stock through either of these plans and do not provide voting instructions to the trustee or administrator by February 18, 2012, the respective trustee or administrator will vote the shares of common stock in accordance with the terms of the respective plans, which provide that the trustee or administrator will vote any shares of our common stock for which it has received no voting instructions in the same proportions as it votes the shares of our common stock for which it has received instructions from plan participants. You also may revoke previously given voting instructions prior to February 18, 2012 by filing with the trustee or administrator either written notice of revocation or a properly completed voting instruction form bearing a later date.

**Who Can Attend the Meeting?**

Only stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Please note that if you hold your shares in street name (that is, through a broker or other nominee), your name does not appear in the Company's records, and you will need to bring to the annual meeting a copy of your brokerage statement reflecting your ownership of shares of our common stock as of the record date in order to be admitted.

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### **When and Where Is the Meeting?**

The meeting will be held at the offices of Third Federal Savings and Loan, 7007 Broadway Avenue, Cleveland, Ohio 44105, on Thursday, February 23, 2012, at 9:00 a.m., local time. Parking is available in our visitor parking lot, which you can enter from Aetna Avenue.

### **What Constitutes a Quorum?**

The presence at the meeting, either in person or by proxy, of the holders of a majority of the shares of our common stock outstanding on the record date will represent a quorum, permitting the conduct of business at the meeting. Proxies received by the Company but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting for purposes of establishing a quorum. A broker non-vote occurs if your shares are held in street name by a broker or nominee and the broker or nominee reports your shares as non-votes because you did not provide your broker or nominee with voting instructions for your shares.

### **What Vote Is Required to Approve Each Proposal, Assuming that a Quorum Is Present at the Annual Meeting of Stockholders?**

**Proposal One: Election of Directors.** The five nominees for director who receive the greatest number of affirmative votes will be elected directors, and abstentions and broker non-votes will not count as votes for any nominee for director.

**Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountant.** The Audit Committee of our Board of Directors plans to reappoint Deloitte & Touche LLP as the Company's independent accountant to audit our financial statements for the fiscal year ending September 30, 2012, subject to the ratification of the appointment by our stockholders as required by our bylaws. See page 40 under Proposal Two: Ratification of the Selection of Deloitte & Touche LLP as the Company's Independent Accountant for additional information. If a majority of votes cast on this proposal are cast in favor of approval, the proposal will be approved. Abstentions will be treated as cast and will have the same effect as a vote against ratification. Broker non-votes are not considered votes cast and will not be counted either for or against ratification.

### **How Does Third Federal Savings and Loan Association of Cleveland, MHC Intend to Vote Its Shares?**

All stockholder votes will include the vote of Third Federal Savings and Loan Association of Cleveland, MHC, which, as of December 27, 2011, owned 227,119,132 shares, or 73.52%, of our outstanding common stock. **As such, the vote of Third Federal Savings and Loan Association of Cleveland, MHC will be determinative of the outcome of any vote or election. Third Federal Savings and Loan Association of Cleveland, MHC intends to vote for the election of the Board of Directors five nominees for director, to vote for ratification of the selection of Deloitte & Touche LLP, and to vote in accordance with the recommendation of our Board of Directors on any other matter that properly comes before the meeting.**

### **How Do I Vote?**

You may cast your vote in person at the meeting or in any one of the following ways:

**By Telephone:** You may call the toll-free number printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Telephone voting is available 24 hours a day. If you vote by telephone, you should not return a proxy card.

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**Over the Internet:** You may visit the web site printed on the accompanying proxy card. Follow the simple instructions and use the personalized control number printed on your Notice of Internet Availability in order to vote your shares. You will be able to confirm that your vote has been properly recorded. Internet voting is available 24 hours a day. If you vote over the Internet, you should not return a proxy card.

**By Mail:** You may mark, sign and date the accompanying proxy card and return it to the address provided on the proxy card.

If you sign, date and return the accompanying proxy card or vote by telephone or via the Internet, the shares of common stock represented by your proxy will be voted as you specify. If you return a signed and dated proxy card, but do not indicate how your shares of common stock should be voted, the shares of common stock represented by your proxy will be voted to elect the directors set forth under the caption "Election of Directors" and for ratification of the selection of Deloitte & Touche LLP as the Company's independent accountant to audit our financial statements for the fiscal year ending September 30, 2012.

### **Will My Shares Be Voted if I Do Not Provide Instructions to My Broker?**

If you are the beneficial owner of shares held in "street name" by a broker or other nominee, the broker or other nominee, as the record holder of the shares, is required to vote those shares in accordance with your instructions. If you do not provide your broker or other nominee instructions as to how your shares are to be voted, your broker or other nominee will not be able to vote your shares on any of the matters discussed herein, and your shares will not be voted with respect to those matters. We urge you to provide instructions to your broker or nominee so that your vote may be counted on these important matters. You should vote your shares by following the instructions provided on the accompanying voting instructions card and return the voting instructions card to your broker or other nominee in a timely manner to ensure that your shares are voted on your behalf.

### **May I Revoke My Proxy or Change My Vote?**

You may revoke or change your vote at any time before your proxy has been exercised by filing a written notice of revocation or a duly executed proxy bearing a later date with the Company at the Company's principal address indicated on the attached Notice of Annual Meeting of Stockholders, by submitting another timely, later-dated vote by telephone or Internet or by giving notice of revocation to the Company in open meeting. However, your presence at the annual meeting alone will not be sufficient to revoke your previously-granted proxy or vote.

### **How Will the Proxy Solicitation Be Conducted?**

This solicitation of proxies is made by and on behalf of our Board of Directors. The cost of the solicitation of your proxy will be borne by the Company. In addition to solicitation of proxies by mail and electronically, officers and regular associates of the Company may solicit proxies in person, by telephone or by facsimile. These officers and associates will not receive any additional compensation for their participation in the solicitation process.



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You will be voting on the election of five directors at the annual meeting of stockholders. On March 17, 2011, the Board elected Robert B. Heisler, Jr. and Terrence R. Ozan as directors to fill vacancies. As required by the Company's bylaws, each of Messrs. Heisler and Ozan will serve until the 2012 annual meeting of stockholders, when each will stand for re-election.

The Company's bylaws require that the Board be divided into three classes as nearly equal in number as possible. In order to divide the classes of directors as evenly as possible, each of Messrs. Heisler and Ozan, if elected, will serve a two-year term expiring in 2014, and until his successor is elected and qualified. Each of Messrs. Asher and Kobak and Ms. Piterans, if elected, will serve a three-year term expiring in 2015, and until his or her successor is elected and qualified. At the meeting, unless you specify otherwise, the shares of common stock represented by your proxy will be voted to re-elect Anthony J. Asher, Robert B. Heisler, Jr., Bernard S. Kobak, Terrence R. Ozan and Marianne Piterans.

If for any reason any of the nominees is unable to serve as a director at the time of the election (which is not expected), the shares of common stock represented by your proxy will be voted for the election of a substitute nominee recommended by our Board of Directors, acting as our nominating committee, if the Board makes any such recommendation.

The following table sets forth information regarding our directors:

| Name                                  | Age | Position(s) Held in  |  | Director Since | Term of Office Expires |
|---------------------------------------|-----|--|--|----------------|------------------------|
|                                       |     | TFS Financial Corporation  |  |                |                        |
| <b>Nominees for Director</b>          |     |  |  |                |                        |
| Anthony J. Asher                      | 73  | Director   |  | 2008           | 2012                   |
| Robert B. Heisler, Jr.                | 63  | Director   |  | 2011           | 2012                   |
| Bernard S. Kobak                      | 83  | Director, Officer  |  | 1993           | 2012                   |
| Terrence R. Ozan                      | 65  | Director   |  | 2011           | 2012                   |
| Marianne Piterans                     | 57  | Director of Human Resources and Director                               |  | 2006           | 2012                   |
| <b>Directors Continuing in Office</b> |     |  |  |                |                        |
| Martin J. Cohen                       | 58  | Director   |  | 2006           | 2013                   |
| Robert A. Fiala                       | 58  | Director   |  | 2005           | 2013                   |
| William C. Mulligan                   | 58  | Director   |  | 2007           | 2014                   |
| Paul W. Stefanik                      | 87  | Director   |  | 1993           | 2014                   |
| Ben S. Stefanski III(1)               | 39  | Director   |  | 2010           | 2013                   |
| Marc A. Stefanski                     | 57  | Chairman of the Board, President, Chief Executive Officer and Director |  | 1987           | 2013                   |

(1) Ben S. Stefanski III is the nephew of Marc A. Stefanski.

*Our Board of Directors recommends that stockholders vote FOR the nominees for election set forth above.*

**Business Experience of Each Nominee for Director**

**Anthony J. Asher** is the Chairman of Weston, Inc., a real estate ownership firm that is one of the largest industrial property owners in the Cleveland, Ohio area, and which Mr. Asher founded in 1971. Mr. Asher also founded one of the largest title agencies in the Cleveland area. This experience, combined with his background as an entrepreneur, provides invaluable skills used in his service on the Board and the Audit and Compensation Committees.

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**Robert B. Heisler, Jr.** retired as the Dean of Kent State University's Business School in October of 2011, a position he held since 2008. Prior to that appointment, he served as a Special Advisor to the University President. Mr. Heisler retired as Chairman of KeyBank, N.A. in 2007 after 37 years in the banking industry. Prior to his role as Chairman, Mr. Heisler served as Senior Managing Director of Key Capital Partners and held various positions throughout the organization, overseeing investment banking, brokerage, asset management, private banking and investment research. Mr. Heisler is a director of FirstEnergy Corp. and Myers Industries and holds leadership positions in many Northeast Ohio community organizations. Mr. Heisler's extensive business and banking experience enhance the risk management and oversight functions of the Board and are important to his service on the Board and the Enterprise Risk Management Committee.

**Bernard S. Kobak** joined Third Federal Savings and Loan in 1958 and has served as Executive Vice President since 1963. Mr. Kobak's many years of service in various areas of Third Federal Savings and Loan bring knowledge of the financial, operational and regulatory challenges that the Company faces.

**Terrence R. Ozan** serves on the board of directors of Capgemini, Cohesant Inc. and a privately held chemical manufacturer and supplier. Mr. Ozan served as Chief Executive Officer of North American operations and was an executive member of the Capgemini Global Management Committee prior to his retirement in 2003. Prior to the formation of Capgemini in 2000, Mr. Ozan was the Chief Executive Officer of worldwide consulting services for Ernst & Young and served on various boards and governance committees. In his nearly 30 year career at Ernst & Young, Mr. Ozan also directed many different domestic business units of the organization. Mr. Ozan's extensive business and banking experience enhance the risk management and oversight functions of the Board and are important to his service on the Board and the Enterprise Risk Management Committee.

**Marianne Piterans** is Director of Human Resources, Training, Security and Administrative Services for Third Federal Savings and Loan. Prior to joining Third Federal Savings and Loan in 1992, Ms. Piterans served as Senior Vice President of Society National Bank, where she worked for 20 years. Ms. Piterans brings a strong knowledge of the employees and communities served by the Company, which provides a unique perspective to the Board.

### **Business Experience of Each Continuing Director**

**Martin J. Cohen** has been a managing partner of H & M Management Company, a real estate management company, since 1975 and is manager and part owner of eight apartment complexes. He has managed and owned other commercial and single family properties. Mr. Cohen also has previous financial-related experience in the banking industry and has maintained leadership positions in various trade and community organizations. These skills provide a useful resource in his service on the Board and the Audit Committee.

**Robert A. Fiala** is president of the architecture firm ThenDesign, which he founded in 1989. He is also a member of the Willoughby, Ohio, City Council, where he currently serves as Council Vice President. Mr. Fiala is a current and past board member of several local nonprofit institutions. Mr. Fiala's management and business experience in operating his own company and his extensive civic and community responsibilities bring extensive knowledge and business acumen, as well as knowledge of the local community served by the Company, to his service on the Board and the Compensation Committee.

**William C. Mulligan** has served as a managing director of Primus Capital Funds, a private equity firm, since 1987. Mr. Mulligan joined Primus Capital Funds in 1985 from McKinsey & Company, Inc., an international management consulting firm. Mr. Mulligan serves as a director of several private companies and one public company, Universal Electronics, Inc. Mr. Mulligan's exposure to a wide range of companies and strategic acquisitions provides extensive business, financial and risk management skills that are important to his service on the Board and the Audit and Compensation Committees.

**Paul W. Stefanik** worked for Third Federal Savings and Loan for 30 years prior to his retirement in 1993. In 1987, Mr. Stefanik was appointed Executive Vice President of Branch Administration, a position he held until his

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retirement. Mr. Stefanik's many years of service in various areas of Third Federal Savings and Loan bring knowledge of the financial, operational and regulatory challenges faced by the Company and are important to his service on the Board and the Audit Committee.

**Ben S. Stefanski III** is currently Director of Direct Sales at Patagonia, Inc., a \$320 million outdoor retail company. Mr. Stefanski has been employed by Patagonia, Inc. since 2001 and has led a number of teams, including Patagonia, Inc.'s call centers and inventory groups. Mr. Stefanski has previously served on the board of the Third Federal Foundation. He is the nephew of Marc A. Stefanski and grandson of Ben and Gerome Stefanski, the founders of Third Federal Savings and Loan. Mr. Stefanski provides a retail business perspective that is important to his service on the Board and the Enterprise Risk Management Committee.

**Marc A. Stefanski** joined Third Federal Savings and Loan in 1982 and was elected Chairman of the Board and Chief Executive Officer in 1988, succeeding his father in these positions. He was elected President of Third Federal Savings and Loan and the Company in 2000. Mr. Stefanski's parents, Ben and Gerome Stefanski, founded Third Federal Savings and Loan in 1938. Mr. Stefanski's values, leadership skills, extensive experience overseeing the growth of Third Federal Savings and Loan and the Company and extensive knowledge of the industry, the Company and the community are considered valuable assets to the Board.

## **CORPORATE GOVERNANCE**

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

During the fiscal year ended September 30, 2011, our Board of Directors met 12 times and the board of directors of Third Federal Savings and Loan, which consists of the same directors as our Board of Directors, met 12 times. During the fiscal year ended September 30, 2011 or such period during the fiscal year as an individual may have served as a director, no director attended fewer than 75% of the total number of meetings of our Board of Directors and the total number of meetings held by all committees on which the director served. The Company anticipates that all of its directors will attend the annual meeting of stockholders. All directors serving at the time of last year's annual meeting attended that meeting, except for Mr. Mulligan, who was unable to attend. Our Board of Directors has established various standing committees, including an Audit Committee, Compensation Committee, Executive Committee and Enterprise Risk Management Committee. The full Board of Directors acts as the Company's nominating committee.

### **Independent Directors**

A majority of our Board of Directors and all members of the Audit Committee, Compensation Committee and Enterprise Risk Management Committee are independent, as affirmatively determined by our Board of Directors consistent with the criteria established by the NASDAQ Stock Market.

Our Board of Directors conducts an annual review of director independence for all current nominees for election as directors and all continuing directors. In connection with this review, our Board of Directors considers all relevant facts and circumstances relating to relationships that each director, his or her immediate family members and their related interests had with the Company and its subsidiaries.

As a result of this review, our Board of Directors affirmatively determined that nominees Asher, Heisler and Ozan and continuing directors Cohen, Fiala, Mulligan, Stefanik and Stefanski III are independent. Our Board of Directors determined that nominees Kobak and Piterans and continuing director Stefanski are not independent because they are associates of the Company.

### **Board Leadership Structure and Risk Oversight**

Pursuant to the Company's bylaws, the Board of Directors is responsible for the selection of a Chairman of the Board and a President of the Company, and may further designate the Chairman of the Board as an officer.

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Mr. Stefanski currently serves as our Chairman of the Board, President, and Chief Executive Officer. The Board of Directors believes that this structure provides the optimal leadership model for us. Combining the Chairman of the Board and President and Chief Executive Officer roles fosters accountability, effective decision-making and alignment between interests of the Board of Directors and management. Mr. Stefanski also is able to use the in-depth focus and perspective gained in his executive function to assist our Board of Directors in addressing both internal and external issues affecting the Company. This structure also allows a single person to act as a spokesperson for the Company and to represent and speak on our behalf to our customers, employees and regulators. It also best leverages Mr. Stefanski's unique attributes and heritage as his family's name and history are an important part of our brand image.

While the Board of Directors does not have a lead independent director, we feel that having a majority of independent directors, a discrete and independent committee system and periodic meetings of non-management directors in executive session permits the Board to maintain effective oversight of the Company's management. Nevertheless, the Board of Directors periodically reviews its leadership structure to ensure that it meets the Company's needs. In fiscal year 2011, the Board met in this capacity to approve a director succession plan and a management succession plan.

Our Board of Directors assists in monitoring the risks inherent in the Company's business model and internal operations, including risk relating to changes in interest rates, risk relating to the Company's investments, risk relating to the Company's lending activities and risks arising from the Company's compensation policies and practices.

Because a majority of the Company's assets and liabilities are monetary in nature, the Company's most significant form of risk, and thus the risk most important to manage, is interest rate risk. In general, our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, the Board of Directors has established risk management guidelines and an Asset/Liability Management Committee consisting of members of management. This committee 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. The committee meets quarterly, and more frequently if necessary, and provides reports of its proceedings to the Board of Directors.

The Company is also exposed to risk from the assets in which it invests. As part of its risk oversight, the Board of Directors is responsible for establishing and overseeing the Company's investment policy, which is reviewed at least annually by management, and any changes to the policy are subject to approval by the Board of Directors. This policy dictates that investment decisions be made based on the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. Third Federal Savings and Loan also maintains an Investment Committee made up of members of management, which oversees investing activities and strategies and policies. The committee meets quarterly, or more frequently as necessary, and provides reports of its proceedings to the Board's Executive Committee.

A third category of risk to which the Company is exposed is risk from its lending activities. As part of its risk oversight, the Board of Directors has established underwriting standards and loan origination procedures, including loan approval limits. The Board of Directors has delegated authority to its Executive Committee to review and assign lending authority to certain individuals of the Company to consider and approve loans within their designated authority.

Pursuant to a memorandum of understanding entered into between the Company and its former primary regulator, the Office of Thrift Supervision, the Board of Directors engaged Promontory Financial Group, LLC ( Promontory ) to review and assess the Company's risk management organization, structure, programs and

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practices. The review and assessment focused on credit risk, market, interest rate, liquidity and operational risk, including compliance risk. The Board considered and directed that management implement the recommendations presented by Promontory to decrease the Company's exposure to these areas of risk.

On April 28, 2011, the Board of Directors formed an Enterprise Risk Management Committee to oversee the Company's risk management processes and delegated to it responsibilities with respect to risk management oversight, including responsibilities with respect to interest rate, investing and lending risk. Although it does not directly supervise the Company's Investment Committee or Asset/Liability Management Committee, the Enterprise Risk Management Committee is responsible for the regular review of their guidelines, policies and deliberations. The Committee also reviews the Company's strategies, policies and practices to identify, assess, report and manage risk exposures and considers similar risk assessments presented to it by the Company's internal management risk committee.

On a more general level, the Audit Committee is also involved in the risk management process, as it annually reviews and approves the processes used by our internal audit department in developing our annual risk assessment, discusses any areas of high risk identified during an audit, inquires into significant risks facing the Company, and independently discusses with management the Company's policies with respect to risk assessment and risk management.

As part of our bonus program, the Compensation Committee has negative discretion to reduce the amount payable from the incentive pool based on certain measures, including interest rate risk and credit risk. In addition, the Company uses only non-commissioned associates to gather loan applications and underwrite and process loan requests. These measures are designed to reduce incentives for employees to cause the Company to take undue risk.

Our management has assessed our compensation policies and practices and has concluded that they are not reasonably likely to have a material adverse effect on the Company.

**Executive Session**

The non-management directors of our Board of Directors meet periodically in executive session.

**Committee Membership and Roles**

The following table provides details with respect to committee membership and roles as of September 30, 2011:

|                        | <b>Audit(1)</b> | <b>Compensation</b> | <b>Executive</b> | <b>Risk Management</b> | <b>Nominating</b> |
|------------------------|-----------------|---------------------|------------------|------------------------|-------------------|
| William C. Mulligan    | þ(2)(3)         | þ                   | þ                |                        | þ                 |
| Anthony J. Asher       | þ               | þ                   |                  |                        | þ                 |
| Martin J. Cohen        | þ               |                     |                  |                        | þ                 |
| Paul W. Stefanik       | þ               |                     |                  |                        | þ                 |
| Robert A. Fiala        |                 | þ(2)                |                  |                        | þ                 |
| Marc A. Stefanski      |                 |                     | þ(2)             |                        | þ                 |
| Bernard S. Kobak       |                 |                     | þ                |                        | þ                 |
| Robert B. Heisler, Jr. |                 |                     |                  | þ(2)                   | þ                 |
| Terrence R. Ozan       |                 |                     |                  | þ                      | þ                 |
| Ben S. Stefanski III   |                 |                     |                  | þ                      | þ                 |
| Marianne Piterans      |                 |                     |                  |                        | þ                 |

(1) - The Audit Committee also serves as our Qualified Legal Compliance Committee.

(2) - Committee chairperson.

(3) - Mr. Mulligan also serves as our audit committee financial expert.



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### **Audit Committee**

The Audit Committee consists of Messrs. Mulligan (Chairman), Asher, Cohen and Stefanik. The Audit Committee is responsible for providing oversight relating to our financial statements and financial reporting process, systems of internal accounting and financial controls, internal audit function, annual independent audit and the compliance and ethics programs established by management and our Board of Directors. The Audit Committee also serves as our Qualified Legal Compliance Committee. Each member of the Audit Committee is independent in accordance with the listing standards of the NASDAQ Stock Market and under Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. Our Board of Directors has determined that Mr. Mulligan is an audit committee financial expert as that term is defined by the rules and regulations of the Securities and Exchange Commission. The Audit Committee met nine times during the fiscal year ended September 30, 2011.

A current copy of the Audit Committee's charter is available on the Company's web site, [www.thirdfederal.com](http://www.thirdfederal.com), under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

### **Compensation Committee**

The members of the Compensation Committee of the Board of Directors (the Committee) are Messrs. Fiala (Chairman), Asher and Mulligan. All three members of the Committee served on the Committee throughout the fiscal year ended September 30, 2011, during which the Committee held five meetings.

The Committee is responsible for assisting our Board of Directors in the following primary areas:

Reviewing and approving the goals and objectives relevant to the compensation of the Chief Executive Officer and the Company's other executive officers and ensuring those goals are aligned with the Company's short- and long-term objectives;

Reviewing, at least annually, the structure and compensation opportunities available under the Company's executive and associate compensation plans in light of the Company's goals and objectives;

Evaluating the risks arising from the Company's compensation policies and practices to determine whether they are reasonably likely to have a material adverse effect on the Company;

Reviewing and approving salary, annual and long-term incentive compensation targets, performance objectives and payments for the executive officers of the Company;

Evaluating, at least annually, the performance of the executive officers in light of the Company's strategic plan and the goals and objectives of the Company's executive compensation plans and establishing future compensation levels based upon this evaluation;

Reviewing and approving grants and awards to the executive officers and other participants under equity-based compensation plans, based on achievement of pre-determined goals and objectives;

Reviewing and approving compensation for members of our Board of Directors and any of its committees; and

Reviewing and approving any employment agreement or severance agreement to be made with any existing or prospective executive officer of the Company.

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The Committee engages a compensation consultant to assist in the design of the Company's compensation program and the review of its effectiveness.



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A copy of the Committee's charter is available on the Company's web site, [www.thirdfederal.com](http://www.thirdfederal.com), under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

### **Executive Committee**

The Executive Committee, which currently consists of Messrs. Stefanski (Chairman), Kobak and Mulligan, possesses the power of our Board of Directors during intervals between meetings of our Board of Directors in order to address various items, including approval of various policies and guidelines and significant agreements and contracts. The Executive Committee does not possess the power to fill vacancies on our Board of Directors or any Board of Directors committees. The Executive Committee held 13 meetings during the fiscal year ended September 30, 2011.

### **Enterprise Risk Management Committee**

The Enterprise Risk Management Committee consists of Messrs. Heisler (Chairman), Ozan and Stefanski III. The Enterprise Risk Management Committee is responsible for providing oversight and monitoring relating to our risk management practices, procedures and tolerances. The Enterprise Risk Management Committee was formed April 28, 2011 and met once during the fiscal year ended September 30, 2011.

A copy of the committee's charter is available on the Company's website, [www.thirdfederal.com](http://www.thirdfederal.com), under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

### **Nominating Committee**

Our Board of Directors has determined that the Company is a Controlled company, as defined by the NASDAQ Stock Market, because Third Federal Savings and Loan Association of Cleveland, MHC currently owns more than 50% of our common stock. Therefore, the full Board of Directors acts as our nominating committee and does not have a separate nominating committee charter. The Board of Directors met twice in this capacity during the fiscal year ended September 30, 2011. In that capacity, our Board of Directors elected Messrs. Heisler and Ozan to fill open Board positions in March 2011 and recommended a slate of nominees for election by stockholders at the Company's 2012 annual meeting of stockholders.

As set forth in our Policy and Procedures for Stockholder Recommendations for Director Candidates (the Policy), our Board of Directors will consider suggestions forwarded by stockholders to the Secretary of the Company concerning qualified candidates for election as directors. To recommend a prospective nominee for our Board of Directors' consideration, a stockholder may submit the candidate's name, qualifications and other pertinent information required by the Policy to the Company's Secretary at the following address: 7007 Broadway Avenue, Cleveland, Ohio 44105. To be timely, the submission must be received by the Secretary at least 150 days prior to the anniversary date of the proxy statement relating to the preceding year's annual meeting of stockholders.

Under our bylaws, no nomination for director, except one made by the Board of Directors, will be voted upon unless the nomination is made in writing and delivered to the Company's Secretary at least 30 days prior to the date of the annual meeting. Upon delivery, a nomination will be posted in a conspicuous place in each office of the Company. Ballots bearing the names of all persons nominated by the Board of Directors and by stockholders will be provided for use at the annual meeting. If the Board of Directors fails or refuses to act in regard to nominations for directors at least 20 days prior to the annual meeting, nominations for directors may be made at the annual meeting by any holders of shares of common stock entitled to vote, and will be voted upon.

Our Board of Directors has recommended for election each of the nominees identified in Proposal One: Election of Directors on page 4.

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A current copy of our Policy and Procedures for Stockholder Recommendations for Director Candidates is available on the Company's web site, [www.thirdfederal.com](http://www.thirdfederal.com), under Investor Relations and a written copy is available to stockholders upon written request to the Company, to the attention of Investor Relations at 7007 Broadway Avenue, Cleveland, Ohio 44105.

Our Board of Directors has not established specific minimum qualifications that a candidate must have in order to be recommended for election to our Board of Directors. However, in determining qualifications for new directors, our Board of Directors will consider a potential member's qualification as independent under the NASDAQ Stock Market listing standards, as well as his or her age, skill and experience in the context of the needs of the Board of Directors. Our Board of Directors does not have a specific policy with regard to its consideration of diversity of its directors, although diversity is one of many factors taken into account when considering potential candidates to serve on the Board of Directors.

When evaluating a candidate, the Board of Directors considers those attributes most likely to serve the interests of the Company and its stockholders. Those characteristics will ideally reflect a balance of professional and personal backgrounds that contribute to the Board of Directors' performance of its functions in the highly competitive and closely regulated business in which the Company operates. If the Board of Directors believes that a potential candidate may be an appropriate nominee to the Board, the Board seeks to learn more about the candidate's qualifications, background and interest in serving on the Board, and the candidate has the opportunity to learn more about us, the Board and its governance practices.

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

The Company has adopted policies governing the activities of both the Company and Third Federal Savings and Loan, including a code of conduct and a code of ethics for senior financial officers. The code of conduct applies to all associates and directors, and addresses conflicts of interest, the treatment of confidential information, general associate conduct and compliance with applicable laws, rules and regulations. The code of ethics for senior financial officers applies to the Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer, and addresses adherence to standards of integrity and professionalism when conducting and reporting the Company's financial affairs. In addition, the codes are designed to deter wrongdoing and to promote honest and ethical conduct, full and accurate disclosure and compliance with all applicable laws, rules and regulations. The codes are posted on the Company's web site, [www.thirdfederal.com](http://www.thirdfederal.com), under Investor Relations. Any waiver of any provision of either code granted to an executive officer or director may be made only by our Board of Directors. There were no waivers granted during fiscal year 2011.

## **REPORT OF THE AUDIT COMMITTEE**

The Audit Committee reviews the Company's financial reporting practices on behalf of our Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Company's independent accountant is responsible for expressing an opinion on the conformity of those audited financial statements with accounting principles generally accepted in the United States of America.

The Audit Committee has:

Reviewed and discussed with management the audited financial statements of the Company contained in its Annual Report on Form 10-K for the fiscal year ended September 30, 2011;

Discussed with the Company's independent accountant the matters required to be discussed pursuant to Statement of Auditing Standards No. 61, as amended (AICPA, Pr