TFS Financial CORP
Form 424B3
February 23, 2007
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Registration No. 333-139295

PROSPECTUS

Holding Company for Third Federal Savings and Loan Association of Cleveland

87,130,102 Shares of Common Stock

TFS Financial Corporation, a federally chartered corporation, is offering for sale 87,130,102 shares of its common stock, $0.01 par value, on a best efforts basis. The shares being offered represent up to 30.08% of our shares of common stock that will be outstanding upon completion of the stock offering. Upon completion of the stock offering, up to 68.19% of our outstanding shares of common stock will be owned by Third Federal Savings and Loan Association of Cleveland, MHC, our federally chartered mutual holding company parent. In addition, Third Federal Savings and Loan Association of Cleveland intends to contribute cash in the amount of $5.0 million and we intend to issue up to 2% of our outstanding shares of common stock to a charitable foundation we will establish in connection with the stock offering. The contribution and issuance of cash and shares of common stock will total $47.9 million at the minimum of the offering range, up to a maximum contribution of $55.0 million.

We must sell a minimum of 64,400,510 shares in order to complete the stock offering, and we will terminate the stock offering if we do not sell the minimum number of shares. We may sell up to 100,199,618 shares because of changes in market conditions without resoliciting subscribers. The stock offering is scheduled to terminate at 4:00 p.m., Cleveland, Ohio time, on March 26, 2007. We may extend the termination date without notice to you, until May 14, 2007, unless the Office of Thrift Supervision approves a later date, which may not be beyond February 12, 2009.

Depositors of Third Federal Savings and Loan Association of Cleveland with aggregate deposit account balances of $50 or more as of April 30, 2005 will have first priority rights to subscribe for our shares of common stock. The minimum purchase is 25 shares of common stock. Generally, the maximum purchase that an individual may make through a single deposit 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 75,000 shares. For further information concerning the limitations on purchases of shares of common stock, see The Stock Offering Limitations on Purchase of Shares. Once submitted, orders are irrevocable unless the stock offering is terminated or extended beyond May 14, 2007. If the stock offering is extended beyond May 14, 2007, subscribers will have the right to modify or rescind their purchase orders. Funds received prior to the completion of the stock offering up to the minimum of the offering range will be held by Third Federal Savings and Loan Association of Cleveland. Funds received in excess of the minimum of the offering range may be maintained at Third Federal Savings and Loan Association of Cleveland or, at our discretion, at another federally insured depository institution. However, in no event will we maintain more than one escrow account. All subscriptions received will bear interest at Third Federal Savings and Loan Association of Cleveland s passbook savings rate, which is currently 0.80% per annum. If the stock offering is terminated, subscribers will have their funds returned promptly, with interest.

Sandler O Neill & Partners, L.P. will use its best efforts to assist us in selling our shares of common stock, but is not obligated to purchase any of the shares of common stock that are being offered for sale. Subscribers will not pay any commissions to purchase shares of common stock in the stock offering. There is currently no public market for the shares of common stock. Sandler O Neill & Partners, L.P. has advised us that it intends to make a market in our shares of common stock, but is under no obligation to do so. We expect that our shares of common stock will be quoted on the Nasdaq Global Select Market under the symbol TFSL.

This investment involves risk, including the possible loss of principal.

Please read the Risk Factors beginning on page 20.

OFFERING SUMMARY

Price: $10.00 per share

	Minimum	Midpoint	Maximum	Adjusted Maximum
Number of shares	64,400,510	75,765,306	87,130,102	100,199,618
Estimated stock offering expenses excluding selling agent commissions and expenses	$ 3,560,000	$ 3,560,000	$ 3,560,000	$ 3,560,000
Selling agent commissions and expenses (1)	$ 3,656,000	$ 4,298,000	$ 4,942,000	$ 5,683,000
Net proceeds	$ 636,789,100	$ 749,795,060	$ 862,799,020	$ 992,753,180
Net proceeds per share	$ 9.89	$ 9.90	$ 9.90	$ 9.91

(1) Based on 0.65% of the aggregate dollar amount of the shares of common stock sold in the subscription and community offerings, excluding shares sold to the employee stock ownership plan, the 401(k) plan, the charitable foundation and to our officers, employees and directors and members of their immediate families. For a description of the calculation of Sandler O Neill & Partners, L.P. s compensation for the stock offering, please see The Stock Offering Marketing Arrangements.

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

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

The date of this prospectus is February 12, 2007

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SUMMARY

The following summarizes material information regarding the offering of shares of common stock by TFS Financial Corporation and the business of TFS Financial Corporation and Third Federal Savings and Loan Association of Cleveland. However, this summary may not contain all the information that may be 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 of TFS Financial Corporation.

Our Organization

In May 1997, Third Federal Savings and Loan Association of Cleveland (which we will refer to as Third Federal Savings and Loan) reorganized into the two-tier mutual holding company structure. As part of the reorganization, Third Federal Savings and Loan formed TFS Financial Corporation and Third Federal Savings and Loan Association of Cleveland, MHC, a federally chartered mid-tier stock holding company and mutual holding company, respectively. As a result of the reorganization, Third Federal Savings and Loan became a federally chartered capital stock savings and loan association, and a wholly-owned subsidiary of TFS Financial Corporation, and TFS Financial Corporation became the wholly-owned subsidiary of Third Federal Savings and Loan Association of Cleveland, MHC. The same directors and certain officers who manage Third Federal Savings and Loan manage TFS Financial Corporation and Third Federal Savings and Loan Association of Cleveland, MHC. In addition, in 1998 TFS Financial Corporation organized Third Capital, Inc. as a wholly-owned Delaware subsidiary corporation.

Our current ownership structure is as follows:

The Companies

Third Federal Savings and Loan Association of Cleveland, MHC

Third Federal Savings and Loan Association of Cleveland, MHC is a federally chartered mutual holding company and currently owns 100% of the outstanding common stock of TFS Financial Corporation. Third Federal Savings and Loan Association of Cleveland, MHC has not engaged in any significant business activity other than owning the common stock of TFS Financial Corporation, and does not intend to expand its business activities after the stock offering. Upon completion of the stock offering, Third Federal Savings and Loan Association of Cleveland, MHC is expected to own up to 68.34% of the outstanding shares of common stock of TFS Financial Corporation. So long as Third Federal Savings and Loan Association of Cleveland, MHC exists, it is required to own a majority of the voting stock of TFS Financial Corporation. The executive office of Third

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Federal Savings and Loan Association of Cleveland, MHC, is located at 103 Foulk Road, Suite 104, Wilmington, Delaware 19803, and its telephone number is (302) 661-2009. Third Federal Savings and Loan Association of Cleveland, MHC is subject to comprehensive regulation and examination by the Office of Thrift Supervision.

TFS Financial Corporation

TFS Financial Corporation is a federally chartered mid-tier stock holding company and currently owns 100% of the outstanding common stock of Third Federal Savings and Loan. TFS Financial Corporation also owns 100% of the common stock of Third Capital, Inc. (as described below). TFS Financial Corporation s executive office is located at 103 Foulk Road, Suite 104, Wilmington, Delaware 19803, and its telephone number is (302) 661-2009. TFS Financial Corporation is subject to comprehensive regulation and examination by the Office of Thrift Supervision. At September 30, 2006, TFS Financial Corporation had consolidated assets of $8.6 billion, consolidated deposits of $7.4 billion and consolidated shareholder s equity of $1.0 billion. Its net income for the fiscal year ended September 30, 2006 was $43.5 million.

Third Federal Savings and Loan Association of Cleveland

Third Federal Savings and Loan is a federally chartered savings and loan association headquartered in Cleveland, Ohio. Third Federal Savings and Loan was organized in 1938 by Ben S. and Gerome R. Stefanski, the parents of our current Chairman, President and Chief Executive Officer, Marc A. Stefanski. In May 1997, Third Federal Savings and Loan reorganized into the two-tier mutual holding company structure. In 1999, Third Federal Savings and Loan established its first branch offices in Florida, and currently operates from 14 branch offices in that state. Third Federal Savings and Loan conducts business from its main office located at 7007 Broadway Avenue, Cleveland, Ohio, 40 branch offices located in Ohio and Florida and eight loan production offices located in Ohio. The branch offices are located in the Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit and in the Florida counties of Collier, Hillsborough, Lee, Miami-Dade, Palm Beach, Pasco, Pinellas and Sarasota. The telephone number at Third Federal Savings and Loan s main office is (216) 441-6000.

Third Federal Savings and Loan s principal business consists of originating one- to four-family residential real estate mortgage loans, home equity loans and home equity lines of credit. Third Federal Savings and Loan also offers residential construction loans. To a lesser extent, Third Federal Savings and Loan also invests in mortgage-backed securities, U.S. Government and federal agency obligations and other investment securities. Third Federal Savings and Loan offers a variety of deposit accounts, including certificates of deposit, NOW accounts and passbook savings accounts. Deposits are Third Federal Savings and Loan s primary source of funds for its lending and investing activities. Third Federal Savings and Loan has also used borrowed funds as a source of funds, principally from the Federal Home Loan Bank of Cincinnati. In addition to traditional banking services, Third Federal Savings and Loan offers insurance and investment products through ThirdFed Investments, a division of Third Federal Savings and Loan. Through a wholly-owned subsidiary, FBE, Inc., Third Federal Savings and Loan has acquired real properties as part of its commitment to revitalize the community surrounding its main office. Third Federal Savings and Loan is the indirect owner of a second-tier real estate investment trust, Broadway Realty Holdings Co., which holds mortgage loans and other investments. Third Federal Savings and Loan is subject to comprehensive regulation and examination by the Office of Thrift Supervision.

Third Federal Savings and Loan prices its loan and deposit products to encourage home ownership, attract borrowers and promote savings by its customers. Although this strategy does not enable Third Federal Savings and Loan to generate the highest returns, Third Federal Savings and Loan believes this strategy is the primary reason it has grown to become the nation s largest mutually-owned savings and loan association based on total assets.

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Third Capital, Inc.

Third Capital, Inc. is a Delaware corporation that was organized in 1998 as a wholly-owned subsidiary of TFS Financial Corporation. Third Capital, Inc. is a holding company for operating subsidiaries, and is also a minority investor or partner in other entities and partnerships. Through its subsidiaries, Third Capital, Inc. engages in net lease transactions for commercial properties, and offers escrow and settlement services and reinsures private mortgage insurance. At September 30, 2006, Third Capital, Inc. had consolidated assets of $63.1 million. For further information, see Business of Third Capital, Inc.

Business Strategy

Our business strategy is:

- Following our mission of creating value for our customers, our communities and our company;
- Encouraging home ownership by offering competitive interest rates and attractive product features on mortgage loans and home equity loans and lines of credit in our primary market areas;
- Promoting savings by our customers by offering competitive rates on certificates of deposit and other deposit products;
- Controlling and managing operating expenses; and
- Growing through *de novo* branching.

See Business of Third Federal Savings and Loan Association of Cleveland for a full description of our products and services. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Business Strategy for a discussion of our business strategy.

The Stock Offering

Federal regulations require that as long as Third Federal Savings and Loan Association of Cleveland, MHC exists, it must own a majority of our outstanding shares of common stock. Accordingly, the shares that we are permitted to sell in the stock offering must represent a minority of our outstanding shares of common stock. Based on these restrictions, our board of directors has decided to offer up to 30.15% of our shares of common stock for sale in the stock offering. In addition, Third Federal Savings and Loan intends to contribute cash of $5.0 million and we intend to contribute up to 2% of our shares of common stock to a charitable foundation we will establish. The contribution of cash and shares of common stock will total $47.9 million at the minimum of the offering range, up to a maximum contribution of $55.0 million. Our remaining outstanding shares of common stock will be held by Third Federal Savings and Loan Association of Cleveland, MHC.

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The following chart shows our structure following the stock offering:

Third Federal Savings and Loan Association of Cleveland, MHC has no plans, understandings or agreements, whether written or oral, to sell or otherwise dispose of its shares of common stock of TFS Financial Corporation. Third Federal Savings and Loan Association of Cleveland, MHC may convert to stock form in the future by offering its interest in TFS Financial Corporation for sale to depositors and others in a subscription offering. However, Third Federal Savings and Loan Association of Cleveland, MHC has no current plans to convert to stock form.

Reasons for the Stock Offering

The primary reasons for our decision to conduct the stock offering and raise capital are to:

- support our internal growth through lending in communities we serve or may serve in the future;
- support the expansion of our branch network;
- enhance our existing products and services and to support the development of new products and services;
- enable us to compete more effectively in the financial services marketplace;
- offer our depositors, employees, management and directors an equity ownership interest in TFS Financial Corporation and thereby obtain an economic interest in any future success that we may have; and
- support our local communities through a contribution to the charitable foundation.

The stock offering also will allow us to establish stock benefit plans for management and employees, which will help us to attract and retain qualified personnel.

Terms of the Stock Offering

We are offering between 64,400,510 and 87,130,102 shares of common stock to qualified depositors and borrowers, tax-qualified employee plans and to the public to the extent shares remain available. The maximum number of shares that we sell in the stock offering may increase up to 100,199,618 shares, as a result of positive changes in financial markets in general and with respect to financial institution stocks in particular. Unless our estimated pro forma market value decreases below $2.15 billion or increases above $3.32 billion, you will not

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have the opportunity to change or cancel your stock order. The offering price of the shares of common stock is $10.00 per share. Sandler O Neill & Partners, L.P., our marketing advisor in connection with the stock offering, will use its best efforts to assist us in selling our shares of common stock, but Sandler O Neill & Partners, L.P. is not obligated to purchase any shares in the stock offering.

Third Federal Savings and Loan also intends to contribute cash in the amount of $5.0 million and we intend to issue up to 2% of our outstanding shares to a charitable foundation we will establish. The contribution and issuance of cash and shares of common stock will total $47.9 million at the minimum of the offering range, up to a maximum contribution of $55.0 million.

Persons Who May Order Stock in the Stock Offering

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

(1) Depositors who had accounts at Third Federal Savings and Loan with aggregate balances of at least $50.00 as of the close of business on April 30, 2005;

(2) The tax-qualified employee benefit plans of Third Federal Savings and Loan (including our employee stock ownership plan);

(3) Depositors who had accounts at Third Federal Savings and Loan with aggregate balances of at least $50.00 as of the close of business on December 31, 2006; and

(4) Depositors who had accounts at Third Federal Savings and Loan with aggregate balances of at least $50.00 as of the close of business on January 31, 2007, and borrowers from Third Federal Savings and Loan as of January 17, 1996 who maintain such borrowings as of the close of business on January 31, 2007.

If any shares of our common stock remain unsold in the subscription offering, we will offer such shares for sale in a community offering. Natural persons residing in the State of Ohio, the Kentucky counties of Boone, Kenton and Campbell, and the Florida counties of Broward, Charlotte, Citrus, Collier, Hernando, Hillsborough, Lake, Lee, Manatee, Martin, Miami-Dade, Orange, Osceola, Palm Beach, Pasco, Pinellas, Polk, Sarasota, Seminole, St. Lucie and Volusia, will have a purchase preference in any community offering. Shares of common stock also may be offered to the general public. The community offering, if any, may commence concurrently with, during or promptly after, the subscription offering. We also may offer shares of common stock not purchased in the subscription offering or the community offering through a syndicate of brokers in what is referred to as a syndicated community offering. The syndicated community offering, if necessary, would be managed by Sandler O Neill & Partners, L.P. We have the right to accept or reject, in our sole discretion, any orders received in the community offering or the syndicated community offering.

To ensure a proper allocation of stock, each eligible account holder must list on his or her stock order form all deposit accounts in which he or she had an ownership interest at April 30, 2005, December 31, 2006 or January 31, 2007, as applicable. Failure to list an account, 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 stock issuance plan and of the acceptability of the order forms will be final.

How We Determined to Offer Between 64,400,510 Shares and 87,130,102 Shares and the $10.00 Price Per Share

The decision to offer between 64,400,510 shares and 87,130,102 shares, subject to adjustment, which is our offering range, is based on an independent appraisal of our pro forma market value prepared by FinPro, Inc., a firm experienced in appraisals of financial institutions. FinPro, Inc. is of the opinion that as of January 31, 2007,

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the estimated pro forma market value of the shares of common stock of TFS Financial Corporation on a fully- converted basis was between $2.15 billion and $2.90 billion, with a midpoint of $2.53 billion. The term fully converted assumes that 100% of our common stock had been sold to the public, as opposed to the 30.0% to 30.15% that will be sold in the stock offering.

In preparing its appraisal, FinPro, Inc. considered the information contained in this prospectus, including our consolidated financial statements. FinPro, Inc. also considered the following factors, among others:

- our present and projected operating results and financial condition and the economic and demographic conditions in our existing market areas;
- historical, financial and other information relating to TFS Financial Corporation and Third Federal Savings and Loan;
- a comparative evaluation of our operating and financial statistics with those of other similarly situated publicly traded thrifts and mutual holding companies;
- the impact of the stock offering on our shareholders equity and earnings potential;
- our proposed dividend policy; and
- the trading market for securities of comparable institutions and general conditions in the market for such securities.

FinPro, Inc. also considered the contribution of cash and issuance of shares of common stock to Third Federal Foundation, a charitable foundation we will establish. The contribution of cash and shares of common stock to the charitable foundation will have the effect of reducing our estimated pro forma value. See Comparison of Valuation and Pro Forma Information with and without the Charitable Foundation.

In reviewing the appraisal prepared by FinPro, Inc., the board of directors considered the methodologies and the appropriateness of the assumptions used by FinPro, Inc. in addition to the factors listed above, and the board of directors believes that these assumptions are reasonable.

The board of directors determined that the common stock should be sold at $10.00 per share, that up to 30.15% of the shares of common stock should be offered for sale in the stock offering and up to 68.34% should be held by Third Federal Savings and Loan Association of Cleveland, MHC, after giving effect to the issuance of shares of common stock to Third Federal Foundation. Based on the estimated valuation range and the purchase price, the number of shares of common stock that will be outstanding upon completion of the stock offering will range from 214,668,367 to 289,625,000 (subject to adjustment to 332,318,750), and the number of shares of common stock that will be sold in the stock offering will range from 64,400,510 shares to 87,130,102 shares (subject to adjustment up to 100,199,618), with a midpoint of 75,765,306 shares. The number of shares that Third Federal Savings and Loan Association of Cleveland, MHC will own after the stock offering will range from 145,974,490 to 197,494,898 (subject to adjustment to 227,119,132). The number of shares of common stock that Third Federal Foundation will own after the stock offering will range from 4,293,367 to 5,000,000. The estimated valuation range may be amended with the approval of the Office of Thrift Supervision, or if necessitated by subsequent developments in the financial condition of Third Federal Savings and Loan or market conditions generally.

The appraisal will be updated before we complete the stock offering. If the estimated pro forma market value of the shares of common stock at that time is either below $2.15 billion or above $3.32 billion, then we may, after consulting with the Office of Thrift Supervision:

- terminate the stock offering and return all funds promptly with interest;

extend the stock offering or hold a new subscription or community offering, or both;

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establish a new offering range and commence a resolicitation of subscribers; or

take such other actions as may be permitted by the Office of Thrift Supervision.

Under such circumstances, we will notify you, and you will have the opportunity to change or cancel your order within a specified time period. In any event, the stock offering must be completed by no later than February 12, 2009.

Two measures investors use to evaluate an issuer s stock are the ratio of the offering price to the pro forma tangible book value and the ratio of the offering price to the issuer s pro forma net income. FinPro, Inc. considered these ratios, among other factors, in preparing its appraisal. Book value is the same as total equity, and represents the difference between the issuer s assets and liabilities. The following table presents the ratio of the offering price to our pro forma tangible book value and earnings per share at or for the period indicated. See Pro Forma Data for a description of the assumptions used in making these calculations.

	At or For the Fiscal Year Ended September 30, 2006			
	64,400,510 Shares Sold at $10.00 Per Share	75,765,306 Shares Sold at $10.00 Per Share	87,130,102 Shares Sold at $10.00 Per Share	100,199,618 Shares Sold at $10.00 Per Share
Pro forma price-to-tangible book value ratio	140.06%	155.28%	168.63%	182.48%
Pro forma price-to-earnings ratio	45.45x	52.63x	58.82x	66.67x

The following table compares our pricing ratios to the pricing ratios of our peer group companies on a non-fully converted basis, each at or for the twelve months ended September 30, 2006. Compared to the median pricing ratios of the peer group, our pro forma pricing ratios at the maximum of the offering range, indicated a discount of 30.12% on a price-to-core earnings basis and a discount of 30.83% on a price-to-tangible book basis.

	Non-Fully Converted Pro Forma Price-to-Core Earnings Multiple	Non-Fully Converted Pro Forma Price-to-Tangible Book Value Ratio
TFS Financial Corporation		
Maximum	35.71x	168.63%
Minimum	27.03x	140.06%
Valuation of peer group companies as of January 31, 2007		
Averages	75.10x	242.28%
Medians	51.10x	243.80%

The following table presents a summary of selected pricing ratios for the peer group companies and for us, each at or for the twelve months ended September 30, 2006, with the ratios adjusted to the hypothetical case of our being a fully converted stock holding company. Compared to the median fully converted pricing ratios of the peer group, our pro forma fully converted pricing ratios at the maximum of the offering range indicated a discount of 31.39% on a price-to-core earnings basis and a discount of 19.63% on a price-to-tangible book basis.

	Fully Converted Equivalent Pro Forma Price-to-Core Earnings Multiple	Fully Converted Equivalent Pro Forma Price-to-Tangible Book Value Ratio
TFS Financial Corporation		
Maximum	22.73x	82.71%
Minimum	18.87x	75.30%
Valuation of peer group companies as of January 31, 2007		
Averages	36.35x	105.19%
Medians	33.13x	102.91%

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As shown in the above tables, our pro forma fully converted and non-fully converted price-to-book value ratios are discounted compared to the average trading price-to-book value of the peer group companies.

The pro forma fully-converted calculations for the peer group companies include the following assumptions:

- 8.0% of the shares sold in a second-step stock offering would be purchased by an employee stock ownership plan, with the expense to be amortized over 30 years;
- 4.0% of the shares sold in the second-step stock offering would be purchased by a stock-based benefit plan, with the expense to be amortized over five years;
- Options equal to 10% of the shares sold in the second-step stock offering would be granted under a stock-based benefit plan, with option expense of $3.37 per option, and with the expense to be amortized over five years; and
- stock offering expenses would equal 2.5% of the stock offering amount.

With respect to TFS Financial Corporation, the pro forma fully-converted calculations use the same assumptions as applied to the peer group companies, but also assume: the impact of the establishment of our charitable foundation; the expense of the employee stock ownership plan would be amortized over 30 years; and that we would recognize expense with respect to stock options granted under a stock-based benefit plan over a five-year period. See Comparison of Valuation and Pro Forma Information with and without the Charitable Foundation for a discussion of the impact of our charitable foundation on our appraised value.

The independent appraisal does not indicate after-market trading value. Do not assume or expect that the valuation as indicated above means that our shares of common stock will trade at or above the $10.00 purchase price after the stock offering.

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After-Market Performance Information

The following table presents stock price performance information for all mutual holding company initial public offerings completed between January 1, 2006 and January 31, 2007. The offerings are presented in reverse chronological order, which means that the most recent offerings appear first.

	Price Performance from Initial Trading Date			
Transaction	One Day Percentage Change	One Week Percentage Change	One Month Percentage Change	Through January 31, 2007 Percentage Change
Oritani Financial Corp.	59.70%	54.30%	N/A	53.50%
Polonia Bancorp	1.00	1.50	N/A	1.00
MSB Financial Corp.	23.00	21.20	N/A	20.00
MainStreet Financial Corporation	10.00	10.00	(2.50)	
Ben Franklin Financial, Inc.	7.00	6.50	6.50	8.00
ViewPoint Financial Group	49.90	52.50	53.90	71.20
Fox Chase Bancorp, Inc.	29.50	27.90	30.10	38.20
Roma Financial Corporation	41.00	45.00	46.60	57.10
Seneca-Cayuga Bancorp, Inc.		(1.50)	(7.00)	(5.00)
Northeast Community Bancorp, Inc.	10.00	12.00	12.00	19.20
Mutual Federal Bancorp, Inc.	11.30	10.00	14.00	44.10
Lake Shore Bancorp, Inc.	7.00	5.50	2.90	25.40
United Community Bancorp	8.00	8.40	5.50	22.50
Magyar Bancorp, Inc.	6.50	5.00	6.00	37.50
Greenville Federal Financial Corporation	2.50	2.50		3.50
Average	17.76	17.39	14.00	26.41
Median	10.00	10.00	6.25	22.50

The table above presents only short-term historical information on stock price performance, which may not be indicative of the longer-term performance of such stock prices. The data presented in the table are not intended to predict how our shares of common stock may perform following the stock offering. The historical information in the table may not be meaningful to you because the data were calculated using a small sample.

The market price of any particular company s stock is subject to various factors, including the amount of proceeds a company raises and management s ability to deploy proceeds (such as through investments, the acquisition of other financial institutions or other businesses, the payment of dividends and common stock repurchases). In addition, stock prices may be affected by general market conditions, market interest rates, the market for financial institutions, merger or takeover transactions, the presence of professional and other investors who purchase stock on speculation, as well as other unforeseeable events not necessarily within the control of management or the board of directors.

FinPro, Inc. advised the board of directors that the appraisal was prepared in conformance with the appraisal methodology set forth in Office of Thrift Supervision regulatory guidelines and policy. 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. FinPro, Inc. also advised the board of directors that the aftermarket trading experience of recent transactions was considered in the appraisal as a general indicator of current market conditions, but was not relied upon as a primary valuation methodology.

Our board of directors carefully reviewed the information provided by FinPro, Inc. in its appraisal, but did not make any determination regarding whether prior mutual holding company stock offerings have been valued

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fairly, nor did the board draw any conclusions regarding how the historical data reflected above may affect the appraisal. Instead, the board of directors engaged FinPro, Inc. to help it understand the regulatory process as it applies to the appraisal and to advise the board of directors how much capital would need to be raised under the regulatory guidelines.

There can be no assurance that our stock price will not trade below $10.00 per share. As noted in the above table, two of the 15 initial public mutual holding company stock offerings since January 1, 2006 referenced in the table have traded below their initial offering price at the dates indicated. Before you make an investment decision, we urge you to carefully read this prospectus, including the section entitled Risk Factors.

Our Officers, Directors and Employees Will Receive Additional Compensation and Benefit Plans After the Stock Offering

Third Federal Savings and Loan has established an employee stock ownership plan, and we intend to implement one or more stock-based benefit plans that will provide for grants of stock options and shares of common stock. Our tax-qualified employee benefit plans, including our employee stock ownership plan and our 401(k) savings plan, may purchase in the stock offering up to 4.9% of our outstanding shares of common stock (including shares issued to Third Federal Foundation). However, it is expected that our employee stock ownership plan will purchase 3.92% of our outstanding shares of common stock (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation).

In addition to shares purchased by the employee stock ownership plan, we intend to grant options and stock awards under one or more stock-based benefit plans that we intend to implement no sooner than six months after the completion of the stock offering, subject to the approval of our shareholders. Under current Office of Thrift Supervision regulations, the number of options granted or shares of common stock awarded under our stock-based benefit plans may not exceed 4.90% and 1.96%, respectively, of our total outstanding shares (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation), exclusive of shares acquired in the secondary market to fund such plans in excess of the foregoing amounts. The number of options granted or shares awarded under our stock-based benefit plans that we may implement following the stock offering, when aggregated with any subsequently adopted stock-based benefit plans (exclusive of any shares held by our employee stock ownership plan), may not exceed 25% of the shares of common stock held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC.

The stock-based benefit plans will comply with all applicable regulations of the Office of Thrift Supervision in effect at the time such plans are adopted. Under Office of Thrift Supervision regulations, the stock-based benefit plans cannot be established sooner than six months after the stock offering, and would require the approval of a majority of votes cast by our shareholders (under Nasdaq rules) and by a majority of the total votes eligible to be cast (excluding votes eligible to be cast by Third Federal Savings and Loan Association of Cleveland, MHC), unless we obtain a waiver from the Office of Thrift Supervision that would allow the stock-based benefit plans to be approved by a majority of votes cast by our shareholders (excluding shares voted by Third Federal Savings and Loan Association of Cleveland, MHC). We currently intend to request such a waiver from the Office of Thrift Supervision. Unless a waiver is obtained from the Office of Thrift Supervision, the following additional Office of Thrift Supervision restrictions would apply to our stock-based benefit plans:

- non-employee directors in the aggregate may not receive more than 30% of the options and stock awards authorized under the plans;
- any one non-employee director may not receive more than 5% of the options and stock awards authorized under the plans;
- any officer or employee may not receive more than 25% of the options or stock awards authorized under the plans;

- the options and stock awards may not vest more rapidly than 20% per year, beginning on the first anniversary of shareholder approval of the plans; and

- accelerated vesting of awards is not permitted except for death, disability or upon a change in control of Third Federal Savings and Loan or TFS Financial Corporation.

We may obtain the shares needed for our stock-based benefit plans by issuing additional shares of common stock from authorized but unissued shares or through stock repurchases.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that are intended to clarify and simplify such regulations. Specifically, the amendments would clarify that we may grant options and award shares of common stock under one or more stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, provided shares used to fund the plans in excess of these amounts are obtained through stock repurchases. The proposed amendments would also require that, if the stock-based benefit plans are adopted less than one year following the stock offering, the stock-based benefit plans must be approved by a majority of the votes of TFS Financial Corporation shareholders cast at an annual or special meeting of shareholders, excluding votes eligible to be cast by Third Federal Savings and Loan Association of Cleveland, MHC. Under the proposed amendments, there would be no separate vote required of minority shareholders if the stock-based benefit plans are adopted more than one year following the stock offering. The proposed amendments would further clarify that the current regulatory restrictions set forth above regarding the amount of individual and group awards, and restrictions on accelerated vesting of awards, would not apply if the stock-based benefit plans are adopted more than one year following the stock offering.

In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its existing regulations or policies, we may implement stock-based benefit plans that exceed the current limits applicable to the overall size of such plans and individual awards thereunder, and otherwise grant awards with terms that are different than those required by current Office of Thrift Supervision regulations and policy. Moreover, to the extent that any new regulations or policies contain a more flexible voting standard for shareholder approval than that currently required, we intend to use the more flexible voting standard, which could result in the vote of Third Federal Savings and Loan Association of Cleveland, MHC controlling the outcome of a shareholder vote on stock-based benefit plans.

The employee stock ownership plan and the stock-based benefit plans will increase our future compensation costs, thereby reducing our earnings. Public companies are required to expense the grant-date fair value of stock options and other stock awards granted to officers, directors and employees. In addition, public companies must revalue their estimated compensation costs at each subsequent reporting date and may be required to recognize additional compensation expense at those dates. Any additional compensation expense due to variances in actual vesting or stock price experience compared to assumptions in the table below will increase our compensation costs over the vesting period of the options. Additionally, shareholders will experience a reduction in their ownership interest if newly issued shares of common stock are used to fund stock options and stock awards. See Risk Factors Our Stock Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Income. Our Directors, Officers and Employees are Eligible to Participate in These Stock-Based Benefit Plans, Management s Discussion and Analysis of Financial Condition and Results of Operations Anticipated Increase in Non-Interest Expense and Management Stock Benefit Plans.

The following three tables summarize the stock benefits that our officers, directors and employees may receive following the stock offering at the maximum of the offering range, assuming that we initially implement one or more stock-based benefit plans granting options to purchase 4.90% of the shares outstanding at the completion of the stock offering (including shares issued to Third Federal Foundation) and awarding shares of common stock equal to 1.96% of the shares outstanding at the completion of the stock offering (including shares issued to Third Federal Foundation). Proposed Office of Thrift Supervision regulations would clarify that the

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amount of stock options and stock awards available for grant under the stock-based benefit plans may be greater than the amounts set forth in the following three tables, provided shares used to fund the stock-based benefit plans in excess of these amounts are obtained through stock repurchases.

In the table below, it is assumed that, at the maximum of the offering range, a total of 87,130,102 shares will be sold to the public, and a total of 92,130,102 shares will be issued and outstanding to the public and the charitable foundation. This table assumes that Third Federal Savings and Loan s tangible capital ratio is 10% or more following the stock offering.

Plan/Awards	Individuals Eligible to Receive Awards	Number of Shares	Percent of Outstanding Shares (1)	Percent of Shares Sold	Value of Benefits Based on Maximum of Offering Range (2) (In thousands)
Employee stock ownership plan	All officers and employees	11,353,300	3.92%	13.03%	$ 113,533
Stock awards	Directors, officers and employees	5,676,650	1.96	6.52	56,767
Stock options	Directors, officers and employees	14,191,625	4.90	16.29	47,826
			10.78%	35.84%	$ 218,126

(1) Amounts are based on current Office of Thrift Supervision regulations and policy, exclusive of shares acquired in the secondary market to fund stock awards and stock options. Proposed Office of Thrift Supervision regulations would clarify that the amount of stock options and stock awards available for grant under the stock-based benefit plans may be greater than the amounts set forth in the table, provided shares used to fund the stock-based benefit plans in excess of these amounts are obtained through stock repurchases.

(2) The actual value of the stock awards will be determined based on their fair value as of the date the grants are made. For purposes of this table, fair value is assumed to be the offering price of $10.00 per share. The fair value of stock options has been estimated at $3.37 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%; expected option life of 7.5 years; risk-free interest rate of 4.56% (based on the seven-year Treasury Note rate); and a volatility rate of 16.34% based on an index of publicly traded mutual holding companies. The actual expense of the stock options 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.

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The value of the shares of common stock will be based on the price per share of our common stock at the time those shares are granted, which, subject to shareholder approval, cannot occur until at least six months after the stock offering. The following table presents the total value of all shares of common stock to be available for award and issuance under the stock-based benefit plans, assuming the stock-based benefit plans award shares of common stock equal to 1.96% of the outstanding shares after the stock offering and the shares for the plans are purchased or issued in a range of market prices from $8.00 per share to $16.00 per share.

Share Price	4,207,499 Shares Awarded at Minimum of Offering Range	4,949,000 Shares Awarded at Midpoint of Offering Range	5,676,650 Shares Awarded at Maximum of Offering Range	6,513,447 Shares Awarded at Maximum of Offering Range, As Adjusted
		(In thousands, except per share data)		
$ 8.00	$ 33,660	$ 39,592	$ 45,413	$ 52,108
$10.00	$ 42,075	$ 49,490	$ 56,767	$ 65,134
$12.00	$ 50,490	$ 59,388	$ 68,120	$ 78,161
$14.00	$ 58,905	$ 69,286	$ 79,473	$ 91,188
$16.00	$ 67,320	$ 79,184	$ 90,826	$ 104,215

The grant-date fair value of the options granted under the stock-based benefit plans will be based in part on the price per share of our common stock at the time the options are granted, which, subject to shareholder approval, cannot occur until at least six months after the stock offering. The value will also depend on the various assumptions used in the option pricing model ultimately adopted. The following table presents the total estimated value of the options to be available for grant under the stock-based benefit plans, assuming the stock-based benefit plans award options equal to 4.9% of the outstanding shares of common stock after the stock offering, the market price and exercise price for the stock options are equal and the range of market prices for the shares are $8.00 per share to $16.00 per share.

Market/Exercise Price	Grant-Date Fair Value Per Option	10,518,749 Options at Minimum of Offering Range	12,372,500 Options at Midpoint of Offering Range	14,191,625 Options at Maximum of Offering Range	16,283,618 Options at Maximum of Offering Range, As Adjusted
		(In thousands, except per share data)			
$ 8.00	$ 2.70	$ 28,401	$ 33,406	$ 38,317	$ 43,966
$10.00	$ 3.37	$ 35,448	$ 41,695	$ 47,826	$ 54,876
$12.00	$ 4.05	$ 42,601	$ 50,109	$ 57,476	$ 65,949
$14.00	$ 4.72	$ 49,648	$ 58,398	$ 66,984	$ 76,859
$16.00	$ 5.40	$ 56,801	$ 66,812	$ 76,635	$ 87,932

Limits on Your Purchase of Shares of Common Stock

The minimum purchase is 25 shares of common stock. Generally, no individual, or individuals acting through a single account, may purchase more than $500,000 (50,000 shares) of common stock. If any of the following persons purchase shares of common stock, their purchases, when combined with your purchases, cannot exceed $750,000 (75,000 shares) of common stock:

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

companies or other entities in which you have a 10% or greater equity or substantial beneficial interest or in which you serve as a senior officer or partner;

a trust or other estate if you have a substantial beneficial interest in the trust or estate or you are a trustee or fiduciary for the trust or estate; or

other persons who may be acting together with you (including, but not limited to, persons who file jointly a Schedule 13G or Schedule 13D Beneficial Ownership Report with the Securities and Exchange Commission).

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A detailed discussion of the limitations on purchases of common stock by an individual and persons acting together is set forth under the caption The Stock Offering Limitations on Purchase of Shares.

Subject to Office of Thrift Supervision approval, we may increase or decrease the purchase limitations in the stock offering at any time. In addition, in any community offering or syndicated community offering, we will first fill orders for our shares of common stock up to a maximum of 1,000 shares. Thereafter, we will allocate any remaining shares of common stock on an equal number of shares per order basis, until we fill all orders. Our tax-qualified benefit plans, including our employee stock ownership plan, are authorized to purchase up to 4.9% of the shares to be outstanding immediately following the stock offering (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and Third Federal Foundation) without regard to these purchase limitations. The employee stock ownership plan may purchase shares of common stock in the stock offering, in the open market following consummation of the stock offering, from authorized but unissued shares of common stock, or from treasury shares following consummation of the stock offering.

Our Issuance of Shares of Common Stock to the Charitable Foundation

To further our commitment to the communities we serve, we intend to establish a charitable foundation as part of the stock offering. Third Federal Savings and Loan will contribute cash in the amount of $5.0 million and we will issue up to 2% of our outstanding shares of common stock to the charitable foundation, ranging from 4,293,367 shares at the minimum of the valuation range to 5,000,000 shares at the maximum of the valuation range, which shares will have a value of $42.9 million at the minimum of the valuation range and $50.0 million at the maximum of the valuation range, based on the $10.00 per share offering price, up to a maximum contribution of $55.0 million of cash and shares of common stock. As a result of the issuance of shares to the charitable foundation and the contribution of $5.0 million in cash, we will record an after-tax expense of approximately $31.2 million at the minimum of the valuation range and of approximately $35.8 million at the maximum of the valuation range, during the quarter in which the stock offering is completed.

Under the Internal Revenue Code, an entity is permitted to deduct up to 10% of its taxable income (income before income taxes) in any one year for charitable contributions. Any contribution in excess of the 10% limit may be deducted for federal income tax purposes over each of the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by an entity to a charitable foundation could, if necessary, be deducted over a six-year period. Based on $61.7 million of income before income tax expense for the fiscal year ended September 30, 2006, and assuming that our income before income tax expense remained at that level in future years following the stock offering, we estimate that we would only be able to deduct for federal income tax purposes $37.0 million of the contribution to the charitable foundation. This would result in after-tax expense of $42.1 million at the midpoint of the offering range, and not $35.8 million as we currently estimate.

The charitable foundation will be governed by a board of directors, initially consisting of two of our current directors and one individual who is not affiliated with us. None of these individuals will receive compensation for their service as a director of the charitable foundation. We intend to hire an executive director for the charitable foundation who is not affiliated with us. This individual will receive compensation that we believe will be competitive in our marketplace for executive directors of similar charitable foundations. In addition, some of our employees will serve as executive officers of the charitable foundation. None of these individuals will receive compensation for their service as an executive officer of the charitable foundation.

The charitable foundation will be dedicated exclusively to supporting charitable causes and community development activities in the communities in which we operate. In addition to traditional community contributions and community reinvestment initiatives, the charitable foundation is expected to emphasize grants or donations to support housing assistance, local education and other types of organizations or civic-minded

projects. During the fiscal years ended September 30, 2006 and 2005, we made charitable contributions of $931,000 and $1.3 million, respectively. The charitable foundation is expected to make contributions totaling approximately $2.8 million in its first year of operation, assuming we sell our shares of common stock at the midpoint of the offering range. However, the charitable foundation is not expected to limit the size of its contributions to any one program or aggregate amount in any one year.

Issuing shares of common stock to the charitable foundation will:

- dilute the voting interests of purchasers of shares of our common stock in the stock offering; and

- result in an expense, and a reduction in earnings during the quarter in which the contribution is made, equal to the full amount of the contribution to the charitable foundation, offset in part by a corresponding tax benefit.

The establishment and funding of the charitable foundation has been approved by the boards of directors of TFS Financial Corporation and Third Federal Savings and Loan Association of Cleveland, MHC.

See Risk Factors The Contribution of Shares to the Charitable Foundation Will Dilute Your Ownership Interests and Adversely Affect Net Income in Fiscal 2007, Comparison of Valuation and Pro Forma Information With and Without the Charitable Foundation and Third Federal Foundation.

How You May Pay for Your Shares

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

(1) personal check, bank check or money order; or

(2) authorizing us to withdraw money from your deposit account(s) maintained with Third Federal Savings and Loan.

If you wish to use your Third Federal Savings and Loan individual retirement account to pay for your shares, please be aware that federal law requires that such funds first be transferred to a self-directed retirement account with a trustee other than Third Federal Savings and Loan. The transfer of such funds to a new trustee takes time, so please make arrangements as soon as possible or contact the Stock Information Center for further information. Also, please be aware that Third Federal Savings and Loan is not permitted to lend funds to anyone for the purpose of purchasing shares of common stock in the stock offering.

You can subscribe for shares of common stock in the stock offering by delivering to Third Federal Savings and Loan a signed and completed original stock order form and certification form, together with full payment, provided we receive the stock order form and certification form before the end of the stock offering. Funds received prior to the completion of the stock offering up to the minimum of the offering range will be held by Third Federal Savings and Loan. Funds received in excess of the minimum of the offering range may be maintained at Third Federal Savings and Loan, or, at our discretion, at another federally insured depository institution. However, in no event will we maintain more than one escrow account. We will pay interest at Third Federal Savings and Loan s passbook savings rate, currently 0.80% per annum, from the date funds are received until completion or termination of the stock offering. Withdrawals from certificates of deposit at Third Federal Savings and Loan for the purpose of purchasing shares of common stock in the stock offering may be made without incurring an early withdrawal penalty. All funds authorized for withdrawal from deposit accounts with Third Federal Savings and Loan must be in the deposit accounts at the time the stock order form is received. However, funds will not be withdrawn from the accounts until the stock offering is completed and will continue to earn interest at the applicable deposit account rate until the completion of the stock offering. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you. After we receive an order, the order cannot be revoked or changed, except with our consent. Payment may not be made by wire transfer or any other electronic transfer of funds. In addition, we will not be required to accept copies or facsimiles of order forms.

For a further discussion regarding the stock ordering procedures, see The Stock Offering Prospectus Delivery and Procedure for Purchasing Shares.

You May Not Sell or Transfer Your Subscription Rights

Federal law prohibits the transfer of 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 sells or in any way transfers his or her subscription rights. We will not accept your stock order if we have reason to believe that you sold or transferred your subscription rights. With the exception of purchases through individual retirement accounts, Keogh accounts and 401(k) plan accounts, shares purchased in the subscription offering must be registered in the names of all depositors on the qualifying account(s). Deleting names of depositors or adding non-depositors or otherwise altering the form of beneficial ownership of a qualifying account will result in the loss of your subscription rights.

Deadline for Orders of Common Stock

If you wish to purchase shares of common stock, we must receive at the Stock Information Center (not simply have post-marked) your properly completed stock order form, together with payment for the shares, no later than 4:00 p.m., Cleveland, Ohio time, on March 26, 2007, unless we extend this deadline. You may submit your stock order form by mail using the return envelope provided, by overnight courier to the indicated address on the stock order form, or by bringing your stock order form to our main office. A postmark prior to March 26, 2007 will not entitle you to purchase shares of common stock unless we receive the envelope by March 26, 2007.

Although we will make reasonable efforts to provide a prospectus and stock offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 4:00 p.m., Cleveland, Ohio time, on March 26, 2007, regardless of whether we have been able to locate each person entitled to subscription rights.

Termination of the Stock Offering

The subscription offering will terminate at 4:00 p.m., Cleveland, Ohio time, on March 26, 2007. We may extend this expiration date without notice to you, until May 14, 2007, unless the Office of Thrift Supervision approves a later date. If the subscription offering and/or community offerings extend beyond May 14, 2007, we will be required to resolicit subscriptions before proceeding with the stock offering. In such event, if you choose not to subscribe for the shares of common stock, your funds will be returned promptly to you with interest. All further extensions, in the aggregate, may not last beyond February 12, 2009.

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 64,400,510 shares of common stock, we may take several steps in order to sell the minimum number of shares of common stock in the stock offering range. Specifically, we may:

(i) increase the maximum number of shares that may be purchased by any subscriber (including our subscribing directors and officers); and/or

(ii) seek regulatory approval to extend the stock offering beyond the May 14, 2007 expiration date, provided that any such extension will require us to resolicit subscriptions received in the stock offering.

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. While our board of directors currently intends to declare dividends, it has not yet determined the amount 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.

If we pay dividends to our shareholders, we also will be required to pay dividends to Third Federal Savings and Loan Association of Cleveland, MHC, unless Third Federal Savings and Loan Association of Cleveland, MHC elects to waive the receipt of dividends. We anticipate that Third Federal Savings and Loan Association of Cleveland, MHC will waive any dividends we pay. Any decision to waive the receipt of dividends will be subject to the non-objection of the Office of Thrift Supervision.

Market for the Shares of Common Stock

We anticipate that the shares of common stock sold in the stock offering will be quoted on the Nasdaq Global Select Market under the symbol TFSL. Sandler O Neill & Partners, L.P. currently intends to make a market in the shares of common stock, but it is under no obligation to do so.

How We Intend to Use the Proceeds We Raise from the Stock Offering

Assuming we sell 87,130,102 shares of common stock in the stock offering, and we have net proceeds of $862.8 million, we intend to distribute the net proceeds as follows:

- $436.4 million (50.6% of the net proceeds) will be contributed to Third Federal Savings and Loan;
- $104.4 million (12.1% of the net proceeds) will be loaned to our employee stock ownership plan to fund its purchase of our shares of common stock; and
- $322.0 million (37.3% of the net proceeds) will be retained by us.

We may use the net proceeds of the stock offering to invest in securities, to deposit funds in Third Federal Savings and Loan, to finance the possible acquisition of other financial institutions or financial service businesses, to pay dividends or for other general corporate purposes, including repurchasing shares of our common stock. Third Federal Savings and Loan may use the proceeds it receives to make loans, to purchase securities, to expand its banking franchise internally through branching or through acquisitions, and for general corporate purposes. See How We Intend to Use the Proceeds from the Stock Offering. Neither Third Federal Savings and Loan nor TFS Financial Corporation has plans to conduct any specific material acquisition transaction or branch expansion at this time.

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Tax Consequences of the Stock Offering

The stock offering will result in no taxable gain or loss to Third Federal Savings and Loan Association of Cleveland, MHC, TFS Financial Corporation or Third Federal Savings and Loan, or to depositors or borrowers who have a priority right to subscribe for shares of common stock in the stock offering, or to our employees, officers or directors, except to the extent that the nontransferable subscription rights to purchase shares of common stock in the stock offering may be determined to have value. Luse Gorman Pomerenk & Schick, P.C. has opined as to federal law that it is more likely than not that the fair market value of such subscription rights is zero. In that case, no taxable gain or loss will need to be recognized by depositors or borrowers who receive nontransferable subscription rights. See The Stock Offering Tax Effects of the Stock Offering.

Once Submitted, Your Purchase Order May Not Be Revoked Unless the Stock Offering is Terminated or Extended Beyond May 14, 2007.

Funds that you use to purchase shares of our common stock in the stock offering will be held in an interest-bearing account until the termination or completion of the stock offering, including any extension of the expiration date. The Office of Thrift Supervision approved the stock offering on February 12, 2007; however, because completion of the stock offering will be subject to an update of the independent appraisal, among other factors, there may be one or more delays in the completion of the stock offering. Any orders that you submit to purchase shares of our common stock in the stock offering are irrevocable, and you will not have access to subscription funds unless the stock offering is terminated, or extended beyond May 14, 2007.

Restrictions on the Acquisition of TFS Financial Corporation and Third Federal Savings and Loan

Federal regulations, as well as provisions contained in the charter and bylaws of Third Federal Savings and Loan and TFS Financial Corporation, restrict the ability of any person, firm or entity to acquire TFS Financial Corporation, Third Federal Savings and Loan, or their respective capital stock. These restrictions include the requirement that a potential acquirer obtain the prior approval of the Office of Thrift Supervision before acquiring in excess of 10% of the stock of TFS Financial Corporation or Third Federal Savings and Loan. Because a majority of the outstanding shares of common stock of TFS Financial Corporation must be owned by Third Federal Savings and Loan Association of Cleveland, MHC, any acquisition of TFS Financial Corporation must be approved by Third Federal Savings and Loan Association of Cleveland, MHC, and Third Federal Savings and Loan Association of Cleveland, MHC would not be required to pursue or approve a sale of TFS Financial Corporation even if such a sale were favored by a majority of TFS Financial Corporation s public shareholders.

Possible Conversion of Third Federal Savings and Loan Association of Cleveland, MHC to Stock Form

In the future, Third Federal Savings and Loan Association of Cleveland, MHC may convert from the mutual to capital stock form of organization in a transaction commonly known as a second-step conversion. In a second-step conversion, depositors and borrowers of Third Federal Savings and Loan would have subscription rights to purchase shares of common stock of TFS Financial Corporation s successor, and our public shareholders would be entitled to exchange their shares of common stock for an equal percentage of shares of the stock holding company resulting from the conversion. This percentage may be adjusted to reflect any assets owned by Third Federal Savings and Loan Association of Cleveland, MHC.

Our board of directors has no current plan to undertake a second-step conversion transaction. Any second-step conversion transaction would require the approval of our shareholders and depositor and borrower members of Third Federal Savings and Loan Association of Cleveland, MHC.

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Proposed Stock Orders by Management

Our directors and executive officers and their associates are expected to subscribe for approximately 649,000 shares of common stock in the stock offering, which represents 0.9% of the shares to be sold to the public and 0.3% of the total shares to be outstanding after the stock offering at the midpoint of the offering range. Directors and executive officers will pay the same $10.00 per share price paid by all other persons who purchase shares in the stock offering. These shares will be counted in determining whether the minimum of the range of the stock offering is reached.

How You May Obtain Additional Information Regarding the Stock Offering

If you have any questions regarding the stock offering, please call the Stock Information Center at (877) 513-2318, Monday through Friday between 9:00 a.m. and 4:00 p.m., Cleveland, Ohio time. The Stock Information Center is located at our main office at 7007 Broadway Avenue, Cleveland, Ohio 44105.

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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

Our Lending Activities and Pricing Strategies for Loans and Deposits Provide Lower Rates of Return than Financial Institutions that Originate More Commercial Loans or Who are Less Aggressive in Pricing Loan and Deposit Products.

Our principal business consists of originating one- to four-family residential real estate mortgage loans and home equity loans and lines of credit. As of September 30, 2006, these loans and lines of credit totaled $7.4 billion, or 85.7% of our assets as of that date. We are one of the largest mortgage lenders in the State of Ohio and we price our loan products to encourage home ownership and attract borrowers, 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). For example, we advertise that we will match the interest rate, or offer lower interest rates than those offered by our competitors on certain types of mortgage loans. In addition, we price our deposit products very competitively, and deposits are our primary source of funds for our lending and investment activities. We intend to continue our focus on this type of lending and this pricing strategy for loans and deposits following the stock offering.

Residential real estate mortgage loans and home equity loans and lines of credit generally have lower interest rates than commercial business loans and commercial real estate loans. As a result, we may generate lower interest rate spreads and rates of return when compared to our competitors who originate more commercial loans, or who originate residential real estate loans at higher interest rates than we do or who offer deposit products with lower interest rates than we do. For the fiscal year ended September 30, 2006, our return on average equity (net income divided by average equity) was 4.34%, compared to a median return on average equity of 4.72% for a peer group of publicly traded savings institutions. In addition, our net interest margin was 2.37%, compared to a median of 2.83% for a peer group of publicly traded savings institutions during that time period. Each of these factors may reduce the value of our shares of common stock.

Future Changes in Interest Rates Could Reduce Our Net Income.

Our net income 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 we pay on our interest-bearing liabilities, such as deposits and borrowings.

Although interest rates recently have been at historically low levels, from June 30, 2004 to September 30, 2006 the Federal Reserve Board increased its target for the federal funds rate from 1.0% to 5.25%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans) have not increased to the same degree. This flattening of the yield curve has had a negative impact on our interest rate spread and net interest margin. Our interest rate spread decreased to 2.01% for the fiscal year ended September 30, 2006 from 2.09% for the fiscal year ended September 30, 2005, and our net interest margin decreased to 2.37% for the fiscal year ended September 30, 2006 from 2.38% for the fiscal year ended September 30, 2005. Based upon contractual rates, our interest rate spread was 1.70% at September 30, 2006. If short-term interest rates continue to rise, and if rates on our deposits and borrowings continue to reprice upwards faster than the rates on our long-term loans and investments, we would continue to experience compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability.

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In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates normally 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 the proceeds of loan and securities 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.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2006, the fair value of our available-for-sale agency securities, mortgage-backed securities and corporate debt obligations totaled $63.7 million. Unrealized net losses on these available-for-sale securities totaled $1.1 million at September 30, 2006 and are reported as a separate component of shareholder s equity. Further decreases in the fair value of securities available-for-sale in future periods would further reduce shareholder s equity.

As of September 30, 2006, we were servicing $6.7 billion of loans sold to third parties, and the mortgage servicing rights associated with such loans had an estimated fair value, at such date, of $61.2 million. Generally, the value of mortgage servicing rights increases as interest rates rise and decreases as interest rates fall, because the estimated life and estimated income from the underlying loans increase with rising interest rates and decrease with falling interest rates.

In addition to our own model, we evaluate interest rate sensitivity using a model prepared by the Office of Thrift Supervision. These models estimate the change in Third Federal Savings and Loan s net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At September 30, 2006, in the event of an immediate 200 basis point increase in interest rates, the Office of Thrift Supervision model projects that we would experience a $269.3 million, or 25%, decrease in net portfolio value, and our internal model projects that we would experience a $354.8 million, or 31%, decrease in net portfolio value. Our internal calculations further project that, at September 30, 2006, in the event of an immediate 200 basis point increase in interest rates, we would expect our projected net interest income for the twelve months ended September 30, 2007 to decrease by 10%. See Management s Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

Loans Originated Through Our Home Today Program Have Higher Delinquency Rates than the Remainder of Our Loan Portfolio.

Through our Home Today program, we offer loans with our standard terms to borrowers who might not otherwise qualify for such loans. To qualify for our Home Today program, a borrower must complete financial management education and counseling and must be referred to us by a sponsoring organization with whom we have partnered as part of the program. Because we apply less stringent underwriting and credit standards to these loans, loans originated under the Home Today program have greater credit risk than traditional one- to four-family residential real estate mortgage loans. As of September 30, 2006, we had $285.2 million of outstanding loans that were originated through our Home Today program, 24.3% of which were delinquent 30 days or more, compared to 1.1% for our entire loan portfolio as of that date. During the fiscal year ended September 30, 2006, we incurred net charge-offs of $162,000 on loans originated through our Home Today program, compared to $3.9 million of net charge-offs for our entire loan portfolio.

The Federal Deposit Insurance Corporation has Issued New Rules that Will Increase Our Deposit Insurance Assessments and Reduce Our Income.

Under prior rules, the Federal Deposit Insurance Corporation did not assess deposit insurance premiums on financial institutions, such as Third Federal Savings and Loan, that were, among other criteria, well-capitalized.

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On November 2, 2006, the Federal Deposit Insurance Corporation adopted final regulations that assess insurance premium based on risk. As a result, the new regulation will enable the Federal Deposit Insurance Corporation to more closely tie each financial institution s deposit insurance premiums to the risk it poses to the deposit insurance fund. Under the new rules, the Federal Deposit Insurance Corporation will evaluate the risk of each financial institution based on its supervisory rating, its financial ratios, and its long-term debt issuer rating. The new rates for nearly all banks and savings institutions vary between five and seven cents for every $100 of domestic deposits. If this rule were in effect September 30, 2006, we would have paid an annual deposit insurance assessment to the Federal Deposit Insurance Corporation of approximately $5.0 million, which would reduce our net income.

A Downturn in the Economy May Adversely Affect Our Business.

Our success depends on the general economic conditions in the States of Ohio and Florida, and surrounding areas. In addition, many of the loans in our loan portfolio are secured by real estate located in our primary market areas. Negative conditions in the real estate markets where collateral for a mortgage loan is located could adversely affect a borrower s ability to repay the loan and the value of the collateral securing the loan. Real estate values are affected by various other factors, including supply and demand, changes in general or regional economic conditions, interest rates, governmental rules or policies and natural disasters. Adverse changes in the regional and general economy could also reduce our growth rate, impair our ability to collect loans and generally have a negative effect on our financial condition and results of operations.

Hurricanes or Other Adverse Weather Events Could Negatively Affect the Economy in Our Florida Market Area or Cause Disruptions to Our Branch Office Locations, Which Could Have an Adverse Effect on Our Business or Results of Operations.

A significant portion of our operations are conducted in the State of Florida, a geographic region with coastal areas that are susceptible to hurricanes and tropical storms. Such weather events can disrupt our operations, result in damage to our branch office locations and negatively affect the local economy in which we operate. We cannot predict whether or to what extent damage caused by future hurricanes or tropical storms will affect our operations or the economy in our market area, but such weather events could result in fewer loan originations and greater delinquencies, foreclosures or loan losses. These and other negative effects of future hurricanes or tropical storms may adversely affect our business or results of operations.

The Stock Offering Will Reduce Our Return on Average Equity.

Following the stock offering, we expect our consolidated equity to increase from $1.0 billion to between $1.5 billion at the minimum of the offering range and $1.8 billion at the adjusted maximum of the offering range. Our return on equity will be further reduced by the higher expenses of being a public company and added expenses associated with our employee stock ownership plan and the stock-based benefit plans we intend to adopt. As a result, we expect our return on equity to remain below the industry average following the stock offering, which may reduce the value of our common stock.

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, money market 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. Our profitability depends upon our continued ability to successfully compete in our market areas. For additional information see Business of Third Federal Savings and Loan Association of Cleveland Competition.

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If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

We make various assumptions and judgments about the collectibility 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 losses inherent in our loan portfolio, resulting in additions to our allowance. Our allowance for loan losses was 0.27% of total loans and 25.98% of non-performing loans at September 30, 2006, each of which is lower than the average for our peer group of financial institutions. 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 allowance 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 may have a material adverse effect on our financial condition and results of operations.

Risks Related to the Stock Offering

The Future Price of the Shares of Our Common Stock May Be Less Than the Purchase Price in the Stock Offering.

We cannot assure you that if you purchase shares of common stock in the stock offering you will later be able to sell them at or above the purchase price. The purchase price in the stock 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 as part of Office of Thrift Supervision review and approval of our application to conduct the stock offering. The appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of our common stock. The Office of Thrift Supervision attempts to ensure that the aftermarket appreciation of standard conversion and mutual holding company stocks is not excessive. In recent years, the final independent valuation as approved by the Office of Thrift Supervision typically has been at the adjusted maximum of the offering range as long as total subscriptions exceed the adjusted maximum of the offering range. However, the adjusted maximum of the offering range is approximately 32% higher than the fair market value of a company s stock as determined by the independent appraisal. Accordingly, 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.

Based on market trading data in Summary After-Market Performance Information, two of the 15 mutual holding company initial public offerings that initiated trading between January 1, 2006 and January 31, 2007 have traded below their initial offering price at the dates indicated.

We Will Need to Implement Additional Finance and Accounting Systems, Procedures and Controls in Order to Satisfy Our New Public Company Reporting Requirements, Which Will Increase Our Operating Expenses.

Upon completion of the stock offering, we will become a public reporting company. Federal securities laws and regulations require that we file annual, quarterly and current reports with the Securities and Exchange Commission and that we maintain effective disclosure controls and procedures and internal control 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 our management s attention from our operations. In addition, 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 as to the adequacy of our internal controls and procedures, which may require us to upgrade our accounting systems, which would also increase our operating costs.

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The Contribution of Shares to the Charitable Foundation Will Dilute Your Ownership Interests and Adversely Affect Net Income in Fiscal Year 2007.

We intend to establish a charitable foundation in connection with the stock offering. We will make a contribution to the charitable foundation in the form of shares of TFS Financial Corporation common stock and Third Federal Savings and Loan will contribute $5.0 million in cash. The contribution of cash and shares of common stock will total $47.9 million at the minimum of the offering range, up to a maximum contribution of $55.0 million. At the midpoint of the offering range, we will contribute 5,000,000 shares of common stock to the charitable foundation, which equals 1.98% of the shares of common stock to be outstanding upon completion of the stock offering. The aggregate contribution will also have an adverse effect on our net income for the quarter and year in which we make the issuance and contribution to the charitable foundation. The after-tax expense of the contribution will reduce net income in our 2007 fiscal year by approximately $35.8 million at the midpoint of the offering range. We had net income of $43.5 million for the fiscal year ended September 30, 2006. Persons purchasing shares in the stock offering will have their ownership and voting interests in TFS Financial Corporation diluted by up to 2% due to the issuance of shares of common stock to the charitable foundation.

Under the Internal Revenue Code, an entity is permitted to deduct up to 10% of its taxable income (income before income taxes) in any one year for charitable contributions. Any contribution in excess of the 10% limit may be deducted for federal income tax purposes over each of the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by an entity to a charitable foundation could, if necessary, be deducted over a six-year period. Based on $61.7 million of income before income tax expense for the fiscal year ended September 30, 2006, and assuming that our income before income tax expense remained at that level in future years following the stock offering, we estimate that we would only be able to deduct for federal income tax purposes $37.0 million of the contribution to the charitable foundation. This would result in after-tax expense of $42.1 million at the midpoint of the offering range, and not $35.8 million as we currently estimate.

Our Contribution to the Charitable Foundation May Not Be Tax Deductible, Which Could Reduce Our Profits.

We believe that the contribution to Third Federal Foundation will be deductible for federal income tax purposes. However, we cannot assure you that the Internal Revenue Service will grant tax-exempt status to the charitable foundation. If the contribution is not deductible, we would not receive any tax benefit from the contribution. In addition, even if the contribution is tax deductible, we may not have sufficient profits to be able to use the deduction fully. The value of the contribution would be $55.0 million in cash and shares of common stock at the adjusted maximum of the offering range, which would result in after-tax expense of approximately $35.8 million during the fiscal year ending September 30, 2007. In the event that the Internal Revenue Service does not grant tax-exempt status to the charitable foundation or the contribution to the charitable foundation is otherwise not tax deductible, we would recognize as after-tax expense the value of the entire contribution, or $55.0 million at the adjusted maximum of the offering range.

Our Stock-Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Income. Our Directors, Officers and Employees are Eligible to Participate in These Stock-Based Benefit Plans.

We have established an employee stock ownership plan in connection with the stock offering, and we intend to implement one or more stock-based benefit plans that will provide for grants of stock options and shares of common stock. During the fiscal year ending September 30, 2007, we expect that we will recognize $9.1 million in expense associated with the employee stock ownership plan, as we intend to repay a greater amount of principal than will be required by the terms of the employee stock ownership plan loan. In addition, as discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, and based on certain assumptions discussed therein, we estimate the annual expense associated with the grant of shares of common stock and stock options under our stock-based benefit plans would be approximately $13.0 million and $11.0 million, respectively, on a pre-tax basis, assuming the adjusted maximum number of shares is sold in the stock offering.

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We anticipate that our employee stock ownership plan will use a $9.1 million cash contribution from Third Federal Savings and Loan that occurred during the quarter ended September 30, 2006 and borrow funds from TFS Financial Corporation to purchase in the stock offering 3.92% of our outstanding shares of common stock (including shares issued to Third Federal Foundation). Only employees, including our officers, are eligible to participate in the employee stock ownership plan. The cost of acquiring the shares of common stock for the employee stock ownership plan will be between $84.1 million at the minimum of the offering range and $130.3 million at the adjusted maximum of the offering range. We will record an 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 as a result of repayment of the loan. As a result, if our common stock appreciates in value over time, compensation expense relating to the employee stock ownership plan also will increase.

We also intend to adopt one or more stock-based benefit plans after the stock offering under which plans participants would be awarded shares of our common stock (at no cost to them) or options to purchase shares of our common stock. Our directors, officers and employees would be eligible to receive awards under the stock-based benefit plans. Under current Office of Thrift Supervision regulations, we may grant shares of common stock or stock options under our stock-based benefit plans for up to 1.96% and 4.90%, respectively, of our total outstanding shares (including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC), exclusive of shares acquired in the secondary market to fund such plans, provided such grants do not exceed 25% of the shares held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC. Proposed Office of Thrift Supervision regulations would clarify that the amount of stock options and stock awards available for grant under the stock-based benefit plans may be greater than 1.96% and 4.90%, respectively, of our outstanding shares, provided shares used to fund the stock-based benefit plans in excess of these amounts are obtained through stock repurchases, which would, in turn, further increase our costs.

The shares of common stock granted under the stock-based benefit plans 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 common stock to be granted under the plans are repurchased in the open market (rather than issued directly from authorized but unissued shares of TFS Financial Corporation) and cost the same as the purchase price in the stock offering, the reduction to shareholders equity due to the plans would be between $42.1 million at the minimum of the offering range and $65.1 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 plans, and the price of such shares exceeds the offering price of $10.00 per share, the reduction to shareholders 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 shareholders equity would be less than the range described above.

Public companies must expense the grant-date fair value of stock options. In addition, public companies must revalue their estimated compensation costs at each subsequent reporting period and may be required to recognize additional compensation expense at these dates. When we record an expense for the grant of stock options and other stock awards using the fair value method as described in the applicable accounting rules, we will incur significant compensation and benefits expense.

Proposed Office of Thrift Supervision Regulations May Permit Us to Adopt Stock-Based Benefit Plans that Exceed Limits Applicable Under Current Regulations, and May Permit Us to Approve Stock Benefit Plans Without a Separate Vote of Minority Shareholders.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that are intended to clarify and simplify such regulations. Specifically, the amendments would clarify that we may grant options and award shares of common stock under our stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, provided shares used to fund the plans in excess of these amounts are obtained through stock repurchases. The proposed amendments would also require that, if the

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stock-based benefit plans are adopted less than one year following the stock offering, the stock-based benefit plans must be approved by a majority of the votes of TFS Financial Corporation shareholders cast at an annual or special meeting of shareholders, excluding votes eligible to be cast by Third Federal Savings and Loan Association of Cleveland, MHC. Under the proposed amendments, there would be no separate vote required of minority shareholders if the stock-based benefit plans are adopted more than one year following the stock offering. The proposed amendments would further clarify that the restrictions set forth above regarding the maximum amount of individual and group awards and restrictions on accelerated vesting of awards, would not apply if the stock-based benefit plans are adopted more than one year following the stock offering.

In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its existing regulations or policies, we may implement stock-based benefit plans that exceed the current limits applicable to the overall size of such plans, the relative amounts of stock options and stock awards and individual awards thereunder, and otherwise grant awards with terms that are different than those required by current Office of Thrift Supervision regulations and policy. Implementing stock-based benefit plans that exceed current limits could result in expense that exceeds the amounts estimated in Our Stock-Based Benefit Plans Will Increase Our Costs, Which Will Reduce Our Income. Our Directors, Officers and Employees are Eligible to Participate in These Stock-Based Benefit Plans. However, until we implement our stock-based benefit plans, and until the proposed Office of Thrift Supervision regulations are adopted in final form, we cannot estimate the costs of stock-based benefit plans that we may adopt in the future.

Moreover, to the extent that any new regulations or policies contain a more flexible voting standard for shareholder approval than that currently required, we intend to use the more flexible voting standard, which could result in the vote of Third Federal Savings and Loan Association of Cleveland, MHC controlling the outcome of a shareholder vote on stock-based benefit plans.

The Implementation of Stock-Based Benefit Plans May Dilute Your Ownership Interest.

We intend to adopt one or more stock-based benefit plans following the stock offering. The stock-based benefit plans will be funded through either open market purchases of common stock or from the issuance of authorized but unissued shares of common stock. Shareholders would experience a reduction in ownership interest (including shares held by Third Federal Savings and Loan Association of Cleveland, MHC) totaling 6.4% in the event newly issued shares are used to fund stock options or awards of common stock under the plans in an amount equal to 4.90% and 1.96%, respectively, of our total outstanding shares, including shares held by Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that would permit us to grant options and award shares of common stock under stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, provided shares used to fund the plans in excess of these amounts are obtained through stock repurchases.

We Have Broad Discretion in Using the Proceeds of the Stock Offering. Our Failure to Effectively Use Such Proceeds May Reduce Our Net Income.

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 may use the remaining net proceeds to pay dividends to shareholders, repurchase shares of common stock, purchase investment securities, deposit funds in Third Federal Savings and Loan, acquire other financial services companies and financial institutions or for other general corporate purposes. Third Federal Savings and Loan may use the proceeds it receives to fund new loans, establish or acquire new branches, purchase investment securities, or for general corporate purposes. In addition, we intend to expand our presence within and outside our primary market area through acquisitions and *de novo* branching, which may have a negative effect on our earnings until these branches achieve profitability. We have not, however, 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.

Persons Who Purchase Stock in the Stock Offering Will Own a Minority of Our Shares of Common Stock and Will Not Be Able to Exercise Voting Control Over Most Matters Put to a Vote of Shareholders.

Public shareholders will own a minority of the outstanding shares of our common stock. As a result, shareholders other than Third Federal Savings and Loan Association of Cleveland, MHC will not be able to exercise voting control over most matters put to a vote of shareholders. Third Federal Savings and Loan Association of Cleveland, MHC will own a majority of our outstanding shares of common stock after the stock offering and, through its board of directors, will be able to exercise voting control over most matters put to a vote of shareholders. If a rule currently proposed by the Office of Thrift Supervision is adopted in its current form, this voting control will extend to stock-based benefit plans presented to shareholders for approval more than one year following completion of this stock offering. The same directors and certain officers who manage TFS Financial Corporation and Third Federal Savings and Loan also manage Third Federal Savings and Loan Association of Cleveland, MHC. Further, these same directors and officers are expected to purchase an aggregate of 0.9% of the shares sold at the midpoint of the offering range, thereby further reducing the voting control of public shareholders who own a minority of the outstanding shares. In addition, Third Federal Savings and Loan Association of Cleveland, MHC may exercise its voting control to prevent a sale or merger transaction in which shareholders could receive a premium for their shares.

Our Stock Value May be Affected Negatively by Federal Regulations Restricting Takeovers and Our Mutual Holding Company Structure.

The Mutual Holding Company Structure Will Impede Takeovers. Third Federal Savings and Loan Association of Cleveland, MHC, as our majority shareholder, will be able to control the outcome of virtually all matters presented to our shareholders for their approval, including any proposal to acquire us. Accordingly, Third Federal Savings and Loan Association of Cleveland, MHC may prevent the sale of control or merger of TFS Financial Corporation or its subsidiaries even if such a transaction were favored by a majority of the public shareholders of TFS Financial Corporation.

Federal Regulations Restricting 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. Moreover, current Office of Thrift Supervision policy prohibits the acquisition of a mutual holding company subsidiary by any person or entity other than a mutual holding company or a mutual institution. See Restrictions on the Acquisition of TFS Financial Corporation and Third Federal Savings and Loan Association of Cleveland for a discussion of applicable Office of Thrift Supervision regulations regarding acquisitions.

The Corporate Governance Provisions in Our Charter and Bylaws May Prevent or Impede the Holders of a Minority of Our Common Stock From Obtaining Representation on Our Board of Directors.

Provisions in our charter and bylaws also may prevent or impede holders of a minority of our shares of common stock from obtaining representation on our board of directors. For example, our charter provides that there will not be cumulative voting by shareholders for the election of our directors. This means that Third Federal Savings and Loan Association of Cleveland, MHC, as the holder of a majority of the shares eligible to be voted at a meeting of shareholders, may elect all of the directors to be elected at that meeting. In addition, our board of directors is divided into three staggered classes. A classified board makes it more difficult for shareholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Our bylaws contain procedures and timetables for shareholders that wish to make

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nominations for the election of directors or propose new business at a meeting of shareholders, the effect of which may be to give our management time to solicit their own proxies to defeat any dissident slate of nominees. All of these provisions may prevent the sale of control or merger of TFS Financial Corporation, even if such transaction is favored by a majority of our public shareholders.

Office of Thrift Supervision Policy on Remutualization Transactions Could Prohibit the Acquisition of TFS Financial Corporation, Which May Lower Our Stock Price.

Current Office of Thrift Supervision regulations permit a mutual holding company subsidiary to be acquired by a mutual institution or a mutual holding company in a so-called remutualization transaction. The possibility of a remutualization transaction and the successful completion of a small number of remutualization transactions where significant premiums have been paid to minority shareholders has resulted in some takeover speculation for mutual holding companies, which may be reflected in the per share price of mutual holding companies common stock. However, the Office of Thrift Supervision has issued a policy statement indicating that it views remutualization transactions as raising significant issues concerning disparate treatment of minority shareholders and the mutual interests of the mutual holding company and the effect on the mutual interests of the acquiring entity. Under certain circumstances, the Office of Thrift Supervision intends to give these issues special scrutiny and to reject applications to complete remutualization transactions unless the applicant clearly demonstrates that the Office of Thrift Supervision s concerns are not warranted in the particular case. Should the Office of Thrift Supervision prohibit or otherwise restrict these transactions in the future, our stock price may be adversely affected.

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SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The summary information presented below at or for each of the fiscal years presented is derived in part from our consolidated financial statements. The following information is only a summary, and should be read in conjunction with our consolidated financial statements and notes beginning on page F-1 of this prospectus. The information at September 30, 2006 and 2005 and for the fiscal years ended September 30, 2006, 2005 and 2004 is derived in part from the audited consolidated financial statements that appear in this prospectus. The information at September 30, 2004, 2003 and 2002 and for the fiscal years ended September 30, 2003 and 2002 is derived in part from audited consolidated financial statements of Third Federal Savings and Loan Association of Cleveland, MHC and subsidiaries that do not appear in this prospectus.

			At September 30,		
	2006	2005	2004	2003	2002
			(In thousands)		
Selected Financial Condition Data:					
Total assets	$ 8,595,567	$ 8,913,820	$ 8,529,358	$ 8,417,537	$ 8,167,514
Cash and cash equivalents	252,927	120,320	165,169	389,120	370,301
Investment securities:					
Available for sale	28,277	35,332	110,439	267,985	259,569
Held to maturity	12,003	12,000	2,589	14,511	2,553
Trading				869	3,358
Mortgage-backed securities:					
Available for sale	35,378	59,166	89,853	147,951	323,549
Held to maturity	55,316	81,314	130,574	230,414	763,681
Loans, net	7,477,041	7,620,721	7,245,136	6,642,892	5,507,706
Loans held for sale	314,956	542,480	400,448	330,122	545,329
Bank owned life insurance	139,260	133,650	128,009	122,177	110,690
Other assets	35,962	77,602	35,725	50,160	36,971
Deposits	7,401,077	7,054,248	7,254,493	7,175,236	6,982,874
Federal Home Loan Bank advances	25,103	717,378	214,326	97,672	105,433
Shareholder s equity	1,012,594	973,874	914,023	852,147	801,628

		For the Fiscal Years Ended September 30,			
	2006	2005	2004	2003	2002
			(In thousands)		
Selected Data:					
Interest income	$ 485,804	$ 418,757	$ 395,896	$ 414,106	$ 445,613
Interest expense	289,137	227,620	226,215	253,196	306,846
Net interest income	196,667	191,137	169,681	160,910	138,767
Provision for loan losses	6,050	6,000	5,522	3,789	5,809
Net interest income after provision for loan losses	190,617	185,137	164,159	157,121	132,958
Non-interest income (loss)	(6,393)	35,081	51,145	77,679	38,927
Non-interest expense	122,515	123,208	133,511	159,436	141,995
Income before income tax expense	61,709	97,010	81,793	75,364	29,890
Income tax expense	18,170	32,502	26,326	23,378	8,053
Net income	$ 43,539	$ 64,508	$ 55,467	$ 51,986	$ 21,837

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	At or For the Fiscal Years Ended September 30,				
	2006	2005	2004	2003	2002
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on average assets	0.50%	0.77%	0.66%	0.62%	0.27%
Return on average equity	4.34%	6.83%	6.29%	6.31%	2.74%
Interest rate spread (1)	2.01%	2.09%	1.82%	1.73%	1.50%
Net interest margin (2)	2.37%	2.38%	2.10%	1.99%	1.81%
Efficiency ratio (3)	64.39%	54.46%	60.46%	66.82%	79.91%
Noninterest expense to average total assets	1.41%	1.47%	1.59%	1.89%	1.77%
Average interest-earning assets to average interest-bearing liabilities	110.12%	110.23%	109.75%	108.55%	107.79%
Asset Quality Ratios:					
Non-performing assets as a percent of total assets	1.01%	0.76%	0.47%	0.35%	0.32%
Non-performing loans as a percent of total loans	1.05%	0.78%	0.52%	0.40%	0.43%
Allowance for loan losses as a percent of non-performing loans	25.98%	30.42%	39.34%	44.43%	42.71%
Allowance for loan losses as a percent of total loans	0.27%	0.24%	0.20%	0.18%	0.18%
Capital Ratios:					
Total risk-based capital (to risk weighted assets)					
Third Federal Savings and Loan	15.00%	14.61%	13.59%	14.20%	13.08%
DeepGreen Bank			19.36%	14.99%	9.06%
Ohio Central Savings			13.80%	14.17%	11.83%
Tier 1 leverage (core) capital (to adjusted tangible assets)					
Third Federal Savings and Loan	10.35%	9.60%	9.43%	9.10%	8.83%
DeepGreen Bank			16.45%	13.91%	8.83%
Ohio Central Savings			6.74%	7.43%	7.16%
Tangible capital (to tangible assets)					
Third Federal Savings and Loan	10.35%	9.60%	9.43%	9.10%	8.83%
DeepGreen Bank			16.45%	13.91%	8.83%
Ohio Central Savings			6.74%	7.43%	7.16%
Tier 1 risk-based capital (to risk weighted assets)					
Third Federal Savings and Loan	14.69%	14.34%	13.36%	14.00%	12.96%
DeepGreen Bank			19.22%	14.61%	8.21%
Ohio Central Savings			13.00%	13.39%	11.06%
Average equity to average total assets	11.52%	11.26%	10.48%	9.79%	9.96%
Other Data:					
Number of full service offices					
Third Federal Savings and Loan	40	40	41	41	43
Ohio Central Savings			2	2	2
Loan production offices	8	8	8	8	8

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

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RECENT DEVELOPMENTS

The following tables set forth selected consolidated historical financial and other data of TFS Financial Corporation at the dates and for the periods indicated. The following information is only a summary, and should be read in conjunction with our consolidated financial statements and notes beginning on page F-1 of this prospectus. The information at September 30, 2006 is derived in part from the audited consolidated financial statements that appear in this prospectus. The information at December 31, 2006 and for the three months ended December 31, 2006 and 2005 is unaudited. However, in the opinion of management of TFS Financial Corporation, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the results of operations for the unaudited periods, have been made. The selected operating data presented below for the three months ended December 31, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007.

	At December 31, 2006	At September 30, 2006
	(In thousands)	
Selected Financial Condition Data:		
Total assets	$ 8,733,145	$ 8,595,567
Cash and cash equivalents	455,698	252,927
Investment securities:		
Available for sale	33,461	28,277
Held to maturity	12,003	12,003
Mortgage-backed securities:		
Available for sale	31,733	35,378
Held to maturity	182,180	55,316
Loans, net	7,464,193	7,477,041
Loans held for sale	139,803	314,956
Bank owned life insurance	140,825	139,260
Other assets	25,587	35,962
Deposits	7,520,494	7,401,077
Federal Home Loan Bank advances	25,106	25,103
Shareholder s equity	1,028,648	1,012,594

	For the Three Months Ended December 31,	
	2006	2005
	(In thousands)	
Selected Data:		
Interest income	$ 125,733	$ 116,099
Interest expense	81,107	66,680
Net interest income	44,626	49,419
Provision for loan losses	2,000	1,045
Net interest income after provision for loan losses	42,626	48,374
Non-interest income	12,421	1,449
Non-interest expense	31,522	28,499
Income before income tax expense	23,525	21,324
Income tax expense	7,694	6,853
Net income	$ 15,831	$ 14,471

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	At or For the Three Months Ended December 31,	
	2006	2005
Selected Financial Ratios and Other Data:		
Performance Ratios:		
Return on average assets (1)	0.73%	0.67%
Return on average equity (1)	6.21%	5.90%
Interest rate spread (2)	1.64%	2.07%
Net interest margin (1)(3)	2.12%	2.40%
Efficiency ratio (4)	55.26%	56.03%
Noninterest expense to average total assets (1)	1.45%	1.33%
Average interest-earning assets to average interest-bearing liabilities	112.41%	110.50%
Asset Quality Ratios:		
Non-performing assets as a percent of total assets	1.12%	0.93%
Non-performing loans as a percent of total loans	1.19%	0.94%
Allowance for loan losses as a percent of non-performing loans	23.50%	26.23%
Allowance for loan losses as a percent of total loans	0.28%	0.25%
Capital Ratios:		
Third Federal Savings and Loan:		
Total risk-based capital (to risk weighted assets)	15.54%	15.39%
Tier 1 leverage (core) capital (to adjusted tangible assets)	10.40%	10.12%
Tangible capital (to tangible assets)	10.40%	10.12%
Tier 1 risk-based capital (to risk weighted assets)	15.21%	15.09%
TFS Financial Corporation:		
Average equity to average total assets	11.74%	11.40%
Other Data:		
Number of full service offices	40	40
Loan production offices	8	8

(1) Annualized.

(2) 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 December 31, 2006 and September 30, 2006

Total assets increased $137.6 million, or 1.6%, to $8.7 billion at December 31, 2006 from $8.6 billion at September 30, 2006. Cash and cash equivalents (cash and due from banks, federal funds sold and interest-bearing deposits) increased $202.8 million, or 80.2%, to $455.7 million at December 31, 2006 from $252.9 million at September 30, 2006. In addition, mortgage-backed securities held to maturity increased $126.9 million to $182.2 million at December 31, 2006 from $55.3 million at September 30, 2006. Loan sales during the quarter ended December 31, 2006 totaled $467.8 million. The proceeds from these sales, as well as loan repayments and prepayments, exceeded the cash we needed to fund loan originations during the quarter. We maintained some of our excess cash in liquid assets, and we used the remainder to purchase mortgage-backed securities during a period of rising interest rates.

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Loans receivable (loans held for investment, net, and loans held for sale) decreased $188.0 million, or 2.4%, to $7.6 billion at December 31, 2006 from $7.8 billion at September 30, 2006. Loans held for sale decreased $175.2 million, or 55.6%, to $139.8 million at December 31, 2006 from $315.0 million at September 30, 2006, as we sold $467.8 million of loans during the quarter ended December 31, 2006. There were no material changes in the composition of our loan portfolio during the quarter ended December 31, 2006.

Deposits increased $119.4 million, or 1.6%, to $7.5 billion at December 31, 2006 from $7.4 billion at September 30, 2006. The increase in deposits was primarily the result of a $118.7 million, or 7.9%, increase in high-yield checking accounts (a subcategory of our NOW accounts), to $1.6 billion at December 31, 2006 from $1.5 billion at September 30, 2006. We have focused on promoting this type of deposit product since we believe it provides a stable source of funds. In addition, our high-yield checking accounts reprice in a manner similar to our equity loan products, and therefore assist us in managing interest rate risk. There were no material changes in the composition of our deposits during the quarter ended December 31, 2006.

Shareholder s equity increased $16.1 million, or 1.6%, to $1.03 billion at December 31, 2006 from $1.01 billion at September 30, 2006. The increase primarily resulted from net income of $15.8 million during the quarter.

Comparison of Operating Results for the Three Months Ended December 31, 2006 and December 31, 2005

General. Net income increased $1.4 million, or 9.4%, to $15.8 million for the three months ended December 31, 2006 from $14.5 million for the three months ended December 31, 2005. The increase in net income was caused by an increase in non-interest income, partially offset by a decrease in net interest income and an increase in non-interest expense.

Interest Income. Interest income increased $9.6 million, or 8.3%, to $125.7 million for the three months ended December 31, 2006 from $116.1 million for the three months ended December 31, 2005. The increase in interest income resulted from an increase in interest income on federal funds sold and an increase in interest income on loans.

Interest income on federal funds sold was $5.8 million for the three months ended December 31, 2006, compared to $5,000 for the three months ended December 31, 2005. The increase resulted from our maintaining higher levels of liquid assets during the three months ended December 31, 2006, as our average balance of federal funds sold was $445.8 million for the three months ended December 31, 2006 compared to $485,000 for the three months ended December 31, 2005.

Interest and fee income on loans increased $3.2 million, or 2.9%, to $116.4 million for the three months ended December 31, 2006 from $113.2 million for the three months ended December 31, 2005. The increase resulted from an increase in the yield we earned on loans. The average yield on our loan portfolio increased 36 basis points to 6.04% for the three months ended December 31, 2006 from 5.68% for the three months ended December 31, 2005, primarily as a result of increases in the interest rates on our adjustable-rate loans and on newly-originated fixed-rate loans in response to increases in market interest rates. The average balance of loans decreased $263.2 million, or 3.3%, to $7.7 billion for the three months ended December 31, 2006 from $8.0 billion for the three months ended December 31, 2005, reflecting our sale of $2.2 billion of loans during the fiscal year ended September 30, 2006.

Interest Expense. Interest expense increased $14.4 million, or 21.6%, to $81.1 million for the three months ended December 31, 2006 from $66.7 million for the three months ended December 31, 2005. The increase in interest expense resulted from increases in interest expense on certificates of deposit and NOW accounts, partially offset by a decrease in interest expense on Federal Home Loan Bank advances.

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Interest expense on certificates of deposit increased $11.5 million, or 22.3%, to $63.1 million for the three months ended December 31, 2006 from $51.6 million for the three months ended December 31, 2005. The increase was caused primarily by a 70 basis point increase in the average rate we paid on certificates of deposit to 4.59% for the three months ended December 31, 2006 from 3.89% for the three months ended December 31, 2005. We increased rates on deposits in response to increases in market interest rates. In addition, the average balance of certificates of deposit increased by $192.5 million, or 3.6%, to $5.5 billion for the three months ended December 31, 2006 from $5.3 billion for the three months ended December 31, 2005. The increase in certificate of deposit accounts primarily reflects our customers seeking higher interest-paying deposit products during a period of rising market interest rates.

Interest expense on NOW accounts increased $6.5 million, or 61.5%, to $16.9 million for the three months ended December 31, 2006 from $10.5 million for the three months ended December 31, 2005. The increase was caused primarily by a 102 basis point increase in the average rate we paid on NOW accounts to 4.12% for the three months ended December 31, 2006 from 3.10% for the three months ended December 31, 2005. We increased rates on deposits in response to increases in market interest rates. In addition, the average balance of NOW accounts increased $291.5 million, or 21.5%, to $1.6 billion for the three months ended December 31, 2006 from $1.4 billion for the three months ended December 31, 2005. The increase in NOW accounts reflects our customers seeking higher interest-paying deposit products during a period of rising market interest rates. The increase also reflects our continued focus on high-yield checking accounts, since we believe this type of deposit provides a stable source of funds that reprices in a manner similar to our equity loan products, and therefore assists us in managing interest rate risk.

Interest expense on Federal Home Loan Bank advances decreased $3.3 million, or 91.3%, to $315,000 for the three months ended December 31, 2006 from $3.6 million for the three months ended December 31, 2005. The decrease was caused by a decrease in our average balance of Federal Home Loan Bank advances. The average balance decreased $348.0 million to $25.1 million for the three months ended December 31, 2006 from $373.1 million for the three months ended December 31, 2005. Throughout the fiscal year ended September 30, 2006, we repaid nearly all of our Federal Home Loan Bank advances, without incurring prepayment penalties.

Net Interest Income. Net interest income decreased by $4.8 million, or 9.7%, to $44.6 million for the three months ended December 31, 2006 from $49.4 million for the three months ended December 31, 2005. The decrease resulted solely from a further compression of our interest rate spread and our net interest margin, as our interest rate spread decreased 43 basis points to 1.64% for the three months ended December 31, 2006 from 2.07% for the three months ended December 31, 2005, and our net interest margin decreased 28 basis points to 2.12% for the three months ended December 31, 2006 from 2.40% for the three months ended December 31, 2005. The decreases in our interest rate spread and net interest margin are consistent with the inverting of the U.S. Treasury yield curve. From June 30, 2004 to December 31, 2006, the Federal Reserve Board increased its target for the federal funds rate from 1.0% to 5.25%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans) have not increased to the same degree. The compression in our interest rate spread and net interest margin was partially offset by an increase in net interest-earning assets of $148.6 million, or 19.0%, to $929.8 million for the three months ended December 31, 2006 from $781.2 million for the three months ended December 31, 2005.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower s ability to repay a loan and the levels of nonperforming and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance.

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Based on our evaluation of the above factors, we recorded a provision for loan losses of $2.0 million for the three months ended December 31, 2006 and a provision for loan losses of $1.0 million for the three months ended December 31, 2005. The provisions recorded reflected net chargeoffs of $1.5 million and $249,000 for the three months ended December 31, 2006 and 2005, respectively. The allowance for loans losses was $21.2 million, or 0.28% of total loans receivable at December 31, 2006, compared to $19.4 million, or 0.25% of total loans receivable at December 31, 2005. We increased the allowance for loan losses to reflect an increase in non-performing loans from December 31, 2005 to December 31, 2006. Nonperforming loans increased by $16.4 million to $90.3 million, or 1.19% of total loans, at December 31, 2006 from $74.0 million, or 0.94% of total loans, at December 31, 2005. The increase in nonperforming loans occurred primarily in our one- to four-family residential real estate mortgage loan portfolio, and specifically a $14.3 million increase in non-performing loans originated through our Home Today program, which was established in 2000. See Business of Third Federal Savings and Loan Association of Cleveland Non-Performing Assets and Delinquent Loans for a discussion of the asset quality of this portion of our loan portfolio. We had one impaired loan with a principal balance of $2.3 million and $2.4 million at December 31, 2006 and 2005, respectively. We used the same general methodology in assessing the allowance at the end of the three-month periods. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for the three months ended December 31, 2006 and 2005.

Non-Interest Income. Non-interest income increased $11.0 million to $12.4 million for the three months ended December 31, 2006 from $1.4 million for the three months ended December 31, 2005. The increase was primarily caused by our recognizing losses of $811,000 on loan sales for the three months ended December 31, 2006, compared to $8.3 million of such losses for the three months ended December 31, 2005. The increase was also caused by an increase in other non-interest income of $2.9 million, or 112.2%, to $5.5 million for the three months ended December 31, 2006 from $2.6 million for the three months ended December 31, 2005. This increase primarily reflected gains from private equity fund investments of Third Capital, Inc.

Non-Interest Expense. Non-interest expense increased $3.0 million, or 10.6%, to $31.5 million for the three months ended December 31, 2006 from $28.5 million for the three months ended December 31, 2005. Salaries and employee benefits expense increased $2.0 million, or 12.8%, to $17.3 million for the three months ended December 31, 2006 from $15.4 million for the three months ended December 31, 2005. This increase is due to our incurring benefits expense of $2.3 million (pre-tax) for the three months ended December 31, 2006 as a result of funding our employee stock ownership plan.

Income Tax Expense. The provision for income taxes was $7.7 million for the three months ended December 31, 2006, compared to $6.9 million for the three months ended December 31, 2005, reflecting an increase in pre-tax income between the three-month periods. Our effective tax rate was 32.7% for the three months ended December 31, 2006 compared to 32.1% for the three months ended December 31, 2005. Our effective tax rate is below the combined state and federal statutory rate because of our ownership of bank-owned life insurance.

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FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and 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 subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- adverse changes in the securities markets;
- legislative or regulatory changes that adversely affect our business;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or *de novo* branches, 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 and the Financial Accounting Standards Board;
- inability of third-party providers to perform their obligations to us; and

- changes in our organization, compensation and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. We discuss these and other uncertainties in Risk Factors.

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HOW WE INTEND TO USE THE PROCEEDS FROM THE STOCK OFFERING

Although we will not be able to determine the amount of actual net proceeds we will receive from the sale of shares of common stock until the stock offering is completed, based upon the sale of our shares at $10.00 per share, we anticipate that the net proceeds will be between $636.8 million and $862.8 million, or $992.8 million if the stock offering is increased.

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

	64,400,510 Shares at Minimum of Offering Range		75,765,306 Shares at Midpoint of Offering Range		87,130,102 Shares at Maximum of Offering Range		100,199,618 Shares at Adjusted Maximum of Offering Range (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	$ 644,005		$ 757,653		$ 871,301		$ 1,001,996	
Less:								
Stock offering expenses, excluding sales agent commissions and expenses	(3,560)		(3,560)		(3,560)		(3,560)	
Sales agent commissions and expenses	(3,656)		(4,298)		(4,942)		(5,683)	
Net stock offering proceeds	636,789	100.0%	749,795	100.0%	862,799	100.0%	992,753	100.0%
Less:								
Proceeds contributed to Third Federal Savings and Loan	(323,395)	(50.8)	(379,898)	(50.7)	(436,400)	(50.6)	(501,377)	(50.5)
Proceeds used for loan to employee stock ownership plan	(75,050)	(11.8)	(89,880)	(12.0)	(104,433)	(12.1)	(121,169)	(12.2)
Proceeds retained by TFS Financial Corporation	$ 238,344	37.4%	$ 280,017	37.3%	$ 321,966	37.3%	$ 370,207	37.3%

(1) As adjusted to give effect to an increase in the number of shares of common stock outstanding after the stock offering which could occur due to an increase in the maximum of the independent valuation as a result of regulatory considerations, demand for the shares, or changes in market conditions or general economic conditions following the commencement of the stock offering.

The net proceeds may vary because total expenses relating to the stock 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 offering and any community offering. Payments for shares 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 Third Federal Savings and Loan s deposits. In all instances, Third Federal Savings and Loan will receive at least 50% of the net proceeds of the stock offering.

We are undertaking the stock offering at this time in order to increase our capital and have the capital resources available to expand our business. For further information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Business Strategy. The stock offering proceeds will increase our capital resources and the amount of funds available to us for lending and investment purposes. The proceeds will also give us greater flexibility to expand our branch network and expand the products and services we offer to our customers.

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TFS Financial Corporation may use the proceeds it retains from the stock offering:

- to finance the purchase of shares of common stock in the stock offering by the employee stock ownership plan;
- to invest in securities;
- to deposit funds in Third Federal Savings and Loan;
- to repurchase its shares of common stock;
- to pay dividends to our shareholders;
- to finance acquisitions of financial institutions or branches and other financial services businesses, although no material transactions are being considered at this time; and
- for general corporate purposes.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the stock offering, except when extraordinary circumstances exist and with prior regulatory approval. The loan that will be used to fund the purchases by the employee stock ownership plan will accrue interest.

Third Federal Savings and Loan intends to contribute $5.0 million in cash to the Third Federal Foundation, and invest the remaining proceeds it receives from the stock offering initially in short-term, liquid investments. Over time, Third Federal Savings and Loan may use the proceeds that it receives from the stock offering as follows:

- to expand its retail banking franchise by establishing *de novo* branches, by acquiring existing branches, or by acquiring other financial institutions or other financial services companies, although no material acquisitions or branch expansion are specifically being considered at this time;
- to fund new loans;
- to support new products and services;
- to invest in securities; and
- for general corporate purposes.

The use of the proceeds outlined above may change based on changes in interest rates, equity markets, laws and regulations affecting the financial services industry, our relative position in the financial services industry, the attractiveness of potential acquisitions to expand our operations, and overall market conditions. We expect our return on equity to decrease as compared to our performance in recent years until we are able to utilize effectively the additional capital raised in the stock offering. Until we can increase our net interest income and non-interest income, we expect our return on equity to remain below the industry average, which may negatively affect the value of our common stock. See Risk Factors.

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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. While our board of directors currently intends to declare dividends, it has not yet determined the amount and timing of any dividend payments. The amount of any dividend payments will depend upon 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, such dividends 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 Third Federal Savings and Loan. Accordingly, it is anticipated that any cash distributions made by TFS Financial Corporation to its shareholders would be treated as cash dividends and not as a non-taxable return of capital for federal and state tax purposes.

Pursuant to our charter, 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 of TFS Financial Corporation Common Stock Distributions. Dividends we can declare and pay will depend, in large part, upon the net proceeds of the stock offering we retain and, to a lesser extent, on the receipt of dividends from Third Federal Savings and Loan and Third Capital, Inc. Initially, we will have no additional sources of income to support dividend payments, other than earnings from the investment of proceeds from the stock offering, and interest payments received on our loan to the employee stock ownership plan. A regulation of the Office of Thrift Supervision imposes limitations on capital distributions by savings institutions. See Supervision and Regulation Federal Banking Regulation Capital Distributions.

Pursuant to Office of Thrift Supervision regulations, any payment of dividends by Third Federal Savings and Loan to TFS Financial Corporation that would be deemed to be drawn from Third Federal Savings and Loan s bad debt reserves would require a payment of taxes at the then-current tax rate by Third Federal Savings and Loan on the amount of earnings deemed to be removed from the reserves for such distribution. Third Federal Savings and Loan does not intend to make any distribution to TFS Financial Corporation that would create such a federal tax liability. See Federal and State Taxation.

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 shareholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

If we pay dividends to our shareholders, we also will be required to pay dividends to Third Federal Savings and Loan Association of Cleveland, MHC, unless Third Federal Savings and Loan Association of Cleveland, MHC elects to waive the receipt of dividends. We anticipate that Third Federal Savings and Loan Association of Cleveland, MHC will waive any dividends we pay. Any decision to waive dividends will be subject to regulatory approval. Under Office of Thrift Supervision regulations, public shareholders would not be diluted for any dividends waived by Third Federal Savings and Loan Association of Cleveland, MHC in the event Third Federal Savings and Loan Association of Cleveland, MHC converts to stock form. See Supervision and Regulation Holding Company Regulation.

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MARKET FOR THE COMMON STOCK

We have never issued capital stock (except for the 1,000 shares issued to Third Federal Savings and Loan Association of Cleveland, MHC in connection with the mutual holding company reorganization completed in 1997). We anticipate that our shares of common stock will be quoted on the Nasdaq Global Select Market under the symbol TFSL. We will try to have at least four market makers to make a market in our common stock. Sandler O Neill & Partners, L.P. has advised us that it intends to make a market in our common stock following the stock offering, but it is under no obligation to do so. While we will attempt before completion of the stock offering to obtain commitments from at least three other broker-dealers to make a market in our common stock, there can be no assurance that we will be successful in obtaining such commitments.

The development of an active trading market 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 our common stock at any particular time may be limited. Under such circumstances, you could have difficulty selling your shares of common stock on short notice and, therefore, you should not view the purchase of our common stock as a short-term investment. We cannot assure you that an active trading market for the common stock will develop or that, if it develops, it will continue. Nor can we assure you that if you purchase shares of our common stock, you will be able to sell them at or above $10.00 per share.

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REGULATORY CAPITAL COMPLIANCE

At September 30, 2006, Third Federal Savings and Loan exceeded all regulatory capital requirements. The following table sets forth our compliance, as of September 30, 2006, with the regulatory capital standards, on a historical and pro forma basis, assuming that the indicated number of shares of common stock were sold as of such date at $10.00 per share, Third Federal Savings and Loan received 50% of the estimated net proceeds and the cash to contribute to the charitable foundation, and approximately 50% of the net proceeds were retained by TFS Financial Corporation. Accordingly, proceeds received by Third Federal Savings and Loan have been assumed to equal $323.4 million, $379.9 million, $436.4 million and $501.4 million at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively. For a discussion of the applicable capital requirements, see Supervision and Regulation Federal Banking Regulation Capital Requirements.

	Historical at September 30, 2006		Pro Forma at September 30, 2006, Based Upon the Sale of							
			64,400,510 Shares at Minimum of Offering Range		75,765,306 Shares at Midpoint of Offering Range		87,130,102 Shares at Maximum of Offering Range		100,199,618 Shares at Adjusted Maximum of Offering Range (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)					
GAAP capital	$ 891,545	10.44%	$ 1,094,565	12.52%	$ 1,128,823	12.86%	$ 1,163,495	13.20%	$ 1,203,369	13.59%
Tangible capital:										
Tangible capital (3)(4)	$ 883,510	10.35%	$ 1,086,530	12.43%	$ 1,120,788	12.78%	$ 1,155,460	13.12%	$ 1,195,334	13.51%
Requirement	128,028	1.50	131,073	1.50	131,587	1.50	132,107	1.50	132,705	1.50
Excess	$ 755,482	8.85%	$ 955,457	10.93%	$ 989,201	11.28%	$ 1,023,353	11.62%	$ 1,062,629	12.01%
Core capital:										
Core capital (3)(4)	$ 883,510	10.35%	$ 1,086,530	12.43%	$ 1,120,788	12.78%	$ 1,155,460	13.12%	$ 1,195,334	13.51%
Requirement (5)	341,407	4.00	349,528	4.00	350,898	4.00	352,285	4.00	353,880	4.00
Excess	$ 542,103	6.35%	$ 737,002	8.43%	$ 769,890	8.78%	$ 803,175	9.12%	$ 841,454	9.51%
Tier I risk based capital:										
Tier I risk based capital (3)(4)	$ 883,510	14.69%	$ 1,086,530	17.95%	$ 1,120,788	18.49%	$ 1,155,460	19.04%	$ 1,195,334	19.67%
Requirement (5)	240,561	4.00	242,185	4.00	242,459	4.00	242,736	4.00	243,055	4.00
Excess	$ 642,949	10.69%	$ 844,345	13.95%	$ 878,329	14.49%	$ 912,724	15.04%	$ 952,279	15.67%
Risk-based capital:										
Risk-based capital (4)(6)	$ 902,401	15.00%	$ 1,105,421	18.26%	$ 1,139,679	18.80%	$ 1,174,351	19.35%	$ 1,214,225	19.98%
Requirement	481,121	8.00	484,370	8.00	484,918	8.00	485,472	8.00	486,110	8.00
Excess	$ 421,280	7.00%	$ 621,051	10.26%	$ 654,761	10.80%	$ 688,879	11.35%	$ 728,115	11.98%
Reconciliation of capital infused into Third Federal Savings and Loan:										
Net proceeds			$ 323,395		$ 379,898		$ 436,400		$ 501,377	
Less:										
Cash contribution to charitable foundation (after-tax)			(3,250)		(3,250)		(3,250)		(3,250)	

Common stock acquired by employee stock ownership plan	(75,050)	(89,880)	(104,433)	(121,169)
Common stock acquired by stock-based benefit plans	(42,075)	(49,490)	(56,767)	(65,134)
Pro forma increase in GAAP and regulatory capital	$ 203,020	$ 237,278	$ 271,950	$ 311,824

(*footnotes on following page*)

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(1) As adjusted to give effect to an increase in the number of shares of common stock outstanding after the stock offering which could occur due to an increase in the maximum of the independent valuation as a result of changes in market conditions following the commencement of the stock offering.

(2) Based on pre-stock offering adjusted total assets of $8.5 billion for purposes of the tangible and core capital requirements, and risk-weighted assets of $6.0 billion for purposes of the risk-based capital requirement.

(3) Tangible capital levels are shown as a percentage of tangible assets. 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 1.96% of the outstanding shares of common stock following the stock offering (including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC) 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 3.92% of the shares of common stock to be outstanding immediately following the stock offering (including shares issued to Third Federal Foundation) with a $9.1 million contribution that occurred during the quarter ended September 30, 2006 and with funds we lend. Third Federal Savings and Loan s pro forma GAAP and regulatory capital have been reduced by the amount required to fund both of these plans and the cash contribution to Third Federal Foundation. See Management for a discussion of the stock-based benefit plans and employee stock ownership plan. The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that would clarify that we may award shares of common stock under one or more stock-based benefit plans in excess of 1.96% of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, provided shares used to fund the plans in excess of this amount are obtained through stock repurchases. In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its regulations or policies regarding stock-based benefit plans, including any regulations or policies restricting the aggregate amount of awards, we may increase the awards beyond current regulatory restrictions and beyond the amounts reflected in this table.

(5) The current core capital requirement for savings banks that receive the highest supervisory rating for safety and soundness is 3% of total adjusted assets and 4% to 5% of total adjusted assets for all other savings banks. See Supervision and Regulation Federal Banking Regulation Standards for Safety and Soundness and Capital Requirements, respectively.

(6) Assumes net proceeds are invested in assets that carry a 20% risk-weighting.

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CAPITALIZATION

The following table presents our historical consolidated capitalization at September 30, 2006, and our pro forma consolidated capitalization after giving effect to the stock offering, based upon the sale of the number of shares of common stock indicated in the table and the other assumptions set forth under Pro Forma Data.

	Historical Consolidated Capitalization	Pro Forma Consolidated Capitalization Based Upon the Sale for $10.00 Per Share of 64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range (1)
	(Dollars in Thousands)				
Deposits (2)	$ 7,401,077	$ 7,401,077	$ 7,401,077	$ 7,401,077	$ 7,401,077
Federal Home Loan Bank advances (3)	25,103	25,103	25,103	25,103	25,103
Total deposits and borrowings	$ 7,426,180	$ 7,426,180	$ 7,426,180	$ 7,426,180	$ 7,426,180
Shareholders equity:					
Preferred stock, $0.01 par value per share, 100,000,000 shares authorized; none to be issued	$	$	$	$	$
Common stock, $0.01 par value per share, 700,000,000 shares authorized; shares to be issued as reflected		2,147	2,525	2,896	3,323
Additional paid-in capital (4)	627,979	1,262,621	1,375,249	1,487,882	1,617,409
Retained earnings	395,892	395,892	395,892	395,892	395,892
Plus:					
Contribution to charitable foundation		42,934	50,000	50,000	50,000
Less:					
After-tax expense of contribution to charitable foundation (5)		(31,157)	(35,750)	(35,750)	(35,750)
Common stock acquired by employee stock ownership plan (6)		(77,325)	(92,155)	(106,708)	(123,444)
Common stock acquired by stock-based benefit plans (7)		(42,075)	(49,490)	(56,767)	(65,134)
Accumulated other comprehensive loss	(11,277)	(11,277)	(11,277)	(11,277)	(11,277)
Total shareholders equity (8)	$ 1,012,594	$ 1,541,760	$ 1,634,994	$ 1,726,168	$ 1,831,019
Pro forma shares outstanding:					
Total shares outstanding (9)		214,668,367	252,500,000	289,625,000	332,318,750
Shares issued to Third Federal Savings and Loan Association of Cleveland, MHC (9)		145,974,490	171,734,694	197,494,898	227,119,132
Shares offered for sale		64,400,510	75,765,306	87,130,102	100,199,618
Shares issued to charitable foundation		4,293,367	5,000,000	5,000,000	5,000,000
Total shareholders equity as a percentage of pro forma total assets	11.78%	16.90%	17.74%	18.54%	19.45%

(1) As adjusted to give effect to an increase in the number of shares of common stock outstanding after the stock offering which could occur due to an increase in the maximum of the independent valuation as a result of changes in market conditions following the commencement

of the stock offering.

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

(*footnotes continued on following page*)

(continued from previous page)

(3) Includes securities sold under agreements to repurchase. See Business of Third Federal Savings and Loan Association of Cleveland Sources of Funds Borrowings.

(4) The sum of the par value of the total shares outstanding and additional paid-in capital equals the net stock offering proceeds plus the market value of the shares issued to the charitable foundation at the offering price of $10.00 per share. No effect has been given to the issuance of additional shares of common stock pursuant to stock options granted under one or more stock-based benefit plans that we intend to adopt. The stock issuance plan permits us to adopt one or more stock-based benefit plans, subject to shareholder approval, that may award stock or stock options in an aggregate amount up to 25% of the number of shares of common stock held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC. The stock-based benefit plans will not be implemented for at least six months after the stock offering and until they have been approved by our shareholders.

(5) Represents the expense of the contribution to the charitable foundation based on a 35.0% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of our annual taxable income, subject to our ability to carry forward any unused portion of the deduction for five years following the year in which the contribution is made.

(6) Assumes that 3.92% of the shares of common stock to be outstanding immediately following the stock offering (including shares issued to Third Federal Foundation) will be purchased by the employee stock ownership plan with a $9.1 million contribution that occurred during the quarter ended September 30, 2006 and with funds that we will lend to acquire the remaining shares. The shares of common stock acquired by the employee stock ownership plan are reflected as a reduction of shareholders equity. Third Federal Savings and Loan will provide the funds to repay the employee stock ownership plan loan. See Management Benefit Plans.

(7) Assumes that subsequent to the stock offering, 1.96% of the outstanding shares of common stock (including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC) are purchased (with funds we provide) by the stock-based benefit plans in the open market at a price equal to the price for which the shares are sold in the stock offering. The shares of common stock to be purchased by the stock-based benefit plans are reflected as a reduction of shareholders equity. See Pro Forma Data and Management. The stock issuance plan permits us to adopt one or more stock-based benefit plans that award stock or stock options, in an aggregate amount up to 25% of the number of shares of common stock held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC. The stock-based benefit plans will not be implemented for at least six months after the stock offering and until they have been approved by shareholders. See Pro Forma Data for a discussion of the potential dilutive impact of the award of shares under these plans. The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that would clarify that we may award shares of common stock under one or more stock-based benefit plans in excess of 1.96% of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, and the shares used to fund the plans in excess of this amount are obtained through stock repurchases. In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its regulations or policies to permit larger stock-based benefit plans, greater amounts of stock awards as compared to stock options or faster acceleration of vesting of benefits, we may increase the awards beyond current regulatory restrictions and beyond the amounts reflected in this table.

(8) Total shareholders equity equals GAAP capital.

(9) We issued 1,000 shares of our common stock to Third Federal Savings and Loan Association of Cleveland, MHC in connection with our mutual holding company reorganization in 1997.

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PRO FORMA DATA

We cannot determine the actual net proceeds from the sale of the shares of common stock until the stock offering is completed. However, based upon the following assumptions, we estimate that net proceeds will be between $636.8 million and $862.8 million, or $992.8 million if the offering range is increased:

- we will sell all shares of common stock in the subscription offering;
- our employee stock ownership plan will purchase 3.92% of the shares of common stock to be outstanding upon the completion of the stock offering (including shares issued to Third Federal Foundation) with a $9.1 million contribution that occurred during the quarter ended September 30, 2006 and a loan from TFS Financial Corporation. Third Federal Savings and Loan intends to repay $9.1 million of the loan for the employee stock ownership plan during the calendar year ended December 31, 2007. After December 31, 2007, Third Federal Savings and Loan s total annual payment of the employee stock ownership plan debt is based upon equal annual installments of principal and interest based upon the remaining term of the loan;
- Third Federal Savings and Loan will contribute $5.0 million in cash to the Third Federal Foundation;
- expenses of the stock offering, other than fees to be paid to Sandler O Neill & Partners, L.P., are estimated to be $3.6 million;
- 649,000 shares of common stock will be purchased by our executive officers and directors, and their immediate families; and
- Sandler O Neill & Partners, L.P. will receive a fee equal to 0.65% of the aggregate purchase price of the shares sold in the stock offering, excluding any shares purchased by any employee benefit plans, the charitable foundation and any of our directors, officers or employees or members of their immediate families.

We calculated our pro forma consolidated net income and shareholders equity for the fiscal year ended September 30, 2006 as if the shares of common stock had been sold at the beginning of the fiscal year and the net proceeds had been invested at 4.90% for the entire fiscal year, which assumes reinvestment of the net proceeds at a rate equal to the one year United States Treasury yield for the period. We believe this rate more accurately reflects a pro forma reinvestment rate than the arithmetic average method, which assumes reinvestment of the net proceeds at a rate equal to the average of the yield on our interest-earning assets and the cost of deposits for these periods. We assumed a tax rate of 35.0% for the fiscal year. This results in an annualized after-tax yield of 3.19% for the fiscal year ended September 30, 2006.

We calculated historical and pro forma per share amounts by dividing historical and pro forma amounts of consolidated net income and shareholders 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 the fiscal year as if the shares of common stock were outstanding at the beginning of the fiscal year, but we did not adjust per share historical or pro forma shareholders 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 shareholder approval, we have assumed that the stock-based benefit plans will acquire an amount of shares of common stock equal to 1.96% of our outstanding shares of common stock (including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC) 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. The stock issuance plan provides that we may grant awards of stock or options under one or more stock-based benefit plans in an aggregate amount up to 25% of the number of shares of common stock held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC. However, any awards of stock in excess of 1.96% of the outstanding shares (including shares issued to

Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC) exclusive of shares acquired in the secondary market to fund such stock-based benefit plans, currently would require prior approval of the Office of Thrift Supervision.

We have also assumed that the stock-based benefit plans will grant options to acquire shares of common stock equal to 4.90% of our outstanding shares of common stock (including shares of common stock issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation). In preparing the tables below, we assumed that shareholder 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 $3.37 for each option. In addition to the terms of the options described above, the Black-Scholes option pricing model incorporated an estimated volatility rate of 16.34% for the shares of common stock based on an index of publicly traded mutual holding companies, a dividend yield of 0%, an expected option life of 7.5 years and a risk free interest rate of 4.56%. Finally, we assumed that 25% of the stock options were non-qualified options granted to directors, resulting in a tax benefit (at an assumed tax rate of 35.0%) for a deduction for compensation expense equal to the grant-date fair value of the options. The stock issuance plan provides that we may grant awards of stock options under one or more stock-based benefit plans in an amount up to 25% of the number of shares of common stock held by persons other than Third Federal Savings and Loan Association of Cleveland, MHC. However, any awards of options in excess of 4.90% of our outstanding shares (including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC) would require prior approval of the Office of Thrift Supervision. It is expected that TFS Financial Corporation will fund the cost of any proposed stock-based benefit plans.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that are intended to clarify and simplify such regulations. Specifically, the amendments would clarify that we may grant options and award shares of common stock under one or more stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering and shares used to fund the plans in excess of the foregoing amounts are obtained through stock repurchases. In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its existing regulations or policies to permit larger stock-based benefit plans, greater amounts of stock awards as compared to stock options, or faster acceleration of vesting of benefits, the restrictions described above may not apply to any stock-based benefit plans that we adopt, and we may exceed the current limits applicable to the overall size of such plans and individual awards thereunder, and otherwise grant awards with terms that are different than those required by current Office of Thrift Supervision regulations and policy.

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 Third Federal Savings and Loan, 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 shareholders equity represents the difference between the stated amount of our assets and liabilities, computed in accordance with accounting principles generally accepted in the United States of America

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(GAAP). We did not increase or decrease shareholders equity to reflect the difference between the carrying value of loans and other assets and their market value. Pro forma shareholders 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 shareholders if we liquidated. Pro forma shareholders equity does not give effect to the impact of intangible assets or tax bad debt reserves in the event we are liquidated.

	At or For the Fiscal Year Ended September 30, 2006 Based Upon the Sale at $10.00 Per Share of			
	64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range (1)
	(Dollars in Thousands, Except Per Share Amounts)			
Gross proceeds of stock offering	$ 644,005	$ 757,653	$ 871,301	$ 1,001,996
Plus: market value of shares issued to charitable foundation	42,934	50,000	50,000	50,000
Market value of stock offering and charitable foundation shares	$ 686,939	$ 807,653	$ 921,301	$ 1,051,996
Gross proceeds of stock offering	$ 644,005	$ 757,653	$ 871,301	$ 1,001,996
Less: expenses	(7,216)	(7,858)	(8,502)	(9,243)
Estimated net proceeds	636,789	749,795	862,799	992,753
Less: cash contribution to charitable foundation	(5,000)	(5,000)	(5,000)	(5,000)
Common stock acquired by employee stock ownership plan (2)	(75,050)	(89,880)	(104,433)	(121,169)
Common stock awarded under stock-based benefit plans (3)	(42,075)	(49,490)	(56,767)	(65,134)
Estimated net proceeds after adjustment for charitable foundation and stock benefit plans	$ 514,664	$ 605,425	$ 696,599	$ 801,450
For the Fiscal Year Ended September 30, 2006:				
Net income:				
Historical	$ 43,539	$ 43,539	$ 43,539	$ 43,539
Pro forma adjustments:				
Income on adjusted net proceeds	16,418	19,313	22,222	25,566
Employee stock ownership plan (2)	(1,479)	(1,479)	(1,479)	(1,479)
Options awarded under stock-based benefit plans (5)	(7,090)	(8,339)	(9,565)	(10,975)
Shares awarded under stock-based benefit plans (3)(4)	(5,470)	(6,434)	(7,380)	(8,467)
Pro forma net income (6)	$ 45,918	$ 46,600	$ 47,337	$ 48,184
Net income per share:				
Historical	$ 0.21	$ 0.18	$ 0.16	$ 0.14
Pro forma adjustments:				
Income on adjusted net proceeds	0.08	0.08	0.08	0.08
Employee stock ownership plan (2)	(0.01)	(0.01)	(0.01)	(0.01)
Options awarded under stock-based benefit plans (5)	(0.03)	(0.03)	(0.03)	(0.03)
Shares awarded under stock-based benefit plans (3)(4)	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma net income per share (2)(3)(4)(5)(6)	$ 0.22	$ 0.19	$ 0.17	$ 0.15

Offering price to pro forma net income per share	45.45x	52.63x	58.82x	66.67x
Shares considered outstanding in calculating historical and pro forma net income per share (7)	207,163,368	243,512,000	279,181,700	320,201,855

(Footnotes begin on second following page)

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	At or For the Fiscal Year Ended September 30, 2006 Based Upon the Sale at $10.00 Per Share of			
	64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range (1)
	(Dollars in Thousands, Except Per Share Amounts)			
At September 30, 2006:				
Shareholders equity:				
Historical	$ 1,012,594	$ 1,012,594	$ 1,012,594	$ 1,012,594
Estimated net proceeds	636,789	749,795	862,799	992,753
Contribution to charitable foundation	42,934	50,000	50,000	50,000
Less:				
After-tax effect of contribution to charitable foundation	(31,157)	(35,750)	(35,750)	(35,750)
Common stock acquired by employee stock ownership plan (2)	(77,325)	(92,155)	(106,708)	(123,444)
Common stock awarded under stock-based benefit plans (3)(4)	(42,075)	(49,490)	(56,767)	(65,134)
Pro forma shareholders equity (8)	$ 1,541,760	$ 1,634,994	$ 1,726,168	$ 1,831,019
Shareholders equity per share:				
Historical	$ 4.72	$ 4.01	$ 3.50	$ 3.05
Estimated net proceeds	2.97	2.97	2.98	2.99
Contributions issued to charitable foundation	0.20	0.20	0.17	0.15
Less:				
After-tax effect of contribution to charitable foundation	(0.15)	(0.14)	(0.12)	(0.11)
Common stock acquired by employee stock ownership plan (2)	(0.36)	(0.36)	(0.37)	(0.37)
Common stock awarded under stock-based benefit plans (3)(4)	(0.20)	(0.20)	(0.20)	(0.20)
Pro forma shareholders equity per share (3)(4)(5)(6)(8)	$ 7.18	$ 6.48	$ 5.96	$ 5.51
Offering price as percentage of pro forma shareholders equity per share	139.28%	154.32%	167.79%	181.49%
Shares considered outstanding in calculating offering price as a percentage of pro forma shareholders equity per share	214,668,367	252,500,000	289,625,000	332,318,750
Charitable foundation ownership	2.00%	1.98%	1.73%	1.51%
Public ownership	30.00%	30.01%	30.08%	30.15%
Mutual holding company ownership	68.00%	68.01%	68.19%	68.34%

(Footnotes begin on following page)

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(1) As adjusted to give effect to an increase in the number of shares outstanding after the stock offering, which could occur due to an increase in the maximum of the independent valuation as a result of changes in market conditions following the commencement of the stock offering.

(2) It is assumed that 3.92% of the shares to be outstanding upon completion of the stock offering (including shares issued to Third Federal Foundation) will be purchased by the employee stock ownership plan. For purposes of this table, $9.1 million of the funds used to acquire such shares were contributed by Third Federal Savings and Loan during the fiscal year ended September 30, 2006, for which Third Federal Savings and Loan Association recognized expense of $6.8 million during the fiscal year. The remaining funds used to acquire such shares are assumed to have been borrowed from us by the employee stock ownership plan with a loan with a 30-year term. The amount to be borrowed is reflected as a reduction of shareholders equity. Third Federal Savings and Loan intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the principal and interest requirement of the debt. In addition, Third Federal Savings and Loan intends to repay $9.1 million of the loan for the employee stock ownership plan during the calendar year ending December 31, 2007. After December 31, 2007, Third Federal Savings and Loan s total annual payment of the employee stock ownership plan debt is based upon equal annual installments of principal and interest based upon the remaining term of the loan. The pro forma net income information makes the following assumptions:

   (i) Third Federal Savings and Loan s contribution to the employee stock ownership plan was made at the end of the period;

   (ii) 910,000 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively were committed to be released during the fiscal year ended September 30, 2006, at an average fair value equal to the price for which the shares are sold in the stock offering in accordance with Statement of Position (SOP) 93-6; and

   (iii) only the employee stock ownership plan shares committed to be released were considered outstanding for purposes of the net income per share calculations.

(3) Gives effect to one or more stock-based benefit plans expected to be adopted following the stock offering. We have assumed that the plans acquire a number of shares of common stock equal to 1.96% of the outstanding shares, including shares issued to Third Federal Foundation and to Third Federal Savings and Loan Association of Cleveland, MHC, through open market purchases at the beginning of the period presented for a purchase price equal to the price for which the shares are sold in the stock offering, and that 20% of the amount contributed was an amortized expense (based upon a five-year vesting period) during the fiscal year ended September 30, 2006. It is expected that TFS Financial Corporation will contribute the funds used by the stock-based benefit plans to purchase the shares. There can be no assurance that the actual purchase price of the shares granted under the stock-based benefit plans will be equal to the $10.00 subscription price. If shares are acquired from authorized but unissued shares of common stock or from treasury shares, our shareholders ownership interest would be diluted by approximately 1.92%. The effect on pro forma net income per share is not material.

(footnotes continued on following page)

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(continued from previous page)

The following table shows pro forma shareholders equity per share, assuming all the shares to fund the stock awards are obtained from authorized but unissued shares.

At or For the Fiscal Year Ended September 30, 2006	64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range
Pro forma shareholders equity per share	$ 7.24	$ 6.54	$ 6.04	$ 5.60

(4) The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that would clarify that we may grant options and award shares of common stock under one or more stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, and shares used to fund the plans in excess of the foregoing amounts are obtained through stock repurchases. In the event the Office of Thrift Supervision adopts these regulations as proposed, or otherwise changes its regulations or policies to permit larger stock-based benefit plans, greater amounts of stock awards as compared to stock options or faster acceleration of vesting of benefits, we may increase the awards beyond current regulatory restrictions and beyond the amounts reflected in this table.

(5) Gives effect to the granting of options pursuant to one or more stock-based benefit plans, which are expected to be adopted by TFS Financial Corporation following the stock offering and presented to shareholders for approval not earlier than six months after the completion of the stock offering. We have assumed that options will be granted to acquire shares of common stock equal to 4.90% of outstanding shares (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation). In calculating the pro forma effect of the stock options, it is assumed that the exercise price of the stock options and the trading price of the stock at the date of grant were $10.00 per share, the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was $3.37 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, and that 25.0% of the amortization expense (or the assumed portion relating to options granted to directors) resulted in a tax benefit using an assumed tax rate of 35.0%. 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 of common stock used to satisfy the exercise of options under the stock-based benefit plans are obtained from the issuance of authorized but unissued shares, our shareholders ownership interest would be diluted by up to 4.7%.

(6) Does not give effect to the non-recurring expense that will be recognized in fiscal 2007 as a result of the contribution to the charitable foundation. The following table shows the estimated after-tax expense associated with the contribution to the charitable foundation, as well as pro forma net income and pro forma net income per share assuming the contribution to the charitable foundation had been expensed during the fiscal year ended September 30, 2006.

For the Fiscal Year Ended September 30, 2006	64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range
	(In thousands, except per share amounts)			
After-tax expense of contribution to charitable foundation	$ (31,157)	$ (35,750)	$ (35,750)	$ (35,750)
Pro forma net income	14,761	10,850	11,587	12,434
Pro forma net income per share	0.07	0.04	0.04	0.04

The pro forma data assume that we will realize 100.0% of the income tax benefit as a result of the contribution to the charitable foundation based on a 35.0% tax rate. The realization of the tax benefit is limited annually to 10.0% of our annual taxable income. However, for federal and state tax purposes, we can carry forward any unused portion of the deduction for five years following the year in which the contribution is made.

(footnotes continued on following page)

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(continued from previous page)

(7) Shares considered outstanding in calculating historical and pro forma net income per share is calculated by taking total shares outstanding at each level of the offering range excluding shares held by the employee stock ownership plan and, in accordance with SOP 93-6, adding back employee stock ownership plan shares that are committed to be released, as follows:

For the Fiscal Year Ended September 30, 2006	64,400,510 Shares at Minimum of Offering Range	75,765,306 Shares at Midpoint of Offering Range	87,130,102 Shares at Maximum of Offering Range	100,199,618 Shares at Adjusted Maximum of Offering Range
Total shares outstanding	214,668,367	252,500,000	289,625,000	332,318,750
Total shares held by employee stock ownership plan	(8,414,999)	(9,898,000)	(11,353,300)	(13,026,895)
Employee stock ownership plan shares committed to be released	910,000	910,000	910,000	910,000
Shares considered outstanding in calculating historical and pro forma net income per share	207,163,368	243,512,000	279,181,700	320,201,855

(8) The retained earnings of Third Federal Savings and Loan will continue to be substantially restricted after the stock offering. See Supervision and Regulation Federal Banking Regulation.

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COMPARISON OF VALUATION AND PRO FORMA INFORMATION WITH AND WITHOUT THE CHARITABLE FOUNDATION

As reflected in the table below, if the charitable foundation is not established and funded as part of the stock offering, FinPro, Inc. estimates that our pro forma valuation would be greater and, as a result, a greater number of shares of common stock would be issued in the stock offering. At the minimum, midpoint, maximum and adjusted maximum of the valuation range, our pro forma valuation is $2.1 billion, $2.5 billion, $2.9 billion and $3.3 billion with the charitable foundation, as compared to $2.2 billion, $2.6 billion, $3.0 billion and $3.5 billion, respectively, without the charitable foundation. There is no assurance that in the event the charitable foundation were not formed, the appraisal prepared at that time would conclude that our pro forma market value would be the same as that estimated in the table below. Any appraisal prepared at that time would be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions.

For comparative purposes only, set forth below are certain pricing ratios and financial data and ratios at and for the fiscal year ended September 30, 2006 at the minimum, midpoint, maximum and adjusted maximum of the offering range, assuming the stock offering was completed at September 30, 2006, with and without the charitable foundation.

	Minimum of Offering Range		**Midpoint of Offering Range**		**Maximum of Offering Range**		**Adjusted Maximum of Offering Range**	
	With Foundation	**Without Foundation**	**With Foundation**	**Without Foundation**	**With Foundation**	**Without Foundation**	**With Foundation**	**Without Foundation**
	(Dollars in thousands, except per share amounts)							
Estimated stock offering amount	$ 644,005	$ 668,100	$ 757,653	$ 786,000	$ 871,301	$ 903,900	$ 1,001,996	$ 1,039,485
Pro forma market capitalization of stock offering and charitable foundation	686,939	668,100	807,653	786,000	921,301	903,900	1,051,996	1,039,485
Estimated full value	2,146,684	2,227,000	2,525,000	2,620,000	2,896,250	3,013,000	3,323,188	3,464,950
Total assets	9,124,733	9,132,193	9,217,967	9,226,318	9,309,141	9,320,442	9,413,992	9,428,687
Total liabilities	7,582,973	7,582,973	7,582,973	7,582,973	7,582,973	7,582,973	7,582,973	7,582,973
Pro forma shareholders equity	1,541,760	1,549,220	1,634,994	1,643,345	1,726,168	1,737,469	1,831,019	1,845,714
Pro forma net income	45,918	46,222	46,600	46,925	47,337	47,628	48,184	48,437
Pro forma shareholders equity per share	7.18	6.96	6.48	6.27	5.96	5.77	5.51	5.33
Pro forma net income per share	0.22	0.22	0.19	0.19	0.17	0.16	0.15	0.15
Pro forma pricing ratios:								
Offering price as a percentage of pro forma shareholders equity per share	139.28%	143.68%	154.32%	159.49%	167.79%	173.31%	181.49%	187.62%
Offering price to pro forma net income per share	45.45x	45.45x	52.63x	52.63x	58.82x	62.50x	66.67x	66.67x
Pro forma financial ratios:								
Return on assets	0.50%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Return on equity	2.98	2.98	2.85	2.86	2.74	2.74	2.63	2.62
Equity to assets	16.90	16.96	17.74	17.81	18.54	18.64	19.45	19.58

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 September 30, 2006 and 2005 and our consolidated results of operations for the fiscal years ended September 30, 2006, 2005 and 2004. This section should be read in conjunction with the consolidated financial statements and notes to the financial statements that appear elsewhere in this prospectus.

Overview

Our business has traditionally focused on originating one- to four-family residential real estate mortgage loans, home equity loans and home equity lines of credit, and attracting retail deposits, in our primary market areas consisting of the States of Ohio and Florida. During the last several years, the operating environment for financial institutions, and particularly those that focus on originating longer-term mortgage loans, has been challenging. Short-term interest rates, which guide our pricing of deposits, have been rising while longer-term interest rates, which guide our pricing of loans, have been relatively constant. This flattening of the U.S. Treasury yield curve has negatively affected our net interest income. Specifically, our interest rate spread decreased to 2.01% for the fiscal year ended September 30, 2006 from 2.09% for the fiscal year ended September 30, 2005, and our net interest margin decreased to 2.37% for the fiscal year ended September 30, 2006 from 2.38% for the fiscal year ended September 30, 2005.

Our total loans receivable (including loans held for sale) decreased to $7.9 billion at September 30, 2006 from $8.3 billion at September 30, 2005. Although we continue to originate a significant amount of loans ($2.7 billion of mortgage loans for the fiscal year ended September 30, 2006), we sold $2.2 billion of long-term, fixed-rate loans during the fiscal year ended September 30, 2006, including $943.0 million of such sales during the quarter ended September 30, 2006. We sold these loans on a servicing-retained basis. We effected these sales in order to improve our interest rate risk position in the event of continued increases in short-term market interest rates. In addition, we were able to use a portion of the proceeds of the loan sales to reduce our Federal Home Loan Bank advances to $25.1 million at September 30, 2006 from $717.4 million at September 30, 2005. However, we incurred pre-tax losses of $47.1 million in connection with the sale of loans during the fiscal year ended September 30, 2006.

As part of our strategy of focusing on our traditional lines of business, we sold the loan origination platform of DeepGreen Bank in a two-step process in 2004. DeepGreen Bank was a subsidiary of TFS Financial Corporation that operated as an internet-only bank that originated home equity loans and lines of credit throughout the United States. Similarly, we spun-off Ohio Central Savings in March 2005. Ohio Central Savings was a subsidiary of TFS Financial Corporation that primarily originated automobile loans.

Deposits increased $346.8 million to $7.4 billion at September 30, 2006 from the previous fiscal year end. We have continued to emphasize high-yield checking accounts. These accounts reprice in a manner similar to our home equity loan products, and therefore assist us in managing our interest rate risk, and provide us with a stable source of funds. The increase in deposits is also attributable to our customers preference for shorter-term, higher interest paying deposit products such as NOW accounts and certificates of deposit in a rising interest rate environment.

Our net income decreased $21.0 million to $43.5 million for the fiscal year ended September 30, 2006, from $64.5 million for the fiscal year ended September 30, 2005. This decrease was caused by the losses incurred on the sale of loans, described above.

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Anticipated Increase in Non-Interest Expense

Following the completion of the stock offering, we anticipate that our non-interest expense will increase as a result of the increased costs associated with operating as a public company, increased compensation expenses associated with 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 our shareholders.

Assuming that 100,199,618 shares of common stock are sold in the stock offering (the adjusted maximum of the offering range):

- The employee stock ownership plan will acquire 13,026,895 shares of common stock with a $9.1 million contribution from Third Federal Savings and Loan that occurred during the quarter ended September 30, 2006 and with a $121.2 million loan that is expected to be repaid over 30 years, resulting in an average annual pre-tax expense of approximately $4.0 million (assuming that the common stock maintains a value of $10.00 per share).

- The stock-based benefit plans would grant options to purchase shares equal to 4.90% of the total outstanding shares (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation), or 16,283,618 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; 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 7.5 years; the risk free interest rate is 4.56% (based on the seven-year Treasury rate) and the volatility rate on the shares of common stock is 16.34% (based on an index of publicly traded mutual holding companies), the estimated grant-date fair value of the options using a Black-Scholes option pricing analysis is $3.37 per option granted. Assuming this value is amortized over the five-year vesting period, the corresponding annual pre-tax expense associated with the stock options would be approximately $11.0 million.

- The stock-based benefit plans would award a number of shares of common stock equal to 1.96% of the outstanding shares (including shares issued to Third Federal Savings and Loan Association of Cleveland, MHC and to Third Federal Foundation), or 6,513,447 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 $13.0 million.

The actual expense that will be recorded for the employee stock ownership plan will be determined by the market value of our common stock as shares are released to employees over the term of the loan, and whether the loan is repaid faster than its contractual term. Accordingly, any increases in our stock price above $10.00 per share will increase the total employee stock ownership plan expense, and any accelerated repayment of the loan will increase the annual employee stock ownership plan expense. Further, the actual expense of the stock awards under the stock-based benefit plans will be determined by the fair market value of the common stock on the grant date, which may be greater than $10.00 per share, and the actual expense of stock options under the stock-based benefit plans will be based on the grant-date fair value of the options, which will be affected by a number of factors, including the market value of our common stock, the term and vesting period of the stock options, our dividend yield and other valuation assumptions contained in the option pricing model that we ultimately use.

The Office of Thrift Supervision has proposed amendments to its existing regulations regarding stock-based benefit plans that are intended to clarify and simplify such regulations. Specifically, the amendments would clarify that we may grant options and award shares of common stock under one or more stock-based benefit plans in excess of 4.90% and 1.96%, respectively, of our total outstanding shares if the stock-based benefit plans are adopted more than one year following the stock offering, provided shares of common stock used to fund the plans in excess of these amounts are obtained through stock repurchases. In the event the Office of Thrift Supervision adopts these regulations as proposed, or

otherwise changes its existing regulations or policies regarding stock-based benefit plans, we may implement stock-based benefit plans that exceed the current limits applicable to the overall size of such plans, the relative amounts of stock options and stock awards and the individual awards thereunder, which would further increase our expenses associated with stock-based benefit plans.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are our policies with respect to our allowance for loan losses, intangible assets, mortgage servicing rights and income taxes.

Allowance for Loan Losses. The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. The amount of the allowance is based on significant estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management due to the high degree of judgment involved, the subjectivity of the assumptions used and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

As a substantial percentage of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly affect the valuation of a property securing a loan and the related allowance determined. Management carefully reviews the assumptions supporting such appraisals to determine that the resulting values reasonably reflect amounts realizable on the related loans.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. We consider a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews and other relevant factors. This evaluation is inherently subjective as it requires material estimates by management that may be susceptible to significant change based on changes in economic and real estate market conditions.

The evaluation has a specific and general component. The specific component relates to loans that are delinquent or otherwise identified as a problem loan through the application of our loan review process and our loan grading system. All such loans are evaluated individually, with principal consideration given to the value of the collateral securing the loan. Specific allowances are established as required by this analysis. The general component is determined by segregating the remaining loans by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions and geographic concentrations. This analysis establishes factors that are applied to the loan groups to determine the amount of the general component of the allowance for loan losses.

Actual loan losses may be significantly more than the allowances we have established which could have a material negative effect on our financial results.

Intangible Assets. Acquisitions accounted for under purchase accounting must follow SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires us to record as assets on our financial statements both goodwill, an intangible asset which is equal to the excess of the purchase price which we pay for another company over the estimated fair value of the net assets acquired, and identifiable intangible assets such as core deposit intangibles and non-compete agreements. Under SFAS No. 142, we regularly evaluate goodwill for impairment, and we will reduce its carrying value through a charge

to earnings if impairment exists. Core deposit and other identifiable intangible assets are amortized to expense over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The valuation techniques used by us to determine the carrying value of tangible and intangible assets acquired in acquisitions and the estimated lives of identifiable intangible assets involve estimates for discount rates, projected future cash flows and time period calculations, all of which are susceptible to change based on changes in economic conditions and other factors. Future events or changes in the estimates that we used to determine the carrying value of our goodwill and identifiable intangible assets or which otherwise adversely affect their value or estimated lives could have a material adverse impact on our results of operations. As of September 30, 2006, our intangible assets consisted of goodwill of $9.7 million.

Mortgage Servicing Rights. Mortgage servicing rights represent the present value of the future servicing fees from the right to service loans in our loan servicing portfolio. Mortgage servicing rights are recognized as assets for both purchased rights and for the allocation value of retained servicing rights on loans sold. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights, which requires a number of estimates, the most critical of which is the mortgage loan prepayment speed assumption. The mortgage loan prepayment speed assumption is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans prepay faster and the value of our mortgage servicing assets decreases. Conversely, during periods of rising rates, the value of mortgage servicing rights generally increases due to slower rates of prepayments. The amount and timing of mortgage servicing rights amortization is adjusted monthly based on actual results. In addition, on a quarterly basis, we perform a valuation review of mortgage servicing rights for potential decreases in value. This quarterly valuation review entails applying current assumptions to the portfolio classified by interest rates and, secondarily, by prepayment characteristics.

Key economic assumptions and the sensitivity of the current fair value of mortgage loan servicing assets to immediate 10% and 20% adverse changes in those assumptions are as follows:

	At September 30, 2006 (Dollars in thousands)
Fair value of mortgage loan servicing assets	$ 61,177
Prepayment speed assumptions (weighted average annual rate)	16.3%
Impact on fair value of 10% adverse change	$ (1,768)
Impact on fair value of 20% adverse change	$ (3,527)
Discount rate	12.0%
Impact on fair value of 10% adverse change	$ (1,721)
Impact on fair value of 20% adverse change	$ (3,444)

These sensitivities are hypothetical and should be used with caution. As indicated in the table above, changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship in the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments), which could magnify or counteract the sensitivities.

Income Taxes. We consider accounting for income taxes a critical accounting policy due to the subjective nature of certain estimates that are involved in the calculation. We use the asset/liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. We must assess the realization of the deferred tax asset and, to the extent that we believe that recovery is not likely, a valuation allowance is established. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to

income tax expense. No valuation allowances were required at September 30, 2006. Although we have determined a valuation allowance is not required for any deferred tax assets, there is no guarantee that these assets will be recognizable in the future.

Pension and Other Postretirement Benefits. The determination of our obligations and expense for pension and other postretirement benefits is dependent upon certain assumptions used in calculating such amounts. Key assumptions used in the actuarial valuations include the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation. Actual results could differ from the assumptions and market driven rates may fluctuate. Significant differences in actual experience or significant changes in the assumptions could materially affect future pension and other postretirement obligations and expense.

Business Strategy

Our business strategy is to operate as a well-capitalized and profitable financial institution dedicated to providing exceptional personal service to our customers. We cannot assure you that we will successfully implement our business strategy.

Highlights of our business strategy are as follows:

Following our mission of creating value for our customers, our communities and our company. Since being organized in 1938, we have grown to become the nation s largest mutually-owned savings and loan association based on total assets. We credit our success to our continued emphasis on our primary values: Love, Trust, Respect, and a Commitment to Excellence, along with some Fun. Our values are reflected in our pricing of loan and deposit products, as well as our Home Today program, as described below. Our values are further reflected in the Broadway Redevelopment Initiative (a long-term revitalization program encompassing the three-mile corridor of the Broadway-Slavic Village neighborhood in Cleveland, Ohio where our main office is located) and the education programs we have established and/or supported. We intend to continue to support our customers and our communities following the completion of the stock offering.

Encouraging home ownership by offering competitive interest rates and attractive product features on mortgage loans and home equity loans and lines of credit in our primary market areas. More than 85% of our assets consist of one- to four-family residential real estate loans and home equity loans and lines of credit, the overwhelming majority of which were originated to borrowers in the States of Ohio and Florida. We have increased these assets by offering competitive interest rates and product features to customers in our marketplace. Part of this strategy involves programs such as our Lowest Rate Guarantee program (in which we will offer a better interest rate than a competitor s interest rate for certain types of loans or give the loan applicant cash after they close a loan at a lower interest rate) and our Home Today program (where we provide our standard interest rates and flexible credit terms to borrowers who would not normally qualify for such loans). We also offer loan products and features such as high loan-to-value loans (up to 97%) that do not require private mortgage insurance, and adjustable-rate mortgage loans that can convert to fixed-rate loans at no cost to the borrower. See Business of Third Federal Savings and Loan Association of Cleveland Lending Activities One- to Four-Family Residential Real Estate Mortgage Lending and Home Equity Loans and Home Equity Lines of Credit for a more extensive description of these loan products.

Promoting savings by our customers by offering competitive rates on certificates of deposit and other deposit products. Historically, we have tried to provide our customers with attractive rates of return on our deposit products. Our deposit products typically offer rates that are competitive with the rates on similar products offered by other financial institutions. We intend to continue this practice following the stock offering. Our high-yield checking accounts, which represented 20.4% of our total deposits as of September 30, 2006, have provided us with funds that reprice in a manner similar to our home equity lines of credit, which has assisted us in managing interest rate risk.

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Controlling and managing operating expenses. Our ratio of non-interest expense to average assets was 1.41% for the fiscal year ended September 30, 2006, which is significantly lower than the average for our peer group. For the fiscal year ended September 30, 2006, our average assets per full-time employee and our average deposits per full-time employee were $9.7 million and $8.0 million, respectively, each of which is significantly higher than the averages for our peer group. Our average deposits held at our branch offices (an average of $185.0 million per branch office as of September 30, 2006) contribute to our expense management efforts by limiting the overhead costs of serving our deposit customers. We will continue our efforts to control operating expenses as we use the capital we raise in the stock offering to grow our business.

Growing through de novo branching. We anticipate using part of the net proceeds of the stock offering to finance the expansion of our branch network. Our future efforts to expand will focus primarily on eliminating gaps in our current market areas, most likely in the State of Florida. However, we have not established a timetable for expanding our branch network, nor have we determined the specific locations where we will focus our expansion efforts.

Comparison of Financial Condition at September 30, 2006 and 2005

Total assets decreased $318.3 million, or 3.6%, to $8.6 billion at September 30, 2006 from $8.9 billion at September 30, 2005. The decrease was primarily the result of a decrease in loans, partially offset by an increase in cash and cash equivalents. We sold $2.2 billion of loans during the fiscal year ended September 30, 2006 in an effort to improve our interest rate risk position.

Cash and cash equivalents (cash and due from banks, federal funds sold and interest-bearing deposits) increased $132.6 million, or 110.2%, to $252.9 million at September 30, 2006 from $120.3 million at September 30, 2005. As described below, we sold $943.0 million of loans in the quarter ended September 30, 2006, and the increase in cash and cash equivalents represents the proceeds of these loan sales that were not used to repay Federal Home Loan Bank advances.

Total securities (investment securities and mortgage-backed securities) decreased $56.8 million, or 30.3%, to $131.0 million at September 30, 2006 from $187.8 million at September 30, 2005. We used the proceeds from maturing securities and principal repayments and prepayments on securities to repay Federal Home Loan Bank advances and to fund loan originations.

Total loans receivable (including loans held for sale) decreased $411.5 million, or 4.9%, to $7.9 billion at September 30, 2006 from $8.3 billion at September 30, 2005. Loans held for sale decreased $227.5 million, or 41.9%, to $315.0 million at September 30, 2006 from $542.5 million at September 30, 2005. Loans held for investment decreased $183.9 million, or 2.4%, to $7.6 billion at September 30, 2006 from $7.8 billion at September 30, 2005. Although we originated $2.7 billion of loans during the fiscal year ended September 30, 2006, we sold $2.2 billion of loans during the fiscal year, including $943.0 million of such sales during the quarter ended September 30, 2006. All of the loans sold during the quarter ended September 30, 2006, were long-term, fixed-rate loans. We effected these sales to improve our interest rate risk position in the event of continued increases in market interest rates.

Home equity loans and home equity lines of credit decreased $161.7 million, or 8.2%, to $1.8 billion at September 30, 2006 from $2.0 billion at September 30, 2005. The decrease was primarily the result of our sale of DeepGreen Bank s loan origination platform in February 2004, and increases in market interest rates that both reduced Third Federal Savings and Loan s originations of home equity loans and home equity lines of credit and increased repayments of this lending product. DeepGreen Bank focused on originating home equity loans and home equity lines of credit throughout the United States.

Construction loans decreased $62.5 million, or 23.1%, to $207.6 million at September 30, 2006 from $270.1 million at September 30, 2005. We believe the decrease resulted from a reduction in construction activity in our market areas, which reduced the demand for construction loans.

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Deposits increased $346.8 million, or 4.9%, to $7.4 billion at September 30, 2006 from $7.1 billion at September 30, 2005. NOW accounts (including high-yield checking accounts) increased $307.9 million, or 23.8%, to $1.6 billion at September 30, 2006 from $1.3 billion at September 30, 2005. Certificates of deposit increased $129.2 million, or 2.4%, to $5.5 billion at September 30, 2006 from $5.3 billion at September 30, 2005. Passbook savings accounts decreased $91.4 million, or 21.4%, to $335.9 million at September 30, 2006 from $427.3 million at September 30, 2005. The shift from savings accounts to certificates of deposit and NOW accounts reflected our customers seeking higher interest-paying deposit products during a period of rising market interest rates. The increase in NOW accounts demonstrated our continued focus on opening high-yield checking accounts, as well as higher interest rates paid on this product in connection with increases in market interest rates. High-yield checking accounts increased $350.1 million, or 30.2%, to $1.5 billion at September 30, 2006 from $1.2 billion at September 30, 2005. We have focused on promoting this type of deposit product since we believe it provides a stable source of funds. In addition, our high-yield checking accounts reprice in a manner similar to our equity loan products, and therefore assist us in managing interest rate risk.

Federal Home Loan Bank advances decreased $692.3 million, or 96.5%, to $25.1 million at September 30, 2006 from $717.4 million at September 30, 2005. We used a portion of the proceeds from loan sales during the fiscal year ended September 30, 2006 to repay nearly all of our outstanding Federal Home Loan Bank advances, without any prepayment penalties.

Shareholder s equity increased $38.7 million, or 4.0%, to $1.0 billion at September 30, 2006 from $973.9 million at September 30, 2005. The increase resulted from net income of $43.5 million, which was partially offset by a $4.8 million increase in other comprehensive loss.

Comparison of Operating Results for the Fiscal Years Ended September 30, 2006 and 2005

General. Net income decreased $21.0 million, or 32.5%, to $43.5 million for the fiscal year ended September 30, 2006 from $64.5 million for the fiscal year ended September 30, 2005. The decrease was caused by losses incurred on the sale of loans.

Interest Income. Interest income increased $67.0 million, or 16.0%, to $485.8 million for the fiscal year ended September 30, 2006 from $418.8 million for the fiscal year ended September 30, 2005. The increase in interest income resulted from an increase in interest income on loans.

Interest and fee income on loans increased $70.4 million, or 17.4%, to $474.1 million for the fiscal year ended September 30, 2006 from $403.7 million for the fiscal year ended September 30, 2005. The increase resulted from increases in both the average balance of our loan portfolio as well as an increase in the average yield we earned on loans. The average balance of loans increased $445.4 million, or 5.9%, to $8.1 billion for the fiscal year ended September 30, 2006 from $7.6 billion for the fiscal year ended September 30, 2005, reflecting our continued efforts to grow our loan portfolio. The average yield on our loan portfolio increased 58 basis points to 5.88% for the fiscal year ended September 30, 2006 from 5.30% for the fiscal year ended September 30, 2005, primarily as a result of increases in the interest rates on adjustable-rate loans and as we increased rates on newly-originated loans in response to increases in market interest rates.

Interest Expense. Interest expense increased $61.5 million, or 27.0%, to $289.1 million for the fiscal year ended September 30, 2006 from $227.6 million for the fiscal year ended September 30, 2005. The increase in interest expense resulted from increases in interest expense on certificates of deposit, NOW accounts and Federal Home Loan Bank advances.

Interest expense on certificates of deposit increased $27.6 million, or 14.4%, to $219.6 million for the fiscal year ended September 30, 2006 from $192.0 million for the fiscal year ended September 30, 2005. The increase was caused primarily by a 51 basis point increase in the rate we paid on certificates of deposit to 4.10% for the fiscal year ended September 30, 2006 from 3.59% for the fiscal year ended September 30, 2005. We increased

rates on deposits in response to increases in market interest rates. The average balance of certificates of deposit increased slightly, by $11.9 million, or less than 1%, to $5.36 billion for the fiscal year ended September 30, 2006 from $5.35 billion for the fiscal year ended September 30, 2005.

Interest expense on NOW accounts increased $26.0 million, or 100.0%, to $52.1 million for the fiscal year ended September 30, 2006 from $26.0 million for the fiscal year ended September 30, 2005. The increase was caused by a 152 basis point increase in the rate we paid on NOW accounts to 3.55% for the fiscal year ended September 30, 2006 from 2.03% for the fiscal year ended September 30, 2005. We increased rates on deposits in response to increases in market interest rates. In addition, the average balance of NOW accounts increased $182.4 million, or 14.2%, to $1.5 billion for the fiscal year ended September 30, 2006 from $1.3 billion for the fiscal year ended September 30, 2005. The increase in NOW accounts reflects our customers seeking higher interest-paying deposit products during a period of rising market interest rates. The increase also reflects our continued focus on high-yield checking accounts, since we believe this type of deposit reprices in a manner similar to our equity loan products, and therefore assist us in managing interest rate risk.

Interest expense on Federal Home Loan Bank advances increased $8.7 million, or 163.7%, to $13.9 million for the fiscal year ended September 30, 2006 from $5.3 million for the fiscal year ended September 30, 2005. The increase was caused by an increase in our average balance of Federal Home Loan Bank advances. The average balance increased $157.4 million to $341.8 million for the fiscal year ended September 30, 2006 from $184.4 million for the fiscal year ended September 30, 2005. At various points during the fiscal year ended September 30, 2006, we increased our Federal Home Loan Bank advances to fund loan originations. However, throughout the fiscal year ended September 30, 2006, we repaid nearly all of our Federal Home Loan Bank advances, without incurring prepayment penalties, with a portion of the proceeds of the sale of $2.2 billion of loans during the fiscal year.

Net Interest Income. Net interest income increased by $5.5 million, or 2.9%, to $196.7 million for the fiscal year ended September 30, 2006 from $191.1 million for the fiscal year ended September 30, 2005. The increase resulted solely from an increase in average net interest-earning assets ($18.7 million, or 2.5%), as our interest rate spread decreased eight basis points to 2.01% for the fiscal year ended September 30, 2006 from 2.09% for the fiscal year ended September 30, 2005, and our net interest margin decreased one basis point to 2.37% for the fiscal year ended September 30, 2006 from 2.38% for the fiscal year ended September 30, 2005. The decrease in our interest rate spread and net interest margin are consistent with the continued flattening of the U.S. Treasury yield curve. From June 30, 2004 to September 30, 2006, the Federal Reserve Board has increased its target for the federal funds rate from 1.0% to 5.25%. While these short-term market interest rates (which we use as a guide to price our deposits) have increased, longer-term market interest rates (which we use as a guide to price our longer-term loans) have not increased to the same degree. If rates on our deposits and borrowings continue to reprice upwards faster than the rates on our long-term loans and investments, we would experience further compression of our interest rate spread and net interest margin, which would have a negative effect on our profitability.

Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations in order to maintain the allowance for loan losses at a level we consider necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower s ability to repay a loan and the levels of nonperforming and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the allowance.

Based on our evaluation of the above factors, we recorded a provision for loan losses of $6.1 million for the fiscal year ended September 30, 2006 and a provision for loan losses of $6.0 million for the fiscal year ended

September 30, 2005. The provisions recorded reflected net chargeoffs of $3.9 million and $2.3 million for the fiscal years ended September 30, 2006 and 2005, respectively, as well as a reduction in the allowance of $193,000 for the fiscal year ended September 30, 2005, resulting from the spin-off of our subsidiary, Ohio Central Savings, in March 2005. The allowance for loans losses was $20.7 million, or 0.27% of total loans receivable at September 30, 2006, compared to $18.6 million, or 0.24% of total loans receivable at September 30, 2005. We increased the allowance for loan losses to reflect an increase in non-performing loans from September 30, 2005 to September 30, 2006. Nonperforming loans increased by $18.6 million to $79.7 million, or 1.05% of total loans, at September 30, 2006 from $61.1 million, or 0.78% of total loans, at September 30, 2005. The increase in nonperforming loans occurred primarily in our one- to four-family residential real estate mortgage loan portfolio, and specifically a $14.4 million increase in non-performing loans originated through our Home Today program, which was established in 2000. See Business of Third Federal Savings and Loan Association of Cleveland Non-Performing Assets and Delinquent Loans for a discussion of the asset quality of this portion of our loan portfolio. We had one impaired loan with a principal balance of $2.3 million and $2.4 million at September 30, 2006 and 2005, respectively. We used the same general methodology in assessing the allowance for both fiscal years. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for the fiscal years ended September 30, 2006 and 2005.

Non-interest Income (Loss). Non-interest income (loss) decreased $41.5 million to a loss of $6.4 million for the fiscal year ended September 30, 2006 from income of $35.1 million for the fiscal year ended September 30, 2005. The loss was caused entirely by losses of $47.1 million on loan sales for the fiscal year ended September 30, 2006, compared to $1.5 million of such losses for the fiscal year ended September 30, 2005. We sold $2.2 billion of loans during the fiscal year ended September 30, 2006, including $943.0 million of such sales during the quarter ended September 30, 2006. We sold $1.3 billion of loans during the fiscal year ended September 30, 2005. Fees and service charges increased $4.2 million, or 22.7%, to $22.6 million for the fiscal year ended September 30, 2006 from $18.4 million for the fiscal year ended September 30, 2005, reflecting increases in loan originations and in customer deposit accounts.

Non-Interest Expense. Non-interest expense decreased $693,000, or 0.6%, to $122.5 million for the fiscal year ended September 30, 2006 from $123.2 million for the fiscal year ended September 30, 2005. Salaries and employee benefits decreased $2.8 million, or 3.9%, to $68.4 million for the fiscal year ended September 30, 2006 from $71.1 million for the fiscal year ended September 30, 2005. Our continued efforts to provide operating efficiencies through our employee base decreased this expense item despite our recognizing benefits expense of $6.8 million (pre-tax) for the fiscal year ended September 30, 2006 as a result of funding our employee stock ownership plan with a $9.1 million contribution. Marketing services increased $4.4 million, or 66.8%, to $10.9 million for the fiscal year ended September 30, 2006 from $6.6 million for the fiscal year ended September 30, 2005. We increased our marketing efforts during the fiscal year ended September 30, 2006 in an effort to continue to grow our customer base.

Income Tax Expense. The provision for income taxes was $18.2 million for the fiscal year ended September 30, 2006, compared to $32.5 million for the fiscal year ended September 30, 2005, reflecting a decrease in pre-tax income between the fiscal years. Our effective tax rate was 29.4% for the fiscal year ended September 30, 2006 compared to 33.5% for the fiscal year ended September 30, 2005. Our effective tax rate is below the combined state and federal statutory rate because of our ownership of bank-owned life insurance.

Comparison of Operating Results for the Fiscal Years Ended September 30, 2005 and 2004

General. Net income increased $9.0 million, or 16.3%, to $64.5 million for the fiscal year ended September 30, 2005 from $55.5 million for the fiscal year ended September 30, 2004. An increase in interest income and a decrease in non-interest expense were partially offset by a decrease in non-interest income.

Interest Income. Interest income increased $22.9 million, or 5.8%, to $418.8 million for the fiscal year ended September 30, 2005 from $395.9 million for the fiscal year ended September 30, 2004. The increase in interest income resulted from an increase in interest income on loans.

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Interest and fee income on loans increased $27.8 million, or 7.4%, to $403.7 million for the fiscal year ended September 30, 2005 from $375.9 million for the fiscal year ended September 30, 2004. The increase resulted from increases in both the average balance of our loan portfolio as well as an increase in the average yield we earned on loans. The average balance of loans increased $186.6 million, or 2.5%, to $7.6 billion for the fiscal year ended September 30, 2005 from $7.4 billion for the fiscal year ended September 30, 2004. The average yield on our loan portfolio increased 24 basis points to 5.30% for the fiscal year ended September 30, 2005 from 5.06% for the fiscal year ended September 30, 2004, as we increased rates on newly-originated loans in response to increases in market interest rates.

Interest income on securities (investment securities and mortgage-backed securities) decreased $5.9 million, or 35.9%, to $10.5 million for the fiscal year ended September 30, 2005 from $16.4 million for the fiscal year ended September 30, 2004. The decrease in interest income on securities was caused by a significant decrease in the average balance of our securities portfolio. The average balance of investment securities decreased $124.8 million, or 57.7%, to $91.3 million for the fiscal year ended September 30, 2005 from $216.1 million for the fiscal year ended September 30, 2004, and the average balance of mortgage-backed securities decreased $85.1 million, or 31.8%, to $182.8 million for the fiscal year ended September 30, 2005 from $267.9 million for the fiscal year ended September 30, 2004. We generally used the proceeds from the repayments and prepayments of investment and mortgage-backed securities during the fiscal year ended September 30, 2005 to fund loan originations and deposit withdrawals, as we purchased no securities during the fiscal year ended September 30, 2005.

Interest Expense. Interest expense increased $1.4 million, or 0.6%, to $227.6 million for the fiscal year ended September 30, 2005 from $226.2 million for the fiscal year ended September 30, 2004. The increase in interest expense resulted from an increase in interest expense on NOW accounts, partially offset by a decrease in interest expense on certificates of deposit.

Interest expense on NOW accounts increased $5.0 million, or 23.9%, to $26.0 million for the fiscal year ended September 30, 2005 from $21.0 million for the fiscal year ended September 30, 2004. The increase was caused by a 46 basis point increase in the interest rates we paid on NOW accounts to 2.03% for the fiscal year ended September 30, 2005 from 1.57% for the fiscal year ended September 30, 2004, which offset a $55.4 million decrease in average balance of NOW accounts to $1.28 billion for the fiscal year ended September 30, 2005 from $1.34 billion for the fiscal year ended September 30, 2004. We increased rates on our NOW accounts in response to increases in market interest rates.

Interest expense on certificates of deposit decreased $3.8 million, or 1.9%, to $192.0 million for the fiscal year ended September 30, 2005 from $195.8 million for the fiscal year ended September 30, 2004. The decrease resulted from a six basis points decrease in the average rate we paid on certificates of deposit to 3.59% for the fiscal year ended September 30, 2005 compared to 3.65% for the fiscal year ended September 30, 2004, and a decrease in the average balance of certificates of deposit to $5.35 billion for the fiscal year ended September 30, 2005 from $5.37 billion for the fiscal year ended September 30, 2004. Despite increases in market interest rates, the rate we paid on certificates of deposit decreased because some long-term, high yielding certificates of deposit (with interest rates as high as 12.0%) matured during the fiscal year ended September 30, 2004 and, if renewed, were renewed at significantly lower interest rates.

Net Interest Income. Net interest income increased by $21.5 million, or 12.6%, to $191.1 million for the fiscal year ended September 30, 2005 from $169.7 million for the fiscal year ended September 30, 2004. The increase resulted from an increase in our net interest-earning assets and from an improvement in our interest rate spread and our net interest margin. Our interest rate spread increased 27 basis points to 2.09% for the fiscal year ended September 30, 2005 from 1.82% for the fiscal year ended September 30, 2004, and our net interest margin increased 28 basis points to 2.38% for the fiscal year ended September 30, 2005 from 2.10% for the fiscal year ended September 30, 2004. In addition, our net interest-earning assets increased $27.4 million, or 3.8%, to $744.9 million for the fiscal year ended September 30, 2005 from $717.5 million for the fiscal year ended September 30, 2004.

Provision for Loan Losses. We recorded a provision for loan losses of $6.0 million for the fiscal year ended September 30, 2005 and a provision for loan losses of $5.5 million for the fiscal year ended September 30, 2004. The provisions recorded reflected net chargeoffs of $2.3 million and $2.1 million for the fiscal years ended September 30, 2005 and 2004, respectively, as well as a reduction to the allowance of $193,000 for the fiscal year ended September 30, 2005, resulting from the spin-off of our subsidiary, Ohio Central Savings, in March 2005. The allowance for loans losses was $18.6 million, or 0.24% of total loans receivable at September 30, 2005, compared to $15.1 million, or 0.20% of total loans receivable at September 30, 2004. We increased the allowance for loan losses to reflect an increase in non-performing loans from September 30, 2004 to September 30, 2005. Nonperforming loans increased by $22.8 million to $61.1 million, or 0.78% of total loans, at September 30, 2005 from $38.3 million, or 0.52% of total loans, at September 30, 2004. The increase in nonperforming loans occurred primarily in our one- to four-family residential real estate mortgage loan portfolio, and specifically a $16.4 million increase in non-performing loans originated through our Home Today program, which was established in 2000. See Business of Third Federal Savings and Loan Association of Cleveland Non-Performing Assets and Delinquent Loans for a discussion of the asset quality of this portion of our loan portfolio. We had one impaired loan with a principal balance of $2.4 million at September 30, 2005 and 2004, respectively. We used the same general methodology in assessing the allowance for both fiscal years. To the best of our knowledge, we have recorded all losses that are both probable and reasonable to estimate for the fiscal years ended September 30, 2005 and 2004.

Non-interest Income. Non-interest income decreased $16.1 million, or 31.4%, to $35.1 million for the fiscal year ended September 30, 2005 from $51.1 million for the fiscal year ended September 30, 2004. We recognized a $12.2 million gain when we sold DeepGreen Bank s loan origination platform in 2004. There was no similar gain during the fiscal year ended September 30, 2005. In addition, we recognized losses of $1.5 million on loan sales for the fiscal year ended September 30, 2005, compared to $7.1 million of gains for the fiscal year ended September 30, 2004. We sold $1.3 billion of loans during the fiscal year ended September 30, 2005, compared to $1.4 billion of such sales during the fiscal year ended September 30, 2004.

Non-Interest Expense. Non-interest expense decreased $10.3 million, or 7.7%, to $123.2 million for the fiscal year ended September 30, 2005 from $133.5 million for the fiscal year ended September 30, 2004. The decrease resulted from the sale of DeepGreen Bank s loan origination platform in February 2004, as we incurred $9.2 million of non-interest expense in operating DeepGreen Bank during the fiscal year ended September 30, 2004, compared to no such expense for the fiscal year ended September 30, 2005.

Income Tax Expense. The provision for income taxes was $32.5 million for the fiscal year ended September 30, 2005, compared to $26.3 million for the fiscal year ended September 30, 2004, reflecting an increase in pre-tax income between the fiscal years. Our effective tax rate was 33.5% for the fiscal year ended September 30, 2005 compared to 32.2% for the fiscal year ended September 30, 2004. Our effective tax rate is below the combined state and federal statutory rate because of our ownership of bank-owned life insurance.

Average balances and yields. The following table sets forth average balance sheets, average yields and costs, and certain other information at and for the fiscal years indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are monthly 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 deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

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	At September 30, 2006	For the Fiscal Years Ended September 30,								
		2006			2005			2004		
	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost	Average Balance	Interest Income/ Expense	Yield/ Cost
		(Dollars in thousands)								
Interest-earning assets:										
Cash and due from banks	1.93%	$ 21,149	$ 245	1.16%	$ 17,569	$ 103	0.59%	$ 21,989	$ 135	0.61%
Federal funds sold	5.34%	11,064	579	5.23%	57,807	1,289	2.23%	77,946	787	1.01%
Investment securities	3.55%	40,370	1,516	3.76%	91,335	2,554	2.80%	216,117	5,560	2.57%
Mortgage-backed securities	5.00%	112,543	5,306	4.71%	182,803	7,975	4.36%	267,927	10,854	4.05%
Loans	6.05%	8,056,105	474,100	5.88%	7,610,658	403,717	5.30%	7,424,084	375,916	5.06%
Federal Home Loan Bank stock	5.75%	70,739	4,058	5.74%	67,516	3,119	4.62%	65,089	2,644	4.06%
Total interest-earning assets	6.01%	8,311,970	485,804	5.84%	8,027,688	418,757	5.22%	8,073,152	395,896	4.90%
Noninterest-earning assets		388,936			357,302			345,256		
Total assets		$ 8,700,906			$ 8,384,990			$ 8,418,408		
Interest-bearing liabilities:										
NOW accounts	4.17%	$ 1,465,382	52,051	3.55%	$ 1,283,029	26,030	2.03%	$ 1,338,470	21,012	1.57%
Passbook savings	0.93%	380,876	3,545	0.93%	467,025	4,326	0.93%	489,689	4,693	0.96%
Certificates of deposit	4.56%	5,360,232	219,595	4.10%	5,348,296	191,975	3.59%	5,367,486	195,780	3.65%
Federal Home Loan Bank advances	4.99%	341,759	13,946	4.08%	184,358	5,289	2.87%	159,976	4,730	2.96%
Total interest-bearing liabilities	4.31%	7,548,249	289,137	3.83%	7,282,708	227,620	3.13%	7,355,621	226,215	3.08%
Noninterest-bearing liabilities		150,480			158,473			180,812		
Total liabilities		7,698,729			7,441,181			7,536,433		
Shareholder s equity		1,002,177			943,809			881,975		
Total liabilities and shareholder s equity		$ 8,700,906			$ 8,384,990			$ 8,418,408		
Net interest income			$ 196,667			$ 191,137			$ 169,681	
Interest rate spread (1)				2.01%			2.09%			1.82%
		$ 763,721			$ 744,980			$ 717,531		

Net interest-earning assets (2)			
Net interest margin (3)	2.37%	2.38%	2.10%
Average interest-earning assets to average interest-bearing liabilities	110.12%	110.23%	109.75%

(1) 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 total interest-earning assets.

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Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the fiscal 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 net 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.

	For the Fiscal Years Ended September 30, 2006 vs. 2005			For the Fiscal Years Ended September 30, 2005 vs. 2004		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest-earning assets:						
Cash and due from banks	$ 25	$ 117	$ 142	$ (26)	$ (6)	$ (32)
Federal funds sold	1,067	(1,777)	(710)	(137)	639	502
Investment securities	(2,693)	1,655	(1,038)	(3,539)	533	(3,006)
Mortgage-backed securities	(3,378)	709	(2,669)	(3,798)	919	(2,879)
Loans	24,530	45,853	70,383	9,603	18,198	27,801
Federal Home Loan Bank stock	155	784	939	101	374	475
Total interest-earning assets	19,706	47,341	67,047	2,204	20,657	22,861
Interest-bearing liabilities:						
NOW accounts	4,142	21,879	26,021	(828)	5,846	5,018
Passbook savings	(802)	21	(781)	(213)	(154)	(367)
Certificates of deposit	429	27,191	27,620	(698)	(3,107)	(3,805)
Federal Home Loan Bank advances	5,792	2,865	8,657	694	(135)	559
Total interest-bearing liabilities	9,561	51,956	61,517	(1,045)	2,450	1,405
Net change in interest income	$ 10,145	$ (4,615)	$ 5,530	$ 3,249	$ 18,207	$ 21,456

Management of Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk is interest rate risk. 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, 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.

We have sought to manage our interest rate risk in order to control the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we currently use the following strategies to manage our interest rate risk:

(i) securitizing and selling long-term, fixed-rate one- to four-family residential real estate mortgage loans;

(ii) actively marketing adjustable-rate loans, with a focus on home equity lines of credit;

(iii) lengthening the weighted average remaining term of major funding sources, primarily by offering attractive interest rates on deposit products;

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(iv) investing in shorter- to medium-term securities; and

(v) maintaining high levels of capital.

We sold $2.2 billion of loans during the fiscal year ended September 30, 2006, including $943.0 million of such sales during the quarter ended September 30, 2006. All of the loans sold during the quarter ended September 30, 2006, were long-term, fixed-rate loans. We effected these sales to improve our interest rate risk position in the event of continued increases in market interest rates.

Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term loans, as well as loans with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. By following these strategies, we believe that we are better-positioned to react to continued increases in market interest rates.

Net Portfolio Value. The Office of Thrift Supervision requires the computation of amounts by which the net present value of an institution s cash flow from assets, liabilities and off balance sheet items (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 an interest rate sensitivity report of net portfolio value. The Office of Thrift Supervision simulation model uses a discounted cash flow analysis and an option-based pricing approach to measuring 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 under the assumption that the United States Treasury yield curve increases or decreases instantaneously by 100 to 300 basis points in 100 basis point increments. However, given the current relatively low level of market interest rates, an NPV calculation for an interest rate decrease of greater than 200 basis points has not been prepared. 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. 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 September 30, 2006, 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 United States Treasury 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 (basis points) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NPV Ratio (4)	Increase (Decrease) (basis points)
	(Dollars in thousands)				
+300	$ 641,624	$ (431,658)	(40)%	7.94%	(434)
+200	803,967	(269,315)	(25)	9.67	(261)
+100	957,243	(116,039)	(11)	11.21	(108)
	1,073,282			12.28	
-100	1,126,459	53,177	5	12.70	41
-200	1,116,126	42,844	4	12.47	19

(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.

The table above indicates that at September 30, 2006, in the event of a 200 basis point increase in interest rates, we would experience a 25% decrease in net portfolio value. In the event of a 100 basis point decrease in interest rates, we would experience a 5% increase in net portfolio value.

Beginning with the quarter ended September 30, 2006, the Office of Thrift Supervision changed its underlying assumptions in calculating the effects of changes in interest rates on net portfolio value. As a result of these changes, the Office of Thrift Supervision s current calculations presented in the table above indicate that we would be less sensitive to changes in interest rates than indicated by our own internal calculations. 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 United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV		NPV as a Percentage of Present Value of Assets (3)	
		Amount	Percent	NPV Ratio (4)	Increase (Decrease) (basis points)
		(Dollars in thousands)			
+300	$ 611,912	$ (519,543)	(46)%	7.63%	(530)
+200	776,636	(354,819)	(31)	9.41	(352)
+100	953,469	(177,986)	(16)	11.22	(171)
	1,131,455			12.93	
-100	1,255,054	123,599	11	14.02	109
-200	1,218,649	87,194	8	13.54	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.

Net Interest Income. In addition to NPV calculations, we analyze our sensitivity to changes in interest rates through our internal net interest income model. 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 we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for a twelve-month period using Office of Thrift Supervision Pricing Tables for assumptions such as loan prepayment rates and deposit decay rates, and the Bloomberg forward yield curve for assumptions as to projected interest rates. We then calculate what the net interest income would be for the same period in the event of an instantaneous 200 basis point increase in market interest rates. As of September 30, 2006, we estimated that our net interest income for the twelve months ending September 30, 2007 would decrease by 10% in the event of an instantaneous 200 basis point increase in market interest rates.

Certain shortcomings are inherent in the methodologies used in determining interest rate risk through changes in net interest income. Modeling changes in net interest income 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 interest rate risk information presented assumes 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 assumes 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 interest rate risk calculations 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.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan sales and securitizations, loan repayments, advances from the Federal Home Loan Bank of Cincinnati, and maturities and sales of securities. In addition, we have the ability to collateralize borrowings in the wholesale markets. 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. Our Asset/Liability Management Committee 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 seek to maintain a liquidity ratio of 2% or greater. For the fiscal year ended September 30, 2006, our liquidity ratio averaged 2.4%. We believe that we have enough sources of liquidity to satisfy our short- and long-term liquidity needs as of September 30, 2006. We anticipate that we will maintain higher liquidity levels following the completion of the stock offering.

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

(i) expected loan demand;

(ii) expected deposit flows;

(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- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At September 30, 2006, cash and cash equivalents totaled $252.9 million. Because we originate a significant amount of loans that qualify for sale in the secondary market, our loans held for sale represent highly liquid assets. At September 30, 2006, we had $315.0 million of loans classified as held for sale. During the fiscal year ended September 30, 2006, we sold $2.2 billion of long-term, fixed rate loans. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $63.7 million at September 30, 2006. On that date, we had $25.1 million in advances outstanding.

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 September 30, 2006, we had $354.1 million in loan commitments outstanding. In addition to commitments to originate loans, we had $1.9 billion in unused lines of credit to borrowers. Certificates of deposit due within one year of September 30, 2006 totaled $2.7 billion, or 35.9% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, other deposit products, including certificates of deposit, and Federal Home Loan Bank advances. Depending on market

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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 September 30, 2007. 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 residential mortgage loans. During the fiscal year ended September 30, 2006, we originated $2.7 billion of loans, and during the fiscal year ended September 30, 2005, we originated $3.0 billion of loans. We purchased no securities during the fiscal year ended September 30, 2006, and purchased $59.0 million of securities during the fiscal year ended September 30, 2005.

Financing activities consist primarily of activity in deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of $346.8 million for the fiscal year ended September 30, 2006 compared to a net decrease of $200.2 million for the fiscal year ended September 30, 2005. 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 Cincinnati, which provide an additional source of funds. Federal Home Loan Bank advances decreased by $692.3 million for the fiscal year ended September 30, 2006, compared to a net increase of $503.1 million during the fiscal year ended September 30, 2005. Federal Home Loan Bank advances have primarily been used to fund loan demand. However, we used a portion of the proceeds from our loan sales during the fiscal year ended September 30, 2006 to repay almost all of our outstanding Federal Home Loan Bank advances. At September 30, 2006, we had the ability to borrow approximately $2.6 billion from the Federal Home Loan Bank of Cincinnati.

Third Federal Savings and Loan 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 September 30, 2006, Third Federal Savings and Loan exceeded all regulatory capital requirements. Third Federal Savings and Loan is considered well capitalized under regulatory guidelines. See Supervision and Regulation Federal Banking Regulation Capital Requirements and Note 4 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 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 routinely enter into commitments to securitize and sell mortgage loans. For additional information, see Note 15 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.

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The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2006. 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	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**More than Five Years**	**Total**
	(In thousands)				
Long-term debt (1)(2)	$ 103	$ 25,000	$	$	$ 25,103
Operating leases	3,664	5,817	3,327	4,772	17,580
Purchase obligations	750	375			1,125
Certificates of deposit (2)	2,645,909	2,104,359	618,100	92,347	5,460,715
Private equity investments	18,991				18,991
Other long-term liabilities					
Total	$ 2,669,417	$ 2,135,551	$ 621,427	$ 97,119	$ 5,523,514
Commitments to extend credit	$ 2,351,786(3)	$ 8,510	$	$	$ 2,360,296

(1) Reflects Federal Home Loan Bank of Cincinnati advances.
(2) Includes accrued interest payable at September 30, 2006.
(3) Includes the unused portion of home equity lines of credit of $1.9 billion.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB statements No. 87, 88, 106 and 123R) (SFAS 158). SFAS 158 requires an employer to: (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The requirement by SFAS 158 to recognize the funded status of a benefit plan and disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006 for entities with publicly traded securities. We implemented these requirements effective September 30, 2006, in light of our adopting the stock issuance plan. The effect of this implementation is included in a table in Note 14 of the Notes to the Financial Statements. We have always measured the plan assets and benefit obligations of the plan as of fiscal year end. Therefore, there was no effect on our consolidated financial condition, results of operations or cash flows for adopting the measurement date requirement.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS 157, guidance for applying fair value was incorporated in several pronouncements. SFAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the fair value measure of assets and liabilities. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. While SFAS 157 does not add any new fair value measurements, it does change current practice. Changes to current practice include: (1) a requirement for an entity to include its own credit rating in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction if the restriction lapses within one year. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods

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within those fiscal years. We have not determined the effect of adopting SFAS 157 on our consolidated financial condition, results of operations or cash flows.

In September 2006, the FASB ratified Emerging Issues Task Force Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). An endorsement split-dollar arrangement is an arrangement whereby an employer owns a life insurance policy that covers the life of an employee and using a separate agreement endorses a portion of the policy death benefit to the insured employee s beneficiary. EITF 06-4 applies only to those endorsement split-dollar arrangements that provide a death benefit postretirement. This requirement is effective for fiscal years beginning after December 15, 2007. We maintain endorsement split-dollar life arrangements for certain key officers. These arrangements do not provide a death benefit postretirement and therefore we do not expect the adoption of EITF 06-4 to have a material effect on our consolidated financial condition, results of operations or cash flows.

In September 2006, the FASB ratified Emerging Issues Task Force Issue No. 06-5, Accounting for Purchases of Life Insurance-Determining the Amount That Could be Realized in Accordance With FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance (EITF 06-5). EITF 06-5 addresses the diversity in practice of the calculation of the amount that can be realized for life insurance contract. EITF 06-5 requires a policyholder to consider any additional amounts, such as Claims Stabilization Reserve, Deferred Acquisition Costs Tax Receivable and Waiver of Surrender Charges, in determining the amount that could be realized under the insurance contract as an asset. EITF 06-5 also concluded that the realized amount should be determined on an individual policy level and should not take into account amounts that are solely realizable if all the individual policies are surrendered at the same time. This requirement is effective for fiscal years beginning after December 15, 2006. Our current policies do not contain the features in question and therefore we do not expect the adoption of EITF 06-5 to have a material effect on our consolidated financial condition, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of a company s financial statements and the related financial statement disclosures. This model is commonly referred to as a dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods. SAB 108 permits initial adoption of its provisions either by (i) restating prior financial statements as if the dual approach had always been applied; or (ii) recording the cumulative effect of initially applying the dual approach as adjustments to the carrying values of assets and liabilities as of the date of adoption with an offsetting adjustment recorded to the opening balance of retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006, with earlier application encouraged for any interim period of the first fiscal year ending after November 15, 2006, filed after the publication of SAB 108 (September 13, 2006). We are currently evaluating the potential impact, if any, that the adoption of SAB 108 will have on our consolidated financial condition, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of SFAS No. 109 (FIN 48), which clarifies the accounting for uncertainty in tax positions. We will be required to recognize the impact of a tax position if it is more likely than not that it will be sustained upon examination, based upon the technical merits of the position. The effective date for application of FIN 48 is for fiscal years beginning after December 15, 2006. The cumulative effect of applying the provisions of this interpretation must be reported as an adjustment to the opening balance of retained earnings for that fiscal period. We are currently evaluating the effect this interpretation will have on our consolidated financial condition, results of operations and cash flows.

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In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets: an amendment of SFAS No. 140 (SFAS 156). This statement requires all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, this statement permits us to choose either to report servicing assets and liabilities at fair value or at amortized cost. Under the fair value approach, servicing assets and liabilities are recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. Adoption of this statement is required for fiscal years beginning after September 15, 2006. Upon adoption, we will apply the requirements for recognition and initial measurement of servicing assets and liabilities prospectively to all transactions. We will adopt SFAS 156 for the fiscal year beginning October 1, 2006, and currently have not determined if we will adopt SFAS 156 using the fair value approach.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155), which amends Statement No. 133 to simplify the accounting for certain derivatives embedded in other financial instruments (hybrid financial instruments) by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise required bifurcation, provided that the entire hybrid financial instrument is accounted for on a fair value basis. SFAS 155 also establishes the requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, which replaces the interim guidance in Derivative Instrument Group Issue D1, Recognition and Measurement of Derivatives: Application of Statement No. 133 to Beneficial Interests in Securitized Financial Assets. SFAS 155 amends SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities a replacement of FASB Statement No. 125 (SFAS 140), to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006, with earlier adoption allowed. We do not expect the adoption of SFAS 155 to have a material effect on our consolidated financial condition, results of operations or cash flows.

In November 2005, the FASB authorized the issuance of FASB Staff Position FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application of Certain Investments (FSP FAS 115-1). FSP FAS 115-1 replaces and codifies guidance previously provided by the Emerging Issues Task Force. The FSP FAS 115-1 provides guidance to clarify when an investment impairment has occurred, to evaluate whether that impairment is other-than-temporary, on accounting for investments subsequent to the other-than-temporary, and on appropriate disclosure for investments in an unrealized loss position. The guidance in the FSP FAS 115-1 shall be applied to reporting periods beginning after December 15, 2005. We implemented the requirements of FSP FAS 115-1 on October 1, 2006, and do not expect it to have a material effect on our consolidated financial condition, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections-a replacement of APB Opinion No. 20 and SFAS No. 3 (SFAS 154). SFAS 154 replaces APB Opinion No. 20, Accounting Changes, and Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect the impact of this new pronouncement to be material to our consolidated financial condition, results of operations or cash flows.

Impact of Inflation and Changing Prices

Our consolidated financial statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration for changes in the relative purchasing power of money over time due to inflation.

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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 TFS FINANCIAL CORPORATION

We were organized in 1997 as the mid-tier stock holding company for Third Federal Savings and Loan, and our ownership of Third Federal Savings and Loan is currently our primary business activity. We also operate Third Capital, Inc. as a wholly-owned subsidiary. We will contribute at least 50% of the net proceeds from the stock offering to Third Federal Savings and Loan as additional capital. We will lend a portion of the net proceeds that we retain to the employee stock ownership plan to fund its purchase of our common stock in the stock offering. We intend to invest our capital as discussed in How We Intend to Use the Proceeds from the Stock Offering.

As the holding company of Third Federal Savings and Loan, we are authorized to pursue other business activities permitted by applicable laws and regulations for mutual savings and loan holding companies, which include making equity investments and the acquisition of banking and financial services companies. We have no plans for any mergers or acquisitions at the present time.

Our cash flow will depend primarily on earnings from the investment of the net proceeds we retain, and any dividends we receive from Third Federal Savings and Loan and Third Capital, Inc. The majority of our officers are also officers of Third Federal Savings and Loan. In addition, we use the support staff of Third Federal Savings and Loan from time to time. We may hire additional employees, as appropriate, to the extent we expand our business in the future.

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BUSINESS OF THIRD CAPITAL, INC.

Third Capital, Inc. is a Delaware corporation that was organized in 1998 as a wholly-owned subsidiary of TFS Financial Corporation. At September 30, 2006, Third Capital, Inc. had consolidated assets of $63.1 million, and for the fiscal year ended September 30, 2006, Third Capital, Inc. had consolidated income of $2.4 million. Third Capital, Inc. has no separate operations other than as the holding company for operating subsidiaries, and as a minority investor or partner in other entities. The following is a description of the entities in which Third Capital, Inc. is the owner, an investor or a partner. In addition to the entities described below, Third Capital, Inc. also owns Third Capital Mortgage, Inc., which is an inactive subsidiary that has no assets. Third Capital, Inc. also invests in private equity funds. TFS Financial Corporation does not intend to contribute any of the net proceeds from the stock offering to Third Capital, Inc. or its subsidiaries.

Hazelmere Investment Group I, Ltd. and Hazelmere of California Limited Partnership. These entities engage in net lease transactions of commercial buildings in targeted United States markets. Third Capital, Inc. is a partner in these entities, receives a preferred return on amounts contributed to acquire investment properties and has a 70% ownership interest in remaining earnings. James Gascoigne, a director of TFS Financial Corporation, indirectly owns or controls the majority of the remaining 30% ownership interest of these entities. For the fiscal year ended September 30, 2006, the Hazelmere entities had combined income of $1.7 million.

Third Cap Associates, Inc. This corporation maintains minority investments in private equity funds, and also owns between 49% and 60% of three title agencies that provide escrow and settlement services in the State of Ohio, primarily to customers of Third Federal Savings and Loan. For the fiscal year ended September 30, 2006, Third Cap Associates, Inc. had an operating loss of $86,000.

Third Capital Mortgage Insurance Company. This Vermont corporation engages in the reinsurance of private mortgage insurance on residential mortgage loans originated by Third Federal Savings and Loan. For the fiscal year ended September 30, 2006, Third Capital Mortgage Insurance Company had income of $938,000.

BUSINESS OF THIRD FEDERAL SAVINGS AND LOAN ASSOCIATION OF CLEVELAND

General

We are a federally chartered savings and loan association headquartered in Cleveland, Ohio that was organized in 1938. In May 1997, we reorganized into the two-tier mutual holding company structure. Our principal business consists of originating one- to four-family residential real estate mortgage loans and home equity loans and lines of credit from our main office in Cleveland, Ohio, our 40 branch offices located in Ohio and Florida and from our eight loan production offices located in Ohio.

From 1938 until 1999, our operations were primarily focused on markets in Ohio. In 1999, we determined that many of our Ohio customers were establishing permanent or part-time residences in certain areas in Florida. As a result, we evaluated the potential benefits of opening offices in these Florida markets. Upon determining that our business strategy could be successful in Florida, we decided to expand into that state. During the past seven years, we have opened a total of 14 full-service banking offices in Florida and have $1.3 billion in loans and $2.5 billion in deposits in these Florida markets, representing approximately 17.1% and 34.2% of our total loans and deposits, respectively, at September 30, 2006.

Our business strategy is to originate mortgage loans with interest rates that are competitive with those of similar products offered by other financial institutions in our markets. Similarly, we offer high-yield checking accounts bearing interest rates that are competitive with similar products offered by other financial institutions in our markets. We intend to continue to pursue this business philosophy following the stock offering. While this strategy does not enable us to earn the highest rates of interest on loans we offer or pay the lowest rates on our deposit accounts, we believe it is the primary reason we have grown our assets to $8.6 billion at September 30, 2006, and we plan to continue to pursue this business strategy following the stock offering.

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We attract retail deposits from the general public in the areas surrounding our main office and our branch offices. We also utilize our internet website and our telephone call center to generate loan applications and attract retail deposits. In addition to one- to four-family residential real estate mortgage loans and home equity loans and lines of credit, we also originate residential construction loans. We retain in our portfolio the majority of the loans that we originate. Loans that we sell consist primarily of long-term, fixed-rate residential real estate mortgage loans. We retain the servicing rights on all loans that we sell. We have not entered into loan participations in recent years. Our revenues are derived primarily from interest on loans and, to a much lesser extent, interest on investment securities and mortgage-backed securities. We also generate revenues from fees and service charges. Our primary sources of funds are deposits, borrowings and principal and interest payments on loans and securities.

Our website address is www.thirdfederal.com. Information on our website is not and should not be considered a part of this prospectus.

Market Area

Third Federal Savings and Loan conducts its operations from its main office in Cleveland, Ohio, and from 40 full-service branches and eight loan production offices located throughout the states of Ohio and Florida. In Ohio, our 26 full-service offices are located in the northeast Ohio counties of Cuyahoga, Lake, Lorain, Medina and Summit, four loan production offices are located in the central Ohio county of Franklin (Columbus, Ohio) and four loan production offices are located in the southern Ohio county of Hamilton (Cincinnati, Ohio). In Florida, our 14 full-service branches are located in the counties of Pasco, Pinellas, Hillsboro, Sarasota, Lee, Collier, Miami-Dade and Palm Beach.

We have conducted business in northeast Ohio since 1938. In early 1999, we expanded beyond northeast Ohio by opening our eight loan production offices in central and southern Ohio. In 2005, Ohio had a total population of 11.2 million people. Twenty-five percent of the population is under 18 years, and 13% is 65 years and older. There are 4.5 million households in Ohio. The average household size is 2.5 persons. Ohio has 5.0 million housing units, and 19% of them were built since 1990. The median household income in the State of Ohio is $43,000.

In late 1999 and early 2000, we expanded to the state of Florida by opening 14 full-service branches. In 2005, Florida had a total population of 17.4 million people. Twenty-three percent of the population is under 18 years, and 17% is 65 years and older. There are 7.0 million households in Florida. The average household size is 2.5 persons. Florida has 8.3 million housing units, and 31% of them were built since 1990. The median household income in the State of Florida is $42,000.

Competition

We face intense competition in our market areas both in making loans and attracting deposits. Our market areas have a high concentration of financial institutions, including large money center and regional banks, community banks and credit unions. We face additional competition for deposits from money market funds, brokerage firms, mutual funds and insurance companies. Some of our competitors offer products and services that we currently do not offer, such as commercial business loans, trust services and private banking.

The majority of our deposits are held in our offices located in Cuyahoga County, Ohio. As of June 30, 2006 (the latest date for which information is publicly available), we had $3.8 billion of deposits in Cuyahoga County, and we ranked fourth among all financial institutions with offices in the county in terms of deposits, with a market share of 7.57%. As of that date, we had $4.8 billion of deposits in the State of Ohio, and we ranked 10th among all financial institutions in the state in terms of deposits, with a market share of 2.36%. As of June 30, 2006, we had $2.5 billion of deposits in the State of Florida, and we ranked 22nd among all financial institutions in the State of Florida in terms of deposits, with a market share of 0.69%.

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From January 2006 through August 2006, we had the largest market share of conventional purchase mortgage loans originated in Cuyahoga County, Ohio. For the same period, we also had the largest market share of conventional purchase mortgage loans originated in each of the seven northeast Ohio counties. In addition, based on the same statistic, we have consistently been one of the five largest lenders in Franklin County (Columbus, Ohio) and Hamilton County (Cincinnati, Ohio) since we entered those markets in 1999.

Our primary strategy for increasing and retaining our customer base is to offer competitive deposit and loan rates and other product features, delivered with exceptional customer service, in each of the markets we serve.

Lending Activities

Our principal lending activity is the origination of first mortgage loans to purchase or refinance one- to four-family residential real estate. Our current policies generally provide that we will maintain between 40% and 70% of our assets in fixed-rate, one- to four-family residential real estate mortgage loans and up to 20% of our assets in adjustable-rate, one- to four-family residential real estate mortgage loans, subject to our liquidity levels and the credit demand of our customers. We also originate a significant amount of home equity loans and home equity lines of credit, and, to a lesser extent, residential construction loans. At September 30, 2006, one- to four-family residential real estate mortgage loans totaled $5.6 billion, or 73.2% of our loan portfolio, home equity loans and lines of credit totaled $1.8 billion, or 23.7% of our loan portfolio, and residential construction loans totaled $207.6 million, or 2.7% of our loan portfolio.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale.

	At September 30,									
	2006		2005		2004		2003		2002	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Real estate loans:										
One- to four-family residential	$ 5,563,782	73.2%	$ 5,507,669	70.7%	$ 4,767,529	64.5%	$ 4,398,922	64.9%	$ 4,080,484	72.5%
Home equity loans and lines of credit (1)	1,803,900	23.7	1,965,604	25.2	2,301,777	31.1	2,091,660	30.8	1,318,285	23.4
Construction	207,634	2.7	270,136	3.5	236,681	3.2	208,175	3.1	170,229	3.0
Commercial	2,335	0.0	2,383	0.0	3,354	0.0	5,333	0.1	3,151	0.1
Consumer loans:										
Automobile	15,676	0.2	33,410	0.4	70,647	1.0	65,732	1.0	42,970	0.8
Other	12,793	0.2	10,847	0.2	11,243	0.2	10,805	0.1	12,002	0.2
Total loans receivable	$ 7,606,120	100.0%	$ 7,790,049	100.0%	$ 7,391,231	100.0%	$ 6,780,627	100.0%	$ 5,627,121	100.0%
Deferred loan costs (fees)	(18,698)		(22,783)		(16,602)		(18,894)		(33,445)	
Loans in process	(89,676)		(127,944)		(114,413)		(106,909)		(75,603)	
Allowance for loan losses	(20,705)		(18,601)		(15,080)		(11,932)		(10,367)	
Total loans receivable, net	$ 7,477,041		$ 7,620,721		$ 7,245,136		$ 6,642,892		$ 5,507,706	

(1) Includes bridge loans.

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Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2006. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in the fiscal year ending September 30, 2007. Maturities are based on the final contractual payment date and do not reflect the impact of prepayments and scheduled principal amortization.

Due During the Years Ending September 30,	One- to Four-Family Residential Real Estate Loans	Home Equity Loans and Lines of Credit (1)	Construction Loans	Commercial Real Estate Loans	Automobile Loans	Other Consumer Loans	Total
				(In thousands)			
2007	$ 6,920	$ 94,978	$ 36,085	$	$ 1,926	$ 12,126	$ 152,035
2008	15,795	7,854	30,539		6,279		60,467
2009	19,188	2,715			6,240		28,143
2010 to 2011	27,918	30,467			1,231		59,616
2012 to 2016	267,345	88,552				667	356,564
2017 to 2021	1,016,904	219,272	9,495				1,245,671
2021 and beyond	4,209,712	1,360,062	131,515	2,335			5,703,624
Total	$ 5,563,782	$ 1,803,900	$ 207,634	$ 2,335	$ 15,676	$ 12,793	$ 7,606,120

(1) Includes bridge loans.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2006 that are contractually due after September 30, 2007.

	Due After September 30, 2007		
	Fixed	Adjustable	Total
		(In thousands)	
Real estate loans:			
One- to four-family residential	$ 4,896,441	$ 660,421	$ 5,556,862
Home equity loans and lines of credit (1)	168,753	1,540,169	1,708,922
Construction	129,894	41,655	171,549
Commercial	2,335		2,335
Consumer loans:			
Automobile	13,750		13,750
Other	667		667
Total	$ 5,211,840	$ 2,242,245	$ 7,454,085

(1) Includes bridge loans.

One- to Four-Family Residential Real Estate Mortgage Loans. Our primary lending activity is the origination of one- to four-family residential real estate mortgage loans. At September 30, 2006, $5.6 billion, or 73.2% of our total loan portfolio, consisted of one- to four-family residential real estate mortgage loans. We offer conforming and non-conforming, fixed-rate and adjustable-rate residential real estate mortgage loans with maturities of up to 30 years and maximum loan amounts generally of up to $2.0 million, although a substantial majority of our residential real estate mortgage loans are in amounts of $650,000 or less.

We currently offer fixed-rate conventional mortgage loans with terms of up to 30 years that are fully amortizing with monthly loan payments, and adjustable-rate mortgage loans that provide an initial fixed interest rate for one, three, five or seven years and that amortize over a period up to 30 years. We originate fixed-rate mortgage loans with terms of less than 15 years, but at rates applicable to our 15-year loans. We also offer interest only loans, where the borrower pays interest for an initial period (one, three or five years), after which

the loan converts to a fully amortizing loan. Our Lowest Rate Guarantee program provides that, subject to the terms and conditions of the guarantee program, if a loan applicant finds a lower fixed interest rate on a one- to four-family residential real estate mortgage loan than the rate we offer, we will offer a lower rate or, after the applicant closes a loan with another lender at the lower interest rate, we will give the loan applicant $1,000.

One- to four-family residential real estate mortgage loans are generally underwritten according to Fannie Mae 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 $417,000 for single-family homes. We also originate loans above the lending limit for conforming loans, which we refer to as jumbo loans. We generally underwrite jumbo loans in a manner similar to conforming loans. These loans are generally eligible for sale to various firms that specialize in purchasing non-conforming loans. Jumbo loans are not uncommon in our market areas.

Through our Home Today program, we originate loans with our standard terms to borrowers who might not otherwise qualify for such loans. To qualify for our Home Today program, a borrower must complete financial management education and counseling and must be referred to us by a sponsoring organization with whom we have partnered as part of the program. We will originate loans with a loan-to-value ratio of up to 97% through our Home Today program. Any loan originated through this program with a loan-to-value ratio in excess of 80% requires private mortgage insurance. Because we apply less stringent underwriting and credit standards to these loans, loans originated under the Home Today program have greater credit risk than traditional one- to four-family residential real estate mortgage loans. As of September 30, 2006, we had $285.2 million of loans outstanding that were originated through our Home Today program. See Non-performing and Problem Assets Delinquent Loans for a discussion of the asset quality of this portion of our loan portfolio.

We will also originate loans under our High LTV program. These loans have loan-to-value ratios of 90% or greater, up to and including a 97% loan-to-value ratio. To qualify for this program, the loan applicant must satisfy more stringent underwriting criteria (credit score, income qualification, and other criteria). Borrowers do not obtain private mortgage insurance with respect to these loans. High LTV loans are originated with higher interest rates than our other one- to four-family residential real estate loans. The higher credit quality of this portion of our portfolio offsets the risk of not requiring private mortgage insurance. As of September 30, 2006, we had $127.2 million of loans outstanding that we originated through our High LTV program, $54.2 million of which we have insured through a mortgage insurance carrier.

For loans with loan-to-value ratios in excess of 80% but lower than 90%, we require either private mortgage insurance or a higher interest rate. For loans with loan-to-value ratios of 90% that are not our High LTV loans, we require private mortgage insurance.

We actively monitor our interest rate risk position to determine the desirable level of investment in fixed-rate mortgages. Depending on market interest rates and our capital and liquidity position, we may retain all of our newly originated longer-term fixed-rate residential mortgage loans, we may sell all or a portion of such loans in the secondary mortgage market to government sponsored entities such as Fannie Mae or other purchasers, or we may securitize such loans by selling the loans in exchange for mortgage-backed securities. These securities can be sold more readily to meet our liquidity or interest rate risk management needs, and have a lower risk-weight than the underlying loans, which lowers our regulatory capital requirements. Almost all of the loans that we securitize are fixed-rate mortgage loans.

During periods of low market interest rates, we may sell all of our newly originated fixed-rate residential real estate mortgage loans. We currently retain the servicing rights on all loans sold to generate fee income and reinforce our commitment to customer service. For the fiscal year ended September 30, 2006, we received servicing fees of $22.6 million. As of September 30, 2006, the principal balance of loans serviced for others totaled $6.7 billion.

We currently offer several adjustable-rate mortgage loans secured by residential properties with interest rates that are fixed for an initial period ranging from one year to seven years. We offer adjustable-rate mortgage loans that are fully-amortizing, including interest-only loans that provide for the repayment of interest, and not principal, during an initial period. After the initial fixed period, the interest rate on adjustable-rate mortgage loans is generally reset every year based upon a contractual spread or margin above the average yield on U.S. Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board, subject to periodic and lifetime limitations on interest rate changes. All of our interest-only loans and our traditional adjustable-rate mortgage loans with initial fixed-rate periods of one, three and five years have initial and periodic caps of two percentage points on interest rate changes, with a cap of six percentage points for the life of the loan. Our traditional adjustable-rate mortgage loans with an initial fixed-rate period of seven years have an initial cap of five percentage points on the changes in interest rate, with a two percentage points cap on subsequent changes and a cap of five percentage points for the life of the loan. Many of the borrowers who select these loans have shorter-term credit needs than those who select long-term, fixed-rate mortgage loans. We will permit borrowers to convert adjustable-rate mortgage loans into fixed-rate mortgage loans at no cost to the borrower. We do not offer Option ARM loans, where borrowers can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan.

Adjustable-rate mortgage loans generally present different credit risks than fixed-rate mortgage loans primarily because the underlying debt service payments of the borrowers increase as interest rates increase, thereby increasing the potential for default. Interest-only loans present different credit risks than fully amortizing loans, as the principal balance of the loan does not decrease during the interest-only period. As a result, our exposure to loss of principal in the event of default does not decrease during this period.

We require title insurance on all of our one- to four-family residential real estate mortgage loans, and we also require that borrowers maintain fire and extended coverage casualty insurance (and, if appropriate, flood insurance) in an amount at least equal to the lesser of the loan balance or the replacement cost of the improvements. A majority of our residential real estate mortgage loans have a mortgage escrow account from which disbursements are made for real estate taxes and flood insurance. We do not conduct environmental testing on residential real estate mortgage loans unless specific concerns for hazards are identified by the appraiser used in connection with the origination of the loan.

Home Equity Loans and Home Equity Lines of Credit. We also offer home equity loans and home equity lines of credit, which are primarily secured by a second mortgage on one- to four-family residences. We recently introduced a home equity lending product that is secured by a third mortgage; we only originate this loan to borrowers where we also hold the second mortgage. At September 30, 2006, home equity loans totaled $263.8 million, or 3.5% of total loans receivable, and home equity lines of credit totaled $1.5 billion, or 20.3% of total loans receivable. Of these amounts, $546.3 million of home equity loans and home equity lines of credit were originated by DeepGreen Bank. Additionally, at September 30, 2006, the unadvanced amounts of home equity lines of credit totaled $1.9 billion. Our home equity lending products include bridge loans, where a borrower can utilize the existing equity in their current home to fund the purchase of a new home before they have sold their current home. As of September 30, 2006, bridge loans totaled $101.7 million, or 1.3% of total loans receivable, which is included in the total for home equity loans, above.

The underwriting standards for home equity loans and home equity lines of credit include a determination of the applicant s credit history, an assessment of the applicant s ability to meet existing obligations and payments on the proposed loan and the value of the collateral securing the loan. The combined loan-to-value ratio (first and second mortgage liens) for home equity loans and home equity lines of credit is generally limited to 89.9%. We originate our home equity loans and home equity lines of credit without application fees (except for bridge loans) or borrower-paid closing costs. Home equity loans are offered with fixed interest rates and with terms of up to 15 years. Our home equity lines of credit are offered with adjustable rates of interest indexed to the prime rate, as reported in *The Wall Street Journal*. Our Lowest Rate Guarantee program provides that, subject to the terms and conditions of the guarantee program, if a loan applicant or current home equity line of credit borrower finds and

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qualifies for a better interest rate on a similar product with another lender, we will offer a lower rate or, if they close under the rate and terms presented with respect to the other lender, we will give the loan applicant or borrower $500.

Bridge loans are originated for a one-year term, with no prepayment penalties. These loans have fixed interest rates, and are limited to a combined 85% loan-to-value ratio (first and second mortgage liens). We charge a closing fee with respect to bridge loans.

Construction Loans. We also originate construction loans for the purchase of developed lots and for the construction of single-family residences. Construction loans are offered to individuals for the construction of their personal residences by a qualified builder (construction/permanent loans), and to qualified builders (builder loans). At September 30, 2006, construction loans totaled $207.6 million, or 2.7% of total loans receivable. At September 30, 2006, the additional unadvanced portion of these construction loans totaled $89.7 million.

Our construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. We offer construction/permanent loans with fixed or adjustable rates, and a maximum loan-to-completed-appraised value ratio of 97%. At September 30, 2006, our construction/permanent loans totaled $141.0 million, or 1.9% of total loans receivable.

Our builder loans consist of loans for homes that have been pre-sold and of loans to developers that build homes before a buyer has been identified. We do not make land loans to developers for the acquisition and development of raw land. Construction loans to developers are limited to an 85% loan-to-completed-appraised value ratio for homes that are under contract for purchase and a 75% loan-to-completed-appraised value ratio for loans where no buyer has been identified. The interest rates are based on and adjust with the prime rate of interest, and are for terms of up to two years. As of September 30, 2006, our builder loans totaled $66.6 million, or 0.9% of total loans receivable.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We generally also review and inspect each property 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 proves to be 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 proves to be 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.

Loan Originations, Purchases, Sales, Participations and Servicing. Lending activities are conducted primarily by our loan personnel (all of whom are salaried employees) operating at our main and branch office locations and at our loan production offices. All loans that we originate are underwritten pursuant to our policies and procedures, which incorporate Fannie Mae underwriting guidelines to the extent applicable. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by current market interest rates as well as anticipated future market interest rates. 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 real estate mortgage loan originations are generated by our in-house loan representatives, by referrals from existing or past customers, by referrals from local builders and real estate brokers, from calls to our

telephone call center and from our internet website. We have a relationship with only one mortgage broker, and the mortgage broker is affiliated with a national builder. During the fiscal year ended September 30, 2006, we originated $175.1 million of loans through this relationship. All such loans are underwritten to conform to our loan underwriting policies and procedures. We also advertise extensively throughout our market area.

We decide whether to retain the loans that we originate, sell loans in the secondary market or securitize loans after evaluating current and projected market interest rates, our interest rate risk objectives, our liquidity needs and other factors. We securitized and sold $2.2 billion of residential real estate mortgage loans (all fixed-rate loans, and primarily with 30-year terms) during the fiscal year ended September 30, 2006, and we held $315.0 million of loans for sale in the secondary market at September 30, 2006. The fixed-rate mortgage loans that we originated during the fiscal year ended September 30, 2006 and that we retained consisted primarily of fixed-rate loans with 30-year terms.

We primarily sell our loans without recourse. Historically, we have retained the servicing rights on all residential real estate mortgage loans that we have sold, and we intend to continue this practice in the future. At September 30, 2006, we were servicing loans owned by others with a principal balance of $6.7 billion. 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. Third Federal Savings and Loan s lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by Third Federal Savings and Loan s 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.

Third Federal Savings and Loan s policies and loan approval limits are established by the board of directors. The board of directors has delegated authority to its Executive Committee (consisting of our Chief Executive Officer and two directors) to review and assign lending authorities to certain individuals of Third Federal Savings and Loan to consider and approve loans within their designated authority. One- to four-family residential real estate mortgage loans and construction loans in amounts above $650,000 require the approval of two individuals with designated underwriting authority. Loans in amounts below $650,000, including home equity loans and home equity lines of credit (which we cap at $250,000) require the approval of one individual with designated underwriting authority. All loans that are approved by designated individuals are reviewed and ratified by the Executive Committee on a weekly basis.

Third Federal Savings and Loan also maintains automated underwriting systems for point-of-sale approvals of one- to four-family residential real estate mortgage loans, home equity loans and home equity lines of credit. Applications for loans in amounts no greater than the conforming loan limit that meet certain credit and income criteria may receive a full approval with respect to the amount of credit available and the subject property. If the property securing the loan cannot be valued using an automated valuation model, the borrower may receive a credit approval only. Applications for loan amounts in excess of the conforming loan limit may only receive a credit approval, subject to an appraisal of the subject property.

We generally require independent third-party appraisals of real property securing loans for loan amounts in excess of $250,000, although we may rely on alternative property valuation methods for loans up to the conforming loan limit. We obtain valuations or appraisals for all loans even if an appraisal is not required. We use an automated valuation model to value most loans of $250,000 or less, and, occasionally, we use the tax assessed value of the property securing such loans. Appraisals are performed by independent licensed appraisers. All appraisers are approved by the board of directors annually.

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Non-performing and Problem Assets

Within 15 days of a borrower s delinquency, we attempt personal, direct contact with the borrower to determine the reason for the delinquency, to ensure that the borrower correctly understands the terms of the loan and to emphasize the importance of making payments on or before the due date. If necessary, subsequent late charges and delinquent notices are issued and the account will be monitored on a regular basis thereafter. We also mail system-generated reminder notices on a monthly basis. When a loan is more than 30 days past due, we attempt to contact the borrower and develop a plan of repayment. By the 90th day of delinquency, we may recommend foreclosure. By this date, if a repayment agreement has not been established, or if an agreement is established but is subsequently broken, the credit file is reviewed and, if considered necessary, information is updated or confirmed and the property securing the loan is re-evaluated. A summary report of all loans 30 days or more past due is provided to the board of directors.

Loans are automatically 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 or if the loan has been restructured. 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 unpaid principal and interest are repaid so that the loan is less than 90 days delinquent.

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Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated.

At September 30,