



One Astoria Federal Plaza  
Lake Success, NY 11042-1085  
(516) 327-3000

April 13, 2009

Dear Fellow Astoria Financial Corporation Shareholder:

I am very pleased to invite you to Astoria Financial Corporation's Annual Meeting of Shareholders to be held at The Inn at New Hyde Park, 214 Jericho Turnpike, New Hyde Park, New York 11040 on Wednesday, May 20, 2009, at 9:30 a.m., Eastern Time. At this meeting, you will be asked to vote for the election of directors, approve an amendment to the Astoria Financial Corporation Executive Officer Annual Incentive Plan, ratify the appointment of our independent registered public accounting firm and consider any other business that may properly come before the meeting.

You are cordially invited to attend the Annual Meeting of Shareholders in person. Even if you plan to attend in person, you are encouraged to review the proxy materials and vote your shares in advance of the meeting. Your vote is extremely important. We appreciate your taking the time to vote promptly.

Sincerely

A handwritten signature in black ink, appearing to read 'G. Engelke', is placed over a light gray rectangular background.

George L. Engelke, Jr.  
Chairman and Chief Executive Officer



One Astoria Federal Plaza  
Lake Success, NY 11042-1085  
(516) 327-3000

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
To Be Held on May 20, 2009**

The Annual Meeting of Shareholders of Astoria Financial Corporation will be held on Wednesday, May 20, 2009, at 9:30 a.m., Eastern Time, at The Inn at New Hyde Park, 214 Jericho Turnpike, New Hyde Park, New York 11040. The meeting will be held to consider and act upon the following matters:

1. The election of three directors, for terms of three years each;
2. The approval of an amendment to the Astoria Financial Corporation Executive Officer Annual Incentive Plan;
3. The ratification of the appointment of our independent registered public accounting firm; and
4. Such other matters as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Holders of record of Astoria Financial Corporation common stock as of the close of business on March 23, 2009 are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. A list of shareholders entitled to vote at the Annual Meeting will be available at the meeting and at Astoria Financial Corporation, One Astoria Federal Plaza, Lake Success, New York 11042 for a period of ten days prior to the meeting.

For the convenience of our shareholders, proxies may be given either by telephone, electronically through the Internet, or by completing, signing, and returning the enclosed proxy card. In addition, shareholders may elect to receive future shareholder communications, including proxy materials, through the Internet. Instructions for each of these options can be found in the enclosed materials.

By order of the Board of Directors,

Alan P. Eggleston  
Executive Vice President, Secretary and  
General Counsel

Dated: April 13, 2009

**Astoria Financial Corporation  
Proxy Statement  
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# **ASTORIA FINANCIAL CORPORATION**

**One Astoria Federal Plaza  
Lake Success, New York 11042-1085**

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## **PROXY STATEMENT ANNUAL MEETING OF SHAREHOLDERS May 20, 2009**

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### **General Information**

This Proxy Statement and the accompanying proxy card are being furnished to holders of Astoria Financial Corporation, referred to as AFC, common stock in connection with the solicitation of proxies by the Board of Directors of AFC, referred to as the Board, for use at the AFC Annual Meeting of Shareholders to be held on May 20, 2009, and at any adjournments or postponements thereof, referred to as the Annual Meeting. AFC's Annual Meeting will be held at 9:30 a.m., Eastern Time, at The Inn at New Hyde Park, 214 Jericho Turnpike, New Hyde Park, New York 11040. Only holders of record of AFC's issued and outstanding common stock, par value \$0.01 per share, referred to as AFC Common Stock, as of the close of business on the Record Date, March 23, 2009, are entitled to vote at the Annual Meeting. AFC's 2008 Annual Report and Form 10-K, which includes the consolidated financial statements of AFC for the fiscal year ended December 31, 2008, referred to as the Consolidated Financial Statements, accompany this Proxy Statement and the proxy card which are first being mailed or given to shareholders of record on or about April 13, 2009. AFC is the parent company of Astoria Federal Savings and Loan Association, referred to as the Association.

<b>IMPORTANT INFORMATION REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 20, 2009:</b>
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<b>THE PROXY STATEMENT AND ANNUAL REPORT TO SHAREHOLDERS ARE AVAILABLE AT <a href="http://bnymellon.mobular.net/bnymellon/af">http://bnymellon.mobular.net/bnymellon/af</a></b>
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### **Voting and Quorum Requirements**

As of the Record Date, there were 97,058,454 shares of AFC Common Stock issued and outstanding and entitled to vote at the Annual Meeting. Except as described below, each share of AFC Common Stock outstanding on the Record Date entitles the holder thereof to one vote on each matter to properly come before the Annual Meeting. The presence, either in person or by proxy, of the holders of a majority of all of the shares of AFC Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting.

The election of directors shall be by a plurality of votes cast by the holders of AFC Common Stock present, in person or by proxy, and entitled to vote thereon. Holders of AFC Common Stock may not vote their shares cumulatively with respect to the election of directors. The approval of the amendment to the Astoria Financial Corporation Executive Officer Annual Incentive Plan, referred to as the Executive Incentive Plan, and the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for AFC, require the affirmative vote of a majority of the votes cast by the holders of AFC

Common Stock present at the Annual Meeting, in person or by proxy, and entitled to vote thereon.

Shares of AFC Common Stock as to which the “ABSTAIN” box has been selected on the proxy card with respect to the approval of the amendment to the Executive Incentive Plan or the ratification of the appointment of KPMG LLP as the independent registered public accounting firm for AFC will be counted as present and entitled to vote and will have the effect of a vote against such approval or ratification, as the case may be. In contrast, shares of AFC Common Stock underlying broker non-votes and shares for which a proxy card is not returned will not be counted as present and entitled to vote and will have no effect on the vote on such proposals.

## **How to Vote**

You may vote your shares:

(1) **By Internet.** Vote at the Internet address shown on your proxy card or voting instruction form. The Internet voting system is available 24 hours a day until 11:59 p.m., Eastern Time, on Tuesday, May 19, 2009. Once you are in the Internet voting system, you can record and confirm or change your voting instructions.

(2) **By mail.** Mark and sign the enclosed proxy card or voting instruction form and return it in the enclosed postage-paid envelope.

(3) **By telephone.** Vote by telephone using the instructions on the enclosed proxy card or voting instruction form.

***Every properly executed or submitted proxy card that is received by AFC prior to the closing of the polls at the Annual Meeting will be voted in accordance with the instructions contained therein unless otherwise revoked. Properly executed and submitted unmarked proxy cards will be voted FOR the election of the Board’s nominees as directors, FOR the approval of an amendment to the Astoria Financial Corporation Executive Officer Annual Incentive Plan and FOR the ratification of the appointment of the independent registered public accounting firm.***

Alternatively, you may attend the annual meeting and vote in person. Voting over the Internet, by telephone or mailing a proxy card will not limit your right to vote in person or attend the annual meeting. Shareholders who desire to attend the Annual Meeting and vote their shares in person may obtain directions by calling The Inn at New Hyde Park at (516) 354-7797 or AFC’s Investor Relations Department at (516) 327-7869.

***Participants in the Astoria Federal Savings and Loan Association Employee Stock Ownership Plan, referred to as the ESOP, or the Astoria Federal Savings and Loan Association Incentive Savings Plan, referred to as the Incentive Savings Plan, are permitted to vote by mail only. If you are a shareholder whose shares are not registered in your name, you will need an assignment of voting rights from the shareholder of record to vote personally at the Annual Meeting.***

Pursuant to the Certificate of Incorporation of AFC, no record shareholder of AFC Common Stock which is beneficially owned, directly or indirectly, by a shareholder who, as of the Record Date, beneficially owns more than ten percent (10%) of AFC Common Stock outstanding on such date will be entitled or permitted to vote any shares of AFC Common Stock in excess of ten percent (10%) of AFC Common Stock outstanding as of the Record Date. For purposes of this limitation, neither the ESOP, nor the trustee of such plan, is considered the beneficial owner of the AFC Common Stock held by the ESOP.

Participants in the ESOP and the Incentive Savings Plan have the right to direct the voting of AFC Common Stock held in their plan accounts, but do not have the right to vote those shares personally at the Annual Meeting. Such participants should refer to the voting instructions provided by the plan fiduciaries for information on how to direct the voting of such shares.

### **Revocation of Proxies**

Any shareholder who executes a proxy has the right to revoke it at any time before it is voted. A proxy may be revoked by delivering to the Secretary of AFC, at its principal office or at the Annual Meeting prior to the closing of the polls at the Annual Meeting, either a written revocation or a proxy, duly executed, bearing a later date, or by attending the Annual Meeting and voting in person.

### **Interests of Management in Certain Proposals**

At the Annual Meeting, shareholders are being asked to vote on an amendment to the Executive Incentive Plan, under which executive officers may earn performance-based incentive awards upon attainment of performance goals, which amendment would extend the term of the plan for five years. As a result, AFC's executive officers, including the two executive officers who are members of the Board, have personal interests in the outcome of this proposal that are different from the interests of AFC's other shareholders. The Board was aware of these interests and took them into account in recommending that the shareholders vote in favor of the proposed amendment to the Executive Incentive Plan.

## Security Ownership of Certain Beneficial Owners

The following table sets forth information, as of the Record Date, with respect to the beneficial ownership of AFC Common Stock by each person or group of persons, as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, known to AFC to be the beneficial owner of more than five percent (5%) of AFC voting stock. For purposes of the Annual Meeting, AFC Common Stock is the only AFC voting stock outstanding.

<b><u>Name &amp; Address of Beneficial Owner</u></b>	<b><u>Amount and Nature of Beneficial Ownership</u></b>	<b><u>Percent of Class</u></b>
Committee under the ESOP, Committee appointed as Plan Administrator of the Incentive Savings Plan, Trustee of the Association Employees' Pension Plan, and ESOP c/o Astoria Federal Savings and Loan Association One Astoria Federal Plaza Lake Success, New York 11042	11,547,943 (1)	11.90
EARNEST Partners, LLC 1180 Peachtree Street NE Suite 2300 Atlanta, Georgia 30309	7,237,766 (2)	7.46
BARCLAYS Global Investors, NA and BARCLAYS Global Fund Advisors 400 Howard Street San Francisco, California 94105 and BARCLAYS Global Investors, Ltd. Murray House 1 Royal Mint Court London, EC3N 4HH and BARCLAYS Global Investors Canada Brookfield Place 161 Bay Street Suite 2500, P.O. Box 614, Toronto, Canada Ontario M5J 2S1	5,282,986 (3)	5.44
Capital Group International, Inc. 11100 Santa Boulevard Los Angeles, California 90025	5,155,400(4)	5.31
ClearBridge Advisors, LLC and Smith Barney Fund Management LLC 399 Park Avenue New York, New York 10022	5,115,113 (5)	5.27



- (1) The ESOP is an employee stock ownership plan under the Employee Retirement Income Security Act of 1974, as amended, referred to as ERISA. The ESOP provides for individual accounts for the accrued benefits of participating employees of AFC and its subsidiaries and their beneficiaries and is administered by the Committee under the ESOP comprised of five officers of the Association. The assets of the ESOP are held in trust by Prudential Bank & Trust, FSB. The five individuals comprising the Committee under the ESOP also serve as the Committee appointed as Plan Administrator of the Incentive Savings Plan and as Trustee of the Association Employees' Pension Plan, and is referred to as the Committees. The Incentive Savings Plan is a defined contribution pension plan under ERISA and the Association Employees' Pension Plan, referred to as the Employees Pension Plan, is a defined benefit pension plan under ERISA. The ESOP held, as of December 31, 2008, 9,964,520 shares of AFC Common Stock, 4,751,853 shares of which had been allocated to the accounts of individual participants and their beneficiaries. State Street Bank and Trust Company has been appointed as a fiduciary of the ESOP for the purpose of determining how to vote the ESOP's AFC Common Stock at the Annual Meeting. For voting purposes, each participant as a "named fiduciary" will be eligible to direct State Street Bank and Trust Company how to vote at the Annual Meeting as to the number of shares of AFC Common Stock which have been allocated to his or her account under the ESOP. The remaining unallocated shares and any allocated shares with respect to which no voting instructions have been received will be voted by State Street Bank and Trust Company at the Annual Meeting in the same manner and proportion as the allocated shares with respect to which voting instructions have been received, so long as such vote is in accordance with the provisions of ERISA. In certain circumstances, ERISA may confer upon State Street Bank and Trust Company and/or the trustee the power and duty to control the voting and tendering of AFC Common Stock allocated to the accounts of participating employees and beneficiaries who fail to exercise their voting and/or tender rights as well as the voting and tendering of unallocated AFC Common Stock. As of December 31, 2008, the Employees Pension Plan held 773,308 shares of AFC Common Stock. The trustees will determine the manner in which such shares are voted at the Annual Meeting. The Incentive Savings Plan, as of December 31, 2008, held 810,115 shares of AFC Common Stock for the account of individual participants of the Incentive Savings Plan. For voting purposes, each participant as a "named fiduciary" will be eligible to provide voting instructions which will be taken into account by the Association, through the Committee, in directing Prudential Bank & Trust Company, as trustee of the Incentive Savings Plan, how to vote at the Annual Meeting as to the number of shares of AFC Common Stock which have been allocated to such participant's account under the Incentive Savings Plan, so long as such vote is in accordance with the provisions of ERISA. In certain circumstances, ERISA may confer upon the Association, the Committee and/or the trustee the power and duty to control the voting and tendering of AFC Common Stock allocated to the accounts of participating employees and beneficiaries who fail to exercise their voting and/or tender rights. Pursuant to a Schedule 13G filed February 12, 2009, the ESOP claims beneficial ownership of, and shared voting and dispositive power with respect to, 9,964,520 shares of AFC Common Stock as of December 31, 2008. The Committee under the ESOP, the Committee appointed as Plan Administrator of the Incentive Savings Plan and the Trustees of the Employees Pension Plan claim beneficial ownership of 11,547,943 shares of AFC Common Stock, sole voting and dispositive power with respect to 773,308 shares of AFC Common Stock, shared voting power with respect to 810,115 shares of AFC Common Stock and shared dispositive power with respect to 10,774,635 shares of AFC Common Stock as of December 31, 2008. No individual member of the Committees controls the actions of the Committees and each such individual disclaims beneficial ownership of shares beneficially owned by the Committees.
- (2) According to a filing on Schedule 13G, Amendment No. 4, filed on or about February 13, 2009, EARNEST Partners, LLC claims sole voting power with respect to 3,141,419 shares of AFC Common Stock, shared voting power with respect to 1,819,397 shares of AFC Common Stock and sole dispositive power with respect to 7,237,766 shares of AFC Common Stock as of December 31, 2008.
- (3) According to a filing on Schedule 13G, filed on or about February 5, 2009, the following entities have indicated that they have sole voting power with respect to 4,415,348 Shares of AFC Common Stock and sole dispositive power with respect to 5,282,986 shares of AFC Common Stock: Barclays Global Investors, NA, Barclays Global Fund Advisors, Barclays Global Investors, Ltd., Barclays Global Investors Japan Limited, Barclays Global Investors Canada Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG. As reported in such filings, (i) Barclays Global Investors, NA claims sole voting power with respect to 1,561,781 shares of AFC Common Stock and sole dispositive power with respect to 1,919,784 shares of AFC Common Stock as of December 31, 2008, (ii) Barclays Global Fund Advisors claims sole voting power with respect to 2,717,853 shares of AFC Common Stock and sole dispositive power with respect to 3,172,568 shares of AFC Common Stock as of December 31, 2008, (iii) Barclays Global Investors, Ltd. Claims sole voting power with respect to 133,050 shares of AFC Common Stock and sole dispositive power with respect to 187,970 shares of AFC Common Stock as of December 31, 2008, (iv) Barclays Global Investors Canada Limited claims sole voting and dispositive power with respect to 2,664 shares of AFC Common Stock as of December 31, 2008, and (v) Barclays Global Investors Japan Limited, Barclays Global Investors Australia Limited and Barclays Global Investors (Deutschland) AG each claims no voting or dispositive power with respect to AFC Common Stock as of December 31, 2008. In such filing, each of the foregoing entities has checked a box indicating that it disclaims membership in a group, or describes a relationship with other person but does not affirm the existence of a group.
- (4) According to a filing on Schedule 13G, filed on or about February 12, 2009 Capital Group International, Inc. claims sole voting power with respect to 3,399,300 shares of AFC Common Stock and sole dispositive power with respect to 5,155,400 shares of AFC Common Stock as of December 31, 2008.
- (5) According to a filing on Schedule 13G, Amendment No. 3, filed on or about February 10, 2009, ClearBridge Advisors, LLC claims sole voting power with respect to 4,932,161 shares of AFC Common Stock and sole dispositive power with respect to 5,115,113 shares of AFC Common Stock as of December 31, 2008.

## **PROPOSAL NO. 1 - ELECTION OF DIRECTORS**

The Board consists of ten (10) directors divided into three classes: two classes of three directors each and one class of four directors. Upon election by the shareholders, the directors of each class generally serve for a term of three years, with the directors of one class elected each year. From time to time, nominees may be recommended for shorter terms to either reclassify the directors, so as to maintain the classes as equal in number as possible, or to provide earlier shareholder input in filling expected vacancies.

In all cases, directors serve until their respective successors are duly elected and qualified. Pursuant to the Bylaws of AFC, no person is eligible for election or appointment as a director who is seventy-five (75) years of age or older, and no person shall continue to serve as a director after the regular Board meeting immediately preceding such director's seventy-fifth (75th) birthday, referred to as mandatory retirement.

The directors whose terms expire at the Annual Meeting are Andrew M. Burger, Denis J. Connors, Thomas J. Donahue and Gerard C. Keegan. Mr. Burger will reach mandatory retirement in May, 2009 and, accordingly, will not stand for re-election at the Annual Meeting. Effective upon Mr. Burger's mandatory retirement, the Board has eliminated his Board seat and reduced the size of the Board to nine (9) directors. Each of the other directors whose terms expire at the Annual Meeting, referred to individually as a Board Nominee and collectively as the Board Nominees, has been nominated by the Board, based on the recommendation of the Nominating and Corporate Governance Committee, to stand for reelection, and, if elected, to serve for a term expiring at the annual meeting of shareholders of AFC to be held in 2012. Each Board Nominee has consented to being named in this Proxy Statement and to serve as a director of AFC if elected.

**If any Board Nominee should refuse or be unable to serve, the proxies will be voted for such person as shall be designated by the Board, based upon the recommendation of the Nominating and Corporate Governance Committee, to replace such nominee. The Board presently has no knowledge that any of the Board Nominees will refuse or be unable to serve.**

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE BOARD NOMINEES FOR ELECTION AS DIRECTORS OF AFC FOR TERMS OF THREE YEARS EACH.**

#### **Board Nominees, Directors and Executive Officers**

The following table sets forth information regarding the Board Nominees and other members of the Board.

<b><u>Name</u></b>	<b><u>Age (1)</u></b>	<b><u>Positions Held with AFC (2)</u></b>	<b><u>Director Since</u></b>	<b><u>Term Expires</u></b>
George L. Engelke, Jr.	70	Director, Chairman of the Board and Chief Executive Officer	1993	2011
Gerard C. Keegan	62	Director, Vice Chairman, Chief Administrative Officer and Board Nominee	1997	2009
Andrew M. Burger	74	Director	1993	2009
John J. Conefry, Jr.	64	Director and Vice Chairman	1998	2010
Denis J. Connors	67	Director and Board Nominee	1993	2009
Thomas J. Donahue	68	Director and Board Nominee	1993	2009
Peter C. Haeffner, Jr.	70	Director	1997	2011
Ralph F. Palleschi	62	Director and Presiding Director	1996	2011
Thomas V. Powderly	71	Director	1995	2010
Leo J. Waters	74	Director	1998	2010 (3)

(1) As of the Record Date.

(2) All directors of AFC also serve as directors of the Association.

(3) Mr. Waters will reach mandatory retirement in November, 2009.

The following table sets forth information regarding the non-director executive officers of AFC.

<u>Name</u>	<u>Age (1)</u>	<u>Positions Held With AFC</u>
Monte N. Redman	58	President and Chief Operating Officer
Alan P. Eggleston	55	Executive Vice President, Secretary and General Counsel
Frank E. Fusco	45	Executive Vice President, Treasurer and Chief Financial Officer
Arnold K. Greenberg	68	Executive Vice President and Assistant Secretary
Gary T. McCann	55	Executive Vice President

(1) As of the Record Date.

All executive officers of AFC are elected annually and serve until their respective successors have been chosen, subject to their removal as officers at any time by the affirmative vote of a majority of the authorized number of directors then constituting the Board. For additional information, see Compensation Discussion and Analysis, referred to as the CD&A, commencing on page 28.

### **Biographical Information**

The following is a brief description of the business experience of the directors, Board Nominees and executive officers for at least the past five years and their respective directorships, if any, with other public companies that are subject to the reporting requirements of the Exchange Act.

#### **Directors and Board Nominees**

**George L. Engelke, Jr.** has been Chief Executive Officer and a director of AFC since its formation in 1993. He has served as Chairman of the Board and Chairman of the Board of Directors of the Association since April 1997. He served as President of AFC from 1993 to August 2007. A certified public accountant, he joined the Association in 1971 as Vice President and Treasurer. He was named Executive Vice President and Treasurer in 1974, Chief Operating Officer in 1986 and President and Chief Executive Officer in 1989. He has served as a director of the Association since 1983. Mr. Engelke serves as a director of the Community Preservation Corporation and the Advisory Board of Neighborhood Housing Services of New York City, Inc. He is a former director and Chairman of the Federal Home Loan Bank of New York and a former member of the Thrift Institutions Advisory Panel to the Federal Reserve Bank of New York. He is a member of the Board of Trustees of Long Island University and a director of the New York Bankers Association. Mr. Engelke previously served as a member of the Financial Accounting Standards Advisory Council.

**Gerard C. Keegan** has been Vice Chairman, Chief Administrative Officer and a director of AFC and the Association since September 30, 1997, when he joined AFC following the acquisition of The Greater New York Savings Bank, referred to as The Greater, and its merger with and into the Association, referred to as The Greater Acquisition. He is responsible for the retail banking, information services, and marketing areas of the Association. Prior to joining AFC, Mr. Keegan served from 1991 to 1997 as Chairman, President and Chief Executive Officer of The Greater. From 1988 to 1991, he served as President and Chief Operating Officer of The Greater. He served as a director of The Greater from 1988 to 1997. He is a member of the Board of Trustees of St. Francis College.

**Andrew M. Burger** has been a director of AFC since its formation in 1993 and is the former President of Atlantic Iron Works, Inc. He has served as a director of the Association since 1975.

**John J. Conefry, Jr.** has served as Vice Chairman and a director of AFC since September 30, 1998 when he joined AFC following the acquisition of Long Island Bancorp, Inc., referred to as LIB, and the merger of LIB with and into AFC and the merger of LIB's wholly owned subsidiary, The Long Island Savings Bank FSB, referred to as LISB, with and into the Association, referred to as the LIB Acquisition. He

served as an executive officer of AFC from September 1998 to December 2000. Prior to joining AFC, Mr. Conefry served as Chief Executive Officer of LISB from 1993 and of LIB from 1994 through the consummation of the LIB Acquisition. He was named President of LIB and LISB in 1996. Mr. Conefry served as a director of LISB from 1980 and of LIB from 1993. He was named Vice Chairman of LISB in 1993. He served as Chairman of the Board of Directors of LIB and of LISB from 1994. Prior to joining LISB in 1993, Mr. Conefry was employed by Merrill Lynch, Pierce, Fenner & Smith, Inc., as a Senior Vice President from 1981 to 1993. Prior to that, he was a partner in the public accounting firm of Deloitte Haskins & Sells, the predecessor of Deloitte & Touche LLP. Mr. Conefry also serves on a number of boards of not-for-profit organizations. Mr. Conefry is a director of 1-800-FLOWERS.COM, Inc., a floral, food and gift retailer whose common stock is registered under Section 12 of the Exchange Act and trades on The NASDAQ Stock Market under the symbol "FLWS."

**Denis J. Connors** has been a director of AFC since its formation in 1993 and was the Chairman and Chief Executive Officer of Curran & Connors, Inc., a designer and publisher of annual reports. Mr. Connors serves as a director of Curran & Connors, Inc. He has served as a director of the Association since 1990. He is currently a trustee emeritus of the Good Samaritan Hospital Foundation.

**Thomas J. Donahue**, a certified public accountant, has been a director of AFC since its formation in 1993. He retired as a partner of Peat, Marwick, Mitchell & Co., the predecessor of KPMG LLP, in 1986. Following his retirement and prior to becoming a director of the Association, Mr. Donahue served as president and a director of other savings institutions from 1987 to 1990. He has served as a director of the Association since 1990.

**Peter C. Haeffner, Jr.** has been a director of AFC and the Association since September 30, 1997 following The Greater Acquisition. He is Managing Director and Principal of PHAEF, LLC, a real estate investment and advisory company. From 2001 to December 2004, he served as Managing Director and Principal of Real Estate Trade Advisors LLC, a real estate finance and advisory company. From December 1998 to June 2001, he served as Senior Director, Financial Services Group, of Cushman & Wakefield, Inc., a real estate firm. Mr. Haeffner served as Senior Managing Director, Financial Services Group, Corporate Advisory and Finance Division of Cushman & Wakefield, Inc. from December 1997 to December 1998 and as its Eastern Regional Director, Financial Services Group from May 1994 to December 1997. Previously, Mr. Haeffner was President and Managing Director of Sonnenblick-Goldman Company, a real estate firm, for a period of eight years. Mr. Haeffner also serves as a director of Stewart Title Insurance Company of New York. Mr. Haeffner served as a director of The Greater from 1992 to 1997.

**Ralph F. Palleschi**, a certified public accountant, has been a director of AFC and the Association since 1996. In 1983, he co-founded First Long Island Investors, Inc., a registered investment advisor pursuant to the Investment Advisers Act of 1940, as amended, and a registered broker/dealer with the National Association of Securities Dealers, LLC. He continues to serve as a director and is President and Chief Operating Officer of such company. From 1993 to 1997, he served as Chief Operating Officer of the New York Islanders hockey team. From 1977 to 1983, he served as Vice President - Finance and Chief Financial Officer of Entenmann's Inc., a publicly traded food products company. From 1968 to 1977, he was employed by Peat, Marwick, Mitchell & Co., the predecessor of KPMG LLP. He is Chairman of the Board of Directors of Abilities! and Chairman of the Board of Trustees of the Variety Child Learning Center.

**Thomas V. Powderly** has been a director of AFC and the Association since January 31, 1995, following the acquisition of Fidelity New York, F.S.B., referred to as Fidelity, by the Association. He served Fidelity in a variety of capacities. From 1986 to 1990, he served as Executive Vice President. In 1990, he was appointed President and Chief Operating Officer and in 1992 was named Chief Executive Officer. He was named Chairman of the Board of Directors of Fidelity in 1993. From 1993 until January 1995, he served

as Chairman and Chief Executive Officer. Prior to 1986, Mr. Powderly held positions with Edward S. Gordon, Inc., a commercial real estate brokerage and management firm, and with several thrift institutions.

**Leo J. Waters** has been a director of AFC and the Association since September 30, 1998, following completion of the LIB Acquisition. Prior to the LIB Acquisition, he served as a director of LIB since 1993. He became a director of LISB in 1990. Mr. Waters is the President of a private investment consulting firm.

#### **Executive Officers Who Are Not Directors**

**Monte N. Redman** has served as President and Chief Operating Officer of AFC and the Association since August 2007. He served as Executive Vice President and Chief Financial Officer of AFC from December 1997 to August 2007. He served as Senior Vice President, Treasurer and Chief Financial Officer of AFC from its formation in 1993 to 1997. He joined the Association in 1977. In 1979, he was named Assistant Controller, and, in 1982, Assistant Vice President. Mr. Redman became Vice President, Investment Officer in 1985, was appointed Senior Vice President, Treasurer and Chief Financial Officer in 1989 and was appointed Executive Vice President and Chief Financial Officer in 1997. He is the past Chairman and serves on the Board of Directors of the national Tourette Syndrome Association.

**Alan P. Eggleston**, an attorney, has served as Executive Vice President and General Counsel of AFC since December 1997 and as Secretary since March 2001. He is responsible for the legal, auditing, asset review, human resources, regulatory compliance and security areas of the Association and AFC. He served as Senior Vice President and General Counsel of AFC from 1996 to 1997. He joined the Association in 1993 as Vice President and General Counsel. In 1994, he was named Vice President and General Counsel of AFC. In 1995, he became First Vice President and General Counsel of AFC and the Association. Prior to joining the Association, he served as an executive officer and counsel to several thrift institutions.

**Frank E. Fusco**, a certified public accountant, has served as Executive Vice President, Treasurer and Chief Financial Officer of AFC and the Association since August 2007. He is responsible for the treasury operations, investments, accounting operations, investor relations, financial, management and tax reporting areas, and the financial planning area of the Association and AFC. He joined the Association in 1989. He served as Assistant Vice President from 1990 to 1992, as Vice President from 1992 to 1994, as First Vice President from 1994 to 1997 and as Senior Vice President and Treasurer from 1997 to 2007. He served in the same positions with AFC commencing in 1993. Prior to joining the Association, Mr. Fusco was employed as an auditor by Peat, Marwick, Mitchell & Co., predecessor to KPMG LLP, and as an officer of another thrift institution.

**Arnold K. Greenberg** has served as Executive Vice President of AFC since December 1997 and as Senior Vice President from its formation in 1993 to 1997. He is responsible for banking operations and the general services and facilities areas of the Association. He joined the Association in 1975 as Vice President and was appointed Senior Vice President in 1979 and Executive Vice President in 1997. In 1986, Mr. Greenberg became Senior Vice President, Administration and Operations, and in January of 1993, Senior Vice President, Consumer Services. He also serves as a member of the Board of Directors of the Long Island Region of the American Heart Association and as a member of the Board of Trustees of the Variety Child Learning Center.

**Gary T. McCann** has served as Executive Vice President of AFC since December 2003. He serves as senior lending officer of the Association. Mr. McCann joined the Association in 1990. From 1993 to 1997, he served as Vice President and Director of Residential Mortgage Originations of the Association and from 1997 to 2003 served the Association as Senior Vice President. In December 2003, he became Executive Vice President of both AFC and the Association. Prior to joining the Association, Mr. McCann served as a senior

officer of residential lending at another thrift institution. He serves as a director of Habitat for Humanity of Suffolk County and Community Development Corporation of Long Island, Inc.

There is no family relationship between any director, Board Nominee, officer or significant employee of AFC. There are no proceedings to which any director, officer or affiliate of AFC, any owner of record or beneficially of more than five percent (5%) of any class of AFC voting stock, or any associate of any such person is a party adverse to AFC or any of its subsidiaries nor does any such person have a material interest adverse to AFC or its subsidiaries.

## **Director Independence**

As required by the New York Stock Exchange, referred to as the NYSE, Listed Company Manual, the Board has determined that at least a majority of the current directors of AFC are independent. Specifically, the Board has determined that, with the exception of Mr. Engelke and Mr. Keegan, all directors of AFC and the Board Nominees are independent. Mr. Engelke and Mr. Keegan have been determined not to be independent due to their positions as executive officers of AFC and the Association.

In addition to utilizing the specific independence standards set forth in Section 303A of the NYSE Listed Company Manual, the Board has adopted Director Independence Standards, a copy of which is set forth below and is posted on AFC's Investor Relations website at <http://ir.astoriafederal.com> under the heading "Corporate Governance." The Director Independence Standards are intended to supplement the NYSE independence standards and to cover three specific situations: (i) directors who obtain routine banking services from the Association; (ii) donations by AFC or the Association to charities with which directors are associated; and (iii) direct or indirect payments for services by executive officers to companies with whom directors are affiliated made under circumstances where the payments, if made by AFC for services rendered to AFC, would not impair the directors' independence pursuant to the NYSE Listed Company Manual.

### **Astoria Financial Corporation**

#### **Director Independence Standards**

The following are standards adopted by Astoria Financial Corporation (the "Corporation") for use in determining, pursuant to the New York Stock Exchange Listed Company Manual Section 303A, the status of each director's "independence". In addition to the specific criteria set forth in Paragraph No. 2 of Section 303A, as amended from time to time, the following categorical standards shall be applied by the Board of Directors in making its determinations.

1. The Corporation's wholly owned subsidiary, Astoria Federal Savings and Loan Association (the "Association"), is a federally chartered savings and loan association. Its primary business consists of providing consumer banking services to the public and originating mortgage loans for portfolio. Its operations are heavily regulated and it is regularly and routinely examined by the Office of Thrift Supervision (the "OTS").

Directors of the Corporation are encouraged to utilize the Association's consumer banking services and its lending capabilities, in accordance with OTS and applicable Federal Reserve Board regulations.

The Corporation recognizes that if a director deposits funds with the Association and the Association experiences financial or other regulatory difficulties, a conflict could exist which might impair a director's independence, particularly if the director maintains a deposit in an amount or under circumstances that would result in all or some portion of the deposit not being insured by the Federal Deposit Insurance Corporation (the "FDIC").

Similarly, if a director borrows funds from the Association and that loan is either in default or otherwise shows signs of credit weakness, a director's independence could be impaired.

In conducting its examinations of the Association, the OTS utilizes a classification system and assigns a numerical

rating to the Association in order to signify the level of financial strength and regulatory concern posed by the institution. This system is referred to as the CAMELS rating. The ratings, which, by law, are confidential, range from 1 to 5, with 1 being the highest rating and 5 being the lowest. Institutions with CAMELS ratings of 3, 4 or 5 exhibit some degree of supervisory concern, exhibit unsafe and unsound practices or conditions, or exhibit extremely unsafe and unsound practices or conditions, respectively. Institutions ranked 1 or 2 under the CAMELS system have been found by the OTS to be either sound in every respect or fundamentally sound.

A director's independence will not be considered impaired at any time due to the director, directly or indirectly, having on deposit with the Association amounts which would be fully insured by the FDIC or, so long as the Association maintains a CAMELS rating of 1 or 2, in any amount.

A director's independence will not be considered impaired so long as a direct or indirect loan to the director was granted in compliance with Federal Reserve Board Regulation O and applicable OTS regulations, the loan is not, according to the Association's usual policies, classified as non-accrual, past due, restructured or a potential problem loan and the loan does not involve more than the normal risk of collectibility or otherwise present other unfavorable features.

As other banking services provided by the Association are readily available at competitive pricing, use by a director of other banking or financial services offered by the Association to the public will not be considered to impair a director's independence.

2. Pursuant to the Community Reinvestment Act, the Association is obligated to demonstrate the extent to which it ascertains and meets the credit needs of the communities it serves. As part of this responsibility, the Association and the Corporation encourage their directors and officers to be active in local charities and provides financial and other support to local charities and other non-profit organizations, particularly those that are housing related. No director will be considered to have his independence impaired because the Association may provide directors and officers liability coverage for the director's service to such charity or non-profit organization or due to grants, contributions or donations made by the Association to a charity or non-profit organization with which the director is affiliated so long as such grants, contributions or donations by the Corporation or the Association do not exceed \$100,000 per year.
3. While the focus of the New York Stock Exchange Listing Manual standards, as they relate to the independence of directors, is on relationships with the Corporation, circumstances could exist where a relationship between a director and an executive officer of the Corporation is such that such relationship in and of itself could impair the independence of the director.
  - (A) The fact that a director and an executive officer may have equity investments in a company or enterprise, where the Corporation or Association does not do any business with that company or enterprise shall not result in the director's independence being impaired.
  - (B) If a director is associated with a company or enterprise with which the Corporation or Association does not do business, but with which an executive officer does business unrelated to the Corporation or Association, the director's independence will not be deemed impaired so long as the revenue generated by such business, in any of the last three fiscal years, does not exceed the greater of \$1,000,000 or 2% of such company's consolidated gross revenue.

During its review of director independence for each Board Nominee and other members of the Board that have been identified as independent, the Board considered transactions and relationships between each director or any member of his or her immediate family and AFC and its subsidiaries, affiliates and equity investors, including those reported under Transactions with Certain Related Persons commencing on page 17. The Board also examined transactions and relationships between directors or their affiliates and members of executive management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

Specifically, with respect to the directors determined to be independent, the Nominating and Corporate Governance Committee and the Board considered the following transactions and relationships:

- i) the deposit relationships maintained by Mr. Burger, Mr. Conefry, Mr. Connors, Mr. Donahue, Mr. Haeffner, Mr. Powderly and Mr. Waters with the Association;
- ii) the lending relationships maintained by Mr. Donahue and members of his family, Mr. Haeffner, Mr. Powderly and Mr. Waters with the Association;
- iii) the relationship of Mr. Connors to Curran and Connors, Inc., a company utilized by AFC to assist in the preparation of its annual report to shareholders, and specifically the overall amount of fees paid for such service and the revenue provided to such company as a result of such engagement relative to such company's overall revenue;
- iv) the relationship of Mr. Palleschi to a company utilized personally by Mr. Engelke and another executive officer to invest personal funds and the fees generated to such company as a result of such relationships relative to such company's overall revenue; and
- v) the relationship of Mr. Haeffner to Stewart Title Insurance Co., which from time to time provides services to the Association.

In addition, the Nominating and Corporate Governance Committee and the Board annually review the charitable contributions made by the Association and determined that no contributions were made of sufficient size to impair the independence of any director who might be affiliated with such charities.

### **Identifying and Evaluating Nominees for Director**

The Board has adopted, and at least annually reviews and approves, Nominee Qualification Guidelines, for use by the Nominating and Corporate Governance Committee in evaluating all potential nominees, and Corporate Governance Guidelines, which set forth, among other matters, Board composition and director qualification standards. Among the matters reviewed are the candidate's integrity, maturity and judgment, experience, collegiality, expertise, diversity, commitment and independence. Copies of the Nominee Qualification Guidelines and the Corporate Governance Guidelines are available on AFC's Investor Relations website at <http://ir.astoriafederal.com> under the heading "Corporate Governance." Printed copies may also be requested by contacting AFC's Investor Relations Department by calling (516) 327-7869 or in writing at the address set forth on page 1 of this Proxy Statement.

The Board has also implemented a procedure for evaluating the performance of the Board, each of its committees and each of its directors. The evaluation of directors is considered and reviewed by the Nominating and Corporate Governance Committee in considering the nomination of existing directors.

If a shareholder presents a potential nominee, the shareholder will be encouraged to provide information that is responsive to the Nominee Qualification Guidelines to assist the Nominating and Corporate Governance Committee in evaluating proposed nominees. Such nominations and related information will be considered and reviewed by the Nominating and Corporate Governance Committee. All nominees, including incumbent directors, Board nominees and shareholder nominees, will be evaluated in the same manner by the Nominating and Corporate Governance Committee. AFC has never been presented with a shareholder nominee and has never retained any third party to assist in the search process. The Charter of the Nominating and Corporate Governance Committee authorizes the Committee to utilize the services of search firms at the Committee's discretion.

Pursuant to the Corporate Governance Guidelines adopted by the Board, all newly elected Board members are required, at the time of their initial election to the Board, to have an investment in AFC Common Stock. Within three years of initial election, directors are expected to maintain beneficial



ownership in non-derivative shares of AFC Common Stock equal to at least 3,000 shares. All directors and Board Nominees satisfy such requirement without regard to any phase-in period.

For a description of the procedures to be followed by shareholders in submitting director nominations and related information, see Additional Information - Shareholders Proposals and Notice of Business to be conducted at an Annual Meeting commencing on page 60.

### **Committees and Meetings of the Board**

The Board meets on a monthly basis and may have additional special meetings upon the request of the Chairman and Chief Executive Officer, the President and Chief Operating Officer or any three (3) members of the Board. During the fiscal year ended December 31, 2008, the Board met thirteen (13) times. No director attended less than seventy five percent (75%) of the total number of meetings held by the Board and its committees on which such director served.

In addition, the non-management directors of AFC met three (3) times during 2008. Such meetings are presided over by Mr. Palleschi, as Presiding Director.

The Board has established three (3) standing committees: the Compensation Committee, the Nominating and Corporate Governance Committee and the Audit Committee, which is a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Exchange Act. Copies of the Compensation Committee's Charter, the Nominating and Corporate Governance Committee's Charter and the Audit Committee's Charter, as well as AFC's Bylaws, are posted on AFC's Investor Relations website at <http://ir.astoriafederal.com> under the heading Corporate Governance. Shareholders may request a printed copy of each such document by contacting AFC's Investor Relations Department by calling (516) 327-7869 or in writing at the address specified on page 1 of this Proxy Statement.

### **Compensation Committee**

The Compensation Committee consists of Mr. Connors, as Chairman, and Messrs. Burger, Donahue, Palleschi, Powderly and Waters. The function of the Compensation Committee is to carry out the duties and responsibilities set forth in the Charter of the Compensation Committee, including but not limited to, (i) discharging the responsibilities of the Board relating to AFC's compensation and benefit plans and practices, including its executive compensation plans and its incentive compensation and equity-based plans; (ii) producing an annual Compensation Committee Report as required by the SEC for inclusion in AFC's proxy statements (see page 28); and (iii) otherwise assisting the Board in its oversight responsibilities with respect to the human resources, compensation and benefits activities of AFC and its subsidiaries. The Compensation Committee administers the Executive Incentive Plan, establishes target incentives and goals, and reviews performance relative to such goals pursuant to the Executive Incentive Plan. The Compensation Committee also administers the 1999 Stock Option Plan for Officers and Employees of Astoria Financial Corporation, referred to as the 1999 Officer Option Plan, the 2003 Stock Option Plan for Officers and Employees of Astoria Financial Corporation, referred to as the 2003 Stock Option Plan, and the 2005 Re-designated, Amended and Restated Stock Incentive Plan for Officers and Employees of Astoria Financial Corporation, referred to as the 2005 Stock Incentive Plan, including the granting of various forms of equity compensation pursuant to the 2005 Stock Incentive Plan. The Committee also administers the 1999 Stock Option Plan for Outside Directors of Astoria Financial Corporation, referred to as the 1999 Directors Option Plan, and the Astoria Financial Corporation 2007 Non-Employee Directors Stock Plan, referred to as the 2007 Directors Stock Plan. The committee meets as needed and met seven (7) times during 2008.

The Compensation Committee has the authority to establish compensation levels for the executive officers. It annually reviews director compensation. As a matter of practice, the actions of the Compensation Committee with respect to executive officer compensation and recommendations the Compensation Committee may make with respect to director compensation are reviewed by the Board at the next regular Board meeting for ratification and approval. The Compensation Committee may not delegate its authority. For a discussion of the role of the executive officers in determining or recommending the amount and form of executive officer and director compensation and the role and identity of compensation consultants utilized and the nature of the assignments undertaken, see Compensation Committee - Corporate Governance commencing on page 13, Compensation Committee Interlocks and Insider Participation commencing on page 21, Director Compensation commencing on page 22 and CD&A commencing on page 28. All members of the Compensation Committee are independent as determined by the Board and as such term is defined in the NYSE Listed Company Manual. For a discussion of director independence, see Director Independence commencing on page 10.

### **Corporate Governance**

Recommendations to the Compensation Committee of AFC with respect to executive and non-executive officers' salaries and other compensation components are presented by Mr. Engelke, Mr. Redman, other executive officers and Human Resources management. Recommendations concerning non-executive officer compensation are developed based in large part upon input from the executive officer to whom such officers report. Mr. Engelke and Mr. Redman also provide insight to the Compensation Committee regarding their performance and that of the other officers of AFC, both executive and non-executive. Mr. Engelke and Mr. Redman do not participate in the Committee's deliberations or approval of compensation issues relating to their own compensation.

During 2008, Mr. Engelke, Mr. Redman, Mr. Greenberg and Mr. Eggleston attended meetings of the Compensation Committee and assisted the Committee in the performance of its responsibilities relative to director and executive compensation. Among the matters discussed with the Compensation Committee by management were the following:

- i) proposed salary levels for all officers of AFC and the Association;
- ii) AFC's actual performance for 2007 and its projected performance for both 2008 and 2009;
- iii) AFC's actual incentive payouts for 2007 and proposed incentive compensation performance targets for 2008 and 2009;
- iv) equity grant awards made to directors and officers in January, 2008 and the methodology used to calculate said awards;
- v) levels of director compensation;
- vi) the Compensation Committee Report and CD&A contained in AFC's April 8, 2008 Proxy Statement
- vii) AFC's management succession plan;
- viii) an amendment to the Incentive Savings Plan designed to encourage greater participation by employees;
- ix) amendments to bring affected plans and employment and severance contracts into compliance with Section 409A of the Internal Revenue Code, referred to as the Code, relating to deferred compensation arrangements;
- x) amendments to bring employment and severance contracts into compliance with executive compensation restrictions contained in the U.S. Treasury's Troubled Asset Relief Program - Capital Purchase Program, based upon AFC's receipt of preliminary approval to participate in such program; and

- xi) retention of Hewitt Associates LLC, as compensation consultants, to (a) review the industry prevalence of certain incentive compensation exclusions, (b) review the change of control provisions of the executive officers' employment contracts, and (c) review and make recommendations with respect to the methodology used to calculate and the magnitude of equity grants to officers, including executive officer grants, occurring during February, 2009.

When officers attend Compensation Committee meetings, they do so at the invitation of the Committee. It is generally the practice of the Committee to meet in executive session following management participation in meetings to allow time for discussion without management present.

In addition, members of the Compensation Committee are provided complete and open access to all officers of AFC and the Association throughout the year. AFC and its executive management do not monitor or maintain records regarding the frequency or subject matter of such contacts outside of contacts with the executive officers.

In 2005, the Compensation Committee retained Watson Wyatt. Watson Wyatt was retained specifically to assist the Compensation Committee in developing a new equity grant program consistent with the authorization provided to the Compensation Committee pursuant to the shareholder approved 2005 Stock Incentive Plan. Watson Wyatt was also retained to advise the Compensation Committee regarding what adjustments might be typical with respect to Chief Executive Officer equity compensation grants or other forms of compensation, as AFC's Chief Executive Officer was at that time approaching AFC's mandatory retirement age or officers, which has since been abolished by the Board. In addition, Watson Wyatt was asked to advise the Compensation Committee regarding the potential termination or freezing of benefit accruals under the Employees Pension Plan, the Association Excess Benefit Plan, referred to as the Excess Plan, and the Association Supplemental Benefit Plan, referred to as the Supplemental Plan. The Employees Pension Plan, the Excess Plan and the Supplemental Plan are collectively referred to as the DB Plans.

As part of their assignment, Watson Wyatt reviewed the analysis undertaken by previous compensation consultants and conducted a comparative analysis of a "peer" group of companies. The companies included in the "peer" group were determined by Watson Wyatt following discussions with the Compensation Committee and the executive officers. The companies utilized by Watson Wyatt included TD Banknorth, Charter One Financial, Inc., Commerce Bancorp, Inc., Greenpoint Financial Corp., Hudson City Bancorp, Inc., Independence Community Bancorp, Indymac Bancorp, Inc., New York Community Bancorp, Inc., North Fork Bancorporation, Sovereign Bancorp, and Webster Financial Corporation.

In addition to reviewing the appropriateness of cash compensation paid to the Named Executives, identified under the CD&A, among others, Watson Wyatt advised the Compensation Committee on the appropriateness and competitiveness of the level of equity compensation provided to the Named Executives and the amount and structure of change of control related compensation.

In 2007, the Compensation Committee retained the services of Hewitt Associates LLC to conduct a competitive review of the compensation levels and composition for AFC's executive officers and to review the amount and structure of potential compensation for executive officers related to change of control. Hewitt's methodology consisted of both comparing AFC's executive compensation with a "peer" group of comparably sized thrift and banking institutions, and also comparing the positions held and functions performed by AFC's executives with comparable positions against a universe of financial services companies and regressing the resulting data statistically to account for size variations of AFC compared to this universe. This review, which was completed in December, 2007, was taken into account by the Compensation Committee in establishing the executive officers' compensation in 2008. The companies utilized by Hewitt Associates LLC as "peers" included Associated Banc-Corp, BOK Financial Corporation,

City National Corporation, Colonial BancGroup, Commerce Bancorp, Inc., Compass Bancshares, Inc., Downey Financial Corp., Hudson City Bancorp, Inc., Huntington Bancshares Incorporated, Indymac Bancorp, Inc., New York Community Bancorp Inc., Synovus Financial Corp., Webster Financial Corporation and Zions Bancorporation.

In 2008, the Compensation Committee retained Hewitt Associates LLC to advise the Compensation Committee regarding two issues. The first was the prevalence or not of excluding other than temporary impairment charges, referred to as OTTI charges, from the calculation net income determined appropriate for measuring executive and non-executive officer incentive compensation. The Compensation Committee had previously determined to exclude certain OTTI charges from 2008 incentive compensation calculations, and was considering reducing incentive compensation awards, if any, that resulted from an OTTI charge taken in 2008. See page 34 for a further discussion regarding this issue. Ultimately, no incentive awards were due based upon the financial performance of 2008 including the adjustments for the OTTI charge.

Hewitt Associates LLC was also asked to review AFC's methodology and magnitude of equity grants made to officers, both executive and non-executive, pursuant to the 2005 Stock Incentive Plan. Hewitt Associates LLC compared AFC's equity grant practices to long term incentive practices of a group of "peer" companies. The "peer" companies included Citadel Investment Group, LLC, CME Group, Inc., Colonial Bank, Compass Bank, Cullen/Frost Bankers, Inc., Downey Savings and Loan Association F. A., Huntington Bancshares Incorporated, John Deere Credit Company, M&T Bank Corporation, Marshall & Ilsley Corporation, National Rural Utilities cooperative Financial Corporation, Navy Federal Credit Union, Synovus Financial Corporation, UnionBanCal Corporation and Zions Bancorporation. The results of this review were taken into consideration by the Compensation Committee with respect to the equity grants made in February, 2009.

The only instruction provided to Watson Wyatt and Hewitt Associates LLC beyond the scope of their engagements, outlined above, was to direct that a preliminary draft of their report would be simultaneously delivered to both the Chairman of the Compensation Committee and to management. This process was established to ensure that the consultants were free from any interference from management in presenting their conclusions to the Compensation Committee's representative and so that management would be provided with an opportunity to review the report so that any errors or inaccuracies could be corrected by the consultants before a final report was presented to the Compensation Committee.

### **Nominating and Corporate Governance Committee**

The Nominating and Corporate Governance Committee consists of Mr. Palleschi, as Chairman, and Messrs. Burger, Conefry, Connors, Haeffner and Powderly. The function of the Nominating and Corporate Governance Committee is to carry out the duties and responsibilities set forth in the Charter of the Nominating and Corporate Governance Committee, including but not limited to, (i) assisting the Board in identifying individuals qualified to become Board members; (ii) recommending to the Board nominees for election to the Board; (iii) reviewing nominations for election to the Board made by shareholders of AFC pursuant to Article I, Section 6(c) of AFC's Bylaws; (iv) assisting the Board in developing and implementing a process to assess the effectiveness of individual Board members and of the Board and its committees collectively; (v) advising the Board with respect to Board and committee composition and procedures; (vi) developing, recommending to the Board and annually reviewing AFC's Corporate Governance Guidelines; and (vii) otherwise carrying out the duties, goals and responsibilities assigned to the Nominating and Corporate Governance Committee pursuant to AFC's Bylaws, the Corporate Governance Guidelines and the Committee's Charter. The Nominating and Corporate Governance Committee meets as needed and met three (3) times during 2008. All members of the Nominating and Corporate Governance Committee are

independent as determined by the Board and as such term is defined in the NYSE Listed Company Manual. For a discussion of director independence, see Director Independence commencing on page 10.

### **Audit Committee**

The Audit Committee consists of Mr. Donahue, as Chairman, and Messrs. Burger, Connors, Haeffner, Palleschi and Waters. The function of the Audit Committee is to oversee the accounting and financial reporting processes of AFC and audits of the financial statements of AFC and to carry out the duties and responsibilities set forth in the Charter of the Audit Committee, including but not limited to, (i) assisting Board oversight of: (a) the integrity of AFC's financial statements, (b) AFC's compliance with legal and regulatory requirements, (c) the qualifications and independence of AFC's independent registered public accounting firm, and (d) the performance of AFC's independent registered public accounting firm and the internal audit function; (ii) preparing an Audit Committee report as required by the U.S. Securities and Exchange Commission, referred to as the SEC, to be included in AFC's annual proxy statement (see page 59); and (iii) performing such other functions as shall be assigned to the Audit Committee by the Board. The Audit Committee also reviews (1) the scope and results of the audits and reviews performed by AFC's internal auditor and AFC's independent registered public accounting firm, (2) the internal controls and accounting systems and policies of AFC, (3) the basis for certain reports to the Association's regulatory authorities, and (4) reports of examination of AFC and the Association issued by the Office of Thrift Supervision or other regulatory authorities. The Board has determined that Messrs. Donahue and Palleschi are audit committee financial experts. They and all other members of the Audit Committee have been determined by the Board to be independent as defined in the NYSE Listed Company Manual. For a discussion of director independence, see Director Independence commencing on page 10. While the Board has not directly limited the number of audit committees of other public companies on which an Audit Committee member may sit, the Board has limited, within AFC's Corporate Governance Guidelines, Board member service on the boards of directors of other public companies to no more than two other boards of directors. The Audit Committee meets, at a minimum, on a quarterly basis, and met eight (8) times during 2008. For additional information regarding Audit Committee activities, see Report of the Audit Committee commencing on page 59.

### **Transactions with Certain Related Persons**

AFC maintains a written policy, which is set forth in its Code of Business Conduct and Ethics, detailing its approval process for related party transactions. Under the written policy, loans and extensions of credit by the Association to directors and executive officers of AFC must be approved by the Association's Board. The written policy also mandates that the following business dealings must be approved by the Board, with the officer or director who is interested or related to the interested party refraining from participating in the consideration or determination of the matter: (i) any transaction to purchase or lease from, jointly own with, or sell or lease to, a related party real or personal property, directly or indirectly; (ii) the use of our personnel, facilities, or real or personal property for other than AFC's benefit; (iii) the payment by AFC of commissions and/or fees, including, but not limited to, brokerage commissions or investment banking, management, consulting, architectural or legal fees; and (iv) service agreements. The Code of Business Conduct and Ethics is posted on AFC's Investor Relations website at <http://ir.astoriafederal.com> under the heading Corporate Governance. Shareholders may request a printed copy of such document by contacting AFC's Investor Relations Department by calling (516) 327-7869 or in writing at the address specified on page 1 of this Proxy Statement.

AFC does not engage in loan transactions with its directors or executive officers or members of their families. With the exception of the ESOP, AFC does not engage in loan or other transactions with holders of five percent (5%) or more of the shares of any class of its common stock.

The Association maintains the ESOP, which is a defined contribution pension plan, for the benefit of its eligible employees. To fund the purchase of the AFC Common Stock held by the ESOP, the ESOP borrowed funds from AFC. The ESOP loans, as of January 1, 2008, had an outstanding principal balance of \$30,753,601.18, bear an interest rate of 6.00%, mature on December 31, 2029 and are collateralized by the unallocated AFC Common Stock purchased with the loan proceeds. The Association makes scheduled contributions to fund debt service. The Association's contributions, prior to 2010, may be reduced by dividends paid on unallocated shares and investment earnings realized on such dividends. Beginning in 2010, dividends paid on unallocated shares will be credited to participant accounts as investment earnings. Dividends paid on unallocated shares, which reduced the Association's contribution to the ESOP, totaled \$6.0 million for the year ended December 31, 2008. The ESOP loans had an aggregate outstanding principal balance of \$28,564,650.58 as of the Record Date. The principal amount paid on such loans during 2008 amounted to \$2,188,950.60, while the interest paid was \$1,845,216.07.

The AFC Common Stock purchased by the ESOP is held in trust for allocation among participants as the loans are repaid. Pursuant to the loan agreements, the number of shares allocated annually is based upon a specified percentage of aggregate eligible payroll for the Association's covered employees. Shares of AFC Common Stock allocated to participants totaled 548,723 for the year ended December 31, 2008. Through December 31, 2008, a total of 9,855,894 shares have been allocated to participants. As of December 31, 2008, 5,212,668 shares of AFC Common Stock, which had a fair value of \$85.9 million, remain unallocated and collateralize the repayment of the ESOP loans.

For additional information regarding the ESOP, see Security Ownership of Certain Beneficial Owners commencing on page 4, Security Ownership of Management commencing on page 20 and Note 14 to the Consolidated Financial Statements.

The Association is a federally chartered savings and loan association and engages in the lending business. All loan transactions between the Association and the directors and executive officers of AFC or the Association, members of their families, and holders of five percent (5%) or more of the shares of any class of AFC's stock, and affiliates thereof, have been made either in accordance with the Association's Employee & Director Mortgage & Home Equity Loan Policy, discussed more fully below, or:

- i) were made only in the ordinary course of AFC's and the Association's businesses,
- ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to AFC or the Association, and
- iii) did not involve more than the normal risk of collectibility or present other unfavorable features.

As noted above, the Association maintains an Employee & Director Mortgage & Home Equity Loan Policy pursuant to which certain employees, officers and directors of the Association are eligible for certain discounts on residential mortgage loans and home equity loans made by the Association.

Pursuant to the Employee & Director Mortgage & Home Equity Loan Policy, all full time employees, officers and directors of the Association in good standing and having at least two years of service are eligible to obtain discounts on certain mortgage and home equity loans provided by the Association. The discount is available only on loans secured by the participant's owner-occupied, primary residence. The discount is not available on mortgage loan products which are not intended to be held in portfolio by the Association. The loans must, in all respects, satisfy all normal underwriting parameters applicable to non-

affiliated customers. Such loans may not involve more than the normal risk of collection or present other unfavorable features.

For eligible mortgage loans, the following discounts are provided:

- i) discount/origination fees, up to a maximum of 2% of the loan amount, if applicable, are waived at closing;
- ii) underwriting and document preparation fees, if applicable, are waived at closing; and
- iii) the interest rate is adjusted as follows:
  - a) on fixed rate loans, the applicable interest rate is lowered by .50%;
  - b) on one year adjustable rate mortgage loans, the initial rate is the rate offered to the public for comparable loans, but the margin used to calculate future interest rates, upon adjustment, is reduced by .50% (the Association does not currently offer this product); and
  - c) on other adjustable rate mortgage loans, both the initial rate and the margin used on future rate adjustments are reduced by .50%.

For fixed rate home equity loans, the interest rate is reduced by .50%. No discounts are provided on home equity lines of credit.

Once a discounted mortgage loan is obtained, it may be refinanced through use of the Association's refinance programs once within the first ten years and the discounts will continue to be available. After ten years, the property can be refinanced one time with new discounts applied.

The interest rate discounts continue to apply so long as the participant continues in the service of the Association, or after the participant ceases service due to disability, death or retirement at or after age 55 with at least ten years of service. In the event of death, the benefit is available to the participant's spouse for as long as the spouse occupies the principal residence. Upon retirement, no discounts are allowed on refinances of any kind or if a new primary residence is purchased.

The following directors and executive officers have received the benefit of interest rate or other discounts during 2008 as specified in the Association's Employee & Director Mortgage & Home Equity Loan Policy:

<u>Name</u>	<u>Interest Rate Payable on Indebtedness (%)(1)</u>	<u>Highest Aggregate Amount of Indebtedness Outstanding since January 1, 2008 (\$)</u>	<u>Principal Balance outstanding as of the Record Date (\$)</u>	<u>Amount of Principal Paid on Indebtedness during 2008 (\$)</u>	<u>Amount of Interest Paid On Such Indebtedness during 2008 (\$)</u>
Frank E. Fusco	4.500	219,057	212,960	4,635	13,164
Peter C. Haeffner	4.625	349,991	349,991	0	13,271
Thomas V. Powderly	4.500	270,062	259,210	8,633	11,976
Leo J. Waters	4.875	267,654	267,654	0	13,048

- (1) Mr. Fusco's loan is an adjustable rate mortgage loan. His interest rate adjusted, according to the loan's terms, during 2008. Mr. Haeffner refinanced his loan effective August 1, 2008 and at such time was still eligible for a discount with respect to his loan. The interest rate reflected in the table above is the rate in effect as of December 31, 2008.

All loans outstanding to the directors, Board Nominees or executive officers of AFC or members of their immediate families were made in conformity with the Association's policies in this regard and have not been classified as non-accrual, past due, restructured or potential problem loans. All such loans are subject to and comply with the insider lending restrictions of Section 22(h) of the Federal Reserve Act (12 U.S.C. §375b).

Mr. Connors, a director and Chairman of the Compensation Committee of AFC and the Association, has a relationship with Curran and Connors, Inc., a company utilized by AFC to assist in the preparation of its annual report to shareholders. For additional information regarding this relationship, see Compensation Committee Interlocks and Insider Participation commencing on page 21.

## Security Ownership of Management

The following table sets forth information concerning the interests in AFC Common Stock as of the Record Date of each director and Board Nominee of AFC, each Named Executive and all directors and executive officers of AFC as a group. For purposes of the Annual Meeting, AFC Common Stock is the only AFC voting stock outstanding.

<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership (1)(2)</u>	<u>Percent of Class (3)</u>
George L. Engelke, Jr.	4,157,602 (4)	4.28
Gerard C. Keegan	1,051,311(5)	
Andrew M. Burger	118,302 (6)	
John J. Conefry, Jr.	78,033 (7)	
Denis J. Connors	98,301 (8)	
Thomas J. Donahue	206,572 (9)	
Peter C. Haeffner, Jr.	53,043 (10)	
Ralph F. Palleschi	94,299 (11)	
Thomas V. Powderly	33,299 (12)	
Leo J. Waters	47,649 (13)	
Monte N. Redman	1,662,702 (14)(15)	1.71
Gary T. McCann	600,750(16)	
Frank E. Fusco	526,583 (14)(17)	
All directors, Board Nominees and executive officers as a group (15 persons)	22,399,439(14)(18)	11.18

- (1) Except as otherwise indicated, each person listed has sole voting and investment power with respect to the shares of AFC Common Stock indicated.
- (2) Included are shares of AFC Common Stock which could be acquired within 60 days of the Record Date pursuant to options to acquire AFC Common Stock as follows: Mr. Engelke (2,580,423 shares), Mr. Keegan (739,400 shares), Mr. Burger (24,000 shares), Mr. Conefry (24,000 shares), Mr. Connors (48,000 shares), Mr. Donahue (48,000 shares), Mr. Haeffner (30,000 shares), Mr. Palleschi (36,000 shares), Mr. Powderly (6,000 shares), Mr. Waters (40,350 shares), Mr. Redman (960,628 shares), Mr. McCann (390,609 shares), Mr. Fusco (336,173 shares) and all directors, Board Nominees and executive officers as a group (6,557,119 shares).
- (3) Except as otherwise indicated, the percent of class beneficially owned does not exceed one percent (1.00%).
- (4) Included are 46,680 shares of AFC Common Stock as to which Mr. Engelke has shared voting and investment power, 236,020 shares of AFC Common Stock as to which he has sole voting and no investment power and 34,150 shares of AFC Common Stock as to which he has shared voting and sole investment power. Mr. Engelke has pledged 1,230,279 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (5) Included are 57,138 shares of AFC Common Stock as to which Mr. Keegan has shared voting and investment power and 155,020 shares of AFC Common Stock as to which he has sole voting and no investment power.
- (6) Included are 37,500 shares of AFC Common Stock as to which Mr. Burger has shared voting and investment power and 7,299 shares of AFC Common Stock as to which he has sole voting and no investment power. Mr. Burger has pledged 118,302 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.



- (7) Included are 7,299 shares of AFC Common Stock as to which Mr. Conefry has sole voting and no investment power. Mr. Conefry has pledged 44,991 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (8) Included are 75,000 shares of AFC Common Stock as to which Mr. Connors has shared voting and investment power and 7,299 shares of AFC Common Stock as to which he has sole voting and no investment power. Mr. Connors has pledged 43,000 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (9) Included are 151,272 shares of AFC Common Stock as to which Mr. Donahue has shared voting and investment power and 7,299 shares of AFC Common Stock as to which he has sole voting and no investment power. Mr. Donahue has pledged 102,547 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (10) Included are 500 shares of AFC Common Stock as to which Mr. Haeffner has shared voting and investment power and 7,299 shares of AFC Common Stock as to which he has sole voting and no investment power. Mr. Haeffner has pledged 15,744 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (11) Included are 7,299 shares of AFC Common Stock as to which Mr. Palleschi has sole voting and no investment power. Mr. Palleschi has pledged 51,000 shares of AFC Common pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (12) Included are 20,000 shares of AFC Common Stock as to which Mr. Powderly has shared voting and investment power and 7,299 shares of AFC Common Stock as to which he has sole voting and no investment power.
- (13) Included are 7,299 shares of AFC Common Stock as to which Mr. Waters has sole voting and no investment power.
- (14) Messrs. Redman and Fusco are among the trustees and members of the Committees. The Committees are each composed of the same five individual members. The shared membership of the Committees may constitute an arrangement or relationship that results in indirect beneficial ownership by each of them under Rule 13d-3(a) of the Exchange Act of those shares beneficially owned by each of the others. Each of the trustees and members of the Committees disclaims membership in a group and affirms that they have not agreed to act together with any of the others for any purpose of acquiring, holding, voting or disposing of the AFC Common Stock. Each of the Committees acts by majority vote of their five members and no member of any of the Committees may act individually to vote or dispose of shares of the AFC Common Stock by means of their membership in any or all of the Committees. The ESOP claims beneficial ownership of, and shared voting and dispositive power with respect to, 9,964,520 shares of AFC Common Stock as of December 31, 2008. The Committees claim sole voting and dispositive power with respect to 773,308 shares of AFC Common Stock, shared voting power with respect to 810,115 shares of AFC Common Stock and shared dispositive power with respect to 10,774,635 shares of AFC Common Stock as of December 31, 2008. The amount shown for all directors, Board Nominees and executive officers as a group includes 11,547,943 shares beneficially owned by the Committees. See Security Ownership of Certain Beneficial Owners commencing on page 4.
- (15) Included are 48,539 shares of AFC Common Stock as to which Mr. Redman has shared voting and investment power, 257,150 shares of AFC Common Stock as to which he has sole voting and no investment power and 25,804 shares of AFC Common Stock as to which he has shared voting and sole investment power. Mr. Redman has pledged 366,598 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (16) Included are 68,221 shares of AFC Common Stock as to which Mr. McCann has shared voting and investment power, 140,480 shares of AFC Common Stock as to which Mr. McCann has sole voting and no investment power and 1,440 shares of AFC Common Stock as to which Mr. McCann has shared voting and sole investment power.
- (17) Included are 38,784 shares of AFC Common Stock as to which Mr. Fusco has shared voting and investment power and 117,060 shares of AFC Common Stock as to which he has sole voting and no investment power. Mr. Fusco has pledged 28,586 shares of AFC Common Stock pursuant to a margin account arrangement. The margin balance outstanding, if any, pursuant to such arrangement may vary from time to time.
- (18) Included are 1,649,358 shares of AFC Common Stock as to which all directors, Board Nominees and executive officers, as a group, have shared voting power, and 11,450,509 shares of AFC Common Stock as to which all directors, Board Nominees and executive officers, as a group, have shared investment power.

## **Compensation Committee Interlocks and Insider Participation**

The directors who serve as members of the Compensation Committee are disclosed in the section entitled Committees and Meetings of the Board - Compensation Committee commencing on page 13. All such members of the Compensation Committee served throughout 2008. No members of the Compensation Committee are former employees of AFC or the Association. Mr. Powderly and Mr. Waters are members of the Compensation Committee, who during 2008, each had a loan secured by his principal residence and received a benefit under the Association's Employee & Director Mortgage & Home Equity Loan Policy. See Transactions with Certain Related Persons commencing on page 17 for further information regarding the Association's Employee & Director Mortgage & Home Equity Loan Policy and information concerning such loans.

In 2008, Denis J. Connors, a director and Chairman of the Compensation Committee of AFC and the Association, served as Chief Executive Officer of Curran and Connors, Inc., a designer and publisher

of annual reports. Mr. Connors also served upon the Board of Directors of Curran and Connors, Inc. Curran and Connors, Inc. has been retained by AFC to assist AFC in the preparation and publication of its annual reports to shareholders. In 2008, Curran and Connors, Inc. was paid approximately \$170,000 in fees for the production of AFC's annual report, inclusive of printing costs which are passed through from Curran and Connors, Inc. to the printer. These fees did not exceed 2% of Curran and Connors, Inc.'s consolidated gross revenue for 2008.

There were no other transactions or relationships involving members of the Compensation Committee requiring disclosure in this Proxy Statement. During 2008, none of AFC's executive officers served as a director or member of the compensation committee (or equivalent body) of another entity where a director or member of AFC's Compensation Committee served as an executive officer or director.

## **Director Compensation**

The following section sets forth information regarding director compensation.

### **Directors' and Other Fee Arrangements**

All non-employee directors of AFC receive an annual retainer of \$22,000. No additional fees for attendance at Board meetings are paid. All members of the Board also serve as directors of the Association. All non-employee directors of the Association receive an annual retainer of \$44,000. No additional fees for attendance at Association Board of Directors meetings are paid. The Chairman of the Audit Committee of AFC and the Association receives an additional annual retainer of \$15,000 in the aggregate and all members of the Audit Committee receive a \$1,000 fee per Audit Committee meeting attended. The Chairman of the Nominating and Corporate Governance Committee of AFC and the Association receives an additional annual retainer of \$10,000 in the aggregate and all members of the Nominating and Corporate Governance Committee receive a \$1,000 fee per Nominating and Corporate Governance Committee meeting attended. The Chairman of the Compensation Committee of AFC and the Association receives an additional annual retainer of \$10,000 in the aggregate and all members of the Compensation Committee receive a \$1,000 fee per Compensation Committee meeting attended. Typically, committee meetings of AFC and the Association are held as joint meetings and only a single meeting attendance fee is paid.

The aggregate of fees paid to each director for his service as a director of both AFC and the Association is reflected in the Fees Earned or Paid in Cash column of the 2008 Director Compensation Table on page 27.

### **Directors' Option Plans**

AFC maintains the 1999 Directors Option Plan pursuant to which non-employee directors of AFC and the Association have been granted options on terms previously approved by the shareholders of AFC.

In May 2007, the shareholders of AFC approved the 2007 Directors Stock Plan. As a result, the 1999 Director Option Plan was frozen such that no further options will be granted under the 1999 Director Option Plan.

The purpose of the 1999 Directors Option Plan was to promote the growth and profitability of AFC, to provide directors of AFC and affiliates with an incentive to achieve corporate objectives, to attract and retain key directors of outstanding competence and to provide such directors with an equity

interest in AFC.

Pursuant to the 1999 Directors Option Plan, each person who first became a non-employee director of AFC or the Association after May 19, 1999 was granted, on the 15th day of the month following the month in which he or she became a non-employee director, an option to purchase 12,000 shares of AFC Common Stock at an exercise price per share equal to the final quoted sale price for AFC Common Stock, excluding after-hours trading, on the NYSE on the date of grant. In addition, on January 15th of each succeeding year, or the following business day if January 15<sup>th</sup> was not a business day, each person who was then a non-employee director received a grant of an option to purchase an additional 6,000 shares of AFC Common Stock at an exercise price per share equal to the final quoted sale price for AFC Common Stock, excluding after-hours trading, on the NYSE on the date of grant.

All options granted pursuant to the 1999 Directors Option Plan vested upon grant and expire upon the earlier of 10 years following the date of grant or one year following the date the director ceases to be a director for any reason other than removal for cause, in which case the director's options immediately terminate.

### **2007 Directors Stock Plan**

In May 2007, the shareholders of AFC approved the 2007 Directors Stock Plan. This plan provides for annual grants to non-employee directors of restricted stock having a fair market value, as defined in the plan, equal to \$45,000 at the time of the grant. Such grants commenced in 2008 and are made annually on the third business day following AFC's release of its prior year annual financial results. The plan also provides for discretionary grants. No discretionary grants have been made pursuant to the plan.

The shares awarded pursuant to the 2007 Directors Stock Plan vest three years after the date of the award or, if earlier, upon the director's death, mandatory retirement, in the event of a change of control or in the event a director incurs an involuntary termination from the Board, as defined in the plan.

Upon award, shares granted pursuant to the 2007 Directors Stock Plan have both voting rights and the right to receive dividends.

### **Directors' Retirement Plan**

The Directors' Retirement Plan provides retirement benefits for directors of AFC or the Association with at least 10 years of service who are not and have not been employees of AFC, the Association or any of their predecessors in interest. This excludes Mr. Engelke, Mr. Keegan, Mr. Conefry, and Mr. Powderly from participation in the plan. In 1999, participation in the Directors' Retirement Plan was frozen such that any director who joins the Board of Directors of AFC or the Association after March 1, 1999 will not be eligible to participate in the Directors' Retirement Plan.

Benefits under the Directors' Retirement Plan vest at a 50% level once an eligible director completes 10 years of service. Vesting increases by 5% each additional year of service thereafter with 100% vesting after 20 years of service. Service on the Board of Directors of companies merged into AFC or the Association is counted as eligible service under the Directors' Retirement Plan. Any benefit which a director receives pursuant to a retirement plan for service on the Board of Directors of a company merged into AFC or the Association acts as an offset against the benefit due the director pursuant to the Directors' Retirement Plan.

The basic benefit payable under the Directors' Retirement Plan is a monthly benefit for the life of the director (or an alternative form of benefit described below in the case of the director's death) commencing on the earlier of (a) retirement from the Boards of Directors of AFC and the Association or age 65, whichever is later, (b) the date the director ceases to serve on the Boards of Directors due to disability, as defined in the Plan, or (c) death of the director, which basic benefit, on an annual basis, is equal to the sum of (i) the annual retainers paid by AFC and the Association to their directors at the time the director leaves the service of such Boards, (ii) any annual retainers the director was receiving from AFC and the Association for service as the chairman of a committee of the Boards of AFC or the Association at the time the director leaves the service of such Boards, and (iii) a sum equal to the meeting fees paid to the director for committee meeting attendance in the year preceding the director leaving the service of such Boards. Within the first 30 days of eligibility under the plan, a director is generally allowed to elect between alternate forms of benefit payment for their benefits under the Directors' Retirement Plan. The alternate forms of benefit, in addition to the single life annuity described above, were (i) a 10 year certain annuity, (ii) a joint and survivor annuity with the director's spouse, and (iii) a lump sum payment. The amount of the alternate forms of benefit is calculated to be actuarially equivalent to the basic single life annuity benefit described above. For other directors entitled to receive benefits under director retirement plans established by companies merged into AFC or the Association, the director was required to select a form of benefit payment under the Directors' Retirement Plan that is the same as the form provided pursuant to the plan established by the company merged into AFC or the Association, i.e. a joint and 100% survivor annuity in the case of Mr. Haeffner., and a 10 year certain annuity for Mr. Waters. Directors, including Mr. Waters, who is a participant in the LIB Director Retirement Plan, were allowed, on or before December 31, 2008, to make a one-time election of a lump sum benefit at the later of January 1, 2009 or the benefit commencement date specified in the plan.

At the time of The Greater Acquisition, The Greater maintained The Retirement Plan of The Greater New York Savings Bank for Non-Employee Directors, or The Greater Director Retirement Plan. Pursuant to the terms of The Greater Director Retirement Plan, Mr. Haeffner became entitled to and commenced, at the time of The Greater Acquisition, receiving a \$24,000 per year retirement benefit payable in the form of a joint and survivor life annuity with his spouse. At the time of The Greater Acquisition, AFC and the Association assumed The Greater's obligations under The Greater Director Retirement Plan. The amount received during 2008 by Mr. Haeffner, as a result of this benefit, has been included in the All Other Compensation column of the 2008 Director Compensation Table on page 27.

At the time of the LIB Acquisition, LIB maintained The LIB Non-Employee Directors' Benefit Plan, or the LIB Director Retirement Plan. Pursuant to the terms of the LIB Director Retirement Plan, Mr. Waters became entitled at the time of the LIB Acquisition to receive, upon retirement, a \$21,600 per year retirement benefit payable in the form of a ten year certain annuity. At the time of the LIB Acquisition, AFC and the Association assumed LIB's obligations under the LIB Director Retirement Plan.

In the event of a change of control, as defined in the Directors' Retirement Plan, eligible directors will receive service credit through the balance of their then current term as a director. On or before December 31, 2008, eligible directors were required to make a one-time election whether, in the event of a change of control, their benefits due pursuant to the Directors' Retirement Plan would be paid to the director in a lump sum or transferred into a rabbi trust to be established at the time of the change of control and paid pursuant to the original alternate form benefit election.

The directors who are eligible to participate in the Directors' Retirement Plan, at this time, have the following vesting percentage: Mr. Burger - 100%, Mr. Connors - 90%, Mr. Donahue - 90%, Mr. Haeffner - 80%, Mr. Palleschi - 60%, and Mr. Waters - 90%.

Included in the 2008 Director Compensation Table, set forth on page 27, under the Change in Pension Value and Nonqualified Deferred Compensation Earnings column is the change in the actuarial value during 2008 attributable to each of the directors who participates in the Directors' Retirement Plan based upon the same assumptions utilized for financial statement reporting in the Consolidated Financial Statements. Also included in the 2008 Director Compensation Table, set forth on page 27 under the Change in Pension Value and Nonqualified Deferred Compensation Earnings column, is the change in the actuarial value during 2008 attributable to Mr. Haeffner's participation in The Greater Director Retirement Plan and Mr. Waters' participation in the LIB Director Retirement Plan. For further information regarding the assumptions utilized and changes in such assumptions from time to time, see Note 14 to the Consolidated Financial Statements. Pursuant to SEC regulations, AFC is not allowed to disclose in the Director Compensation Table a change in pension value that is less than zero even though for financial statement purposes AFC may accrue the actual change. The actual change in actuarial value with respect to Mr. Burger reflected a decline in value during 2008.

### **Directors Deferred Compensation Plan**

Prior to December 31, 2008, pursuant to the Directors Deferred Compensation Plan, non-employee directors of either AFC or the Association could elect to defer receipt of all or any part of their directors' fees. Deferred fees are carried on the books of AFC as an unfunded obligation and are credited with interest quarterly at a rate equal to the average of AFC's consolidated cost of funds and yield on investments for the preceding quarter, unless the cost of funds exceeds the yield on investments, in which case the rate is based upon the preceding quarter's consolidated yield on investments.

Pursuant to applicable SEC regulations, the rate of interest credited to participating directors' accounts pursuant to the Directors Deferred Compensation Plan for 2008 was not an above-market rate and, therefore, is not reflected in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the 2008 Director Compensation Table set forth on page 27.

In the event of a change of control of AFC or the Association, each participating director could elect that his fees, with accrued interest, be placed in a grantor trust established for the benefit of the director, applied to the purchase of an insurance company annuity contract, or be paid directly by AFC or its successor.

The Directors Deferred Compensation Plan was frozen as of December 31, 2008 so that no additional participants are allowed. At that time, the only active participant, Mr. Haeffner, elected to receive his deferred compensation plan balance in two installments, payable on January 1, 2009 and January 1, 2010.

### **Directors' Death Benefit**

This plan provides that if a non-employee director dies while in service as a director of AFC or the Association, the director's designated beneficiary will receive from AFC a payment equal to one year's directors' fees, including annual retainers, meeting attendance fees and committee chairman retainers, at the rate in effect immediately preceding his or her death. If a director leaves the service of AFC and the Association for any reason other than death, all rights to any benefit under this plan cease. This is an unfunded benefit for which AFC does not accrue an expense. Therefore, no amount has been reflected in the 2008 Director Compensation Table set forth on page 27 for the value of this obligation.

Effective January 1, 2009, active participants in the Directors Retirement Plan were excluded

from eligibility for this benefit.

### **Travel Expenses and Other Perquisites**

AFC and the Association pay or reimburse directors for their travel expenses, including lodging, for attendance at meetings of the Board of Directors and committees of AFC, the Association or their subsidiary companies on which directors may serve and at other business-related functions. Included in the All Other Compensation column of the 2008 Director Compensation Table set forth on page 27 is the cost associated with travel and lodging expenses incurred by AFC for the directors' attendance at meetings at AFC's corporate headquarters.

From time to time, directors' spouses are invited to attend business-related functions away from AFC's corporate headquarters with respect to which participation by the directors and their spouses is expected and/or encouraged. These have included a holiday party with senior officers of the Association and their guests, director and executive retreats, director educational programs and other industry-related functions. Pursuant to SEC regulations, the attendance of a director's spouse at these functions is considered a perquisite. The estimated incremental cost to AFC of having a spouse attend such functions is included in the All Other Compensation column of the 2008 Director Compensation Table set forth on page 27. AFC believes that having the directors' spouses attend such functions as invited guests of the Association serves the business purposes of the Association and AFC by reinforcing the collegiality of the Board, resulting overall in a more efficient and productive Board.

AFC maintains a fractional lease on a corporate aircraft for use by its executives for business purposes only. Personal use of the aircraft is not allowed. The use of this aircraft by the executives is viewed by AFC as integrally and directly related to their job performance. As a result, this use is not viewed as a perquisite to the executives as defined by SEC regulations. See the CD&A, commencing on page 28 and the Summary Compensation Table on page 40.

When an executive officer is traveling on business utilizing the corporate aircraft and room is otherwise available on the aircraft, directors traveling on AFC's business and the directors' spouses traveling with the directors may accompany the executive on such business. While such use of the aircraft by the director and the director's spouse is considered a perquisite pursuant to SEC regulations, no value has been ascribed to such usage with respect to the directors in the 2008 Director Compensation Table set forth on page 27, as there is no incremental cost to AFC for such usage.

The directors are allowed to receive discounts on certain loans secured by their primary residence pursuant to the Association's Employee & Director Mortgage & Home Equity Loan Policy. For a detailed description of this policy, see the Transactions with Certain Related Persons commencing on page 17. The amount of any discounted interest rate or fees below what an unaffiliated customer would have been required to pay under similar circumstances during 2008 has been determined by the SEC staff not to be compensation and, therefore, is not included in the All Other Compensation column of the 2008 Director Compensation Table, set forth on page 27.

The following Table sets forth details regarding compensation provided to the directors of AFC for the fiscal year ended December 31, 2008.

**2008 Director Compensation Table**

	<b>Fees Earned Or Paid in Cash</b>	<b>Stock Awards</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings</b>	<b>All Other Compensation</b>	<b>Total</b>
<b><u>Name</u></b>	<b><u>\$(1)</u></b>	<b><u>\$(2)</u></b>	<b><u>\$(3)</u></b>	<b><u>\$(4)</u></b>	<b><u>\$(5)</u></b>
Andrew M. Burger	84,000	29,105	0	3,107	116,212
John J. Conefry, Jr.	69,000	13,744	0	6,212	88,956
Denis J. Connors	94,000	13,744	77,279	10,795	195,818
Thomas J. Donahue	96,000	13,744	71,912	8,495	190,151
Peter C. Haeffner, Jr.	77,000	13,744	24,743	49,160	164,647
Ralph F. Palleschi	95,000	13,744	40,824	4,481	154,049
Thomas V. Powderly	75,000	13,744	0	16,823	105,567
Leo J. Waters	82,000	29,105	61,211	8,746	181,062

- (1) Fees Earned or Paid in Cash represent fees earned by directors for the annual retainer paid by AFC, the annual retainer paid by the Association, committee meeting attendance fees, and fees for service as committee chairmen, as applicable. See the discussion on page 22 entitled Directors' and Other Fee Arrangements.
- (2) This column represents the dollar amount recognized in accordance with SFAS 123R for financial statement reporting purposes with respect to the 2008 fiscal year for restricted stock awards made to the directors pursuant to the 2007 Directors Stock Plan. These amounts reflect AFC's accounting expense for these awards, and do not correspond to the actual value that has been or will be recognized by the directors. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures relating to service-based vesting conditions. The fair value of restricted stock awards is calculated using the closing price of AFC Common Stock as quoted on the NYSE on the date of the award. For additional information, see note 15 to the Consolidated Financial Statements.
- (3) Pursuant to SEC regulations, Mr. Burger's change in pension value is disclosed as \$0.00 because the change in the actuarial value of his benefit from December 31, 2007 to December 31, 2008 was a negative \$28,358. As a non-employee director of LIB, Mr. Waters participated in the LIB Director Retirement Plan. Also, included in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column with respect to Mr. Waters is the change in actuarial value during 2008 with respect to his interest in such plan. As a non-employee director of The Greater, Mr. Haeffner participated in The Greater Director Retirement Plan. Also, included in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column with respect to Mr. Haeffner is the change in actuarial value during 2008 with respect to his interest in such plan.
- (4) All Other Compensation for each director, except Mr. Burger, includes travel expenses to attend onsite meetings of the Board and, except for Mr. Conefry, spousal travel and entertainment expenses for spouses' attendance at AFC and Association-related functions. All Other Compensation for each director also includes dividends on restricted stock grants. Mr. Haeffner participated in the Directors Deferred Compensation Plan described above. Pursuant to SEC regulations, the interest rate paid in 2008 with respect to his balances in the Directors Deferred Compensation Plan was not a preferential rate and, therefore, no amount has been included under the All Other Compensation column with respect to this sum. Mr. Haeffner receives medical and dental benefits pursuant to a post-retirement medical plan provided to the non-employee directors of The Greater, the premiums for which in 2008 were \$16,376 and \$1,259, respectively. As a former non-employee director of The Greater, he also receives a pension payment pursuant to The Greater Director Retirement Plan. That payment equaled \$24,000 in 2008.

## Executive Compensation

*The information set forth in the Compensation Committee Report shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, referred to as the Securities Act, or the Exchange Act, except to the extent that AFC specifically incorporates this information by reference, and otherwise shall not be deemed "soliciting materials" or to be "filed" with the SEC or subject to Regulations 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Exchange Act.*

## **Compensation Committee Report**

- 1) The Compensation Committee has reviewed and discussed the CD&A required by Item 402(b) (SEC Regulation, Section 229.402(b)) with management; and
- 2) Based on the review and discussion referred to in Paragraph 1 above, the Compensation Committee recommended to the Board of Directors of AFC that the CD&A be included in this Proxy Statement on Schedule 14A (SEC Regulation, Section 240.14a-101).

## **Compensation Committee of AFC**

Denis J. Connors, Chairman  
Andrew M. Burger  
Thomas J. Donahue

Ralph F. Palleschi  
Thomas V. Powderly  
Leo J. Waters

## **Compensation Discussion and Analysis**

Under rules established by the SEC, AFC is required to provide certain data and information regarding the compensation and benefits provided to AFC's Chief Executive Officer, Chief Financial Officer and certain other executives of AFC. The disclosure requirements for the Chief Executive Officer and such other executives include the use of tables and the CD&A. The CD&A is intended to review the compensation awarded to, earned by or paid to the Named Executives. This review explains all material elements of AFC's compensation of the Named Executives and describes the objectives of AFC's compensation programs, what the program is designed to reward, each element of compensation, why AFC chooses to pay each element, how AFC determines the amount, and, where applicable, the formula for each element, and how each element and AFC's decisions regarding that element fit into AFC's overall compensation objectives and affect decisions regarding other elements. The Named Executives include the Chief Executive Officer, the Chief Financial Officer and AFC's three most highly compensated executive officers other than the Chief Executive Officer and the Chief Financial Officer of AFC as of December 31, 2008. The Named Executives of AFC are George L. Engelke, Jr., Monte N. Redman, Gerard C. Keegan, Gary T. McCann and Frank E. Fusco.

## **Executive Compensation Philosophy**

The primary objective of the executive compensation program of AFC and the Association is to attract and retain highly skilled and motivated executive officers to manage AFC in a manner to promote prudent growth and profitability and advance the interests of its shareholders.

The compensation program is designed to provide levels of compensation which are competitive and reflective of the organization's performance in achieving its goals and objectives, both financial and non-financial, as determined in its business plan. The program aligns the interests of the executives with those of the shareholders of AFC by providing a proprietary interest in AFC, the value of which can be significantly enhanced by the appreciation of AFC Common Stock. The program also seeks to adequately provide for the needs of the executives upon retirement, based upon their compensation levels, length of service provided to AFC and the Association and the appreciation of AFC Common Stock.

The Named Executives are highly skilled and experienced in the management of thrift institutions. Mr. Engelke, Mr. Redman and Mr. Keegan each has in excess of thirty (30) years experience in the thrift industry and in excess of fifteen (15) years experience in executive management responsible



for managing AFC, the Association and/or other thrift institutions. Mr. Fusco and Mr. McCann each has over 15 years of thrift and management experience as a senior officer of AFC or the Association. All have extensive management experience and extensive banking and non-banking training. All have extensive experience in the management of a public company, and all have a commitment to excellence, prudent operations and promoting the interests of shareholders.

Given the experience of the executives, their proven track record of performance at AFC and the investment AFC and the Association have made in these individuals, their retention is important. AFC has taken a number of steps to further this goal, such as entering into employment contracts with each of the Named Executives, providing vesting periods for equity grants and awards, as well as retirement and change of control packages that provide meaningful incentives for the Named Executives to remain employed by AFC.

To a significant degree, the compensation program for the executive officers mirrors that utilized throughout most of AFC's operations. The overall compensation of the Named Executives is tied directly to their obtaining clearly defined results in a prudent manner. Since their responsibility is to manage AFC, their performance objectives are related directly to AFC's performance. This is accomplished through the Executive Incentive Plan, the equity-based compensation program and, to a lesser degree, the retirement program.

AFC believes that the best way to ensure that the Named Executives advance the interests of the shareholders is to make sure that each of the executive officers is a significant shareholder. The Compensation Committee has established share ownership requirements applicable to its executives as a multiple of their base salaries. For example, the Chief Executive Officer is required to hold direct or indirect non-derivative shares of AFC Common Stock having a value, based upon the prior year's average price per share of AFC Common Stock, equal to five (5) times his annual salary. Each of the other executive officers is to hold direct or indirect non-derivative shares of AFC Common Stock having a value, based upon the prior year's average price per share of AFC Common Stock, equal to three (3) times their respective annual salaries. Excluded from the ownership requirements are outstanding AFC stock options so as to ensure that the executives have more than a mere hypothetical stake in AFC's performance. While the policy contains a phase-in period to accommodate promotions or newly hired executives, each of the executive officers during 2008, and today, exceed the minimum share ownership requirement notwithstanding the application of any phase-in period. See the section entitled Security Ownership of Management commencing on page 20 for additional information regarding the investment of the Named Executives in AFC Common Stock. Both through its equity-based incentive and retirement programs, the Named Executives also receive a substantial portion of their compensation in AFC Common Stock. The better AFC Common Stock performs for AFC's shareholders, the higher the total compensation that is earned by the Named Executives, and vice versa.

The executive compensation program of AFC consists of four (4) primary elements: Base Salary, Short-Term Non-Equity Incentive Plan Compensation, Equity-Based Compensation, and Retirement Benefits. In addition, the Association provides medical benefits, life insurance and disability and other benefits common to all its full time employees. AFC and the Association also provide certain other benefits, or Perquisites, to the Named Executives. The Perquisites are considered an immaterial component of the overall program and are generally associated with furthering the business interests of AFC. AFC and the Association have each entered into employment agreements with each of the Named Executives. These agreements, which are discussed more fully below, impose certain obligations on and provide certain benefits to the Named Executives which extend beyond the terms of their employment.

In structuring its executive compensation program, AFC considers the before and after tax financial impact the elements of the program will have on AFC and the Association. Section 162(m) of the Code, places a limitation of \$1 million on the deductibility by AFC of certain elements of compensation earned by each of the Named Executives. AFC has previously submitted incentive compensation and other benefit plans to its shareholders for approval, when required, in order to preserve the potential deductibility of payments made to the Named Executives. As a result of the approval of such plans, and based upon the level and composition of the compensation of its executive officers, the limitations contained in Section 162(m) of the Code did not materially impact the financial condition or results of operations of AFC for the year ended December 31, 2008.

Management of AFC monitors and provides to the Compensation Committee, in connection with both executive and director compensation, information derived from a group of financial institutions which by asset size are the next ten largest and the next ten smaller publicly traded banking and thrift institutions in the United States as determined by the *2008 SNL Executive Compensation Review, Banks and Thrifts*. This information is utilized by the Compensation Committee as additional information which, when considered with all other factors, is used in making compensation-related decisions. These institutions utilize a variety of business models, are in many cases located in markets which are dissimilar from the New York metropolitan market in which AFC is primarily located and are, generally, not considered by management or the Compensation Committee to be AFC's peers other than in terms of asset size. The information acquired is derived from public filings by such companies with the SEC. The institutions monitored during 2008 were Popular, Inc., Marshall & Ilsley Corp., Zions Bancorporation, Mellon Financial Corp., Commerce Bancorp, Inc., First Horizon National Corporation, Huntington Bancshares Incorporated, Hudson City Bancorp, Inc., Synovus Financial Corp., New York Community Bancorp, Inc., Associated Banc-Corp, Indymac Bancorp, Inc., Colonial BancGroup, Inc, Webster Financial Corporation, Downey Financial Corp., BOK Financial Corporation, W Holding Company, Inc., Flagstar Bancorp, Inc., First Citizens Banc Corp and City National Corporation. The Compensation Committee does not index the compensation of the executive officers to these or other institutions, but considers the information in the exercise of its discretion to arrive at compensation programs and policies which it believes are fair and competitive in the marketplace.

Other than levels of compensation, there are no material differences in the compensation or benefit policies applicable to the executive officers. The Compensation Committee believes that the difference in the levels of compensation among the executive officers is reflective of their roles and responsibilities within AFC, their experience in those roles and competitive compensation levels in the marketplace. In the equity compensation area, the Compensation Committee has in previous years varied the terms of equity awards in an effort to mitigate accounting expenses pursuant to SFAS 123R. See the section of this CD&A entitled Perquisites commencing on page 38 for a discussion of the immaterial differences in policy which do apply.

The following details the components of AFC's executive compensation program.

### **Base Salary**

Salary levels are designed to be competitive with cash compensation levels paid to similar executives at banking and thrift institutions of similar size and standing, giving due consideration to the marketplace in which AFC and the Association operate. Base salary levels are considered in conjunction with the short-term non-equity incentive plan compensation component of the executive compensation program.

AFC's performance to a significant degree is dependent upon factors which, in the short-term, may be positively or negatively impacted by events outside of the control of management. Our operating results are dependent primarily on our net interest income, which is the difference between the interest earned on our assets and the interest paid on deposits and borrowings. Our earnings are particularly susceptible to changes in market interest rates and U.S Treasury yield curves, government policies and the actions of regulatory authorities. The Compensation Committee seeks to balance these factors and set base salary at a level which provides a reasonably competitive level of base compensation even if AFC, due to factors outside of the control of the executives, fails to meet its minimum threshold targets such that no awards are made under the short-term non-equity incentive plan compensation component of the total cash compensation program, as occurred during 2008.

In determining whether the level of base salary and short term non-equity incentive plan compensation, or total cash compensation, is competitive, the Compensation Committee reviews information from a variety of sources. The Compensation Committee receives information and, from time to time, recommendations from management, has direct access to publications reflecting industry practices and, when the Compensation Committee deems necessary, selects and retains the services of compensation consultants. When compensation consultants are utilized for this purpose, such consultants report directly to the Compensation Committee. Although management necessarily assists the Compensation Committee during this process, controls are implemented to ensure that the consultants' opinions and recommendations are reported directly to the Compensation Committee, independent of management.

These sources, taken together, are utilized ultimately to confirm that the level and structure of executive compensation, and that of other officers, are fair, competitive and reasonable. In reviewing information on compensation practices with regard to executive officers within the banking and thrift industry, the primary factors which influence salary and short-term non-equity incentive plan compensation levels are the size and complexity of the institution or business unit being managed, the marketplace in which the institution is located, the position held by the executive and the performance of the institution versus peers.

To determine whether or not base salary and short-term non-equity incentive plan compensation for 2008 were set at levels that were competitive, the Compensation Committee took a number of specific steps. The Committee was provided access to *2008 SNL Executive Compensation Review, Banks and Thrifts*. This publication provides compensation data on all named executive officers at all publicly traded bank and thrift institutions in the United States, including information regarding the size and location of the institutions.

Generally, the Compensation Committee reviews Named Executives' salary and bonus compensation for the ensuing year in December of each year at the same time as such matters are considered for all other officers of AFC and the Association. In conducting such review, the Compensation Committee considers the performance of AFC, the performance of each of the executive officers (based both on the directors' own insights and discussions with Mr. Engelke and Mr. Redman), the salary and compensation history of the Named Executives and both the proposed short-term non-equity incentive plan compensation targets for the coming year and proposed equity compensation grants.

In anticipation that 2007 was going to be a subpar year the Compensation Committee with the support of management has previously taken significant steps to appropriately adjust executive compensation. These included, as more fully discussed in the CD&A contained in AFC's proxy statement dated April 8, 2008, (i) freezing the salaries of the executive officers at 2006 levels, (ii)

adjusting incentive targets upward to reduce potential bonus payouts and (iii) reducing equity grant levels.

In developing AFC's Business Plan for 2008 during the fall of 2007, in light of the interest rate forecasts available to them and the impact the projected yield curve would have upon the performance of AFC and the Association, executive management determined and communicated to the Board and Compensation Committee that 2008, in all likelihood, while challenging, was expected to be an improvement over a difficult 2007. The yield curve was expected to be positively sloped and steepening resulting in improved margin. Growing weakness in the real estate market was expected to remain modest and economists expected a rebound in the economy, after a short pause, by late 2008. The Business Plan which was reviewed and approved by the Board reflected a growing margin and improved earnings per share.

On an organization-wide basis a salary increase target of 3.8% was established based upon survey data indicating salary increase ranges of between 3.6% and 4.0% nationally. Among the surveys utilized were WorldAtWork 2007/2008 Salary Budget Survey, Total U.S. Firms, All Industries and Eastern Region/All Industries and Mercer HR Consulting 2007/2008 U.S. Compensation Planning Survey, All Employees/All Industries.

Also based upon the salary review conducted by Hewitt Associates LLC discussed on page 16 of this proxy statement, the Compensation Committee believed that the salaries of several specific executives required adjustment to bring them to a level competitive in the market for executive talent, which AFC considers to be nationwide.

As a result and based upon the recommendations of executive management the Compensation Committee took the following actions:

- (i) the Named Executives were granted salary increases equal to the following percentage of their salaries as of December 31, 2007:

- a) George L Engelke, Jr. - 3.82%
- b) Monte N. Redman - 3.13%
- c) Gerard C. Keegan - 3.82%
- d) Gary T. McCann - 25.00%
- e) Frank E. Fusco - 16.25%

Base salary compensation for all executive officers for totaled \$4,436,000 compared to \$4,152,000 at December 31, 2007, an increase of 6.84%,

- (ii) the incentive targets for use with the Executive Incentive Plan were established such that 2008 Business Plan performance, while improved over 2007 performance, would only result in an 80% of target incentive payout for the Named Executives, and
- (iii) the equity grant value awarded was maintained at the reduced levels as a percentage of salary as were utilized in December, 2006.

The financial performance for AFC for 2008 due to the substantial deterioration of the economy did not meet 2008 Business Plan expectations. As a result, the executive officers were not granted any

salary increases for 2009 and received no executive compensation pursuant to the Executive Incentive Plan for 2008. See Short-Term Non Equity Incentive Plan Compensation below.

### **Short-Term Non-Equity Incentive Plan Compensation**

Short-term non-equity incentive plan compensation consists of awards paid pursuant to the Executive Incentive Plan. This Plan was approved by the shareholders of AFC in 1999 and again in 2004 and is a performance-based plan. Annually, the Compensation Committee establishes, in advance, performance objectives. These performance objectives are derived from the business plan of AFC, which is reviewed and approved by the Board annually, typically in November, and covers the ensuing two years. The compensation payable under the Executive Incentive Plan, while it may be reduced by the Compensation Committee in its discretion, is otherwise tied directly to the attainment of the pre-established performance objectives. The Executive Incentive Plan has been structured in this manner to maintain the tax deductibility to AFC of awards under this plan pursuant to Code Section 162(m). Therefore, the Compensation Committee has no discretion under this plan to reward performance by a particular Named Executive that may have favorably impacted AFC's results disproportionately or reward performance that is not immediately captured in the financial performance matrix utilized.

As noted above, the Board and Compensation Committee of AFC recognize that the performance of AFC is substantially affected by the environment in which it operates, particularly interest rate movements and the shape of the yield curve. It is expected that its executives will maintain systems to monitor such environment and over time take steps to prudently manage the various risks that such environment presents. The Board and the Compensation Committee believe that, to be effective, the attainment of targets established under the Executive Incentive Plan should be both challenging, yet prudently attainable, so as not to encourage either imprudent risk taking or the sacrifice of long-term performance for short term gains.

The Compensation Committee has received comments from the compensation consultants retained in previous years regarding the operation of the Executive Incentive Plan and has duly considered those comments in structuring performance targets pursuant to such plan. Among those comments was the proportion of each executive officer's performance based cash compensation to total cash compensation. The Compensation Committee, in establishing the performance targets, utilizes its discretion based upon all the information available to it. The Compensation Committee does not generally review specific peer data concerning the targets utilized by the Compensation Committee nor does it index the targets to peer performance. Members of the Compensation Committee are generally aware of the financial and total return performance of a number of peer and other banking related institutions at the time the performance targets are established, as this data is reported monthly by management at meetings of the Board. Among the institutions monitored were Downey Financial Corp, Hudson City Bancorp, Inc., New York Community Bancorp, People's United Financial, Inc., Sovereign Bancorp, Washington Federal Inc., Washington Mutual, Dime Community Bancshares, Flushing Financial Corp., Citigroup, Bank of America Corp, JPMorgan Chase & Co., Wachovia Corp., Wells Fargo & Co., U.S. Bancorp, Suntrust Banks, National City Corporation, Fifth Third Bancorp, Bank of New York Mellon Corporation, Capital One Financial, Webster Financial Corp., TCF Financial Corp., Valley National Bancorp, Fannie Mae, and Freddie Mac. The specific criteria monitored are not, however, directly comparable to the performance measures utilized under the Executive Incentive Plan. Ultimately, the Compensation Committee exercises its discretion, based upon all information available to it, to establish the incentive targets applicable to the executive officers.

The Executive Incentive Plan for 2008 provided for a target incentive equal to seventy percent (70%) of base salary for the Chief Executive Officer, sixty percent (60%) of base salary for the Chief Operating Officer and fifty percent (50%) of base salary for each of the other executive officers.

The performance measurements used for 2008 were the diluted earnings per share of AFC Common Stock and the return on average shareholders' equity. A series of achievement levels was established for each measure, with each level assigned a percentage award ranging from zero percent (0%) to two hundred percent (200%). The zero percent (0%) award represented performance below what the Compensation Committee considered a reasonable threshold level of achievement based upon the range of factors the executives were expected to encounter during the year at the time the objectives were established. The diluted earnings per share performance of AFC accounted for seventy five percent (75%) of the executives' total incentives under the Executive Incentive Plan, while AFC's return on average shareholders' equity performance accounted for twenty five percent (25%) of such total.

The Compensation Committee believes that these performance measurements are over time, on an institution-wide basis, within the sufficient control of management and should be captured in the total returns provided to shareholders of AFC Common Stock. The Compensation Committee also believes that including a return on average shareholders' equity performance measure encourages the efficient deployment of invested capital and retained earnings and promotes prudent longer-term performance.

Based upon AFC's confidential business plan, target performance ranges were established for 2008 at the time of the award in January 2008 for both diluted earnings per share targets and return on average shareholders' equity targets. The targets were assigned a percentage between zero percent (0%) and two hundred percent (200%). At the time the ranges were established in January 2008, the Compensation Committee also authorized certain specified adjustments to AFC's diluted earnings per common share and return on average shareholders' equity, as reported in accordance with U.S. generally accepted accounting principles, referred to as GAAP, in determining the ultimate performance under the Executive Incentive Plan. In such cases, typically, business plan assumptions are substituted for items that reflect changes in GAAP or are unknown, highly unpredictable or uncontrollable by management at the time the business plan for the coming year is developed or approved. The nature of the adjustments authorized for 2008 was consistent with adjustments authorized pursuant to the Executive Incentive Plan in previous years. These adjustments are detailed below.

To receive an incentive payout for 2008 of two hundred percent (200%), the adjusted diluted earnings per share were required to exceed \$1.94 per share and the adjusted return on average shareholders' equity was required to exceed 14.41%. No award would be made if the adjusted diluted earnings per share were below \$1.42 per share and the adjusted return on average shareholders' equity was below 10.65%. To receive a target level payout, the adjusted diluted earnings per share was required to be \$1.71 per share and the adjusted return on average shareholders' equity was required to be 12.76%.

The ultimate adjustments made to AFC's GAAP diluted earnings per common share to arrive at adjusted diluted earnings per share were as follows:

- i) common share equivalents were increased by 357,027 shares due to differences in stock repurchases, ESOP allocation, stock option exercises and dilutive treasury stock calculations from those assumed in the business plan;
- ii) interest income was increased by \$401,579 to reflect differences related to stock repurchases, option exercises and other cash transactions noted in paragraph (A) above from those assumed in the business plan;

- iii) other income was increased by \$77,696,000 relating to the other-than-temporary impairment charge taken in September 2008 with respect to two issues of Freddie Mac preferred stock;
- iv) other income was reduced by \$348,800 to reflect a sale of certain branch related real estate not considered to be a part of normal operations
- v) general and administrative expenses were increased by \$408,544 relating to lower equity-based compensation expense from that assumed in the business plan;
- vi) general and administrative expenses were reduced by \$1,932,624 relating to higher ESOP expense as a result of fluctuating AFC Common Stock prices during 2008 from that assumed in the business plan;
- vii) general and administrative expenses were increased by \$870,858 relating to certain legal expenses; and
- viii) net income was increased by \$26,815,187 to tax effect the adjustments set forth above.

The adjustments made to AFC's GAAP return on average shareholders' equity to arrive at adjusted return on average shareholders' equity were as follows:

- i) average equity was increased by one half of the adjustments related to adjusted diluted earnings per share noted above, less the ESOP adjustment which is a reclassification within equity only, to reflect the positive effect of such adjustments on equity and that average equity is used;
- ii) average equity was decreased by \$1,879,515 to reflect lower costs of share repurchase activity from that assumed in the business plan;
- iii) average equity was increased by \$5,770,384 to reflect differences in the amount and exercise prices of option exercises from that assumed in the business plan;
- iv) average equity was decreased by \$13,444,000 to reflect differences in accumulated other comprehensive loss from that assumed in the business plan; and
- v) average equity was decreased by \$858,000 to reflect differences in the number of unallocated shares held by the ESOP from that assumed in the business plan.

For fiscal year 2008, the Compensation Committee, pursuant to the terms of the Executive Incentive Plan, certified that AFC's financial performance resulted in no incentive payments based upon the fact that adjusted diluted earnings per share failed to reach the target threshold level of 1.42, and adjusted return on average shareholders' equity failed to reach the target threshold level of 10.65%.

### **Equity-Based Compensation**

The equity-based compensation portion of AFC's and the Association's compensation program consists of option grants and awards of restricted stock pursuant to the 2005 Stock Incentive Plan. The 2005 Stock Incentive Plan was approved by the shareholders of AFC in 2005. The purpose of the 2005 Stock Incentive Plan is to promote the growth and profitability of AFC, to provide certain key officers and employees of AFC and its affiliates with an incentive to achieve corporate objectives, to attract and retain individuals of outstanding competence and to provide such individuals with an equity interest in AFC.

Historically, equity-based compensation grants and awards have been made to officers holding the title of Vice President or higher. This totaled seventy-five (75) officers as of January 28, 2008, the last award date prior to December 31, 2008. The Compensation Committee believes that this group of individuals has the greatest ability to impact the overall performance, and therefore the stock price, of AFC.

Since its conversion to public ownership in 1993, the practice of AFC generally had been to grant options and/or award restricted stock to officers of the Association and AFC annually on the date of the Board's regular meeting in December. During 2007, the Compensation Committee determined that annual grants would no longer be made in December, but would be made following AFC's release of its prior years' annual financial results, commencing in January 2008. Thus, no equity grants or awards were made to the executive or other officers during 2007. On occasion, although not during 2008, grants or awards may also be made at or near the time a new officer is hired, on the date of a regularly scheduled Board meeting. In all cases, the exercise price of stock options or the value ascribed to awards of restricted stock has been the closing price of AFC Common Stock on the date of the grant or award on the exchange on which such stock was trading at the time.

Since 2006, the Compensation Committee has only granted restricted stock, and not options, to AFC's executive officers.

In January, 2008 the Compensation Committee approved restricted stock awards to all officers holding the title of Vice President or higher. A total of 380,400 shares of AFC Common Stock were awarded to the officers at that time with 235,600 of such shares awarded to the seven executive officers. These shares at the time of the award had an aggregate value of \$9,479,568, with the shares awarded to the executive officers having a value of \$5,871,152 on the date of the awards.

The level of restricted stock awarded to each officer, including the executive officers, is established at the discretion of the Compensation Committee and was based, in 2008, upon recommendations made by Watson Wyatt in 2005. See page 14 under the heading Compensation Committee – Corporate Governance for additional information regarding this matter. Among the specific factors considered in determining the level of grant for any particular officer is the officer's rank and ability to impact the overall financial performance of AFC, the officer's salary and the officer's individual performance during the preceding year.

See Security Ownership of Management commencing on page 20, the Summary Compensation Table on page 40 and the 2008 Outstanding Equity Awards at Fiscal Year End Table on page 44 for further information regarding certain options and restricted stock outstanding with respect to the Named Executives.

### **Retirement Benefits**

Retirement benefits are designed to provide for an adequate level of income to each participating employee following his or her retirement from AFC and the Association based upon compensation level and length of service. These benefits are also designed to support the goals and objectives of the remainder of the compensation program. Among those goals and objectives are the alignment of the interests of all retirement plan participants, including but not limited to the Named Executives, to that of the shareholders and the retention of participating employees.

Retirement benefits are provided through the ESOP, the Incentive Savings Plan, and the DB Plans. Certain post-retirement benefits are also provided through the Association's Retirement Medical and Dental Benefit Policy for Vice Presidents and above, referred to as the Post-retirement Medical Plan.

None of AFC's or the Association's DB Plans have benefit formulas which take into account compensation other than base salary. As a result, compensation derived from cash incentives, restricted



stock and the exercise of stock options, which may vary substantially from year to year, does not affect benefit levels.

The retirement benefits have been developed over a number of years and, as a result, the relative importance and the focus of the various plans have shifted over time.

The Employees Pension Plan is a qualified defined benefit plan. This plan, historically, was the primary retirement vehicle for the Association, which, when the plan was originally adopted in 1949 and until 1993, was a relatively small mutual thrift institution. The benefit formula under the Employees Pension Plan, which has evolved over time based primarily upon Code requirements, is based upon length of service and average compensation level for the five years preceding retirement. As a tax qualified plan, the compensation level which can be considered in the benefit formula is capped (\$230,000 during 2008). As a result, the Employees Pension Plan, over time, failed to capture significant amounts of compensation in the benefit formula, particularly at the higher salary and compensation levels within the Association.

In 1983, the Excess Plan, a non-qualified defined benefit plan, was instituted. This plan applies the Employees Pension Plan benefit formula to salary-based compensation above the Internal Revenue Service, or IRS, compensation limits.

The Association, in 1991, also instituted the Supplemental Plan, also a non-qualified defined benefit plan, to maintain the then current benefit formula for a group of officers impacted by a reduction in the benefits formula under the qualified plan and indirectly under the Excess Plan due to changes mandated under the Code. Currently, Mr. Engelke and Mr. Redman are the only Named Executives who participate in the Supplemental Plan. The DB Plans are the primary retirement vehicles utilized by the Association that are not materially and directly tied to the performance of AFC Common Stock. AFC believes that the use of the DB Plans to provide a minimum level of retirement benefits for eligible Association employees is prudent given the magnitude of the reliance the ESOP places on the performance of AFC Common Stock. The DB Plans, however, continue not to capture within their benefit formulas cash compensation paid to the Named Executives pursuant to the Executive Incentive Plan or bonus compensation paid to other officers and employees.

In 1986, the Association implemented the Incentive Savings Plan, a defined contribution 401K plan. At the time it was implemented, the Incentive Savings Plan operated as a profit sharing plan pursuant to which employees received from the Association matching contributions, based upon their level of voluntary participation in the plan. The Incentive Savings Plan gave employees an incentive to save, helped provide for their retirement, provided certain tax benefits to participants, helped focus employees on the profitability of the Association and allowed employees to rollover vested balances if they left the Association's employ prior to retirement age. The Incentive Savings Plan continues to be maintained and employees can continue to make voluntary contributions into the Incentive Savings Plan. However, since 1993, the Association and AFC have not made contributions to the Incentive Savings Plan.

The ESOP is a combination of a leveraged employee stock ownership plan established by the Association when it converted from mutual to stock form in 1993 and a leveraged employee stock ownership plan in existence at LISB at the time of the LIB Acquisition in 1998 and implemented by LISB at the time of its mutual to stock conversion in 1994. A primary purpose of each institution in implementing an employee stock ownership plan was to instill an owner culture in a workforce that had previously operated in a mutual structure that lacked accountability to stakeholders or owners. Each employee stock ownership plan purchased with borrowed funds a block of the common stock issued in its sponsor's conversion offering, to be allocated among eligible employees over the succeeding years as the

borrowing was repaid. The value of the benefit provided, and its GAAP accounting cost, rise and fall with the performance of the stock purchased. There have been no subsequent stock purchases for either plan. The two employee stock ownership plans were combined in 2000 in order to offer a single, unified employee stock ownership plan benefit to all employees of the combined company. In order to achieve a uniform benefit structure, the outstanding loan for each plan was renegotiated to achieve a new payment and share allocation schedule. In order to secure the consent of the plans' independent fiduciaries to this action, the Association committed to make certain additional cash contributions to the ESOP through 2009.

The renegotiation also established change of control protections for the participants of the ESOP. This provision is a key device in encouraging the retention of all participating employees. The Board, management and the fiduciaries representing the interests of the ESOP's participants believed that, in the event of a change of control, the value provided to shareholders would be as a result of the efforts, over time, of the employees of the Association and that any value generated within the AFC Common Stock then unallocated in the ESOP at that time should benefit such employees. As a result, the plan was amended to provide that in the event of a change of control, the ESOP must be terminated, the outstanding loan settled and the balance of the unallocated shares distributed to then current employee participants. As of December 31, 2008, using the closing price for AFC Common Stock as quoted on the NYSE on December 31, 2008, the value to be distributed would be approximately \$58.5 million.

See the Summary Compensation Table on page 40 and Security Ownership of Management on page 20 for further information regarding the ownership of AFC Common Stock by the Named Executives.

See also the discussion commencing on page 46 under the heading Additional DB Plan Information regarding the benefit formulas applicable to the DB Plans.

The Post-retirement Medical Plan provides executive and other senior officers and their spouses, if any, with medical and dental insurance coverage following such officers' retirement from the Association at age 55 or older with at least 10 years of service. Based upon the officer's age at retirement, the Association pays between fifty percent (50%) and one hundred percent (100%) of the premiums for such coverage. AFC views this plan as another vehicle to encourage the retention of its senior officers.

### **Perquisites**

The executive officers are provided with certain perquisites detailed below. These perquisites are modest in cost and scope. See the section entitled Transactions with Certain Related Persons commencing on page 17 for a discussion of the Association's Employee & Director Mortgage & Home Equity Loan Policy.

### **Other Banking Services**

The Association provides to its employees, officers and directors routine retail banking services, including primarily checking, savings and certificate of deposit accounts. The Association from time to time waives, for such individuals, certain *de minimus* fees associated with such accounts. As these amounts are waived on a non-discriminatory basis to the Association's employees generally, under SEC regulations, they are not included in the Compensation Tables for the directors or the Named Executives and are not considered to be related-party transactions.

### **Company-Provided Automobiles**

All executive officers are provided with a company owned or leased automobile for their business and personal use. The Association pays the maintenance, insurance and licensing-related costs of the automobile, but not fuel costs. The value of this benefit, net of direct business usage, for which other employees are reimbursed, is included in the Summary Compensation Table on page 40 under the All Other Compensation column.

### **Use of Leased Corporate Aircraft and Other Travel-Related Expenses**

AFC has a fractional lease on a corporate aircraft for use by its executives for business purposes only. Personal use of the aircraft is not allowed. The use of this aircraft by the executives is viewed by AFC as integrally and directly related to their job performance. As a result, this use is not viewed as a perquisite as defined by SEC regulations.

AFC has a policy when Named Executives travel on business to allow the executives to be accompanied by their spouses. This benefit is utilized sparingly by the executives and is considered a perquisite. The estimated incremental cost of the spouse's attendance is included in the Summary Compensation Table on page 40 under the All Other Compensation column where such amount can be determined. In all cases such benefit is immaterial to the compensation of the Named Executives. If a Named Executive is traveling on business utilizing the corporate aircraft and there is otherwise room available on the aircraft for the executive's spouse to accompany the executive, the spouse may do so. As there is no incremental cost to AFC for the spouse accompanying the executive on such flight, no amount has been included in the Summary Compensation Table with respect to such usage. To the extent a commercial flight was utilized and AFC bore the cost of the spouse's air travel, the cost of such air travel is included in the Summary Compensation Table on page 40 under the All Other Compensation column.

### **Other Benefits**

During 2008, the Chief Executive Officer was provided with a golf club membership and a small expense account. The value of these benefits is included in the Summary Compensation Table on page 40 under the All Other Compensation column. These perquisites were terminated effective January 1, 2009.

All senior officers, including the Named Executives, are provided with an annual physical at the Association's expense. In the alternative, senior officers may consult their own physicians and submit the cost of such physical through the officer's medical insurance coverage which is available to all full time employees.

## Summary Compensation Table

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)(1)</b>	<b>Stock Awards (\$)(2)</b>	<b>Option Awards (\$)(3)</b>	<b>Non- Equity Incentive Plan Compensation (\$)(4)</b>	<b>Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)(5)</b>	<b>All Other Compensation (\$)(6)</b>	<b>Total (\$)</b>
George L. Engelke, Jr. Chairman and Chief Executive Officer	2008	1,142,000	1,314,897	495,491	0	121,919	226,647	3,300,954
	2007	1,100,000	950,692	495,491	731,500	0	166,701	3,444,384
	2006	1,100,000	310,204	495,491	587,125	95,280	114,505	2,702,605
Monte N. Redman President and Chief Operating Officer	2008	825,000	600,167	252,280	0	350,235	191,618	2,219,300
	2007	673,077	338,279	252,280	356,250	39,783	131,003	1,790,672
	2006	600,000	163,597	252,280	228,750	170,912	91,717	1,507,256
Gerard C. Keegan Vice Chairman and Chief Administrative Officer	2008	544,000	426,401	200,421	0	241,165	131,524	1,543,511
	2007	524,000	271,849	200,421	248,900	60,170	112,445	1,417,785
	2006	524,000	129,936	200,421	199,775	129,248	73,069	1,256,449
Gary T. McCann Executive Vice President	2008	500,000	340,006	136,984	0	169,530	116,464	1,262,984
Frank E. Fusco Executive Vice President, Treasurer and Chief Financial Officer	2008	465,000	222,567	61,154	0	76,841	123,762	949,324
	2007	361,923	117,779	61,154	155,724	0	83,413	779,993

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- (1) Each of the Named Executives, except for Mr. Keegan, has elected to contribute a portion of his salary into the Incentive Savings Plan. While the Association is authorized to make matching contributions under the terms of the Incentive Savings Plan, it has not done so since prior to 1993. Each of the Named Executives also elected to contribute a portion of his salary into a medical flexible spending account. These plans are not discriminatory in favor of the Named Executives. Such contributions are included in the figures reported.
- (2) This column represents the dollar amount recognized in accordance with SFAS 123R for financial statement reporting purposes with respect to the 2006, 2007 and 2008 fiscal years (or 2007 and 2008, in the case of Mr. Fusco, and 2008, in the case of Mr. McCann) for restricted stock awards made in 2005, 2006 and 2008 to the Named Executives pursuant to 2005 Stock Incentive Plan, which was previously approved by the shareholders of AFC. These amounts reflect AFC's accounting expense for these awards, and do not correspond to the actual value that has been or will be recognized by the Named Executives. No restricted stock grants were awarded to the Named Executives during 2007. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For awards made in 2005, although Mr. Engelke was eligible for normal retirement at the time of the award, the awards were granted prior to adoption of SFAS 123R and, therefore, are expensed over the original vesting period which was 37 months in all cases. For awards made in 2006, the restricted stock awarded would normally vest and be distributed on January 9, 2012. All such grants, except for Mr. Engelke's, vest and would be distributed earlier, among other reasons, upon normal retirement at age 65. Since Mr. Redman and Mr. Fusco will not be normal retirement eligible prior to January 9, 2012, their 2006 awards are expensed over the 61 months between the date of the award and the vesting date. Mr. Keegan will become normal retirement eligible prior to January 9, 2012. As a result, his 2006 award is expensed over the period from the date of the award until he becomes normal retirement eligible, or 56.5 months. While Mr. Engelke's 2006 award also would normally vest and be distributed on January 9, 2012, it provides for earlier vesting and distribution, not upon normal retirement at age 65, but upon reaching and retiring as an officer pursuant to AFC's then applicable mandatory retirement policy for executive officers at age 70. Since Mr. Engelke will reach age 70 prior to January 9, 2012, his 2006 award is being expensed over the period from the date of grant until he is expected to reach 70 years of age, or 23.5 months. For awards made in 2008 to the Named Executives, all grants, except for Mr. Engelke's, vest and would be distributed on January 28, 2013. Since such awards would not vest early upon retirement prior to January 28, 2013 the awards are expensed over the 60 months between the date of the award and the vesting date. Mr. Engelke's 2008 award vests 30% on January 28, 2009, 30% on January 28, 2010, and the balance, or 40%, on January 28, 2011. Mr. Engelke's award is being expensed over the 36 months between the date of the award and the final vesting date. The fair value of restricted stock awards is

calculated using the closing price of AFC Common Stock as quoted on the NYSE on the date of the award. For additional information, see Note 15 to the Consolidated Financial Statements. For additional information regarding restricted stock held by the Named Executives, see the 2008 Outstanding Equity Awards At Fiscal Year-End Table on page 44.

- (3) This column represents the dollar amount recognized in accordance with SFAS 123R for financial statement reporting purposes with respect to the 2006, 2007 and 2008 fiscal years (or 2007 and 2008, in the case of Mr. Fusco, and 2008 in the case of Mr. McCann) for stock option grants made in 2005 to the Named Executives pursuant to the 2005 Stock Incentive Plan, which was previously approved by the shareholders of AFC. These amounts reflect AFC's accounting expense for these grants, and do not correspond to the actual value that will be recognized by the Named Executives, if any, as the exercise price was equal to the closing price of AFC Common Stock as quoted on the NYSE on the date of the grant and a gain would only occur if there is appreciation in the value of AFC Common Stock at the date of exercise. No stock options were granted to any officers or employees during 2006, 2007 or 2008. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For grants made in 2005, although Mr. Engelke was eligible for normal retirement at the time of the award, the grants were made prior to adoption of SFAS 123R and, therefore, are expensed over the original vesting period which was 37 months in all cases. For additional information on the valuation assumptions with respect to such grants, see Note 15 to the Consolidated Financial Statements in AFC's 10-K filed with the SEC on February 29, 2008. For additional information regarding stock options held by the Named Executives, see the 2008 Outstanding Equity Awards At Fiscal Year-End Table on page 44.
- (4) This column represents the incentive bonus award payments made to the Named Executive for 2006, 2007 and 2008 (or 2007 and 2008, in the case of Mr. Fusco, and 2008, in the case of Mr. McCann) pursuant to the Executive Incentive Plan, which plan was previously approved by the shareholders of AFC. For additional information, see the 2008 Grants of Plan-Based Awards Table on page 43.
- (5) This column represents the sum of the actuarial change in pension value in 2006, 2007 and 2008 (or 2007 and 2008, in the case of Mr. Fusco, and 2008, in the case of Mr. McCann) for each of the Named Executives according to their respective participation in the DB Plans. For information regarding the assumptions used in determining the present value of such benefits, as well as additional information regarding the Named Executives' participation in such plans, see the 2008 Pension Benefits Table on page 48. The Named Executives do not participate in any non-qualified deferred compensation plans. Pursuant to SEC regulations, Mr. Engelke's and Mr. Fusco's change in pension value for 2007 is disclosed as \$0.00 because the change in the actuarial value of their benefit from December 31, 2006 to December 31, 2007 was a negative \$84,344 and negative \$180, respectively.
- (6) This column represents compensation amounts reportable with respect to the Named Executives for 2006, 2007 and 2008 (or 2007 and 2008, in the case of Mr. Fusco, and 2008, in the case of Mr. McCann) pursuant to SEC regulations and not properly reportable in any other column of the Summary Compensation Table. AFC has not paid any tax gross-up amounts with respect to any compensation or benefits reflected in the Summary Compensation Table or otherwise. AFC does not allow Named Executives or other officers and employees to acquire AFC Common Stock at a discount. While the Association provides group life insurance coverage with respect to the Named Executives, such benefit is provided on a non-discriminatory basis to all full time employees of the Association and, therefore, has been excluded pursuant to SEC regulations, as have other group medical and health coverages. The following table sets forth additional detail regarding All Other Compensation amounts:

#### All Other Compensation Table

<u>Name</u>	<u>Year</u>	<b>Dividends Received on Restricted Stock Awards</b>	<b>AFC Common Stock Allocated Pursuant to the ESOP</b>	<b>Cash Allocated Pursuant to the ESOP</b>	<b>Perquisites and Other Personal Benefits</b>	<b>Total</b>
		<u>\$(a)</u>	<u>\$(b)</u>	<u>\$(c)</u>	<u>\$(d)</u>	<u>\$(e)</u>
George L. Engelke, Jr.	2008	131,456	41,401	25,182	28,608	226,647
	2007	75,712	37,109	25,151	28,730	166,701
	2006	28,800	33,459	26,443	25,803	114,505
Monte N. Redman	2008	106,886	41,401	31,782	11,549	191,618
	2007	48,750	37,109	31,743	13,402	131,003
	2006	15,912	33,460	32,058	10,288	91,717
Gerard C. Keegan	2008	71,396	41,401	7,074	11,653	131,524
	2007	37,388	37,109	17,052	20,896	112,445
	2006	12,624	33,459	16,864	10,122	73,069
Gary T. McCann	2008	60,216	41,041	6,896	8,311	116,464
Frank E. Fusco	2008	39,988	41,041	29,149	13,584	123,762
	2007	16,692	37,109	29,113	500	83,413

- (a) This column represents dividends paid during 2006, 2007 and 2008, respectively, (or 2007 and 2008, respectively, in the case of Mr. Fusco, and 2008, in the case of Mr. McCann) to the Named Executives by AFC with respect to the AFC Common Stock awarded in 2005, 2006 and 2008 to the Named Executives as restricted stock pursuant to the 2005 Stock Incentive Plan. Such dividends are, for federal and state tax purposes, treated as wages and as such are subject to tax withholding. The amount reflected is the gross amount paid before tax withholding.
- (b) This column represents the expense incurred by the Association with respect to AFC Common Stock allocated to the Named Executives as a result of their participation in the ESOP for 2006, 2007 and 2008, respectively (or 2007 and 2008, in the case of Mr. Fusco, and 2008 in the case of Mr. McCann). The ESOP is a qualified defined contribution plan subject to ERISA. The expense is calculated under GAAP based upon the number of shares allocated to the Named Executive times the average daily closing price of AFC Common Stock as quoted on the NYSE for 2006, 2007 and 2008, respectively. This amount does not equate to either the cash contribution made by the Association to the ESOP to obtain the release of such shares for allocation, nor the basis on which the Named Executives entitlement to such shares is determined. For further information regarding the ESOP, see the CD&A section of this Proxy Statement under the heading Retirement Benefits commencing on page 36.
- (c) This column represents an estimate of the cash allocated to the accounts of the Named Executives as a result of their participation in the ESOP for the 2006, 2007 and 2008 plan year, respectively, (or 2007 and 2008, in the case of Mr. Fusco, and 2008 in the case of Mr. McCann) in the form of contributions and investment return. Excluded are amounts earned by the Named Executive in the form of dividends or interest on amounts previously allocated to the Named Executives' accounts within the ESOP. For further information regarding the ESOP, see the CD&A section of this Proxy Statement under the heading Retirement Benefits commencing on page 36.
- (d) This column represents perquisites and other personal benefits incurred by AFC and the Association with respect to the Named Executives for the 2006, 2007 and 2008 fiscal years, respectively (or 2007 and 2008, in the case of Mr. Fusco, and 2008 in the case of Mr. McCann). In the case of Mr. Engelke, such benefits consisted of the value of an automobile provided by the Association and utilized for non-business purposes, spousal travel and entertainment expenses, a country club membership, and an expense account. For Mr. Redman, Mr. Keegan, Mr. McCann and Mr. Fusco, such benefits consisted of the value of an automobile provided to each by the Association and utilized for non-business purposes and spousal travel and entertainment expenses. Automobiles are provided to the Named Executives by the Association, which the Named Executives may use for business purposes, commuting and for personal use. The value of the automobiles provided has been determined differently depending upon whether the automobile was leased or owned by the Association. The amount included as a perquisite was determined based upon the total cost incurred by the Association for the automobile including the annual lease payments or, in the case of owned automobiles, annual depreciation, as well as insurance, registration and inspection fees and maintenance costs, less the cost the Association would have reimbursed the executive for business mileage had the executive used their personal automobile, adjusted positively or negatively for the gain or loss realized on any owned automobile traded in during the year, based upon the estimated salvage value established at the time the automobile was acquired. This amount represents the incremental cost of such automobiles to AFC and does not represent the amount of income attributable to the Named Executive for tax purposes as a result of the non-business use of such automobile. For a description of the policies of AFC with respect to providing automobiles to its executive officers, see the section under the CD&A entitled Perquisites commencing on page 38. Spousal travel and entertainment expenses represent expenses incurred by the Association which would not otherwise have been incurred as a result of an executive traveling or attending an Association-related function without such executive's spouse. Not all such expenses are capable of precise delineation. In such cases, a reasonable estimate of that portion of the expense has been made.

The following table sets forth information regarding bonus awards and equity grants for or during 2008 pursuant to the Executive Incentive Plan and the 2005 Stock Incentive Plan, respectively, made to the Named Executives during 2008. Pursuant to the terms of the Executive Incentive Plan, the Compensation Committee annually establishes an annual incentive for the executive officers of AFC. For a discussion of the goals and targets applicable for 2008, see the CD&A - Short-Term Non-Equity Incentive Plan Compensation commencing on page 33. Equity grants are made at the discretion of the Compensation Committee. For a discussion of the 2005 Stock Incentive Plan, see the CD&A-Equity Based Compensation commencing on page 35.

**2008 Grants of Plan-Based Awards Table (1)**

<u>Name</u>	<u>Grant Date</u>	<u>Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (2)</u>			<u>All Other Stock Awards: Numbers of Shares of Stock or Units (#)</u>	<u>Grant Date Fair Value of Stock Awards (3) (\$)</u>
		<u>Thresh- old (\$)</u>	<u>Target (\$)</u>	<u>Maxi- mum (\$)</u>		
George L. Engelke, Jr.	1/28/2008	39,970	799,400	1,598,800	53,600	1,335,712
Monte N. Redman	1/28/2008	24,750	495,000	990,000	55,900	1,393,028
Gerard C. Keegan	1/28/2008	13,600	272,000	544,000	32,700	814,884
Gary T. McCann	1/29/2008	12,500	250,000	500,000	29,300	730,156
Frank E. Fusco	1/28/2008	11,625	232,500	465,000	22,400	558,208

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(1) No grants to the Named Executives of Non-Equity Incentive Plan Awards were made pursuant to the Executive Incentive Plan. For additional information regarding the Executive Incentive Plan, see the CD&A section under the heading Short-Term Non-Equity Incentive Plan Compensation commencing on page 33. Grants to the Named Executives of equity-based awards during 2008 were made pursuant to the 2005 Stock Incentive Plan. For additional information regarding the 2005 Stock Incentive Plan, see the CD&A section under the heading Equity-Based Compensation commencing on page 35.

(2) The amounts reflected under the Estimated Possible Payouts Under Non-Equity Incentive Plan Awards columns reflect the incentive bonus program for the Named Executives for fiscal year 2008. The Threshold column reflects the minimum bonus which could be earned by the Named Executive earning any bonus. Performance of AFC below the specified level would result in no bonus. The Target column and the Maximum column represent the amounts that would be earned had AFC performed at the one hundred percent (100%) payout and maximum payout percentages as specified under the goals established in connection with the Executive Incentive Plan for 2008. In January 2009, the Compensation Committee of AFC determined that because AFC's performance in 2008 did not meet the minimum threshold requirements prescribed in the Executive Incentive Plan, no grants would be made to the Named Officers under the Executive Incentive Plan for 2008.

(3) The amounts reflected under the Grant Date Fair Value of Stock Awards column reflect the grant date fair value of the award computed in accordance with SFAS 123R, excluding the impact of estimated forfeitures related to service-based vesting conditions, which on a per share basis is equal to the closing price per share of AFC Common Stock as quoted on the NYSE on the date of grant, which was January 28, 2008, or \$24.92 per share. The Named Executives paid no consideration for these awards other than for services rendered in performing their duties and responsibilities as executive officers.

The following table provides information on the current holdings of stock options and restricted stock awards by the Named Executives as of December 31, 2008. This table includes unexercised vested and unvested option grants and unvested restricted stock awards. Each equity grant or award outstanding at fiscal year end is shown separately for each Named Executive. The vesting schedule for each grant or award is shown following this table, based on the option grant or restricted stock award date. The market value of the restricted stock awards is based on the closing market price per share of AFC Common Stock as quoted on the NYSE on December 31, 2008, or \$16.48. For additional information about the option grants and restricted stock awards, see the CD&A - Equity-Based Compensation commencing on page 35.

# **2008 Outstanding Equity Awards At Fiscal Year-End Table**

<u>Name</u>	<u>Option Awards</u>					<u>Stock Awards</u>		
	<u>Option Grant Date (1)</u>	<u>Number of Securities Underlying Unexercised Options (#)</u>	<u>Number of Securities Underlying Unexercised Options (#)</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>	<u>Restricted Stock Award Date (2)</u>	<u>Number of Shares or Units of Stock That Have Not Vested</u>	<u>Market Value of Shares or Units of Stock That Have Not Vested (\$)</u>
		<u>Exercisable</u>	<u>Unexercisable</u>				<u>Vested</u>	
George L. Engelke, Jr.	12/15/1999	328,959		9.9583	12/14/2009	12/21/2005	30,000	494,400
	12/20/2000	413,964		16.5625	12/19/2010	12/20/2006	42,800	705,344
	12/19/2001	375,000		16.8333	12/18/2011	01/28/2008	53,600	883,328
	12/18/2002	405,000		18.0000	12/17/2012			
	12/17/2003	315,000		24.4000	12/16/2013			
	12/15/2004	397,500		26.6267	12/14/2014			
	12/21/2005		345,000	29.0200	12/20/2012			
Monte N. Redman	12/15/1999	59,959		9.9583	12/14/2009	12/21/2005	16,575	273,156
	12/20/2000	143,964		16.5625	12/19/2010	12/20/2006	30,300	499,344
	12/19/2001	126,060		16.8333	12/18/2011	01/28/2008	55,900	921,232
	12/18/2002	165,445		18.0000	12/17/2012			
	12/17/2003	130,500		24.4000	12/16/2013			
	12/15/2004	180,000		26.6267	12/14/2014			
	12/21/2005		154,700	29.0200	12/20/2012			
Gerard C. Keegan	12/20/2000	120,000		16.5625	12/19/2010	12/21/2005	13,150	216,712
	12/19/2001	108,000		16.8333	12/18/2011	12/20/2006	22,800	375,744
	12/18/2002	142,500		18.0000	12/17/2012	01/28/2008	32,700	538,896
	12/17/2003	102,000		24.4000	12/16/2013			
	12/15/2004	144,000		26.6267	12/14/2014			
	12/21/2005		122,900	29.0200	12/20/2012			
Gary T. McCann	12/15/1999	31,959		9.9583	12/14/2009	12/21/2005	9,000	148,320
	12/20/2000	42,000		16.5625	12/19/2010	12/20/2006	19,600	323,000
	12/19/2001	36,900		16.8333	12/18/2011	01/28/2008	29,300	482,864
	12/18/2002	49,500		18.0000	12/17/2012			
	12/17/2003	56,250		24.4000	12/16/2013			
	12/15/2004	90,000		26.6267	12/14/2014			
	12/21/2005		84,000	29.0200	12/20/2012			
Frank E. Fusco	12/15/1999	32,759		9.9583	12/14/2009	12/21/2005	6,250	103,000
	12/20/2000	47,664		16.5625	12/19/2010	12/20/2006	9,800	161,504
	12/19/2001	47,550		16.8333	12/18/2011	01/28/2008	22,400	369,152
	12/18/2002	63,000		18.0000	12/17/2012			
	12/17/2003	46,800		24.4000	12/16/2013			
	12/15/2004	60,900		26.6267	12/14/2014			
	12/21/2005		37,500	29.0200	12/20/2012			



- (1) The following table details the vesting date for all outstanding stock options held by the Named Executives as of December 31, 2008, based upon the grant date of such option:

**Option Grant Vesting Schedule**

<u><b>Grant Date</b></u>	<u><b>Vesting Date (a)</b></u>
12/15/1999	1/10/2003
12/20/2000	1/10/2004
12/19/2001	1/10/2005
12/18/2002	1/10/2006
12/17/2003	12/22/2005
12/15/2004	12/22/2005
12/21/2005	1/9/2009

- (a) In addition to the dates indicated, the options reflected in this table would vest early upon the death, disability and, except for those options granted on December 21, 2005, upon retirement upon reaching age 55 with at least 10 years of service. The options granted on December 21, 2005 vest upon normal retirement at age 65 as defined under any of the Association's pension plans. The vesting of options granted on December 17, 2003 and December 15, 2004 was accelerated by the Compensation Committee in anticipation of the implementation of SFAS 123R on January 1, 2006. All stock options indicated would also vest in the event of a change of control of either AFC or the Association.
- (2) The following table details the vesting date for all outstanding restricted stock awards held by the Named Executives as of December 31, 2008, based upon the award date of such restricted stock:

**Restricted Stock Award Vesting Schedule**

<u><b>Award Date</b></u>	<u><b>Vesting Date (a)</b></u>
12/21/2005	1/9/2009
12/20/2006	1/9/2012
1/28/2008	1/28/2013

- (a) The award granted to Mr. Engelke on January 28, 2008 vests 30% on January 28, 2009, 30% vest on January 28, 2010 and the balance, or 40%, vest on January 28, 2011. In addition to the dates indicated, the restricted stock reflected in this table would vest early upon the death, disability and, except for the restricted stock granted to the named Executives on January 28, 2008 or to Mr. Engelke on December 20, 2006, upon normal retirement at age 65 as defined under any of the Association's pension plans. The vesting of restricted stock granted to Mr. Engelke on December 20, 2006 would vest earlier than the date indicated should he retire as an executive officer of AFC and the Association having reached the then applicable mandatory retirement age for executive officers of 70. All restricted stock awards indicated would also vest in the event of a change of control of either AFC or the Association.

The following table provides information, for the Named Executives, on stock option exercises during 2008, including the number of shares acquired upon exercise and the value realized before their payment of any applicable withholding tax and broker commissions.

## 2008 Option Exercises and Stock Vested

	<u>Option Awards</u>	
	<b>Number of Shares Acquired On Exercise (#)</b>	<b>Value Realized On Exercise \$(1)</b>
<b><u>Name</u></b>		
George L. Engelke, Jr.	251,343	2,234,213
Monte N. Redman	98,383	593,794
Gary T. McCann	15,843	119,284

- (1) Value realized is calculated by multiplying the number of shares of AFC Common Stock as to which an option was exercised times the difference between the closing price per share of AFC Common Stock as quoted on the NYSE on the date of exercise and the exercise price per share of the applicable option. There were no restricted stock awards vested in 2008.

### Additional DB Plan Information

The following table sets forth information on the pension benefits for the Named Executives under each of the following pension plans:

**Employees Pension Plan.** The Employees Pension Plan is a funded and tax qualified retirement program that covers approximately 4,280 eligible employees and retirees of the Association and its predecessors as of December 31, 2008. As applicable to the Named Executives, the plan provides benefits based on a formula that takes into account the executive's earnings for each fiscal year, subject to applicable IRS limitations. Since 1992, the formula provides for an annual benefit accrual for each year of service (up to a maximum of 30 years) equal to 1.00% of the executive's average base salary over the 5 years immediately preceding retirement up to "covered compensation" and 1.6% of such average base salary in excess of "covered compensation." "Covered compensation" varies based upon a participant's normal retirement date based upon changes in the average of the Social Security taxable wage bases. The executive's annual earnings taken into account under this formula include base salary, but may not exceed an IRS-prescribed limit applicable to tax-qualified plans (\$230,000 for 2008). As an example, utilizing covered compensation of \$56,400 for an employee who reached normal retirement age in 2008, the maximum incremental annual benefit an executive could have earned toward his total pension payments under this plan was \$3,342, payable after retirement as described below.

The accumulated benefit an employee earns over his or her career with the company is payable starting after retirement on a monthly basis for life with a guaranteed minimum term of 10 years. The normal retirement age as defined in the Employees Pension Plan is 65. Employees with at least 5 years of service, including the Named Executives, who have retired and reached age 55, may elect to receive benefits at a reduced amount. Currently, Mr. Keegan, Mr. Redman and Mr. McCann are eligible for early retirement. The benefit reduction is based upon a table of simplified option factors used to convert the benefit at normal retirement age to the reduced amount. On average, the reduction equates to approximately an 8.2 % discount per year for each year retirement is accelerated prior to normal retirement age. Similarly, retirees with at least 5 years of service may receive an enhanced benefit if they defer the receipt of their benefit beyond their 65<sup>th</sup> birthday. On average, the increase equates to approximately a 10.5% enhancement per year that retirement is deferred beyond normal retirement age. Currently, Mr. Engelke is eligible for an enhanced benefit. In addition, the Employees Pension Plan provides for spousal joint and survivor annuity options.

Benefits under the Employees Pension Plan are subject to the limitations imposed under section 415 of the Code. The section 415 limit for 2008 is \$195,000 per year for a single life annuity payable at an IRS-prescribed retirement age. This ceiling may be actuarially adjusted in accordance with IRS rules for items such as employee contributions, other forms of distribution and different annuity starting dates.

**Supplemental Plan.** The Association in 1991 adopted the Supplemental Plan, a non-qualified plan for tax purposes. The Supplemental Plan, at the time of its adoption, applied to a specified group of 30 officers of the Association. Six participants remain in the employ of the Association, including two of the Named Executives: Mr. Engelke and Mr. Redman. Mr. Keegan, Mr. McCann and Mr. Fusco do not participate in this plan. The Supplemental Plan was adopted to preserve for the participating employees the benefit formula that had been in effect pursuant to the Employees Pension Plan prior to the adoption of the Supplemental Plan at which time the Employees Pension Plan formula was amended and reduced. The Supplemental Plan is unfunded and is not qualified for tax purposes.

The benefit payable under the Supplemental Plan is calculated and compared to the benefit payable under the Employees Pension Plan and Excess Plan. The participant receives, under the Supplemental Plan, the shortfall, if any, in the Employees Pension Plan and Excess Plan benefit. The Supplemental Plan formula provides for an annual benefit equal to 60% of the participant's average base salary over the 5 years immediately preceding retirement less 67% of the participant's primary Social Security benefit times a number equal to years of service divided by 30 (but not greater than 1).

Pursuant to the Supplemental Plan, normal retirement age is defined as age 65. Employees may receive a reduced benefit under the Supplemental Plan upon early retirement at or after age 55 with at least 10 years of service. All of the Named Executives, prior to January 1, 2009, elected to receive their Supplemental Plan benefit, if any, in a lump sum at retirement, calculated to be actuarially equivalent to the benefit they would have received had they received a benefit in the same form as under the Employees Pension Plan.

**Excess Plan.** The Excess Plan, which was adopted in 1983, is not qualified for tax purposes. Participants in this plan include those participants in the Employees Pension Plan whose compensation exceeds the limitations established under the Code. Benefits payable under the Excess Plan are equal to the excess of (1) the amount that would be payable in accordance with the terms of the Employees Pension Plan disregarding the limitations imposed pursuant to sections 401(a)(17) and 415 of the Code over (2) the pension benefit actually payable under the Employees Pension Plan taking the sections 401(a)(17) and 415 limitations into account. All of the Named Executives, prior to January 1, 2009, elected to receive their Excess Plan benefit in a lump sum at retirement, calculated to be actuarially equivalent to the benefit they would have received had they received a benefit in the same form as under the Employees Pension Plan.

No pension benefits were paid to any of the Named Executives in the 2008 fiscal year. For further information on these pension plans, see the CD&A - Retirement Benefits commencing on page 36.

The amounts reported in the Pension Benefits Table below equal the present value of the accumulated benefit at December 31, 2008, for the Named Executives under each of the DB Plans. The accumulated benefit calculation is based upon certain assumptions which are discussed in Note 14 to the Consolidated Financial Statements. The calculation assumes service and base salary earned through December 31, 2008. The present value assumes the executive will begin to receive retirement benefits at age 65 (or immediately, if the executive is already over 65 years of age). Age 65 is the earliest age executives can receive benefits without a reduction in benefits. The interest rate assumption used to calculate the present value varies by plan, based upon the age of the participants and the resulting

projected benefit payouts of the plan in the aggregate. For the Employees Pension Plan, the interest rate assumption is 5.92%, while for both the Excess Plan and the Supplemental Plan the interest rate assumption is 6.25%. The post-retirement mortality assumption is based upon the RP-2000 mortality table.

**2008 Pension Benefits Table**

<u>Name</u>	<u>Plan Name</u>	<u>Number of Years Credited Service (#)(1)</u>	<u>Present Value of Accumulated Benefit (\$)</u>
George L. Engelke, Jr.	Employees Pension Plan	37 years 6 months	991,788
	Excess Plan	37 years 6 months	4,190,450
	Supplemental Plan	37 years 6 months	1,252,206
Monte N. Redman	Employees Pension Plan	31 years 7 months	647,825
	Excess Plan	31 years 7 months	1,294,619
	Supplemental Plan	31 years 7 months	36,279
Gerard C. Keegan	Employees Pension Plan	37 years 9 months	1,015,866
	Excess Plan	37 years 9 months	1,080,437
Gary T. McCann	Employees Pension Plan	18 years 11 months	359,638
	Excess Plan	18 years 11 months	312,325
Frank E. Fusco	Employees Pension Plan	19 years 2 months	190,158
	Excess Plan	19 years 2 months	110,232

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- (1) The number of years of credited service for benefit accrual purposes is capped at 30 years. For the Supplemental Plan, if a participant takes early retirement, his benefit is reduced by a fraction the numerator of which is his actual years of credited service (without reference to any cap) and the denominator is his projected years of credited service at normal retirement age. Under such Plan, the only augmentation that occurs for service beyond normal retirement age is the result of any potential base salary increases which the executive may receive during this period.

As noted above, the Supplemental Plan only provides a benefit if it exceeds the benefit that is payable pursuant to the terms of the Employees Pension Plan and the Excess Plan.

### **Other Potential Post-Employment Payments**

As noted in the CD&A, AFC and the Association have entered into employment agreements with each of the executive officers, including the Named Executives. The employment agreements each provide for a three-year term. The Association's employment agreements each run from the first day of January. Prior to January 1st each year, the Board of Directors of the Association may extend the employment agreements with the Association for an additional year such that the remaining terms shall be three (3) years. Prior to January 1, 2009, such employment agreements were amended and restated and thereby extended to a three year term. The nature of the amendments is discussed more fully below. The agreements with AFC automatically extend daily, so as to maintain their original term, unless written notice of non-renewal is given by the Board. No such notice has been given to any current executive officer. The agreements with AFC were also amended and restated prior to January 1, 2009. The nature of the amendments is more fully discussed below.

The employment agreements provide for minimum salaries and the executives' participation in retirement plans, group life, medical and disability insurance plans and any other employee benefit

programs. The employment agreements also provide that AFC and the Association will maintain, for the benefit of the executives, director and officer liability insurance and will indemnify the executives on prescribed terms for claims and related costs and liabilities arising from the services provided pursuant to the employment agreements for a period of six (6) years beyond the termination of such agreements.

The employment agreements provide for termination of each of the executives' employment at any time by AFC or the Association with or without cause. Each executive would be entitled to severance benefits in the event the executive's employment terminates (1) due to AFC's or the Association's respective (A) failure to re-elect the executive to his current office, and in the case of Mr. Engelke's and Mr. Keegan's employment agreements, to the Board; (B) failure by whatever cause to vest in the executive the functions, duties or responsibilities prescribed for the executive in such agreement; (C) material breach of the employment agreements or reduction of the executive's base salary or other change to the terms and conditions of the executive's compensation and benefits which either individually or in the aggregate, as to such executive, has a material adverse effect on the aggregate value of the total compensation package provided to such executive; or (D) relocation of the executive's principal place of employment outside of Nassau or Queens Counties of New York; or (2) for reasons other than (A) for cause; (B) voluntary resignation, except as a result of the actions specified under clause (1) above or following a change of control, as defined in the agreements; (C) death; (D) long term disability; or (E) expiration of the term of the employment agreement.

The executive officers agree that for a period of one year following termination of their employment, or the remaining contact term, whichever is less, they will not accept employment and will not serve as an officer, employee, consultant, director or trustee to any banking or thrift institution with an office or an application pending to open an office in any city, town or county in which AFC or the Association have an office, unless their employment is terminated pursuant to section (1) above or if such employment terminates as a result of disability, and in such instance, following notice, AFC does not offer to retain the executive in a comparable position. In addition, the executives agree in all cases to keep confidential and not use for their own benefit or the benefit of anyone else other than AFC any material non-public documents or information obtained while employed by AFC, unless required by law, until such time as the document or material is either no longer material or is otherwise publicly available through no fault of the executive. They agree, for a period of one year following their termination, not to solicit for employment, or to provide any advice or recommendations to a third party, regarding any officer or employee of AFC or the Association with respect to any bank, thrift or other financial institution in the business of accepting deposits or making loans in areas where AFC or the Association is located. They also agree, for a period of one year following their termination, not to solicit or otherwise seek to encourage any customer of AFC or the Association to terminate their relationship with AFC or the Association.

In situations where a Named Executive would be entitled to severance benefits, the severance benefits to which the Named Executive would be entitled include:

- i) continued life, medical and disability insurance benefits for the remainder of the contract term (three (3) years) at no cost to the executive (During their employment, the executives contribute to their medical coverage on the same basis as all salaried employees of the Association based upon the coverage selected);
- ii) a lump sum payment equal to the salary the executive would have earned during the remainder of the contract term (three (3) times base salary);
- iii) a lump sum payment equal to potential incentive compensation the executive could have earned during the remainder of the contract term (three (3) times the maximum incentive bonus available pursuant to the Executive Incentive Plan - See the 2008 Grants of Plan-Based Awards Table on page 43 and the CD&A - Short-Term Non-Equity Incentive Plan Compensation commencing on page 33 for a discussion of the manner in which incentive awards under the Executive Incentive Plan are calculated);
- iv) a payment equal to the present value of certain enhanced pension benefits (This amount is calculated by taking the present value of the difference between the pension benefits to which the executive is entitled under the DB Plans and a hypothetical benefit which the executive would be entitled to under such plans making the following assumptions: (a) the executive receives additional service credit through the remainder of the contract term (three (3) years) and (b) the lump sum payments payable under paragraphs (i) and (ii) above are added to the executive's compensation in the year of the executive's termination). Based upon benefit payment elections made by the Named Executives pursuant to the Supplemental Plan and the Excess Plan this payment would be made in a lump sum;
- v) a lump sum equal to the ESOP benefits the executive would have earned during the remainder of the contract term (three (3) times the ESOP allocations made to the executive in his last full year of employment);
- vi) accelerated vesting of all outstanding option grants and restricted stock awards;
- vii) director and officer liability insurance coverage and AFC's agreement to indemnify the Named Executives to the fullest extent authorized by Delaware law for a period of six (6) years following termination of the contract; and
- viii) at the election of either AFC or the Association, a cash settlement of all outstanding options and restricted stock awards.

In the event of disability, the Named Executives are entitled to the following enhanced termination-related benefits:

- i) The Named Executive's base salary is paid for up to one (1) full year following the Named Executive becoming disabled;
- ii) The Named Executive, pursuant to the terms of the Executive Incentive Plan, is entitled to receive a prorated bonus, based upon AFC's attainment of the established performance goals for the plan year; and
- iii) The stock option grants and restricted stock awards provided to the Named Executives all provide for accelerated vesting in the event of disability.

In the event of death, the Named Executives are entitled to the following enhanced termination-related benefits:

- i) The Named Executive's estate, pursuant to the terms of the Executive Incentive Plan, is entitled to receive a prorated bonus, based upon AFC's attainment of the established performance goals for the plan year; and
- ii) The stock option grants and restricted stock awards provided to the Named Executives all provide for accelerated vesting in the event of death.

The employment agreements between AFC and the Association and each of the executive officers, including the Named Executives, were amended and restated prior to January 1, 2009 for two primary reasons.

- i) In order to avoid immediate taxation of various benefits provided pursuant to the contracts, including severance benefits, the contracts were amended to conform with the requirements of Code section 409A and the regulations promulgated thereunder. Code section 409A deals with the income taxation of deferred compensation arrangements and requires the deferral of certain severance payments to the executives for a period of up to 6 months following termination of employment. The amendments made in this regard did not alter the substantive terms of these contracts.
- ii) In December 2008, AFC was notified by the U.S. Treasury that it had received preliminary approval to participate in the U.S. Treasury's Troubled Asset Relief Program - Capital Purchase Program, referred to as the CPP. The CPP required that participating institutions agree to certain limitations and incentive claw-back provisions that would have applied to the Named Executives and others had AFC participated in the CPP. The contracts of the executive officers, including the Named Executives, were amended to contain provisions which would limit severance compensation and allow for the claw back of incentive payments as required by the CPP so long as AFC or the Association were participating in the CPP. Subsequently, AFC and the Association determined not to participate in the CPP.

As of December 31, 2008, the amounts of the Named Executives' termination-related benefits, excluding those termination-related benefits that are not discriminatory in favor of the Named Executives, such as group life insurance or disability insurance payments, are estimated to be as follows:

<u>Name</u>	<u>Nature of Payment</u>	<u>Disability Payment (\$)(1)</u>	<u>Payments upon Death (\$)(2)</u>	<u>Severance Payment (\$)(3)</u>
George L. Engelke, Jr.	Salary	1,047,580		3,426,000
	Bonus	0	0	4,796,400
	Value of Enhanced Pension			12,689,564
	Value of ESOP Benefit			169,171
	Welfare Benefit Payment			9,481
	Value of Acceleration:			
	Options	0	0	0
	Restricted Stock	2,083,072	2,083,072	2,083,072
Monte N. Redman	Salary	730,580		2,475,000
	Bonus	0	0	2,970,000
	Value of Enhanced Pension			4,648,255
	Value of ESOP Benefit			188,971
	Welfare Benefit Payment			24,859
	Value of Acceleration:			
	Options	0	0	0
	Restricted Stock	1,693,732	1,693,732	1,693,732
Gerard C. Keegan	Salary	449,580		1,632,000
	Bonus	0	0	1,632,000
	Value of Enhanced Pension			3,365,910
	Value of ESOP Benefit			144,846
	Welfare Benefit Payment			14,332
	Value of Acceleration:			
	Options	0	0	0
	Restricted Stock	1,131,352	1,131,352	1,131,352
Gary T. McCann	Salary	405,580		1,500,000
	Bonus	0	0	1,500,000
	Value of Enhanced Pension			1,561,621
	Value of ESOP Benefit			174,582
	Welfare Benefit Payment			36,005
	Value of Acceleration:			
	Options	0	0	0
	Restricted Stock	954,192	954,192	954,192
Frank. E. Fusco	Salary	370,580		1,395,000
	Bonus	0	0	1,395,000
	Value of Enhanced Pension			910,656
	Value of ESOP Benefit			181,072
	Welfare Benefit Payment			64,397
	Value of Acceleration:			
	Options	0	0	0
	Restricted Stock	633,656	633,656	633,656

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- (1) Assumes the Named Executive became disabled on December 31, 2008. The Association has a policy, in the event of a Named Executive's disability, to continue to provide the Named Executive their base salary for a period of up to one year. A disabled Named Executive would initially be entitled to receive up to 26 weeks of New York State statutory disability benefits. The Named Executive would then become entitled to long-term disability benefits under the Association's welfare benefit program available to all salaried employees. AFC's contracts with the Named Executives provide that after 180 days AFC may, under applicable circumstances, terminate the Named Executive's employment and continue to pay the Named Executive's salary for an additional six (6) months. The number reflected in the Disability Payment column under the Salary heading is the net salary payable to the Named Executive after



taking into consideration the statutory disability benefits to which the Named Executive is entitled and the maximum disability payment received from the Association's long-term disability carrier. The number reflected under the Bonus heading, which is \$0.00, is the actual bonus paid to the Named Executive for 2008 since the prorated bonus would cover the entire twelve (12) month period. The number reflected under the Value of Acceleration heading reflects either (i) the positive difference, if any, between the fair market value of AFC Common Stock on the date of acceleration and the exercise price as to all options the vesting of which would be accelerated due to disability or (ii) the fair market value of AFC Common Stock as to all restricted stock the vesting of which would be accelerated due to disability. The fair market value is the closing price of AFC Common Stock as quoted on the NYSE as of December 31, 2008.

- (2) Assumes the Named Executive died on December 31, 2008. The number reflected under the Bonus heading of the Payments upon Death column is the actual bonus paid to the Named Executive for 2008 since the prorated bonus would cover the entire twelve (12) month period. The number reflected under the Value of Acceleration heading reflects either (i) the positive difference, if any, between the fair market value of AFC Common Stock on the date of acceleration and the exercise price as to all options the vesting of which would be accelerated due to death or (ii) the fair market value of AFC Common Stock as to all restricted stock the vesting of which would be accelerated due to death. The fair market value is the closing price of AFC Common Stock as quoted on the NYSE as of December 31, 2008.
- (3) Severance payments are calculated assuming the Named Executive's employment was terminated as of December 31, 2008. All Named Executives, with the exception of Mr. Fusco, who does not yet meet the age requirement for vesting, would upon termination be eligible to receive health related welfare benefits pursuant to the Post-retirement Medical Plan discussed below.

In the event of a change of control, the ESOP provides, among other things, that the plan shall be terminated, specifies that under certain circumstances additional contributions by the Association into such plan may be required and indicates the manner in which the remaining assets which have not yet been allocated to participants following such change of control shall be allocated to participating employees. This plan is a qualified defined contribution pension plan and does not discriminate in favor of the Named Executives.

In the event of a change of control, for any taxable year in which an executive would be liable for the payment of excise taxes under Section 4999 of the Code with respect to any compensation paid by AFC or any of its affiliated companies, AFC will pay to or on behalf of the executive, an amount, in addition to the severance payments noted above, sufficient to maintain the after-tax severance benefit as though the excise tax specified in Section 4999 of the Code did not apply.

As of December 31, 2008, based upon the assumptions indicated, these sums with respect to the Named Executives are estimated to be as follows:

<u>Name</u>	<u>Excise Tax Gross-up (\$)(1)</u>
George L. Engelke, Jr.	9,938,680
Monte N. Redman	4,985,660
Gerard C. Keegan	2,996,281
Gary T. McCann	2,351,792
Frank E. Fusco	1,736,480

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- (1) The excise tax-gross up calculation is based on the assumption that a change of control for tax purposes occurred as of December 31, 2008 and that the consideration provided to shareholders of AFC Common Stock was equal to the closing price of AFC Common Stock as quoted on the NYSE, on December 31, 2008, or \$16.48.

The Association also maintains the Post-retirement Medical Plan for its officers with a rank of Vice President and higher. The Post-retirement Medical Plan provides that in the event a participant retires at age 55 or older with a minimum of 10 years of service, the officer will be provided with medical benefits for the remainder of the officer's life and that of his or her spouse. The Association pays between

50% and 100% of the premiums for such coverage. The following table shows for each of the Named Executives the present value of the accumulated benefits with respect to the Post-retirement Medical Plan, as of December 31, 2008.

<u>Name</u>	<b>Present Value of Accumulated Benefit (\$(1))</b>
George L. Engelke, Jr.	117,310
Monte N. Redman	137,880
Gerard C. Keegan	145,911
Gary T. McCann	134,424
Frank E. Fusco (2)	81,212

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- (1) This column represents the present value of the accumulated benefit as of December 31, 2008, for the Named Executives under the Post-retirement Medical Plan based upon the assumptions as described in Note 14 to the Consolidated Financial Statements.
- (2) Mr. Fusco currently does not meet the age requirement to receive a benefit pursuant to the terms of the Post-retirement Medical Plan.

Annually, the Compensation Committee receives from management a review of the costs associated with the executive officers' employment contracts. During 2007, those costs and the terms and conditions of such contracts were reviewed by Hewitt Associates LLC in connection with establishing compensation levels for 2008.

## **PROPOSAL NO. 2 - APPROVAL OF AN AMENDMENT TO THE ASTORIA FINANCIAL CORPORATION EXECUTIVE OFFICER ANNUAL INCENTIVE PLAN**

### **Why We Are Asking For Shareholder Approval**

AFC is asking shareholders to approve amendments to the Executive Incentive Plan to help AFC and the Association maximize the tax deductibility of bonuses that we pay to our executive officers. The purpose of the amendment is to extend the Astoria Financial Corporation Executive Officer Annual Incentive Plan, which was previously approved by the shareholders of AFC at our annual meeting of shareholders held May 19, 1999 and extended for an additional five years by the shareholders of AFC at our annual meeting of shareholders held on May 19, 2004. The plan as originally approved and extended expired on December 31, 2008. If the amendment to the plan is approved by the shareholders of AFC, the plan will expire on December 31, 2013.

AFC and the Association tie a portion of their executive officers' cash compensation to the achievement of performance goals. We have done this using a bonus plan under which executive officers earn bonuses that vary based on performance relative to goals pre-set annually by the Compensation Committee, acting as the administrative committee referenced below. Under the Code, AFC cannot deduct fiscal year taxable compensation in excess of \$1,000,000 that it pays to either its Chief Executive Officer or any of the other Named Executives other than the Chief Executive Officer or Chief Financial Officer, unless such compensation meets the law's definition of "qualified performance based compensation." Bonuses cannot be qualified performance based compensation unless AFC pays them under a written plan that its shareholders approve. AFC is seeking to extend the plan that it has utilized for the past ten years for an additional five year term.

If shareholders do not approve this plan, AFC and the Association will not pay annual bonuses under the plan. In such case, in order to retain top-level executive employees, the Compensation Committee may need to consider changes to the compensation packages of the executive officers.

### **Material Provisions of the Plan**

Exhibit A to this Proxy Statement contains the full text of the plan, as amended. Exhibit A is incorporated by reference into the following plan summary. The summary is qualified in its entirety by this reference.

***Nature of the Plan.*** Under this plan, AFC and the Association may pay annual cash bonuses which may be deductible under the Code. The amount of such bonuses will vary based on the level of attainment relative to performance goals pre-established by the administrative committee. Bonuses may be zero if threshold performance goals are not attained, as happened in 2008, and are anticipated to be for 2009, if the shareholders approve the plan.

***Administration of the Plan.*** A committee of outside directors administers this plan. The administrative committee must have at least two members and has broad discretionary powers. Its members are the members of the Compensation Committee of the Board who are non-employee directors under the federal tax laws. In general, non-employee directors are directors who (1) are not, and never were, officers or employees of AFC or the Association and (2) do not receive material compensation from AFC except for service as a director.

***Eligibility.*** Eligibility is restricted to top-level executive employees of AFC and the Association who are responsible for establishing strategic direction and long-range plans. Currently, all Executive Vice Presidents, the Vice Chairman and Chief Administrative Officer, the Chief Operating Officer and the Chief Executive Officer, a total of seven people, are eligible. During the first 90 days of each year, the administrative committee selects the year's participants from among the eligible employees. After the first 90 days, the administrative committee may allow participation on a pro-rated basis by employees who are placed in eligible positions through hiring, promotion or transfer before August 31<sup>st</sup> of the year.

***Target Awards and Performance Goals.*** When the administrative committee selects a participant for a year, it sets the participant's target bonus and the performance goals which must be achieved to earn the bonus. The target bonus is a percentage of the participant's base salary. The performance goals will be target levels established with respect to any or all of the following corporate performance measures:

Basic earnings per common share,  
Basic cash earnings per common share  
Diluted earnings per common share,  
Diluted cash earnings per common share  
Net income,  
Cash earnings,  
Net interest income,  
Non-interest income,  
General and administrative expense to  
average assets ratio,  
Cash general and administrative expense to  
average assets ratio

Efficiency ratio,  
Cash efficiency ratio,  
Cash return on average assets,  
Return on average stockholders' equity,  
Cash return on average stockholders' equity,  
Return on average tangible stockholders'  
equity,  
Cash return on average tangible  
stockholders' equity.

The administrative committee will assign a percentage weight to each performance goal. The aggregate weight for all goals must be 100%. The committee may also set one or more performance levels below or above the target level and assign lower or higher bonus percentages that will be paid if these levels are attained.

***Certification of Performance and Payment of Bonuses.*** After the end of each year, the administrative committee will determine the extent of achievement of the established performance goals and certify the results. AFC and the Association will pay the bonus amounts assigned to the performance level achieved as soon as practicable but not later than two and one half months after year end. The maximum bonus that AFC may pay under the plan to any participant for any year is \$2,000,000.

***Committee Discretion to Adjust Bonus Amounts and Performance Measures.*** After setting the year's target bonuses and performance goals, the administrative committee may change them only in limited instances. If there is a change in generally accepted accounting principles, a stock split, stock dividend, reclassification, merger, spin-off, infrequently occurring or extraordinary item or other corporate event, it may adjust the performance goals in a manner designed to neither enlarge nor diminish a participant's bonus opportunity.

***Retirement, Death, Disability and Change of Control.*** Generally, a participant will not receive a bonus for a year unless he or she is an employee on the last day of the year. In cases of retirement, death or disability, the administrative committee may authorize a pro-rated payment based upon the attainment of the performance goals through the end of the year. The administrative committee may also authorize pro-rated payments following a change of control, based on the attainment of adjusted performance goals through the date of the change of control. Such payments may not be considered qualified performance-based compensation for tax deduction purposes.

***Amendment and Termination.*** If approved, this plan will be in effect for a five-year period ending December 31, 2013. The Board may suspend it or terminate it before then. It may also amend this plan at any time and in any respect. Any amendment that would change the list of performance measures, the class of eligible employees or the maximum annual bonus amount must first be approved by shareholders.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT  
SHAREHOLDERS VOTE FOR APPROVAL OF THE AMENDMENT TO THE ASTORIA  
FINANCIAL CORPORATION EXECUTIVE OFFICER ANNUAL INCENTIVE PLAN.**

#### **New Plan Benefits**

The benefits or amounts that will be received by or paid to participants, any Named Executive, the executive officers as a group or non-executive officers as a group pursuant to the Executive Incentive Plan are not currently determinable. No incentives were paid under the Executive Incentive Plan for 2008 as the performance of AFC did not meet minimum established objectives. The amount that was paid for fiscal year 2008 with respect to the Executive Incentive plan is set forth in the following table:

## New Plan Benefits

### Astoria Financial Corporation Executive Officer Annual Incentive Plan

<u>Name and Position (1)</u>	<u>Dollar Value (\$)</u>	<u>Number of Units</u>
George L. Engelke, Jr., Chairman and Chief Executive Office	0	NA
Monte N. Redman, President and Chief Operating Officer	0	NA
Gerard C. Keegan, Vice Chairman, Chief Administrative Officer and Director		
Frank E. Fusco, Executive Vice President, Treasurer and Chief Financial Officer	0	NA
Gary T. McCann, Executive Vice President	0	NA
Arnold K. Greenberg, Executive Vice President	0	NA
Alan P. Eggleston, Executive Vice President Secretary and General Counsel	0	NA
All executive officers, as a group	0	NA
Non-executive directors, as a group	NA	NA
Non-executive officer employees, as a group	NA	NA

- 
- (1) Non-executive officer directors are not eligible to participate in the Executive Incentive Plan. Among employees, eligibility is normally limited to top executive level employees of AFC and the Association whose functional responsibility include the establishment of strategic direction and long-range plans for AFC and the Association.

### **PROPOSAL NO. 3 - RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

AFC's independent registered public accounting firm, or principal accountant, for the fiscal year ended December 31, 2008 was KPMG LLP. Following its review of the qualifications of KPMG LLP and assuring itself that KPMG LLP is independent from AFC, its officers and directors and does not provide to AFC non-audit services to a degree that KPMG LLP's independence may be impaired, the Audit Committee has reappointed KPMG LLP as independent registered public accounting firm, or principal accountant, for AFC and the Association for the year ending December 31, 2009, subject to ratification of such appointment by our shareholders. Representatives of KPMG LLP will be present at the Annual Meeting. They will be given an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions from shareholders present at the Annual Meeting.

The following chart details fees billed or fees estimated to be billed for professional or other services rendered by KPMG LLP for AFC's fiscal years ended December 31, 2007 and 2008:

**KPMG LLP Fees Billed For The Fiscal Years Ended December 31, 2007 and 2008**

<u>Service Categories</u>	<u>Fiscal Year Ended December 31, 2007</u>	<u>Fiscal Year Ended December 31, 2008</u>
Audit Fees (1)	\$1,324,000	\$1,249,000
Audit-Related Fees (2)	\$93,000	\$93,000
Tax Fees (3)	\$31,700	\$31,500
All Other Fees (4)	\$0.00	\$0.00

- 
- (1) Audit Fees reflect aggregate fees billed or estimated to be billed for professional services rendered for the audit of AFC's consolidated financial statements, the reviews of the financial statements included in AFC's Quarterly Reports on Form 10-Q and services normally provided in connection with statutory and regulatory filings or engagements, including services rendered in connection with the audit of internal controls over financial reporting maintained by AFC.
- (2) Audit-Related Fees reflect aggregate fees billed or estimated to be billed for assurance and related services (within the meaning of Item 9(e)(2) of Section 240.14a-101 of the Exchange Act) that are reasonably related to the performance of the audit or review of AFC's consolidated financial statements and not reported as Audit Fees, including but not limited to the audit of AFC's employee benefit plans.
- (3) Tax Fees reflect aggregate fees billed or estimated to be billed for professional services for tax compliance, tax advice and tax planning, consisting primarily of review of state and federal tax returns and quarterly tax payments.
- (4) All Other Fees reflect aggregate fees billed for products and services provided by KPMG LLP other than those set forth above as Audit Fees, Audit-Related Fees and Tax Fees.

It is the policy of the Audit Committee to pre-approve all services provided by KPMG LLP to AFC. In the absence of contrary action by the Audit Committee, of which there has been none, the Board has also delegated to the Chairman of the Audit Committee the authority to pre-approve such services. The Chairman of the Audit Committee is then responsible to report such authorization to the Audit Committee at its next scheduled meeting. All services provided by KPMG LLP during fiscal year 2007 and 2008 were pre-approved by the Audit Committee or the Chairman of the Audit Committee pursuant to the delegation of authority and procedure outlined above.

The Audit Committee, as part of its review of the disclosures and letter from KPMG LLP required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," considered whether the provision of the services rendered, the fees for which are reflected in the chart above entitled "KPMG LLP Fees Billed for the Fiscal Years ended December 31, 2007 and 2008" under the captions entitled "Audit-Related Fees," "Tax Fees" and "All Other Fees," were, and found them to be, compatible with maintaining the independence of KPMG LLP.

During 2006, the Office of Thrift Supervision together with the other federal banking regulatory agencies published the "Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters." The advisory is effective for any audit engagement letters entered into by the Association after February 9, 2006 and specifies that agreeing to certain limitation of liability provisions in an audit engagement letter would constitute an unsafe and unsound banking practice on the part of the Association. AFC believes that its engagement letters with KPMG LLP for the 2007 and 2008 audits fully comply with the "Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters."

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT  
SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS  
AFC'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.**

## **Audit Committee**

*The information set forth in this section, including but not limited to the Report of the Audit Committee, shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act or the Exchange Act, except to the extent that AFC specifically incorporates this information by reference, and otherwise shall not be deemed “soliciting materials” or to be “filed” with the SEC or subject to Regulations 14A or 14C of the SEC or subject to the liabilities of Section 18 of the Exchange Act.*

It has been and continues to be the practice of the Board to maintain an Audit Committee of the Board. The Board has adopted a written Charter of the Audit Committee. A copy of the Audit Committee’s Charter is posted on AFC’s Investor Relations website at <http://ir.astoriafederal.com> under the heading “Corporate Governance.” The Charter specifies the purpose of the Audit Committee, the appointment and composition of its members, procedural matters with respect to its meetings, the responsibilities and duties of the Audit Committee and the reporting of Audit Committee activities and recommendations. The management of AFC is primarily responsible for implementing and evaluating the effectiveness of the system of internal controls and financial reporting processes of AFC. AFC’s independent registered public accounting firm is responsible for expressing an opinion on the consolidated financial statements of AFC based on an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board and expressing an opinion regarding the effective operation of the system of internal controls over financial reporting.

AFC Common Stock is listed on the NYSE. The Board has determined that the members of the Audit Committee meet the applicable independence standards set forth in the NYSE Listed Company Manual.

### **Report of the Audit Committee**

Under rules established by the SEC, AFC is required to provide certain data and information regarding the activities of its Audit Committee. In fulfillment of this requirement, the Audit Committee of AFC, at the direction of the Board, has prepared the following report for inclusion in this Proxy Statement.

At its meeting held on February 26, 2009, the Audit Committee reviewed the Consolidated Financial Statements and discussed such statements with the management of AFC. At such meeting and at other meetings held during 2008 and 2009, the Audit Committee discussed with AFC’s independent registered public accounting firm, KPMG LLP, the matters required to be discussed by Statement on Auditing Standards No. 61 “Communication with Audit Committees,” referred to as SAS 61 (although SAS 61 has been superseded by Statement on Accounting Standards No. 114, “The Auditor’s Communication with Those Charged With Governance,” such statement has not yet been adopted by the Public Company Accounting Oversight Board). The matters required to be discussed pursuant to SAS 61 include, but are not limited to, significant accounting policies, management judgments and accounting estimates, uncorrected and corrected misstatements, if any, disagreements with management, if any, difficulties encountered with management in performing the audit, if any, and independence.

The Audit Committee has received and reviewed the written disclosures and letter from KPMG LLP required by Applicable requirements of the Public Company Accounting Oversight Board regarding KPMG LLP’s communications with the Audit Committee concerning independence. The Audit Committee has discussed with KPMG LLP the independence of KPMG LLP.

Based upon the review and discussion referred to in this Report, the Audit Committee, at its meeting held on February 26, 2009, approved and recommended to the Board the inclusion of the Consolidated Financial Statements in the Annual Report on Form 10-K of AFC for the year ended December 31, 2008.

#### **Audit Committee of AFC**

Thomas J. Donahue, Chairman  
Andrew M. Burger  
Denis J. Connors

Peter C. Haeffner, Jr.  
Ralph F. Palleschi  
Leo J. Waters

#### **Additional Information**

##### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires AFC's directors and executive officers, among others, to file reports of ownership and changes in ownership of their AFC equity securities with the SEC and to furnish AFC with copies of all such reports. Based solely upon a review of the copies of these reports and amendments thereto received by AFC, AFC believes that all applicable filing requirements were complied with for 2008, except as follows: Mr. Leo J. Waters sold 500 shares of AFC Common Stock on November 7, 2008 and 3,762 shares of AFC Common Stock on November 10, 2008, which sales were not reported to the SEC in timely fashion. These transactions have now been reported by amended filings with the SEC.

##### **Cost of Proxy Solicitation**

The cost of solicitation of proxies by AFC will be borne by AFC. Laurel Hill Advisory Group Inc. has been retained to assist in the solicitation of proxies under a contract providing for payment of a fee of \$7,500 plus reimbursement for its expenses. In addition to solicitations by mail and by Laurel Hill Advisory Group, Inc., a number of officers and employees of AFC and the Association may solicit proxies in person, by mail or by telephone, but none of these persons will receive any compensation for their solicitation activities in addition to their regular compensation. Arrangements will also be made with brokerage houses and other custodians, nominees, and fiduciaries for forwarding solicitation material to the beneficial owners of AFC Common Stock held of record by such fiduciaries, and AFC will reimburse them for their reasonable expenses in accordance with the rules of the SEC and the NYSE.

##### **Shareholder Proposals**

To be considered for inclusion in AFC's proxy statement and form of proxy relating to the annual meeting of shareholders to be held in 2010, a shareholder proposal, including a recommendation of a director nominee, must be received by the Secretary of AFC at the address set forth on page 1 of this Proxy Statement not later than December 14, 2009. Any shareholder proposal will be subject to Rule 14a-8 promulgated by the SEC under the Exchange Act.

##### **Notice of Business to be Conducted at an Annual Meeting**

The Bylaws of AFC provide an advance notice procedure for a shareholder to properly bring business before an annual meeting or to nominate any person for election to the Board. The shareholder must give written advance notice to the Secretary of AFC not less than ninety (90) days before the date



originally fixed for such meeting; provided, however, that in the event that less than one hundred (100) days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder, to be timely, must be received not later than the close of business on the tenth (10th) day following the date on which AFC's notice to shareholders of the annual meeting date was mailed or such public disclosure was made. The advance notice by shareholders must include the shareholder's name and address, as they appear on AFC's record of shareholders, the class and number of shares of AFC's capital stock that are beneficially owned by such shareholder, a brief description of the proposed business or the names of the person(s) the shareholder proposes to nominate, and, as to business which the shareholder seeks to bring before an annual meeting, the reason for conducting such business at the annual meeting and any material interest of such shareholder in the proposed business.

In the case of nominations for election to the Board, the shareholder's notice must also include as to each proposed nominee all information regarding the proposed nominee that is required to be disclosed pursuant to Regulation 14A under the Exchange Act, including, but not limited to, such proposed nominee's consent to being named in the proxy statement as a nominee and to serve if elected. Nothing in this paragraph shall be deemed to require AFC to include in its proxy statement and proxy relating to an annual meeting any shareholder proposal or nomination which does not meet all of the requirements for inclusion established by the SEC in effect at the time such proposal or nomination is received.

### **Shareholder Communications**

The Board has established a process for shareholders or other interested parties to communicate with the Board or any of its members. Communications to Messrs. Engelke or Keegan may be sent directly to them at the address set forth on page 1 of this Proxy Statement. Those who wish to communicate with the presiding director, the non-management, or independent, directors or the entire Board may do so by writing to:

Chairman of the Nominating and Corporate Governance Committee  
c/o Alan P. Eggleston, Executive Vice President, Secretary and General Counsel  
Astoria Financial Corporation  
One Astoria Federal Plaza  
Lake Success, New York 11042

Such communications should be delivered in a sealed envelope marked "Personal and Confidential." Such communications shall be delivered unopened by the Executive Vice President, Secretary and General Counsel to the Chairman of the Nominating and Corporate Governance Committee. The Chairman of the Nominating and Corporate Governance Committee will acknowledge receipt of such correspondence and, if applicable, provide a copy to each Board member or each non-management or independent director.

Employees, who may also be shareholders of AFC, are provided several methods for providing confidential communications to the Chairman of the Audit Committee and the Chairman of the Nominating and Corporate Governance Committee. These procedures are outlined in AFC's Code of Business Conduct and Ethics, which applies to all directors, officers and employees of AFC and its affiliated companies, including the Association and is available on AFC's Investor Relations website at <http://ir.astoriafederal.com> under the heading "Corporate Governance." Shareholders may request a printed copy of such document by contacting AFC's Investor Relations Department by calling (516) 327-7869 or in writing at the address specified on page 1 of this Proxy Statement.

### **Director Attendance at Annual Meetings**

It is the policy of AFC that all directors are strongly encouraged to attend the Annual Meeting and that, at a minimum, a quorum of the Board be in attendance. At the annual meeting of shareholders held on May 21, 2008, all of the directors were present with the exception of Mr. Powderly who was absent due to health reasons.

### **Householding**

The SEC allows the delivery of a single proxy statement and annual report to an address shared by two or more of our shareholders. This delivery method, referred to as “householding,” can result in significant cost savings for AFC. In order to take advantage of this opportunity, banks and brokerage firms that hold your shares have delivered only one proxy statement and annual report to multiple shareholders who share an address unless one or more of the shareholders has provided contrary instructions. AFC will deliver promptly, upon written or oral request, a separate copy of the proxy statement and annual report to a shareholder at a shared address to which a single copy of the documents was delivered. A shareholder who wishes to receive a separate copy of the proxy statement and annual report, now or in the future, may obtain one without charge by addressing a request to Investor Relations at Astoria Financial Corporation, One Astoria Federal Plaza, Lake Success, New York 11042 or by calling (516) 327-7877. You may also obtain a copy of the proxy statement and annual report from the Company’s website (<http://ir.astoriafederal.com>) by clicking on “Annual Report” and/or “Proxy Statement.” Shareholders of record sharing an address who are receiving multiple copies of proxies and annual reports and wish to receive a single copy of such materials in the future should submit their request by contacting us in the same manner. If you are the beneficial owner, but not the record owner, of AFC’s shares and wish to receive only one copy of the proxy statement and annual report in the future, you will need to contact your broker, bank or other nominee to request that only a single copy of each document be mailed to all shareholders at the shared address in the future.

### **Other Matters Which May Properly Come Before the Meeting**

The Board knows of no business which will be presented for consideration at the Annual Meeting other than as stated in the Notice of Annual Meeting of Shareholders. If, however, other matters are properly brought before the Annual Meeting, the dates by which shareholder proposals and notices of business to be conducted at an Annual Meeting having been previously disclosed, it is the intention of the persons named in the accompanying proxy to vote the shares represented thereby on such matters as directed by the Board.

Whether or not you intend to be present at the Annual Meeting, you are urged to vote on the Internet, by telephone or by returning your proxy card promptly. If you are present at the Annual Meeting and wish to vote your shares in person, your proxy may be revoked by voting at the Annual Meeting.

**An additional copy of AFC's Annual Report on Form 10-K (without exhibits) for the year ended December 31, 2008, as filed with the SEC, will be furnished without charge to any shareholder upon written request to Astoria Financial Corporation, Investor Relations Department, One Astoria Federal Plaza, Lake Success, New York 11042-1085. Copies can also be obtained without charge from AFC's Investor Relations website at <http://ir.astoriafederal.com>.**

By order of the Board,



Alan P. Eggleston  
Executive Vice President, Secretary and  
General Counsel

Lake Success, New York  
April 13, 2009

**YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, YOU ARE REQUESTED TO VOTE YOUR SHARES OF AFC COMMON STOCK ON THE INTERNET OR BY TELEPHONE, OR COMPLETE, SIGN AND PROMPTLY RETURN THE ACCOMPANYING PROXY CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

**Exhibit A - Astoria Financial Corporation Executive Officer Annual Incentive Plan, As Amended**

**ASTORIA FINANCIAL CORPORATION  
EXECUTIVE OFFICER ANNUAL INCENTIVE PLAN, AS AMENDED**

**ARTICLE I - PLAN OBJECTIVES.**

**Section 1.1** The purpose of the Plan is to achieve the following objectives: (i) to promote the achievement of Astoria Financial Corporation's and the Astoria Federal Savings and Loan Association's performance objectives; (ii) to link executive compensation to specific corporate performance objectives; (iii) to provide a competitive reward structure for executive management; and (iv) to encourage involvement and communication regarding Astoria Financial Corporation's and the Astoria Federal Savings and Loan Association's strategic plans and objectives.

**ARTICLE II - PLAN DURATION.**

**Section 2.1** The Plan has been effective for ten consecutive Plan Years beginning on the Effective Date and ending on December 31, 2008, and shall be effective thereafter for five consecutive Plan Years beginning on January 1, 2009 and ending on December 31, 2013.

**ARTICLE III - DEFINITIONS.**

**Section 3.1** When used in the Plan, the words and phrases below have the following meanings:

(a) "AFC" means Astoria Financial Corporation, a Delaware corporation, and any successor thereto.

(b) "AFC and the Association" means AFC, together with any other organization that is required to be considered, along with AFC, a single entity for purposes of consolidated financial reporting under GAAP.

(c) "Association" means Astoria Federal Savings and Loan Association, a federally chartered savings association, and any successor thereto.

(d) "Board" means the Board of Directors of AFC.

(e) "Change of Control" means any of the following events:

(I) approval by the stockholders of AFC of a transaction that would result in the reorganization, merger or consolidation of AFC with one or more other persons, other than a transaction following which:

(A) at least 51% of the equity ownership interests of the entity resulting from such transaction are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the outstanding equity ownership interests in AFC; and

(B) at least 51% of the securities entitled to vote generally in the election of directors of the entity resulting from such transaction

are beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) in substantially the same relative proportions by persons who, immediately prior to such transaction, beneficially owned (within the meaning of Rule 13d-3 promulgated under the Exchange Act) at least 51% of the securities entitled to vote generally in the election of directors of AFC;

(II) the acquisition of all or substantially all of the assets of AFC or beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of the outstanding securities of AFC entitled to vote generally in the election of directors by any person or by any persons acting in concert, or approval by the stockholders of AFC of any transaction which would result in such an acquisition;

(III) a complete liquidation or dissolution of AFC, or approval by the stockholders of AFC of a plan for such liquidation or dissolution;

(IV) the occurrence of any event if, immediately following such event, at least 50% of the members of the Board of Directors of AFC do not belong to any of the following groups:

(A) individuals who were members of the Board of Directors of AFC on the Effective Date of this Plan; or

(B) individuals who first became members of the Board of Directors of AFC after the Effective Date of this Plan either:

(i) upon election to serve as a member of the Board of Directors of AFC by affirmative vote of three-quarters of the members of such Board, or of a nominating committee thereof, in office at the time of such first election; or

(ii) upon election by the stockholders of AFC to serve as a member of the Board of AFC, but only if nominated for election by affirmative vote of three-quarters of the members of the Board of Directors of AFC, or of a nominating committee thereof, in office at the time of such first nomination; *provided, however*, that such individual's election or nomination did not result from an actual or threatened election contest (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents (within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) other than by or on behalf of the Board; or

(V) any event which would be described in Section 3.1(e) (I), (II), (III) or (IV) if the term "Association" were substituted for the term "AFC" therein.

In no event, however, shall a Change in Control be deemed to have occurred as a result of any acquisition of securities or assets of AFC, Association, or a subsidiary of either of them, by AFC, Association, or a subsidiary of either of them, or by any employee benefit plan maintained by any of them. For purposes of this Section 3.1(e), the term "person" shall have the meaning assigned to it under Sections 13(d)(3) or 14(d)(2) of the Exchange Act.

(f) “Code” means the Internal Revenue Code of 1986, including the corresponding provisions of any succeeding law.

(g) “Corporate Performance Objectives” means for any Plan Year those objective performance objectives selected and established by the Committee in accordance with the requirements of Article VI of the Plan.

(h) “Committee” means those members of the Compensation Committee of AFC, appointed by and consisting of two or more members of the Board, each of whom is an outside director as defined in Code Section 162(m).

(i) “Disabled” means suffering from a mental or physical condition of total incapacity which the Committee shall have determined, on the basis of competent medical evidence, is likely to be permanent and precludes further performance of duty with AFC and the Association.

(j) “Discharge for Cause” means the termination upon the finding of the Committee of an intentional failure to perform stated duties, breach of a fiduciary duty involving personal dishonesty, which results in material loss to AFC, Association or one of their affiliates or willful violation of any law, rule or regulation, other than traffic violations or similar offenses, or final cease-and-desist order which results in material loss to AFC, Association or one of their affiliates.

(k) “Effective Date” means January 1, 1999.

(l) “Employee” means any individual employed by AFC and the Association as an employee, but does not mean an individual who renders service solely as a director or independent contractor.

(m) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, including the corresponding provisions of any succeeding law.

(n) “GAAP” means generally accepted accounting principles, as amended from time to time and applied in preparing the financial statements of AFC and the Association.

(o) “Participant” means an Employee who is selected by the Committee as eligible to participate in the Plan for a Plan Year.

(p) “Plan” means the Astoria Financial Corporation Executive Officer Annual Incentive Plan.

(q) “Plan Year” means the calendar year beginning January 1 and ending December 31.

(r) “Retires” means terminates employment at a time when the Employee is eligible to receive a benefit based upon his retirement or early retirement as set forth in any tax-qualified retirement or pension plan of AFC or Association.

(s) “Section 162(m) Employee” means, for any Taxable Year, an Employee who, on the last day of such Taxable Year is the Chief Executive Officer of AFC or is performing the functions of a chief executive officer for AFC or is an executive whose aggregate salary and bonus for such Taxable Year places him among the three most highly compensated executive officers other than the Chief Executive Officer and the Chief Financial Officer. The

determination of the Section 162(m) Employees for any Taxable Year shall be made by applying standards in effect under the Exchange Act for identifying the executive officers required to be named in AFC's Summary Compensation in its proxy statement relating to such Taxable Year.

(t) "Taxable Year" means the taxable year of AFC for federal income tax purposes.

#### **ARTICLE IV - ELIGIBILITY AND PARTICIPATION.**

**Section 4.1** The Committee shall annually select the individual Employees, if any, eligible for participation in the Plan.

**Section 4.2** Eligibility normally shall be limited to top executive-level Employees of AFC and the Association whose functional responsibility includes the establishment of strategic direction and long-range plans for AFC and the Association, including, but not limited to, the Chief Executive Officer, Vice Chairmen and Executive Vice Presidents.

**Section 4.3** An Employee who holds or assumes an eligible position shall not be a Participant for any Plan Year unless selected by the Committee to participate in the Plan for the Plan Year. An Employee who is hired, transferred or promoted into an eligible position during a Plan Year and selected to participate in the Plan for that Plan Year shall receive a prorated award for that Plan Year. In no event shall a person who is a Section 162(m) Employee be added to the Plan for any Plan Year after the close of the eighth month of the Plan Year.

**Section 4.4** In general, a Participant must be employed by AFC and the Association on the last day of the Plan Year to receive an award. A Participant who Retires, dies or becomes Disabled during a Plan Year shall receive a prorated award for that Plan Year. In these circumstances, the amount of any prorated award shall be calculated and paid during the first 2-1/2 months of the calendar year following the end of the Plan Year on the basis of the level of attainment of the established performance goals for the entire Plan Year. A Participant who terminates employment with AFC and the Association upon a Change of Control shall be eligible for a prorated award, provided that his or her termination was not a Discharge for Cause. In these circumstances, the amount of any prorated award shall be calculated and paid on the first day of the first calendar month to begin after such termination of employment on the basis of the level of attainment of the established performance goals for the portion of the Plan Year preceding the Change of Control, annualized to project full-year performance. The Committee shall have the authority to determine whether a Participant who otherwise ceases employment prior to the end of a Plan Year is eligible to receive a prorated award for that Plan Year, provided that, following the occurrence of a Change of Control, the Committee may not exercise its authority to deny a prorated award to any Participant whose termination of employment is not a Discharge for Cause. In these circumstances, the amount of any prorated award shall be calculated and paid during the first 2-1/2 months of the calendar year following the end of the Plan Year on the basis of the level of attainment of the established performance goals for the entire Plan Year.

**Section 4.5** Prorated awards shall be calculated by dividing the applicable annual award by twelve and multiplying the result by the number of months of service, rounded to the next highest whole month, of the Participant during the Plan Year.

#### **ARTICLE V - AWARD OPPORTUNITY.**

**Section 5.1** The Committee shall provide an award opportunity to Participants who assist AFC and the Association in achieving certain of its Corporate Performance Objectives for a Plan Year. The award opportunity for each Plan Year shall be a percentage of each Participant's base salary earned during the Plan Year. Differences in the amount of impact Participants may have on AFC and the Association's success shall be recognized by varying award opportunities for Participants. The amount of a Participant's award, if any, shall be based on the degree to which AFC and the Association achieve their Corporate Performance Objectives.

**Section 5.2** The Committee recognizes that the level of control and influence a Participant has to impact the Corporate Performance Objectives is influenced by the Participant's level of responsibility. As such, the Committee shall establish annually, as provided below, a matrix which shall establish for each Participant the award opportunity for such Participant if AFC and the Association achieve their target Corporate Performance Objectives. The matrix may also include enhanced or reduced award opportunity levels for such Participant if AFC and the Association achieve at a level above or below the target Corporate Performance Objectives.

#### **ARTICLE VI - ESTABLISHMENT OF CORPORATE PERFORMANCE OBJECTIVES.**

**Section 6.1** As soon as practicable, but in any event within the first 90 days of each Plan Year, the Committee shall establish specific Corporate Performance Objectives for AFC and the Association, including target levels and, if deemed appropriate by the Committee, one or more enhanced or reduced award opportunity levels associated with each Corporate Performance Objective. If the Committee adds a Participant to the Plan for a Plan Year after initially establishing the award opportunities and Corporate Performance Objectives for the Plan Year, it shall establish the award opportunities and Corporate Performance Objectives applicable to the new Participant within 30 days after adding the Participant to the Plan. The Corporate Performance Objectives for a Plan Year shall be based on one or more of the following criteria:

- (a) Basic earnings per common share,
- (b) Basic cash earnings per common share,
- (c) Diluted earnings per common share,
- (d) Diluted cash earnings per common share,
- (e) Net income,
- (f) Cash earnings,
- (g) Net interest income,
- (h) Non-interest income,
- (i) General and administrative expense to average assets ratio,
- (j) Cash general and administrative expense to average assets ratio,
- (k) Efficiency ratio,
- (l) Cash efficiency ratio,
- (m) Return on average assets,
- (n) Cash return on average assets,
- (o) Return on average stockholders' equity,
- (p) Cash return on average stockholders' equity,
- (q) Return on average tangible stockholders' equity,
- (r) Cash return on average tangible stockholders' equity.



The Corporate Performance Objectives may be based on the performance of AFC and the Association in the absolute or in relation to its peers.

**Section 6.2** Those Corporate Performance Objectives which have meanings ascribed to them by GAAP, shall have the meanings assigned to them under GAAP as in effect and applied to AFC and the Association on the date on which the Corporate Performance Objectives are established, without giving effect to any subsequent changes in GAAP, unless the Committee specifically provides otherwise when it establishes the Corporate Performance Objectives. Corporate Performance Objectives based upon cash earnings or cash returns shall refer to or be calculated based upon net income plus non-cash charges for goodwill amortization and amortization relating to employee stock ownership plans and restricted stock plans and related tax benefits. Corporate Performance Objectives based upon cash general and administrative expenses shall refer to general and administrative expenses, calculated in accordance with GAAP, adjusted to eliminate non-cash amortization expenses relating to employee stock ownership plans and restricted stock plans.

**Section 6.3** The Committee shall assign a percentage weight to each Corporate Performance Objective for each Plan Year. The weight assigned to any one or more Corporate Performance Objectives may be zero, but the aggregate weight assigned to all Corporate Performance Objectives shall equal 100%. The Committee may assign different weightings to Corporate Performance Objectives for each Participant or classes of Participants. The Committee shall establish a matrix which shall set forth the Corporate Performance Objectives, the target and other applicable performance levels with respect thereto, the weighting of such Corporate Performance Objectives, if any, and the corresponding award opportunity for each Participant.

**Section 6.4** Under normal business conditions, once established for a Plan Year as provided herein, Corporate Performance Objectives shall not be subject to revision or alteration. However, unusual conditions may warrant a reexamination of such criteria. Such conditions may include, but not be limited to, a Change of Control, declaration and distribution of stock dividends or stock splits, mergers, consolidation or reorganizations, acquisitions or dispositions of material business units, infrequently occurring or extraordinary gains or losses. In the event the Committee determines that, upon reexamination, alteration of the Corporate Performance Objectives is appropriate, the Committee shall reestablish the Corporate Performance Objectives to maintain as closely as possible the previously established expected level of overall performance of the Participants, taken as a whole, as is practicable. Notwithstanding the foregoing, any adjustments to the award opportunities or Corporate Performance Objectives applicable to a Section 162(m) Employee for a Plan Year shall conform to the requirements of section 162(m) of the Code and the regulations promulgated pursuant thereto.

## **ARTICLE VII - DETERMINATION AND PAYMENT OF AWARDS.**

**Section 7.1** As promptly as practicable, but in any event within 75 days after the end of each Plan Year, the Committee shall certify the performance of AFC and the Association relative to the Corporate Performance Objectives established for Participants. Each Participant's award shall be determined by multiplying the Participant's base salary earned during the applicable Plan Year by the percentage set forth in the matrix established in Sections 6.3 and 6.4 of the Plan, as possibly adjusted down, but not up, for such subjective factors as the Committee deems appropriate, including, but not limited to, whether the Participant's overall individual performance met expectations. Awards under the Plan shall be paid in cash, subject to applicable withholding taxes, during the first 2-1/2 months of the calendar year following the end of the Plan Year.

## **ARTICLE VIII - MAXIMUM AWARD.**

**Section 8.1** The maximum award that may be paid to any Participant for any Plan Year is \$2,000,000.

## **ARTICLE IX - PLAN ADMINISTRATION.**

**Section 9.1** The Committee shall direct and control the administration of the Plan, taking into consideration the recommendations of the Chief Executive Officer and members of the Board of Directors who do

not serve on the Committee. The Committee shall have the right and authority to perform the following administrative tasks:

- (a) to interpret the Plan,
- (b) to adopt, amend or rescind rules and regulations relating to the administration and interpretation of the Plan,
- (c) to make all other determinations necessary or advisable for administering the Plan,
- (d) to exercise the powers conferred on the Committee under the Plan, and
- (e) to correct any defect, supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect, the Committee being the sole and final judge of such expediency.

**Section 9.2** The Board shall have the exclusive authority to amend, modify, suspend or terminate the Plan at any time, with or without notice, except that no amendment, modification, suspension or termination may in any manner adversely affect the right of any Participant to receive any award amount which has been awarded to him or her. To qualify for the exemption from the deduction limitation of Code Section 162(m), shareholders must approve certain material amendments to the Plan, such as a change in the business criteria upon which Corporate Performance Objectives are based, the maximum amount of a Participant's award, or a change in the defined class of Employees eligible to participate in the Plan.

#### **ARTICLE X - MISCELLANEOUS.**

**Section 10.1** The Plan does not, and shall not be deemed to, constitute a contract of employment between AFC and the Association and any Participant. Nothing in the Plan confers on any Employee the right to remain in the employment of AFC and the Association or limits the right of AFC and the Association to discharge the Employee. Nothing in the Plan shall be deemed to limit the rights of any Participant which may exist pursuant to any employment agreement between AFC and/or Association and the Participant.

**Section 10.2** Nothing in this Plan shall be interpreted or construed to limit the authority of the Board to establish and compensate any Participant in the Plan in any manner outside of the scope and authority of this Plan.

**Section 10.3** Because participation in the Plan does not guarantee any award under the Plan, an Employee may not sell, transfer, assign, pledge, or otherwise encumber any anticipated award and any attempt to do so shall be void, and AFC and the Association shall not be liable in any manner for or subject to the debts, contracts, liabilities, engagements, or torts of any person who might anticipate an award under the Plan, except as stated in a Qualified Domestic Relations Order.

**Section 10.4** Notwithstanding any other provision of the Plan, the Plan is subject to, and shall become effective only upon, approval by AFC's shareholders at the meeting of shareholders on May 19, 1999 or any adjournment or postponement thereof.

**Section 10.5** This Plan is not intended to satisfy the requirements for qualification under Section 401(a) of the Code or to satisfy the definitional requirements for an "employee benefit plan" under Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended. It is intended to be a non-qualified incentive compensation program that is exempt from the regulatory requirements of the Employee Retirement Income Security Act of 1974, as amended. The Plan shall be construed and administered so as to effectuate this intent.

**Section 10.6** Whenever appropriate in the Plan, words used in the singular may be read in the plural, words used in the plural may be read in the singular, and words importing the masculine gender may be read as referring equally to the feminine or the neuter. Any reference to an Article or Section number shall refer to an Article or Section of this Plan unless otherwise indicated.

**Section 10.7** The Plan shall be construed, administered and enforced according to the laws of the State of New York, without giving effect to the conflict of laws principles thereof, except to the extent that such laws are preempted by federal law.

**Section 10.8** The headings of Articles are included solely for convenience of reference. If there is any conflict between such headings and the text of the Plan, the text shall control.

**Section 10.9** AFC and the Association shall have the right to deduct from all amounts paid by AFC and the Association, or any member thereof, in cash under the Plan any taxes required by law to be withheld with respect to such payment.

**Section 10.10** Any communication required or permitted to be given under the Plan, including any notice, direction, designation, comment, instruction, objection or waiver, shall be in writing and shall be deemed to have been given at such time as it is delivered personally or five (5) days after mailing if mailed, postage prepaid, by registered or certified mail, return receipt requested, addressed to such party at the address listed below, or at such other address as one such party may by written notice specify to the other party:

(a) If to the Committee:

Astoria Financial Corporation  
One Astoria Federal Plaza  
Lake Success, New York 11042-1085  
Attention: Corporate Secretary

(b) If to a Participant, to the Participant's address as shown in AFC and the Association's personnel records.

**Section 10.11** The following provisions are included for the purposes of complying with various laws, rules and regulations applicable to AFC and the Association:

(a) Notwithstanding anything herein contained to the contrary, in no event will the aggregate amount of compensation payable by the Association to any person on account of his termination of employment exceed three times such person's average annual total compensation for the last five consecutive calendar years to end prior to his termination of employment with the AFC and the Association or for his entire period of employment with the AFC and the Association and their respective predecessors, if less than five calendar years.

(b) Notwithstanding anything herein contained to the contrary, any payments pursuant to this Plan, are subject to and conditioned upon their compliance with section 18(k) of the Federal Deposit Insurance Act and any regulations promulgated thereunder.

(c) Notwithstanding anything herein contained to the contrary, if a Participant is suspended from office and/or temporarily prohibited from participating in the conduct of the affairs of the Association pursuant to a notice served under section 8(e)(3) or 8(g)(1) of the Federal Deposit Insurance Act, the Association's obligations under this Plan shall be suspended as of the date of service of such notice, unless stayed by appropriate proceedings. If the charges in such notice are dismissed, the Association, in its discretion, may (i) pay to the Participant all or part of the compensation withheld while the Association's obligations hereunder

were suspended and (ii) reinstate, in whole or in part, any of the obligations which were suspended.

(d) Notwithstanding anything herein contained to the contrary, if the Participant is removed and/or permanently prohibited from participating in the conduct of the Association's affairs by an order issued under section g(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act, all prospective obligations of the Association under this Plan shall terminate as of the effective date of the order, but vested rights and obligations of the Association and the Participant shall not be affected.

(e) Notwithstanding anything herein contained to the contrary, if the Association is in default, within the meaning of section 3(x)(1) of the Federal Deposit Insurance Act, all prospective obligations of the Association under this Plan shall terminate as of the date of default, but vested rights and obligations of the Association and the Participant shall not be affected.

(f) Notwithstanding anything herein contained to the contrary, all prospective obligations of the Association hereunder shall be terminated, except to the extent that a continuation of this Plan is necessary for the continued operation of the Association: (i) by the Director of the Office of Thrift Supervision or his designee, at the time the Federal Deposit Insurance Corporation enters into an agreement to provide assistance to or on behalf of the Association under the authority contained in section 13(c) of the Federal Deposit Insurance Act; (ii) by the Director of the Office of Thrift Supervision or his designee at the time such Director or designee approves a supervisory merger to resolve problems related to the operation of the Association or when the Association is determined by such Director to be in an unsafe or unsound condition. The vested rights and obligations of the parties shall not be affected.

If and to the extent that any of the foregoing provisions shall cease to be required by applicable law, rule or regulation, the same shall become inoperative automatically as though eliminated by formal amendment of the Plan. Any of the foregoing provisions which, by their terms, apply only to the Association shall not affect the rights and obligations of AFC.