

Capitol Federal Financial Inc  
Form 10-Q  
May 05, 2014

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UNITED STATES SECURITIES  
AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q  
\_\_\_\_\_

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-34814

Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation or organization)

27-2631712  
(I.R.S. Employer Identification No.)

700 Kansas Avenue, Topeka, Kansas  
(Address of principal executive offices)

66603  
(Zip Code)

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Registrant's telephone number, including area code:

(785) 235-1341

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company  
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes No

As of April 23, 2014, there were 143,120,893 shares of Capitol Federal Financial, Inc. common stock outstanding.

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| <u>PART 1 – FINANCIAL INFORMATION</u>  | Page Number |
|--|-------------|
| <u>Item 1. Financial Statements (Unaudited):</u>   |             |
| <u>Consolidated Balance Sheets at March 31, 2014 and September 30, 2013</u>                            | 3           |
| <u>Consolidated Statements of Income for the three and six months ended March 31, 2014 and</u>         | 4           |
| <u>2013</u>  |             |
| <u>Consolidated Statements of Comprehensive Income for the three and six months ended</u>              |             |
| <u>March 31, 2014 and 2013</u>   | 6           |
| <u>Consolidated Statement of Stockholders’ Equity for the six months ended March 31, 2014</u>          | 7           |
| <u>Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and 2013</u>          | 8           |
| <u>Notes to Consolidated Financial Statements</u>  | 10          |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>   | 28          |
| <u>Financial Condition – Loans Receivable</u>  | 31          |
| <u>Financial Condition – Asset Quality</u>   | 38          |
| <u>Financial Condition – Liabilities</u>   | 49          |
| <u>Financial Condition – Stockholders’ Equity</u>  | 52          |
| <u>Operating Results</u>   | 54          |
| <u>Comparison of Operating Results for the six months ended March 31, 2014 and 2013</u>                | 55          |
| <u>Comparison of Operating Results for the three months ended March 31, 2014 and 2013</u>              | 61          |
| <u>Comparison of Operating Results for the three months ended March 31, 2014 and December 31, 2013</u> | 66          |
| <br>   |             |
| <u>Item 3. Quantitative and Qualitative Disclosure about Market Risk</u>                               | 76          |
| <u>Item 4. Controls and Procedures</u>   | 81          |
| <br>   |             |
| <u>PART II -- OTHER INFORMATION</u>  |             |
| <u>Item 1. Legal Proceedings</u>   | 82          |
| <u>Item 1A. Risk Factors</u>   | 82          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                             | 82          |
| <u>Item 3. Defaults Upon Senior Securities</u>   | 82          |
| <u>Item 4. Mine Safety Disclosures</u>   | 82          |
| <u>Item 5. Other Information</u>   | 82          |
| <u>Item 6. Exhibits</u>  | 82          |
| <br>   |             |
| <u>Signature Page</u>  | 83          |
| <br>   |             |
| <u>INDEX TO EXHIBITS</u>   | 84          |



## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
 CONSOLIDATED BALANCE SHEETS (Unaudited)  
 (Dollars in thousands)

|  | March 31,<br>2014   | September<br>30,<br>2013 |
|--|---------------------|--------------------------|
| <b>ASSETS:</b>   |                     |                          |
| Cash and cash equivalents (includes interest-earning deposits of \$94,431 and \$99,735)          | \$ 114,835          | \$ 113,886               |
| Securities:  |                     |                          |
| Available-for-sale ("AFS") at estimated fair value (amortized cost of \$887,543 and \$1,058,283) | 895,623             | 1,069,967                |
| Held-to-maturity ("HTM") at amortized cost (estimated fair value of \$1,735,084 and \$1,741,846) | 1,720,283           | 1,718,023                |
| Loans receivable, net (allowance for credit losses ("ACL") of \$8,967 and \$8,822)               | 6,053,897           | 5,958,868                |
| Bank-owned life insurance ("BOLI")   | 60,163              | 59,495                   |
| Capital stock of Federal Home Loan Bank ("FHLB"), at cost  | 125,829             | 128,530                  |
| Accrued interest receivable  | 23,192              | 23,596                   |
| Premises and equipment, net  | 70,218              | 70,112                   |
| Other real estate owned ("OREO")   | 3,667               | 3,882                    |
| Other assets   | 47,710              | 40,090                   |
| <b>TOTAL ASSETS</b>  | <b>\$ 9,115,417</b> | <b>\$ 9,186,449</b>      |
| <b>LIABILITIES:</b>  |                     |                          |
| Deposits   | \$ 4,693,762        | \$ 4,611,446             |
| FHLB borrowings  | 2,467,169           | 2,513,538                |
| Repurchase agreements  | 320,000             | 320,000                  |
| Advance payments by borrowers for taxes and insurance  | 50,169              | 57,392                   |
| Income taxes payable   | 3,021               | 108                      |
| Deferred income tax liabilities, net   | 20,781              | 20,437                   |
| Accounts payable and accrued expenses  | 30,510              | 31,402                   |
| Total liabilities  | 7,585,412           | 7,554,323                |
| <b>STOCKHOLDERS' EQUITY:</b>   |                     |                          |
|  | --                  | --                       |

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|  |              |              |
|--|--------------|--------------|
| Preferred stock (\$0.01 par value) 100,000,000 shares authorized; no shares issued or outstanding  |              |              |
| Common stock (\$0.01 par value) 1,400,000,000 shares authorized; 143,120,893 and 147,840,268 shares issued and outstanding as of March 31, 2014 and September 30, 2013, respectively | 1,431        | 1,478        |
| Additional paid-in capital   | 1,197,668    | 1,235,781    |
| Unearned compensation, Employee Stock Ownership Plan ("ESOP")  | (43,777)     | (44,603)     |
| Retained earnings  | 369,657      | 432,203      |
| Accumulated other comprehensive income ("AOCI"), net of tax  | 5,026        | 7,267        |
| Total stockholders' equity   | 1,530,005    | 1,632,126    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 9,115,417 | \$ 9,186,449 |

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands, except per share data)

|  | For the Three<br>Months Ended<br>March 31, |               | For the Six Months<br>Ended<br>March 31, |               |
|--|--|---------------|--|---------------|
|  | 2014                                       | 2013          | 2014                                     | 2013          |
| <b>INTEREST AND DIVIDEND INCOME:</b>                             |  |               |  |               |
| Loans receivable   | \$ 57,117                                  | \$ 56,936     | \$ 114,065                               | \$ 115,403    |
| Mortgage-backed securities ("MBS")                               | 11,597                                     | 14,446        | 23,559                                   | 29,629        |
| Investment securities  | 1,869                                      | 2,457         | 3,935                                    | 5,322         |
| Capital stock of FHLB  | 1,229                                      | 1,105         | 2,425                                    | 2,233         |
| Cash and cash equivalents  | 45   | 36            | 107                                      | 69            |
| Total interest and dividend income                               | 71,857                                     | 74,980        | 144,091                                  | 152,656       |
| <b>INTEREST EXPENSE:</b>   |  |               |  |               |
| FHLB borrowings  | 15,311                                     | 17,909        | 32,174                                   | 36,537        |
| Deposits   | 8,076                                      | 9,344         | 16,399                                   | 19,193        |
| Repurchase agreements  | 2,743                                      | 3,407         | 5,546                                    | 6,976         |
| Total interest expense   | 26,130                                     | 30,660        | 54,119                                   | 62,706        |
| <b>NET INTEREST INCOME</b>                                       | <b>45,727</b>                              | <b>44,320</b> | <b>89,972</b>                            | <b>89,950</b> |
| <b>PROVISION FOR CREDIT LOSSES</b>                               | <b>160</b>                                 | <b>--</b>     | <b>675</b>                               | <b>233</b>    |
| <b>NET INTEREST INCOME AFTER<br/>PROVISION FOR CREDIT LOSSES</b> | <b>45,567</b>                              | <b>44,320</b> | <b>89,297</b>                            | <b>89,717</b> |
| <b>NON-INTEREST INCOME:</b>                                      |  |               |  |               |
| Retail fees and charges  | 3,454                                      | 3,521         | 7,264                                    | 7,513         |
| Insurance commissions  | 1,204                                      | 979           | 1,762                                    | 1,550         |
| Loan fees  | 404  | 418           | 854                                      | 885           |
| Income from BOLI   | 330  | 361           | 668                                      | 743           |
| Other non-interest income  | 335  | 665           | 679                                      | 1,021         |
| Total non-interest income  | 5,727                                      | 5,944         | 11,227                                   | 11,712        |

(Continued)

4

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)  
(Dollars in thousands, except per share data)

|   | For the Three Months Ended<br>March 31, |                  | For the Six Months Ended<br>March 31, |                  |
|---|---|------------------|---------------------------------------|------------------|
|   | 2014                                    | 2013             | 2014                                  | 2013             |
| <b>NON-INTEREST EXPENSE:</b>              |   |                  |                                       |                  |
| Salaries and employee benefits            | \$ 10,724                               | \$ 12,155        | \$ 21,450                             | \$ 24,336        |
| Occupancy                                 | 2,634                                   | 2,391            | 5,183                                 | 4,709            |
| Information technology and communications | 2,320                                   | 2,232            | 4,612                                 | 4,430            |
| Regulatory and outside services           | 1,157                                   | 1,290            | 2,553                                 | 3,055            |
| Deposit and loan transaction costs        | 1,263                                   | 1,384            | 2,650                                 | 2,910            |
| Federal insurance premium                 | 1,103                                   | 1,116            | 2,186                                 | 2,230            |
| Advertising and promotional               | 877                                     | 1,004            | 1,883                                 | 2,036            |
| Other non-interest expense                | 1,750                                   | 1,645            | 4,098                                 | 4,252            |
| Total non-interest expense                | 21,828                                  | 23,217           | 44,615                                | 47,958           |
| <b>INCOME BEFORE INCOME TAX EXPENSE</b>   | <b>29,466</b>                           | <b>27,047</b>    | <b>55,909</b>                         | <b>53,471</b>    |
| <b>INCOME TAX EXPENSE</b>                 | <b>9,778</b>                            | <b>9,332</b>     | <b>18,408</b>                         | <b>18,193</b>    |
| <b>NET INCOME</b>                         | <b>\$ 19,688</b>                        | <b>\$ 17,715</b> | <b>\$ 37,501</b>                      | <b>\$ 35,278</b> |
| <br>                                      |   |                  |                                       |                  |
| Basic earnings per share                  | \$ 0.14                                 | \$ 0.12          | \$ 0.26                               | \$ 0.24          |
| Diluted earnings per share                | \$ 0.14                                 | \$ 0.12          | \$ 0.26                               | \$ 0.24          |
| Dividends declared per share              | \$ 0.08                                 | \$ 0.08          | \$ 0.58                               | \$ 0.85          |
| <br>                                      |   |                  |                                       |                  |
| Basic weighted average common shares      | 139,489,033                             | 145,381,605      | 141,204,147                           | 146,645,899      |
| Diluted weighted average common shares    | 139,489,324                             | 145,381,718      | 141,204,751                           | 146,646,006      |

(Concluded)

See accompanying notes to consolidated financial statements.



CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)  
(Dollars in thousands)

|  | For the Three<br>Months Ended<br>March 31, |           | For the Six Months<br>Ended<br>March 31, |           |
|--|--|-----------|--|-----------|
|  | 2014                                       | 2013      | 2014                                     | 2013      |
| Net income   | \$ 19,688                                  | \$ 17,715 | \$ 37,501                                | \$ 35,278 |
| Other comprehensive income (loss), net of tax:   |  |           |  |           |
| Changes in unrealized holding gains/(losses) on AFS securities,<br>net of deferred income tax (benefits) expenses of \$(279) and<br>\$1,594 for the three months ended March 31, 2014 and 2013,<br>respectively, and \$1,363 and \$3,907 for the six months ended<br>March 31, 2014 and 2013, respectively | 459  | (2,621)   | (2,241)                                  | (6,426)   |
| Comprehensive income   | \$ 20,147                                  | \$ 15,094 | \$ 35,260                                | \$ 28,852 |

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)  
(Dollars in thousands, except per share data)

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Unearned<br>Compensation<br>ESOP | Retained<br>Earnings | AOCI     | Total<br>Stockholders'<br>Equity |
|---|-----------------|----------------------------------|----------------------------------|----------------------|----------|----------------------------------|
| Balance at October 1, 2013                                      | \$ 1,478        | \$ 1,235,781                     | \$ (44,603)                      | \$ 432,203           | \$ 7,267 | \$ 1,632,126                     |
| Net income  |                 |                                  |                                  | 37,501               |          | 37,501                           |
| Other comprehensive income (loss),<br>net of tax                |                 |                                  |                                  |                      | (2,241)  | (2,241)                          |
| ESOP activity, net  |                 | 188                              | 826                              |                      |          | 1,014                            |
| Restricted stock activity, net                                  |                 | 87                               |                                  |                      |          | 87                               |
| Stock-based compensation  |                 | 1,105                            |                                  |                      |          | 1,105                            |
| Repurchase of common stock                                      | (48)            | (39,903)                         |                                  | (17,255)             |          | (57,206)                         |
| Stock options exercised   | 1               | 410                              |                                  |                      |          | 411                              |
| Dividends on common stock to<br>stockholders (\$0.58 per share) |                 |                                  |                                  | (82,792)             |          | (82,792)                         |
| Balance at March 31, 2014                                       | \$ 1,431        | \$ 1,197,668                     | \$ (43,777)                      | \$ 369,657           | \$ 5,026 | \$ 1,530,005                     |

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands)

|   | For the Six Months Ended<br>March 31, |           |
|---|---------------------------------------|-----------|
|   | 2014                                  | 2013      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                       |           |
| Net income  | \$ 37,501                             | \$ 35,278 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |           |
| FHLB stock dividends  | (2,425)                               | (2,233)   |
| Provision for credit losses   | 675                                   | 233       |
| Originations of loans receivable held-for-sale ("LHFS")                           | (1,325)                               | (2,769)   |
| Proceeds from sales of LHFS   | 1,881                                 | 2,868     |
| Amortization and accretion of premiums and discounts on securities                | 2,866                                 | 4,515     |
| Depreciation and amortization of premises and equipment                           | 3,122                                 | 2,581     |
| Amortization of deferred amounts related to FHLB advances, net                    | 3,631                                 | 4,143     |
| Common stock committed to be released for allocation - ESOP                       | 1,014                                 | 3,276     |
| Stock-based compensation  | 1,105                                 | 1,586     |
| Changes in:   |                                       |           |
| Prepaid federal insurance premium   | --                                    | 1,977     |
| Accrued interest receivable   | 404                                   | 1,645     |
| Other assets, net   | 692                                   | (915)     |
| Income taxes payable/receivable   | 4,707                                 | 3,801     |
| Accounts payable and accrued expenses   | (10,151)                              | (12,242)  |
| Net cash provided by operating activities   | 43,697                                | 43,744    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                       |           |
| Purchase of AFS securities  | (120,817)                             | (379,187) |
| Purchase of HTM securities  | (159,707)                             | (420,501) |
| Proceeds from calls, maturities and principal reductions of AFS securities        | 291,348                               | 529,899   |
| Proceeds from calls, maturities and principal reductions of HTM securities        | 154,790                               | 350,510   |
| Proceeds from the redemption of capital stock of FHLB                             | 7,845                                 | 4,524     |
| Purchases of capital stock of FHLB  | (2,719)                               | --        |
| Net increase in loans receivable  | (97,805)                              | (111,672) |
| Purchases of premises and equipment   | (4,003)                               | (6,233)   |
| Proceeds from sales of OREO   | 2,814                                 | 5,858     |
| Net cash provided by (used in) investing activities                               | 71,746                                | (26,802)  |

(Continued)



CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
(Dollars in thousands)

|   | For the Six Months Ended<br>March 31, |                 |
|---|---------------------------------------|-----------------|
|   | 2014                                  | 2013            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                       |                 |
| Dividends paid  | \$ (82,792)                           | \$ (125,325)    |
| Deposits, net of withdrawals  | 82,316                                | 142,930         |
| Proceeds from borrowings  | 420,180                               | 403,130         |
| Repayments on borrowings  | (470,180)                             | (453,130)       |
| Change in advance payments by borrowers for taxes and insurance                   | (7,223)                               | (5,683)         |
| Repurchase of common stock  | (57,206)                              | (71,995)        |
| Stock options exercised   | 411                                   | --              |
| Net cash used in financing activities   | (114,494)                             | (110,073)       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>949</b>                            | <b>(93,131)</b> |
| <b>CASH AND CASH EQUIVALENTS:</b>   |                                       |                 |
| Beginning of period   | 113,886                               | 141,705         |
| End of period   | \$ 114,835                            | \$ 48,574       |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                         |                                       |                 |
| Income tax payments   | \$ 13,700                             | \$ 14,391       |
| Interest payments   | \$ 50,880                             | \$ 58,747       |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH<br/>INVESTING AND FINANCING ACTIVITIES:</b> |                                       |                 |
| FHLB advances that will settle in a subsequent period                             | \$ --                                 | \$ 100,000      |

(Concluded)

See accompanying notes to consolidated financial statements.





Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements of Capitol Federal® Financial, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the Securities and Exchange Commission (“SEC”). Interim results are not necessarily indicative of results for a full year.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Capitol Federal Savings Bank (the “Bank”). The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. The ACL is a significant estimate that involves a high degree of complexity and requires management to make difficult and subjective judgments and assumptions about highly uncertain matters. The use of different judgments and assumptions could cause reported results to differ significantly. In addition, bank regulators periodically review the ACL of the Bank. Bank regulators have the authority to require the Bank, as they can require all banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management’s judgments. Any increases in the ACL or recognition of additional charge-offs required by bank regulators could adversely affect the Company’s financial condition and results of operations.

Recent Accounting Pronouncements - In December 2011, the Financial Accounting Standards Board (“FASB”) issued 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The Accounting Standards Update (“ASU”) requires new disclosures regarding the nature of an entity’s rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make GAAP financial statements more comparable to those prepared under International Financial Reporting Standards. The new disclosures entail presenting information about both gross and net exposures. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, which was October 1, 2013 for the Company, and interim periods therein; retrospective application is required. The adoption of this ASU was disclosure-related and therefore did not have an impact on the Company’s consolidated financial condition or results of operations when adopted on October 1, 2013.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The ASU clarifies the scope of the offsetting disclosure requirements in ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. These standards are effective for fiscal years beginning on or after January 1, 2013, which was October 1, 2013 for the Company. The standards are disclosure-related and therefore, their adoption did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which is intended to improve the transparency of changes in other comprehensive income and items reclassified out of AOCI. The standard requires entities to disaggregate the total change of each component of other comprehensive income and separately present reclassification adjustments and current period other comprehensive income. Additionally, the standard requires that significant items reclassified out of AOCI be presented by component either on the face of the statement where net income is presented or as a separate disclosure in the notes to the financial statements. ASU 2013-02 is effective for fiscal years beginning after December 15, 2012, which was October 1, 2013 for the Company, and should be applied prospectively. The adoption of this ASU is disclosure-related and therefore did not have an impact on the Company's consolidated financial condition or results of operations when adopted on October 1, 2013.

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The ASU provides recognition, measurement, and disclosure guidance for certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for fiscal years beginning after December 15, 2013, which is October 1, 2014 for the Company, and should be applied retrospectively. The Company has not yet completed its evaluation of this standard.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU revised the conditions that an entity must meet to elect to use the effective yield method when accounting for qualified affordable housing project investments. Per current accounting guidance, an entity that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method if all required conditions are met. For those investments that are not accounted for using the effective yield method, current accounting guidance requires that the investments be accounted for under either the equity method or the cost method. Certain existing conditions required to be met to use the effective yield method are restrictive and thus prevent many such investments from qualifying for the use of the effective yield method. The ASU replaces the effective yield method with the proportional amortization method and modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. If the modified conditions are met, the ASU permits an entity to use the proportional amortization method to amortize the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense. Additionally, the ASU requires new disclosures about all investments in qualified affordable housing projects irrespective of the method used to account for the investments. ASU 2014-01 is effective for fiscal years beginning after December 15, 2014, which is October 1, 2015 for the Company, and should be applied retrospectively. The ASU is not expected to have a material impact on the Company's consolidated financial condition or result of operations when adopted.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU also requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU 2014-04 is effective for fiscal years beginning after December 15, 2014, which is October 1, 2015 for the Company, and can be applied using either a modified retrospective transition method or a prospective transition method. The ASU is not expected to have a material impact on the Company's consolidated financial condition or result of operations when adopted.

## 2. Earnings Per Share

Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. Unvested shares awarded pursuant to the Company's restricted stock benefit plans are treated as participating securities in the computation of earnings per share pursuant to the two-class method as they contain nonforfeitable rights to dividends. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security.

| For the Three Months Ended |      | For the Six Months Ended |      |
|----------------------------|------|--------------------------|------|
| March 31,                  |      | March 31,                |      |
| 2014                       | 2013 | 2014                     | 2013 |

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|   | (Dollars in thousands, except per share data) |             |             |             |
|---|---|-------------|-------------|-------------|
| Net income  | \$ 19,688                                     | \$ 17,715   | \$ 37,501   | \$ 35,278   |
| Income allocated to participating securities  | (44)  | (51)        | (94)        | (111)       |
| Net income available to common stockholders   | \$ 19,644                                     | \$ 17,664   | \$ 37,407   | \$ 35,167   |
| <br>  |   |             |             |             |
| Average common shares outstanding   | 139,447,275                                   | 145,242,074 | 141,183,271 | 146,576,142 |
| Average committed ESOP shares outstanding   | 41,758  | 139,531     | 20,876      | 69,757      |
| Total basic average common shares outstanding   | 139,489,033                                   | 145,381,605 | 141,204,147 | 146,645,899 |
| <br>  |   |             |             |             |
| Effect of dilutive stock options  | 291   | 113         | 604         | 107         |
| <br>  |   |             |             |             |
| Total diluted average common shares outstanding   | 139,489,324                                   | 145,381,718 | 141,204,751 | 146,646,006 |
| <br>  |   |             |             |             |
| Net earnings per share:   |   |             |             |             |
| Basic   | \$ 0.14                                       | \$ 0.12     | \$ 0.26     | \$ 0.24     |
| Diluted   | \$ 0.14                                       | \$ 0.12     | \$ 0.26     | \$ 0.24     |
| <br>  |   |             |             |             |
| Antidilutive stock options, excluded<br>from the diluted average common shares<br>outstanding calculation | 2,060,216                                     | 2,463,165   | 2,396,610   | 2,466,339   |

## 3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at the dates presented. The majority of the MBS and investment securities portfolios are composed of securities issued by U.S. government-sponsored enterprises (“GSEs”).

|                            | March 31, 2014         |                              |                               |                            |
|----------------------------|------------------------|------------------------------|-------------------------------|----------------------------|
|                            | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|                            | (Dollars in thousands) |                              |                               |                            |
| AFS:                       |                        |                              |                               |                            |
| GSE debentures             | \$ 579,853             | \$ 364                       | \$ 8,677                      | \$ 571,540                 |
| MBS                        | 304,034                | 16,603                       | 70                            | 320,567                    |
| Trust preferred securities | 2,539                  | --                           | 170                           | 2,369                      |
| Municipal bonds            | 1,117                  | 30                           | --                            | 1,147                      |
|                            | 887,543                | 16,997                       | 8,917                         | 895,623                    |
| HTM:                       |                        |                              |                               |                            |
| MBS                        | 1,684,571              | 32,599                       | 18,531                        | 1,698,639                  |
| Municipal bonds            | 35,712                 | 769                          | 36                            | 36,445                     |
|                            | 1,720,283              | 33,368                       | 18,567                        | 1,735,084                  |
|                            | \$ 2,607,826           | \$ 50,365                    | \$ 27,484                     | \$ 2,630,707               |

|                            | September 30, 2013     |                              |                               |                            |
|----------------------------|------------------------|------------------------------|-------------------------------|----------------------------|
|                            | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|                            | (Dollars in thousands) |                              |                               |                            |
| AFS:                       |                        |                              |                               |                            |
| GSE debentures             | \$ 709,118             | \$ 996                       | \$ 7,886                      | \$ 702,228                 |
| MBS                        | 345,263                | 18,701                       | --                            | 363,964                    |
| Trust preferred securities | 2,594                  | --                           | 171                           | 2,423                      |
| Municipal bonds            | 1,308                  | 44                           | --                            | 1,352                      |
|                            | 1,058,283              | 19,741                       | 8,057                         | 1,069,967                  |
| HTM:                       |                        |                              |                               |                            |
| MBS                        | 1,683,744              | 39,878                       | 16,984                        | 1,706,638                  |
| Municipal bonds            | 34,279                 | 943                          | 14                            | 35,208                     |
|                            | 1,718,023              | 40,821                       | 16,998                        | 1,741,846                  |
|                            | \$ 2,776,306           | \$ 60,562                    | \$ 25,055                     | \$ 2,811,813               |



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The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at the dates presented was reported and the continuous unrealized loss position for less than 12 months and equal to or greater than 12 months as of the dates presented.

|                            | March 31, 2014         |            |            |                                       |            |            |
|----------------------------|------------------------|------------|------------|---------------------------------------|------------|------------|
|                            | Less Than<br>12 Months |            |            | Equal to or Greater<br>Than 12 Months |            |            |
|                            |                        | Estimated  | Unrealized |                                       | Estimated  | Unrealized |
|                            | Count                  | Fair Value | Losses     | Count                                 | Fair Value | Losses     |
| (Dollars in thousands)     |                        |            |            |                                       |            |            |
| AFS:                       |                        |            |            |                                       |            |            |
| GSE debentures             | 20                     | \$ 457,820 | \$ 7,467   | 2                                     | \$ 37,941  | \$ 1,210   |
| MBS                        | 1                      | 10,191     | 70         | --                                    | --         | --         |
| Trust preferred securities | --                     | --         | --         | 1                                     | 2,369      | 170        |
|                            | 21                     | \$ 468,011 | \$ 7,537   | 3                                     | \$ 40,310  | \$ 1,380   |
| HTM:                       |                        |            |            |                                       |            |            |
| MBS                        | 44                     | \$ 784,469 | \$ 17,239  | 2                                     | \$ 22,566  | \$ 1,292   |
| Municipal bonds            | 8                      | 5,386      | 36         | --                                    | --         | --         |
|                            | 52                     | \$ 789,855 | \$ 17,275  | 2                                     | \$ 22,566  | \$ 1,292   |

|                            | September 30, 2013     |            |            |                                       |            |            |
|----------------------------|------------------------|------------|------------|---------------------------------------|------------|------------|
|                            | Less Than<br>12 Months |            |            | Equal to or Greater<br>Than 12 Months |            |            |
|                            |                        | Estimated  | Unrealized |                                       | Estimated  | Unrealized |
|                            | Count                  | Fair Value | Losses     | Count                                 | Fair Value | Losses     |
| (Dollars in thousands)     |                        |            |            |                                       |            |            |
| AFS:                       |                        |            |            |                                       |            |            |
| GSE debentures             | 19                     | \$ 426,482 | \$ 7,213   | 1                                     | \$ 24,327  | \$ 673     |
| Trust preferred securities | --                     | --         | --         | 1                                     | 2,423      | 171        |
|                            | 19                     | \$ 426,482 | \$ 7,213   | 2                                     | \$ 26,750  | \$ 844     |
| HTM:                       |                        |            |            |                                       |            |            |
| MBS                        | 40                     | \$ 710,291 | \$ 16,984  | --                                    | \$ --      | \$ --      |
| Municipal bonds            | 3                      | 1,299      | 14         | --                                    | --         | --         |
|                            | 43                     | \$ 711,590 | \$ 16,998  | --                                    | \$ --      | \$ --      |

On a quarterly basis, management conducts a formal review of securities for the presence of an other-than-temporary impairment. Management assesses whether an other-than-temporary impairment is present when the fair value of a security is less than its amortized cost basis at the balance sheet date. For such securities, other-than-temporary impairment is considered to have occurred if the Company intends to sell the security, if it is more likely than not the

Company will be required to sell the security before recovery of its amortized cost basis, or if the present value of expected cash flows is not sufficient to recover the entire amortized cost.

The unrealized losses at March 31, 2014 and September 30, 2013, excluding the trust preferred security discussed below, are primarily a result of an increase in market yields from the time the securities were purchased. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity. As a result of the analysis, management does not believe any other-than-temporary impairments existed at March 31, 2014 or September 30, 2013.



The unrealized losses related to the trust preferred security held by the Bank at March 31, 2014 and September 30, 2013 were primarily a result of a decrease in the security's credit rating since the time of purchase. Management reviews the underlying cash flows of this security on a quarterly basis. As of March 31, 2014 and September 30, 2013, the cash flow analysis indicated the present value of future expected cash flows are adequate to recover the entire amortized cost. In January 2014, five federal agencies, including the Office of the Comptroller of the Currency ("OCC") and the SEC, approved an interim final rule permitting banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities from the investment prohibitions of section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Volcker Rule"). The final rule became effective on April 1, 2014. The Bank's trust preferred security is included on the non-exclusive list of issuers that meet the requirements of the interim and final rule (provided by the federal banking agencies) and is therefore exempt from the provisions of the Volcker Rule. Based on this, management neither intends to sell this security, nor is it more likely than not that the Company will be required to sell the security before the recovery of the remaining amortized cost amount, which could be at maturity. Based on its analysis, management does not believe any other-than-temporary impairments existed related to the trust preferred security at March 31, 2014 or September 30, 2013.

Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. Additionally, issuers of callable investment securities have the right to call and prepay obligations with or without prepayment penalties prior to the maturity dates of the securities. The amortized cost and estimated fair value of securities by remaining contractual maturity, without consideration for call features or pre-refunding dates, as of March 31, 2014 are shown below.

|                              | AFS                    |                      | HTM            |                      |
|------------------------------|------------------------|----------------------|----------------|----------------------|
|                              | Amortized Cost         | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
|                              | (Dollars in thousands) |                      |                |                      |
| One year or less             | \$ 201                 | \$ 204               | \$ 7,225       | \$ 7,296             |
| One year through five years  | 531,332                | 525,271              | 70,001         | 73,335               |
| Five years through ten years | 142,417                | 146,593              | 491,727        | 490,835              |
| Ten years and thereafter     | 213,593                | 223,555              | 1,151,330      | 1,163,618            |
|                              | \$ 887,543             | \$ 895,623           | \$ 1,720,283   | \$ 1,735,084         |

The following table presents the carrying value of MBS in our portfolio by issuer at the dates presented.

|  | March 31,<br>2014      | September<br>30, 2013 |
|--|------------------------|-----------------------|
|  | (Dollars in thousands) |                       |
| Federal National Mortgage Association ("FNMA") | \$ 1,166,881           | \$ 1,250,948          |

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|  |              |              |
|--|--------------|--------------|
| Federal Home Loan Mortgage Corporation (“FHLMC”) | 666,209      | 629,216      |
| Government National Mortgage Association         | 172,048      | 167,544      |
|  | \$ 2,005,138 | \$ 2,047,708 |

The following table presents the taxable and non-taxable components of interest income on investment securities for the time periods presented.

|             | For the Three<br>Months Ended<br>March 31, |          | For the Six<br>Months Ended<br>March 31, |          |
|-------------|--|----------|--|----------|
|             | 2014                                       | 2013     | 2014                                     | 2013     |
|             | (Dollars in thousands)                     |          |  |          |
| Taxable     | \$ 1,632                                   | \$ 2,147 | \$ 3,439                                 | \$ 4,685 |
| Non-taxable | 237  | 310      | 496                                      | 637      |
|             | \$ 1,869                                   | \$ 2,457 | \$ 3,935                                 | \$ 5,322 |

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The following table summarizes the amortized cost and estimated fair value of securities pledged as collateral as of the dates presented.

|                       | March 31, 2014         |                            | September 30, 2013 |                            |
|-----------------------|------------------------|----------------------------|--------------------|----------------------------|
|                       | Amortized<br>Cost      | Estimated<br>Fair<br>Value | Amortized<br>Cost  | Estimated<br>Fair<br>Value |
|                       | (Dollars in thousands) |                            |                    |                            |
| Repurchase agreements | \$ 345,697             | \$ 356,488                 | \$ 353,648         | \$ 364,593                 |
| Public unit deposits  | 273,769                | 274,775                    | 272,016            | 274,917                    |
| Federal Reserve Bank  | 29,425                 | 30,351                     | 34,261             | 35,477                     |
|                       | \$ 648,891             | \$ 661,614                 | \$ 659,925         | \$ 674,987                 |

4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at the dates presented is summarized as follows:

|                             | March 31,<br>2014      | September<br>30, 2013 |
|-----------------------------|------------------------|-----------------------|
|                             | (Dollars in thousands) |                       |
| Real estate loans:          |                        |                       |
| One- to four-family         | \$ 5,840,337           | \$ 5,743,047          |
| Multi-family and commercial | 47,505                 | 50,358                |
| Construction                | 94,286                 | 77,743                |
| Total real estate loans     | 5,982,128              | 5,871,148             |
| Consumer loans:             |                        |                       |
| Home equity                 | 130,321                | 135,028               |
| Other                       | 4,991                  | 5,623                 |
| Total consumer loans        | 135,312                | 140,651               |
| Total loans receivable      | 6,117,440              | 6,011,799             |

|                              |              |              |
|------------------------------|--------------|--------------|
| Less:                        |              |              |
| Undisbursed loan funds       | 55,505       | 42,807       |
| ACL                          | 8,967        | 8,822        |
| Discounts/unearned loan fees | 23,653       | 23,057       |
| Premiums/deferred costs      | (24,582)     | (21,755)     |
|                              | \$ 6,053,897 | \$ 5,958,868 |

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank’s primary lending business, resulting in a loan concentration in residential first mortgage loans. The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders in 24 states. Additionally, the Bank periodically purchases whole one- to four-family loans in bulk packages from nationwide and correspondent lenders. The Bank also originates consumer loans, commercial and multi-family real estate loans, and construction loans secured by residential, multi-family or commercial real estate. As a result of our one- to four-family lending activities, the Bank has a concentration of loans secured by real property located in Kansas and Missouri.

One- to four-family loans - Full documentation to support the applicant’s credit and income, and sufficient funds to cover all applicable fees and reserves at closing, are required on all loans. Loans are underwritten according to the “ability to repay” and “qualified mortgage” standards, as issued by the Consumer Financial Protection Bureau, with total debt to income ratios not exceeding 43% of the borrower’s verified income. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and approved by our Board of Directors.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of correspondent loans is performed by the Bank's underwriters. Before committing to a bulk loan purchase, the Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, loan-to-value ("LTV") ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet the Bank's underwriting standards and compensating factors are not sufficient, then a loan will be removed from the population. Before the bulk loan purchase is funded, an internal Bank underwriter or a third party reviews at least 25% of the loan files to confirm loan terms, credit scores, debt ratios, property appraisals, and other underwriting related documentation. The Bank last made a bulk loan purchase during the fourth quarter of fiscal year 2012. For the tables within this Note, correspondent purchased loans are included with originated loans, and bulk purchased loans are reported as purchased loans.

The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. Construction loans are obtained by homeowners who will occupy the property when construction is complete. Construction loans to builders for speculative purposes are not permitted. The application process includes submission of complete plans, specifications, and costs of the project to be constructed. All construction loans are manually underwritten using the Bank's internal underwriting standards. Construction draw requests and the supporting documentation are reviewed and approved by management. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

Multi-family and commercial loans - The Bank's multi-family, commercial real estate and commercial construction loans are originated by the Bank or are in participation with a lead bank. These loans are granted based on the income producing potential of the property and the financial strength of the borrower and/or guarantor. At the time of origination, LTV ratios on multi-family, commercial real estate and commercial construction loans cannot exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be in excess of the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers.

Consumer loans - The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, auto loans, and loans secured by savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. The majority of the consumer loan portfolio is comprised of home equity lines of credit for which the Bank also has the first mortgage or the home equity line of credit is in the first lien position.

The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the applicant is a primary consideration, the underwriting process also includes a comparison of the value of the security in relation to the proposed loan amount.

Credit Quality Indicators – Based on the Bank’s lending emphasis and underwriting standards, management has segmented the loan portfolio into three segments: (1) one- to four-family loans; (2) consumer loans; and (3) multi-family and commercial loans. The one- to four-family and consumer segments are further grouped into classes for purposes of providing disaggregated information about the credit quality of the loan portfolio. The classes are: one- to four-family loans – originated, one- to four-family loans – purchased, consumer loans – home equity, and consumer loans – other.

The Bank’s primary credit quality indicators for the one- to four-family loan and consumer – home equity loan portfolios are delinquency status, asset classifications, LTV ratios and borrower credit scores. The Bank’s primary credit quality indicators for the multi-family and commercial loan and consumer – other loan portfolios are delinquency status and asset classifications.

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The following tables present the recorded investment, by class, in loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, total current loans, and total recorded investment at the dates presented. The recorded investment in loans is defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process), less charge-offs and inclusive of unearned loan fees and deferred costs. At March 31, 2014 and September 30, 2013, all loans 90 or more days delinquent were on nonaccrual status. At March 31, 2014 and September 30, 2013, the balance of loans on nonaccrual status was \$28.7 million and \$26.4 million, respectively.

|                                       | March 31, 2014                         |  |                  |               |                     |
|---------------------------------------|--|--|------------------|---------------|---------------------|
|                                       | 30 to 89 Days                          | 90 or More Days  | Total            |               | Total               |
|                                       |  | Delinquent or in Delinquent Foreclosure (Dollars in thousands) | Delinquent Loans | Current Loans | Recorded Investment |
|                                       | One- to four-family loans - originated | \$ 14,111  | \$ 9,921         | \$ 24,032     | \$ 5,238,614        |
| One- to four-family loans - purchased | 7,361                                  | 10,389   | 17,750           | 590,920       | 608,670             |
| Multi-family and commercial loans     | --                                     | --   | --               | 56,236        | 56,236              |
| Consumer - home equity                | 665                                    | 305  | 970              | 129,351       | 130,321             |
| Consumer - other                      | 52                                     | 8  | 60               | 4,931         | 4,991               |
|                                       | \$ 22,189                              | \$ 20,623  | \$ 42,812        | \$ 6,020,052  | \$ 6,062,864        |

|                                       | September 30, 2013                     |  |                  |               |                     |
|---------------------------------------|--|--|------------------|---------------|---------------------|
|                                       | 30 to 89 Days                          | 90 or More Days  | Total            |               | Total               |
|                                       |  | Delinquent or in Delinquent Foreclosure (Dollars in thousands) | Delinquent Loans | Current Loans | Recorded Investment |
|                                       | One- to four-family loans - originated | \$ 18,889  | \$ 9,379         | \$ 28,268     | \$ 5,092,581        |
| One- to four-family loans - purchased | 7,842                                  | 9,695  | 17,537           | 631,050       | 648,587             |
| Multi-family and commercial loans     | --                                     | --   | --               | 57,603        | 57,603              |
| Consumer - home equity                | 848                                    | 485  | 1,333            | 133,695       | 135,028             |
| Consumer - other                      | 35                                     | 5  | 40               | 5,583         | 5,623               |
|                                       | \$ 27,614                              | \$ 19,564  | \$ 47,178        | \$ 5,920,512  | \$ 5,967,690        |

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In accordance with the Bank's asset classification policy, management regularly reviews the problem loans in the Bank's portfolio to determine whether any loans require classification. Loan classifications are defined as follows:

- Special mention - These loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrower(s) have caused management to have doubts as to the ability of the borrower(s) to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.
- Substandard - A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent as those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable.
- Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

The following table sets forth the recorded investment in loans classified as special mention or substandard at the dates presented, by class. Special mention and substandard loans are included in the formula analysis model if the loan is not individually evaluated for loss. Loans classified as doubtful or loss are individually evaluated for loss. At the dates presented, there were no loans classified as doubtful, and all loans classified as loss were fully charged-off.

|                                  | March 31, 2014         |             | September 30, 2013 |             |
|----------------------------------|------------------------|-------------|--------------------|-------------|
|                                  | Special<br>Mention     | Substandard | Special<br>Mention | Substandard |
|                                  | (Dollars in thousands) |             |                    |             |
| One- to four-family - originated | \$ 21,572              | \$ 28,892   | \$ 29,359          | \$ 27,761   |
| One- to four-family - purchased  | 1,982                  | 14,441      | 1,871              | 14,195      |
| Multi-family and commercial      | --                     | --          | 1,976              | --          |
| Consumer - home equity           | 126                    | 882         | 87                 | 819         |
| Consumer - other                 | --                     | 16          | --                 | 13          |
|                                  | \$ 23,680              | \$ 44,231   | \$ 33,293          | \$ 42,788   |

The following table shows the weighted average credit score and weighted average LTV for originated and purchased one- to four-family loans and originated consumer home equity loans at the dates presented. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are updated at least semiannually, with the last update in March 2014, from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.



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|                                  | March 31, 2014 |      | September 30, 2013 |      |
|----------------------------------|----------------|------|--------------------|------|
|                                  | Credit Score   | LTV  | Credit Score       | LTV  |
| One- to four-family - originated | 764            | 65 % | 762                | 65 % |
| One- to four-family - purchased  | 748            | 67   | 747                | 67   |
| Consumer - home equity           | 750            | 19   | 746                | 19   |
|                                  | 762            | 64   | 760                | 64   |

18

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Troubled Debt Restructurings (“TDRs”) - The following tables present the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the periods presented. These tables do not reflect the recorded investment at the end of the periods indicated. Any increase in the recorded investment at the time of the restructuring is generally due to the capitalization of delinquent interest and/or escrow balances.

|   | For the Three Months Ended<br>March 31, 2014        |                                     |                                      | For the Six Months Ended<br>March 31, 2014 |                                     |                                      |
|---|---|-------------------------------------|--------------------------------------|--|-------------------------------------|--------------------------------------|
|   | Number<br>of<br>Contracts<br>(Dollars in thousands) | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding | Number<br>of<br>Contracts                  | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding |
| One- to four-family loans -<br>originated | 31  | \$ 4,247                            | \$ 4,220                             | 69   | \$ 8,072                            | \$ 8,073                             |
| One- to four-family loans -<br>purchased  | --  | --                                  | --                                   | 2  | 198                                 | 198                                  |
| Multi-family and commercial loans         | --  | --                                  | --                                   | --   | --                                  | --                                   |
| Consumer - home equity                    | 1   | 15                                  | 15                                   | 5  | 80                                  | 81                                   |
| Consumer - other                          | --  | --                                  | --                                   | --   | --                                  | --                                   |
|   | 32  | \$ 4,262                            | \$ 4,235                             | 76   | \$ 8,350                            | \$ 8,352                             |

|   | For the Three Months Ended<br>March 31, 2013        |                                     |                                      | For the Six Months Ended<br>March 31, 2013 |                                     |                                      |
|---|---|-------------------------------------|--------------------------------------|--|-------------------------------------|--------------------------------------|
|   | Number<br>of<br>Contracts<br>(Dollars in thousands) | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding | Number<br>of<br>Contracts                  | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding |
| One- to four-family loans -<br>originated | 45  | \$ 6,826                            | \$ 6,857                             | 100  | \$ 19,404                           | \$ 19,507                            |
| One- to four-family loans -<br>purchased  | 5   | 983                                 | 982                                  | 7  | 1,538                               | 1,580                                |
| Multi-family and commercial<br>loans      | --  | --                                  | --                                   | 2  | 82                                  | 79                                   |
| Consumer - home equity                    | 4   | 76                                  | 81                                   | 7  | 156                                 | 161                                  |
| Consumer - other                          | --  | --                                  | --                                   | --   | --                                  | --                                   |
|   | 54  | \$ 7,885                            | \$ 7,920                             | 116  | \$ 21,180                           | \$ 21,327                            |

The following table provides information on TDRs restructured within the last 12 months that became delinquent during the periods presented.

|  | For the Three Months Ended |                        |                |                        | For the Six Months Ended |                        |                |                        |
|--|----------------------------|------------------------|----------------|------------------------|--------------------------|------------------------|----------------|------------------------|
|  | March 31, 2014             |                        | March 31, 2013 |                        | March 31, 2014           |                        | March 31, 2013 |                        |
|  | Number                     | Recorded               | Number         | Recorded               | Number                   | Recorded               | Number         | Recorded               |
|  | of                         | Investment             | of             | Investment             | of                       | Investment             | of             | Investment             |
|  | Contracts                  | (Dollars in thousands) | Contracts      | (Dollars in thousands) | Contracts                | (Dollars in thousands) | Contracts      | (Dollars in thousands) |
| One- to four-family loans - originated | 5                          | \$ 665                 | 11             | \$ 1,106               | 16                       | \$ 1,481               | 17             | \$ 1,511               |
| One- to four-family loans - purchased  | --                         | --                     | 3              | 1,067                  | 2                        | 338                    | 4              | 1,114                  |
| Multi-family and commercial loans      | --                         | --                     | --             | --                     | --                       | --                     | --             | --                     |
| Consumer - home equity                 | 1                          | 27                     | 1              | 5                      | 1                        | 27                     | 2              | 7                      |
| Consumer - other                       | --                         | --                     | --             | --                     | --                       | --                     | --             | --                     |
|  | 6                          | \$ 692                 | 15             | \$ 2,178               | 19                       | \$ 1,846               | 23             | \$ 2,632               |

Impaired loans – The following information pertains to impaired loans by class as of the dates presented. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement.

|                                    | March 31, 2014      |                          |             | September 30, 2013  |                          |             |
|------------------------------------|---------------------|--------------------------|-------------|---------------------|--------------------------|-------------|
|                                    | Recorded Investment | Unpaid Principal Balance | Related ACL | Recorded Investment | Unpaid Principal Balance | Related ACL |
| (Dollars in thousands)             |                     |                          |             |                     |                          |             |
| With no related allowance recorded |                     |                          |             |                     |                          |             |
| One- to four-family - originated   | \$ 14,413           | \$ 14,996                | \$ --       | \$ 12,950           | \$ 13,543                | \$ --       |
| One- to four-family - purchased    | 14,565              | 17,614                   | --          | 13,882              | 16,645                   | --          |
| Multi-family and commercial        | --                  | --                       | --          | --                  | --                       | --          |
| Consumer - home equity             | 596                 | 956                      | --          | 577                 | 980                      | --          |
| Consumer - other                   | 8                   | 16                       | --          | 2                   | 7                        | --          |
|                                    | 29,582              | 33,582                   | --          | 27,411              | 31,175                   | --          |
| With an allowance recorded         |                     |                          |             |                     |                          |             |
| One- to four-family - originated   | 25,709              | 25,796                   | 64          | 35,520              | 35,619                   | 209         |
| One- to four-family - purchased    | 1,825               | 1,801                    | 50          | 2,034               | 2,015                    | 29          |
| Multi-family and commercial        | --                  | --                       | --          | 73                  | 74                       | 2           |
| Consumer - home equity             | 526                 | 526                      | 27          | 492                 | 492                      | 78          |
| Consumer - other                   | 8                   | 8                        | --          | 11                  | 11                       | 1           |
|                                    | 28,068              | 28,131                   | 141         | 38,130              | 38,211                   | 319         |
| Total                              |                     |                          |             |                     |                          |             |
| One- to four-family - originated   | 40,122              | 40,792                   | 64          | 48,470              | 49,162                   | 209         |
| One- to four-family - purchased    | 16,390              | 19,415                   | 50          | 15,916              | 18,660                   | 29          |
| Multi-family and commercial        | --                  | --                       | --          | 73                  | 74                       | 2           |
| Consumer - home equity             | 1,122               | 1,482                    | 27          | 1,069               | 1,472                    | 78          |
| Consumer - other                   | 16                  | 24                       | --          | 13                  | 18                       | 1           |
|                                    | \$ 57,650           | \$ 61,713                | \$ 141      | \$ 65,541           | \$ 69,386                | \$ 319      |

The following information pertains to impaired loans by class for the periods presented.

|                                    | For the Three Months Ended  |                            |                             |                            | For the Six Months Ended    |                            |                             |                            |
|------------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                                    | March 31, 2014              |                            | March 31, 2013              |                            | March 31, 2014              |                            | March 31, 2013              |                            |
|                                    | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| (Dollars in thousands)             |                             |                            |                             |                            |                             |                            |                             |                            |
| With no related allowance recorded |                             |                            |                             |                            |                             |                            |                             |                            |
| One- to four-family - originated   | \$ 14,022                   | \$ 102                     | \$ 7,784                    | \$ 63                      | \$ 13,263                   | \$ 199                     | \$ 8,572                    | \$ 139                     |
| One- to four-family - purchased    | 13,706                      | 47                         | 15,058                      | 51                         | 13,645                      | 92                         | 15,108                      | 97                         |
| Multi-family and commercial        | --                          | --                         | --                          | --                         | --                          | --                         | --                          | --                         |
| Consumer - home equity             | 611                         | 8                          | 474                         | 15                         | 577                         | 16                         | 596                         | 22                         |
| Consumer - other                   | 5                           | --                         | 29                          | --                         | 4                           | --                         | 28                          | --                         |
|                                    | 28,344                      | 157                        | 23,345                      | 129                        | 27,489                      | 307                        | 24,304                      | 258                        |
| With an allowance recorded         |                             |                            |                             |                            |                             |                            |                             |                            |
| One- to four-family - originated   | 28,010                      | 295                        | 42,937                      | 452                        | 31,021                      | 614                        | 42,457                      | 905                        |
| One- to four-family - purchased    | 2,287                       | 12                         | 2,136                       | 21                         | 2,573                       | 28                         | 2,145                       | 46                         |
| Multi-family and commercial        | --                          | --                         | 78                          | --                         | 31                          | 1                          | 44                          | --                         |
| Consumer - home equity             | 542                         | 6                          | 605                         | 9                          | 581                         | 11                         | 507                         | 14                         |
| Consumer - other                   | 11                          | --                         | 26                          | --                         | 13                          | --                         | 28                          | --                         |
|                                    | 30,850                      | 313                        | 45,782                      | 482                        | 34,219                      | 654                        | 45,181                      | 965                        |
| Total                              |                             |                            |                             |                            |                             |                            |                             |                            |
| One- to four-family - originated   | 42,032                      | 397                        | 50,721                      | 515                        | 44,284                      | 813                        | 51,029                      | 1,044                      |
| One- to four-family - purchased    | 15,993                      | 59                         | 17,194                      | 72                         | 16,218                      | 120                        | 17,253                      | 143                        |
| Multi-family and commercial        | --                          | --                         | 78                          | --                         | 31                          | 1                          | 44                          | --                         |
| Consumer - home equity             | 1,153                       | 14                         | 1,079                       | 24                         | 1,158                       | 27                         | 1,103                       | 36                         |
| Consumer - other                   | 16                          | --                         | 55                          | --                         | 17                          | --                         | 56                          | --                         |
|                                    | \$ 59,194                   | \$ 470                     | \$ 69,127                   | \$ 611                     | \$ 61,708                   | \$ 961                     | \$ 69,485                   | \$ 1,223                   |



Allowance for credit losses - The following is a summary of the ACL activity by segment for the periods presented, and the ending balance of the ACL based on the Company's impairment methodology. Of the \$1.3 million of net charge-offs during the six months ended March 31, 2013, \$372 thousand was due to loans that were primarily discharged in a prior fiscal year under Chapter 7 bankruptcy that had to be, pursuant to OCC reporting requirements, evaluated for collateral value loss, even if they were current.

For the Three Months Ended March 31, 2014

|                             | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total    |
|-----------------------------|--|---|---------------------------------------|-----------------------------------|----------|----------|
|                             | (Dollars in thousands)                     |   |                                       |                                   |          |          |
| Beginning balance           | \$ 5,839                                   | \$ 2,513                                  | \$ 8,352                              | \$ 182                            | \$ 385   | \$ 8,919 |
| Charge-offs                 | (52)                                       | (60)                                      | (112)                                 | --                                | (9)      | (121)    |
| Recoveries                  | --   | --  | --                                    | --                                | 9        | 9        |
| Provision for credit losses | 950  | (636)                                     | 314                                   | (39)                              | (115)    | 160      |
| Ending balance              | \$ 6,737                                   | \$ 1,817                                  | \$ 8,554                              | \$ 143                            | \$ 270   | \$ 8,967 |

For the Six Months Ended March 31, 2014

|                             | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total    |
|-----------------------------|--|---|---------------------------------------|-----------------------------------|----------|----------|
|                             | (Dollars in thousands)                     |   |                                       |                                   |          |          |
| Beginning balance           | \$ 5,771                                   | \$ 2,486                                  | \$ 8,257                              | \$ 185                            | \$ 380   | \$ 8,822 |
| Charge-offs                 | (140)                                      | (387)                                     | (527)                                 | --                                | (19)     | (546)    |
| Recoveries                  | 1  | --  | 1                                     | --                                | 15       | 16       |
| Provision for credit losses | 1,105                                      | (282)                                     | 823                                   | (42)                              | (106)    | 675      |
| Ending balance              | \$ 6,737                                   | \$ 1,817                                  | \$ 8,554                              | \$ 143                            | \$ 270   | \$ 8,967 |

For the Three Months Ended March 31, 2013

|  | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total |
|--|--|---|---------------------------------------|-----------------------------------|----------|-------|
|  | (Dollars in thousands)                     |   |                                       |                                   |          |       |

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|                             |          |          |          |        |        |           |
|-----------------------------|----------|----------|----------|--------|--------|-----------|
| Beginning balance           | \$ 5,639 | \$ 4,290 | \$ 9,929 | \$ 201 | \$ 347 | \$ 10,477 |
| Charge-offs                 | (284)    | (153)    | (437)    | --     | (20)   | (457)     |
| Recoveries                  | --       | 42       | 42       | --     | 10     | 52        |
| Provision for credit losses | 647      | (684)    | (37)     | 7      | 30     | --        |
| Ending balance              | \$ 6,002 | \$ 3,495 | \$ 9,497 | \$ 208 | \$ 367 | \$ 10,072 |



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For the Six Months Ended March 31, 2013

|                             | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total     |
|-----------------------------|--|---|---------------------------------------|-----------------------------------|----------|-----------|
|                             | (Dollars in thousands)                     |   |                                       |                                   |          |           |
| Beginning balance           | \$ 6,074                                   | \$ 4,453                                  | \$ 10,527                             | \$ 219                            | \$ 354   | \$ 11,100 |
| Charge-offs                 | (503)                                      | (685)                                     | (1,188)                               | --                                | (135)    | (1,323)   |
| Recoveries                  | --   | 42  | 42                                    | --                                | 20       | 62        |
| Provision for credit losses | 431  | (315)                                     | 116                                   | (11)                              | 128      | 233       |
| Ending balance              | \$ 6,002                                   | \$ 3,495                                  | \$ 9,497                              | \$ 208                            | \$ 367   | \$ 10,072 |

The following is a summary of the loan portfolio and related ACL balances, at the dates presented, by loan portfolio segment disaggregated by the Company's impairment method. There was no ACL for loans individually evaluated for impairment at either date, as all potential losses were charged-off.

March 31, 2014

|  | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer   | Total        |
|--|--|---|---------------------------------------|-----------------------------------|------------|--------------|
|  | (Dollars in thousands)                     |   |                                       |                                   |            |              |
| Recorded investment in loans collectively evaluated for impairment | \$ 5,248,233                               | \$ 594,105                                | \$ 5,842,338                          | \$ 56,236                         | \$ 134,708 | \$ 6,033,282 |
| Recorded investment in loans individually evaluated for impairment | 14,413                                     | 14,565                                    | 28,978                                | --                                | 604        | 29,582       |
|  | \$ 5,262,646                               | \$ 608,670                                | \$ 5,871,316                          | \$ 56,236                         | \$ 135,312 | \$ 6,062,864 |
| ACL for loans collectively evaluated for impairment                | \$ 6,737                                   | \$ 1,817                                  | \$ 8,554                              | \$ 143                            | \$ 270     | \$ 8,967     |

September 30, 2013

|                              | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer   | Total        |
|------------------------------|--|---|---------------------------------------|-----------------------------------|------------|--------------|
|                              | (Dollars in thousands)                     |   |                                       |                                   |            |              |
| Recorded investment in loans | \$ 5,107,899                               | \$ 634,705                                | \$ 5,742,604                          | \$ 57,603                         | \$ 140,072 | \$ 5,940,279 |

|  |              |            |              |           |            |              |
|--|--------------|------------|--------------|-----------|------------|--------------|
| collectively evaluated for<br>impairment                                 |              |            |              |           |            |              |
| Recorded investment in loans<br>individually evaluated for<br>impairment | 12,950       | 13,882     | 26,832       | --        | 579        | 27,411       |
|  | \$ 5,120,849 | \$ 648,587 | \$ 5,769,436 | \$ 57,603 | \$ 140,651 | \$ 5,967,690 |
| ACL for loans collectively<br>evaluated<br>for impairment                | \$ 5,771     | \$ 2,486   | \$ 8,257     | \$ 185    | \$ 380     | \$ 8,822     |

As previously discussed, the Bank has a loan concentration in residential first mortgage loans. Declines in residential real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in economic conditions and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies would decrease interest income on loans receivable and would likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ACL and provision for credit losses. Although management believes the ACL was at a level adequate to absorb inherent losses in the loan portfolio at March 31, 2014, the level of the ACL remains an estimate that is subject to significant judgment.

## 5. Fair Value of Financial Instruments

Fair Value Measurements - The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures in accordance with Accounting Standard Codification (“ASC”) 820 and ASC 825. The Company did not have any liabilities that were measured at fair value at March 31, 2014 or September 30, 2013. The Company’s AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as OREO and loans individually evaluated for impairment. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

The Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company’s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

The Company bases its fair values on the price that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis.

AFS Securities - The Company’s AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders’ equity. The majority of the securities within the AFS portfolio are issued by U.S. GSEs. The Company primarily uses prices obtained from third party pricing services and recent trades to determine the fair value of securities. The Company’s major security types based on the nature and risks of the securities are:

- GSE Debentures – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for similar securities. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by

- comparing them to another independent source. (Level 2)
- MBS – Estimated fair values are based on a discounted cash flow method. Cash flows are determined based on prepayment projections of the underlying mortgages and are discounted using current market yields for benchmark securities. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by comparing them to another independent source. (Level 2)
- Municipal Bonds – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for securities with similar credit profiles. On a quarterly basis, management corroborates a sample of the prices obtained from the pricing service by comparing them to another independent source. (Level 2)
- Trust Preferred Securities – Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking prepayment and underlying credit considerations into account. The discount rates are derived from secondary trades and bid/offer prices. (Level 3)

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The following tables provide the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a recurring basis, which consists of AFS securities, at the dates presented.

|                            | March 31, 2014 |             |              |              |
|----------------------------|----------------|-------------|--------------|--------------|
|                            | Quoted         |             | Significant  | Significant  |
|                            | Prices         | Significant | Other        | Unobservable |
|                            | in Active      | Other       | Observable   | Unobservable |
|                            | Markets        | Observable  | Observable   | Unobservable |
|                            | for            | Observable  | Observable   | Unobservable |
|                            | Identical      | Observable  | Observable   | Unobservable |
| Carrying                   | Assets         | Inputs      | Inputs       | Inputs       |
| Value                      | (Level 1)      | (Level 2)   | (Level 3)(1) | (Level 3)(1) |
| (Dollars in thousands)     |                |             |              |              |
| AFS Securities:            |                |             |              |              |
| GSE debentures             | \$ 571,540     | \$ --       | \$ 571,540   | \$ --        |
| MBS                        | 320,567        | --          | 320,567      | --           |
| Trust preferred securities | 2,369          | --          | --           | 2,369        |
| Municipal bonds            | 1,147          | --          | 1,147        | --           |
|                            | \$ 895,623     | \$ --       | \$ 893,254   | \$ 2,369     |

|                            | September 30, 2013 |             |              |              |
|----------------------------|--------------------|-------------|--------------|--------------|
|                            | Quoted             |             | Significant  | Significant  |
|                            | Prices             | Significant | Other        | Unobservable |
|                            | in Active          | Other       | Observable   | Unobservable |
|                            | Markets            | Observable  | Observable   | Unobservable |
|                            | for                | Observable  | Observable   | Unobservable |
|                            | Identical          | Observable  | Observable   | Unobservable |
| Carrying                   | Assets             | Inputs      | Inputs       | Inputs       |
| Value                      | (Level 1)          | (Level 2)   | (Level 3)(2) | (Level 3)(2) |
| (Dollars in thousands)     |                    |             |              |              |
| AFS Securities:            |                    |             |              |              |
| GSE debentures             | \$ 702,228         | \$ --       | \$ 702,228   | \$ --        |
| MBS                        | 363,964            | --          | 363,964      | --           |
| Municipal bonds            | 1,352              | --          | 1,352        | --           |
| Trust preferred securities | 2,423              | --          | --           | 2,423        |
|                            | \$ 1,069,967       | \$ --       | \$ 1,067,544 | \$ 2,423     |

- (1) The Company's Level 3 AFS securities had no activity during the six months ended March 31, 2014, except for principal repayments of \$81 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions in net unrealized losses included in other comprehensive income for the six months ended March 31, 2014 were less than \$1 thousand.
- (2) The Company's Level 3 AFS securities had no activity during fiscal year 2013, except for principal repayments of \$424 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions in

net unrealized losses included in other comprehensive income for the year ended September 30, 2013 were \$276 thousand.

The following is a description of valuation methodologies used for significant assets measured at fair value on a non-recurring basis.

Loans Receivable - The balance of loans individually evaluated for impairment at March 31, 2014 and September 30, 2013 was \$29.5 million and \$27.3 million, respectively. Substantially all of these loans were secured by residential real estate and were individually evaluated to ensure that the carrying value of the loan was not in excess of the fair value of the collateral, less estimated selling costs. When no impairment is indicated, the carrying amount is considered to approximate fair value. Fair values were estimated through current appraisals or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Bank charged-off any loss amounts at March 31, 2014 and September 30, 2013; therefore, there was no ACL related to these loans.

OREO - OREO primarily represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower-of-cost or fair value. Fair value is estimated through current appraisals or listing prices, less estimated selling costs. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of OREO at March 31, 2014 and September 30, 2013 was \$3.7 million and \$3.9 million, respectively.

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The following tables provide the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at the dates presented.

|   | March 31, 2014   |                                    |                             |                     |
|---|--|------------------------------------|-----------------------------|---------------------|
|   | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable |                     |
|   | Carrying<br>Value<br>(Dollars in thousands)                  | Assets<br>(Level 1)                | Inputs<br>(Level 2)         | Inputs<br>(Level 3) |
| Loans individually evaluated for impairment | \$ 29,509  | \$ --                              | \$ --                       | \$ 29,509           |
| OREO  | 3,667  | --                                 | --                          | 3,667               |
|   | \$ 33,176  | \$ --                              | \$ --                       | \$ 33,176           |

|   | September 30, 2013   |                                    |                             |                     |
|---|--|------------------------------------|-----------------------------|---------------------|
|   | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable |                     |
|   | Carrying<br>Value<br>(Dollars in thousands)                  | Assets<br>(Level 1)                | Inputs<br>(Level 2)         | Inputs<br>(Level 3) |
| Loans individually evaluated for impairment | \$ 27,327  | \$ --                              | \$ --                       | \$ 27,327           |
| OREO  | 3,882  | --                                 | --                          | 3,882               |
|   | \$ 31,209  | \$ --                              | \$ --                       | \$ 31,209           |

Fair Value Disclosures - The Company determined estimated fair value amounts using available market information and from a variety of valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amount the Company could realize in a current market exchange. The use of different market assumptions and estimation methodologies may have a material impact on the estimated fair value amounts. The fair value estimates presented herein were based on pertinent information available to management as of the dates presented.

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The carrying amounts and estimated fair values of the Company's financial instruments at the dates presented were as follows:

|                           | March 31, 2014     |                            | September 30, 2013 |                            |
|---------------------------|--------------------|----------------------------|--------------------|----------------------------|
|                           | Carrying<br>Amount | Estimated<br>Fair<br>Value | Carrying<br>Amount | Estimated<br>Fair<br>Value |
| (Dollars in thousands)    |                    |                            |                    |                            |
| Assets:                   |                    |                            |                    |                            |
| Cash and cash equivalents | \$ 114,835         | \$ 114,835                 | \$ 113,886         | \$ 113,886                 |
| AFS securities            | 895,623            | 895,623                    | 1,069,967          | 1,069,967                  |
| HTM securities            | 1,720,283          | 1,735,084                  | 1,718,023          | 1,741,846                  |
| Loans receivable          | 6,053,897          | 6,199,918                  | 5,958,868          | 6,132,239                  |
| BOLI                      | 60,163             | 60,163                     | 59,495             | 59,495                     |
| Capital stock of FHLB     | 125,829            | 125,829                    | 128,530            | 128,530                    |
| OREO                      | 3,667              | 3,667                      | 3,882              | 3,882                      |
| Liabilities:              |                    |                            |                    |                            |
| Deposits                  | 4,693,762          | 4,720,827                  | 4,611,446          | 4,646,263                  |
| FHLB borrowings           | 2,467,169          | 2,536,625                  | 2,513,538          | 2,599,749                  |
| Repurchase agreements     | 320,000            | 329,513                    | 320,000            | 333,749                    |



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The following methods and assumptions were used to estimate the fair value of the financial instruments:

**Cash and Cash Equivalents** - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial asset. (Level 1)

**HTM Securities** - Estimated fair values of securities are based on one of three methods: (1) quoted market prices where available; (2) quoted market prices for similar instruments if quoted market prices are not available; (3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. HTM securities are carried at amortized cost. (Level 2)

**Loans Receivable** - The fair value of one- to four-family mortgages and home equity loans are generally estimated using the present value of expected future cash flows, assuming future prepayments and using discount factors determined by prices obtained from securitization markets, less a discount for the cost of servicing and lack of liquidity. The estimated fair value of the Bank's multi-family, commercial, and consumer loans are based on the expected future cash flows assuming future prepayments and discount factors based on current offering rates. (Level 3)

**BOLI** - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset. (Level 1)

**Capital Stock of FHLB** - The carrying value and estimated fair value of FHLB stock equals cost, which is based on redemption at par value. (Level 1)

**Deposits** - The estimated fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of these deposits at March 31, 2014 and September 30, 2013 was \$2.15 billion and \$2.07 billion, respectively. (Level 1) The fair value of certificates of deposit is estimated by discounting future cash flows using current LIBOR rates. The estimated fair value of certificates of deposit at March 31, 2014 and September 30, 2013 was \$2.57 billion and \$2.58 billion, respectively. (Level 2)

**FHLB borrowings and Repurchase Agreements** - The fair value of fixed-maturity borrowed funds is estimated by discounting estimated future cash flows using currently offered rates. (Level 2)

6. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to March 31, 2014, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at March 31, 2014.

27

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company and its wholly-owned subsidiary may from time to time make written or oral "forward-looking statements," including statements contained in documents filed or furnished by the Company with the SEC. These forward-looking statements may be included in this Quarterly Report on Form 10-Q, in the Company's reports to stockholders, in the Company's press releases, and in other communications by the Company, which are made in good faith by us pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

These forward-looking statements include statements about our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our future results to differ materially from the plans, objectives, goals, expectations, anticipations, estimates, and intentions expressed in the forward-looking statements:

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market areas or to purchase loans through correspondents;
- our ability to invest funds in wholesale or secondary markets at favorable yields as compared to the related funding source;
- our ability to access cost-effective funding;
- future earnings and capital levels of the Bank and the continued non-objection by our primary federal banking regulators, to the extent required, to distribute capital from the Bank to the Company, which could affect the ability of the Company to pay dividends in accordance with its dividend policy and/or repurchase stock in accordance with its stock repurchase program;
- fluctuations in deposit flows, loan demand, and/or real estate values, as well as unemployment levels, which may adversely affect our business;
- the credit risks of lending and investing activities, including changes in the level and direction of loan delinquencies and charge-offs, changes in property values, and changes in estimates of the adequacy of the ACL;
- results of examinations of the Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our ACL;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
- the effects of, and changes in, trade, fiscal policies and laws, and monetary and interest rate policies of the Board of Governors of the Federal Reserve System ("FRB");
- the effects of, and changes in, foreign and military policies of the United States government;
- inflation, interest rate, market and monetary fluctuations;
- the timely development and acceptance of our new products and services and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services and branching locations, when required;
- the impact of changes in laws and regulations and other governmental initiatives affecting the financial services industry;
- implementing business initiatives may be more difficult or expensive than anticipated;
- technological changes;
- acquisitions and dispositions;
- changes in consumer spending and saving habits; and

- our success at managing the risks involved in our business.

This list of important factors is not all inclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

As used in this Form 10-Q, unless we specify otherwise, “the Company,” “we,” “us,” and “our” refer to Capitol Federal Financial, Inc., a Maryland corporation. “Capitol Federal Savings,” and “the Bank,” refer to Capitol Federal Savings Bank, a federal savings bank and the wholly-owned subsidiary of Capitol Federal Financial, Inc.

The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity, and capital resources of the Company. It should be read in conjunction with the consolidated financial statements and notes presented in this report. The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of its assets and is the principal source of income for the Company. This discussion and analysis should be read in conjunction with Management’s Discussion and Analysis included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the SEC.

## Executive Summary

The following summary should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations in its entirety.

We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We attract retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate consumer loans primarily secured by first mortgages on one- to four-family residences, commercial and multi-family real estate loans, and construction loans secured by residential, multi-family, or commercial real estate. While our primary business is the origination of one- to four-family mortgage loans funded through retail deposits, we also purchase whole one- to four-family mortgage loans from correspondent and nationwide lenders, participate in loans with other lenders that are secured by commercial or multi-family real estate, and invest in certain investment securities and MBS using funding from retail deposits, FHLB borrowings, and repurchase agreements. The Company is significantly affected by prevailing economic conditions, including federal monetary and fiscal policies and federal regulation of financial institutions. Retail deposit balances are influenced by a number of factors, including interest rates paid on competing investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, our loan underwriting guidelines compared to those of our competitors, as well as interest rate pricing competition from other lending institutions. The primary sources of funds for lending activities include deposits, loan repayments, investment income, borrowings, and funds provided from operations.

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, MBS, investment securities, and cash, and the interest paid on deposits and borrowings. On a weekly basis, management reviews deposit flows, loan demand, cash levels, and changes in several market rates to assess all pricing strategies. The Bank's pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent lending markets. Generally, deposit pricing is based upon a survey of competitors in the Bank's market areas, and the need to attract funding and retain maturing deposits. The majority of our loans are fixed-rate products with maturities up to 30 years, while the majority of our retail deposits have maturity or repricing dates of less than two years.

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their April 2014 statement that economic activity has picked up recently, after having slowed sharply during the winter months reflecting, in part, adverse weather conditions. Although the unemployment rate remains elevated, labor market conditions have shown further signs of improvement. The FOMC stated that household spending continued to advance, but business fixed investment edged down and recovery in the housing sector remained slow. The FOMC believes fiscal policy is restraining economic growth, although the extent of restraint may be diminishing. Inflation has been running below the FOMC's longer-run objective, but longer-term inflationary expectations have remained stable. Given the cumulative progress made toward the FOMC's statutory mandate of maximum employment, as well as to the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the FOMC decided to further reduce the pace of its asset purchases. The FOMC will continue its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS in agency MBS and will continue to purchase additional longer-term Treasury securities, but at a pace of \$25 billion per month and agency MBS at a pace of \$20 billion per month. The FOMC believes that these actions, taken together, should maintain downward pressure

on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery. The FOMC stated that it will closely monitor incoming information on economic and financial developments in the coming months and will continue its asset purchases until the outlook for the labor market improves substantially in the context of price stability. If incoming information broadly supports the FOMC's expectation of continued improvement in labor market conditions and inflation approaches its longer-run objective, the pace of asset purchases will likely be further reduced. The FOMC insisted, however, that asset purchases are not on a preset course. The FOMC remarked that it anticipates maintaining the federal funds rate at zero to 0.25% for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the FOMC's 2% longer-run goal and provided that longer-term inflation expectations remain well anchored. Even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the FOMC views as normal in the long run. When the FOMC decides to begin to remove policy accommodation, they stated they will take a balanced approach consistent with their longer-run goals of maximum employment and inflation of 2%.

Economic conditions in the Bank's local market areas have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. As of March 2014, the unemployment rate was 4.9% for Kansas and 6.7% for Missouri, compared to the national average of 6.7% based on information from the Bureau of Economic Analysis. Our Kansas City market area, which comprises the largest segment of our loan portfolio and deposit base, has an average household income of approximately \$80 thousand per annum, based on 2013 estimates from the American Community Survey, which is a statistical survey by the U.S. Census Bureau. The average household income in our combined market areas is approximately \$69 thousand per annum, with 91% of the population at or above the poverty level, also based on the 2013 estimates from the American Community Survey. The Federal Housing Finance Agency ("FHFA") price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, unlike other market areas of the United States, which indicates relative stability in property values in our local market areas.

Total assets were \$9.12 billion at March 31, 2014 compared to \$9.19 billion at September 30, 2013. The \$71.0 million decrease was due primarily to a \$172.1 million decrease in the securities portfolio, partially offset by a \$95.0 million increase in the loan portfolio. Loan growth during the current year six month period was primarily funded with cash flows from the securities portfolio. During the current year six month period, the Bank originated and refinanced \$256.8 million of loans with a weighted average rate of 3.93%, purchased \$219.4 million of loans from correspondent lenders with a weighted average rate of 3.73%, and participated in \$19.4 million of commercial real estate loans with a weighted average rate of 4.25%.

Loans 30 to 89 days delinquent decreased \$5.4 million, or 19.7%, from \$27.6 million at September 30, 2013 to \$22.1 million at March 31, 2014. Of the \$22.1 million of 30 to 89 day delinquent loans at March 31, 2014, 77% were 59 days or less delinquent. The ratio of loans 30 to 89 days delinquent to total loans receivable, net, decreased nine basis points, from 0.46% at September 30, 2013, to 0.37% at March 31, 2014. Non-performing loans increased \$2.3 million, or 8.5%, from \$26.4 million at September 30, 2013 to \$28.7 million at March 31, 2014. Of the \$28.7 million of non-performing loans at March 31, 2014, \$8.1 million are less than 90 days delinquent but are required to be reported as nonaccrual pursuant to OCC reporting requirements. The ratio of non-performing loans to total loans receivable, net, increased three basis points, from 0.44% at September 30, 2013, to 0.47% at March 31, 2014.

Total liabilities were \$7.59 billion at March 31, 2014 compared to \$7.55 billion at September 30, 2013. The \$31.1 million increase was due primarily to an \$82.3 million increase in deposits, partially offset by a \$46.4 million decrease in FHLB borrowings. The increase in deposits was comprised of a \$60.2 million increase in the checking portfolio, a \$15.2 million increase in the savings portfolio, and an \$11.2 million increase in the money market portfolio, partially offset by a \$4.3 million decrease in the certificate of deposit portfolio.

Stockholders' equity was \$1.53 billion at March 31, 2014 compared to \$1.63 billion at September 30, 2013. The \$102.1 million decrease was due primarily to the payment of \$82.8 million in dividends and the repurchase of \$57.2 million of stock, partially offset by net income of \$37.5 million. During the current six month period, the Company repurchased 4,770,075 shares of common stock.

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Net income for the quarter ended March 31, 2014 was \$19.7 million, compared to \$17.7 million for the quarter ended March 31, 2013. The \$2.0 million, or 11.1%, increase in net income was largely due to a \$1.4 million increase in net interest income and \$1.4 million decrease in non-interest expense, partially offset by a \$446 thousand increase in income tax expense. The net interest margin increased 10 basis points, from 1.97% for the prior year quarter to 2.07% for the current quarter. The Company's efficiency ratio was 42.42% for the current quarter compared to 46.19% for the prior year quarter.

Net income for the six months ended March 31, 2014 was \$37.5 million, compared to \$35.3 million for the six months March 31, 2013. The \$2.2 million, or 6.3%, increase in net income was largely due to a \$3.3 million decrease in non-interest expense, partially offset by a \$485 thousand decrease in non-interest income and \$442 thousand increase in provision for credit losses. The net interest margin increased three basis points, from 1.99% for the prior year six month period to 2.02% for the current year six month period. The Company's efficiency ratio was 44.09% for the current year six month period compared to 47.17% for the prior year six month period.

### Available Information

Financial and other Company information, including press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports can be obtained free of charge from our investor relations website, <http://ir.capfed.com>. SEC filings are available on our website immediately after they are electronically filed with or furnished to the SEC, and are also available on the SEC's website at [www.sec.gov](http://www.sec.gov).



## Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by the audit committee of our Board of Directors. For a full discussion of our critical accounting policies, see Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

## Financial Condition

The following table presents selected balance sheet information as of the dates presented.

|   | March 31,<br>2014      | December 31,<br>2013 | September 30,<br>2013 | June 30,<br>2013 | March 31,<br>2013 |   |      |   |      |   |
|---|------------------------|----------------------|-----------------------|------------------|-------------------|---|------|---|------|---|
|   | (Dollars in thousands) |                      |                       |                  |                   |   |      |   |      |   |
| Total assets                            | \$ 9,115,417           | \$ 9,111,054         | \$ 9,186,449          | \$ 9,239,764     | \$ 9,393,718      |   |      |   |      |   |
| Cash and cash equivalents               | 114,835                | 88,665               | 113,886               | 131,287          | 48,574            |   |      |   |      |   |
| AFS securities                          | 895,623                | 993,593              | 1,069,967             | 1,167,043        | 1,245,443         |   |      |   |      |   |
| HTM securities                          | 1,720,283              | 1,668,484            | 1,718,023             | 1,819,895        | 1,953,779         |   |      |   |      |   |
| Loans receivable, net                   | 6,053,897              | 6,024,589            | 5,958,868             | 5,792,620        | 5,715,273         |   |      |   |      |   |
| Capital stock of FHLB                   | 125,829                | 129,095              | 128,530               | 134,222          | 130,680           |   |      |   |      |   |
| Deposits                                | 4,693,762              | 4,620,908            | 4,611,446             | 4,628,436        | 4,693,573         |   |      |   |      |   |
| FHLB borrowings                         | 2,467,169              | 2,515,618            | 2,513,538             | 2,611,480        | 2,634,465         |   |      |   |      |   |
| Repurchase agreements                   | 320,000                | 320,000              | 320,000               | 290,000          | 315,000           |   |      |   |      |   |
| Stockholders’ equity                    | 1,530,005              | 1,569,463            | 1,632,126             | 1,624,502        | 1,643,007         |   |      |   |      |   |
| Equity to total assets at end of period | 16.8                   | %                    | 17.2                  | %                | 17.8              | % | 17.6 | % | 17.5 | % |

**Loans Receivable.** The loans receivable portfolio, net, increased \$95.0 million, or 1.6%, to \$6.05 billion at March 31, 2014, from \$5.96 billion at September 30, 2013. Loan growth during the current six month period was primarily funded with cash flows from the securities portfolio.

Our portfolio of correspondent purchased loans increased \$173.4 million, or 16.6%, from September 30, 2013 to \$1.22 billion at March 31, 2014, of which \$873.9 million are serviced by the Bank and \$343.6 million are serviced by our mortgage sub-servicer. The mortgage sub-servicer has experience servicing loans in the market areas in which we purchase loans and services the loans according to the Bank’s servicing standards, which is intended to allow the Bank

greater control over servicing and help maintain a standard of loan performance. As of March 31, 2014, the Bank had 27 active correspondent lending relationships operating in 24 states.

Included in the loan portfolio at March 31, 2014 were \$103.7 million, or 1.7% of the total loan portfolio, of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, \$87.7 million were purchased in bulk loan packages from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either 5 or 10 years. The \$87.7 million of bulk purchased interest-only ARM loans held as of March 31, 2014, had a weighted average credit score of 726 and a weighted average LTV ratio of 71% at March 31, 2014. At March 31, 2014, \$56.3 million, or 54%, of the interest-only loans were still in their interest-only payment term and \$4.3 million, or 15% of non-performing loans, were interest-only ARMs.

As a portfolio lender focused on delivering outstanding customer service while acquiring quality assets, the ability of our borrowers to repay has always been paramount in our business model. Our implementation of the “ability to repay” and “qualified mortgage” rules on January 10, 2014, as issued by the Consumer Financial Protection Bureau, is not anticipated to have a significant impact to our overall book of business.

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The following table presents information related to the composition of our loan portfolio at the dates presented. Within the one- to four-family loan portfolio at March 31, 2014, 68% of the loans had a balance at origination of less than \$417 thousand.

|                              | March 31, 2014 |              | September 30, 2013 |              |
|------------------------------|----------------|--------------|--------------------|--------------|
|                              | Amount         | Average Rate | Amount             | Average Rate |
| (Dollars in thousands)       |                |              |                    |              |
| Real estate loans:           |                |              |                    |              |
| One- to four-family          | \$ 5,840,337   | 3.75 %       | \$ 5,743,047       | 3.77 %       |
| Multi-family and commercial  | 47,505         | 4.83         | 50,358             | 5.22         |
| Construction                 | 94,286         | 3.79         | 77,743             | 3.63         |
| Total real estate loans      | 5,982,128      | 3.75         | 5,871,148          | 3.78         |
| Consumer loans:              |                |              |                    |              |
| Home equity                  | 130,321        | 5.22         | 135,028            | 5.26         |
| Other                        | 4,991          | 4.29         | 5,623              | 4.41         |
| Total consumer loans         | 135,312        | 5.18         | 140,651            | 5.23         |
| Total loans receivable       | 6,117,440      | 3.79         | 6,011,799          | 3.82         |
| Less:                        |                |              |                    |              |
| Undisbursed loan funds       | 55,505         |              | 42,807             |              |
| ACL                          | 8,967          |              | 8,822              |              |
| Discounts/unearned loan fees | 23,653         |              | 23,057             |              |
| Premiums/deferred costs      | (24,582)       |              | (21,755)           |              |
| Total loans receivable, net  | \$ 6,053,897   |              | \$ 5,958,868       |              |

The following table presents, for our portfolio of one- to four-family loans, the balance, percentage of total, weighted average credit score, weighted average LTV ratio, and the average balance per loan at the dates presented. Credit scores are updated at least semiannually, with the last update in March 2014, from a nationally recognized consumer rating agency. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal. In most cases, the most recent appraisal was obtained at the time of origination.

|                         | March 31, 2014 |            |              |      | September 30, 2013 |              |            |              |      |                 |
|-------------------------|----------------|------------|--------------|------|--------------------|--------------|------------|--------------|------|-----------------|
|                         | Balance        | % of Total | Credit Score | LTV  | Average Balance    | Balance      | % of Total | Credit Score | LTV  | Average Balance |
| (Dollars in thousands)  |                |            |              |      |                    |              |            |              |      |                 |
| Originated              | \$ 4,017,833   | 68.8 %     | 765          | 64 % | \$ 127             | \$ 4,054,436 | 70.6 %     | 763          | 65 % | \$ 127          |
| Correspondent purchased | 1,217,524      | 20.8       | 764          | 67   | 334                | 1,044,127    | 18.2       | 761          | 67   | 341             |

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|                   |              |         |     |    |     |              |         |     |    |     |
|-------------------|--------------|---------|-----|----|-----|--------------|---------|-----|----|-----|
| Bulk<br>purchased | 604,980      | 10.4    | 748 | 67 | 312 | 644,484      | 11.2    | 747 | 67 | 316 |
|                   | \$ 5,840,337 | 100.0 % | 763 | 65 | 157 | \$ 5,743,047 | 100.0 % | 761 | 65 | 155 |

32

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The following table presents the annualized prepayment speeds of our one- to four-family loan portfolio for the monthly and quarterly periods ended March 31, 2014. The balances represent the unpaid principal balance of one- to four-family loans, and the terms represent the contractual terms for our fixed-rate loans, and current terms to repricing for our adjustable-rate loans. Loan refinances are considered a prepayment and are included in the prepayment speeds presented below. The annualized prepayment speeds are presented with and without endorsements.

| Term   | March 31, 2014                             |   |              |              |              |   |              |              |              |   |
|--|--|---|--------------|--------------|--------------|---|--------------|--------------|--------------|---|
|  | Unpaid Principal<br>(Dollars in thousands) | Monthly Prepayment<br>Speeds (annualized) |              |              |              | Quarterly Prepayment<br>Speeds (annualized) |              |              |              | Net<br>Premiums/<br>Deferred<br>Costs<br>&<br>(Discounts/<br>Unearned<br>Loan Fees) |
|  |  | Including                                 |              | Excluding    |              | Including                                   |              | Excluding    |              |   |
|  |  | Endorsements                              | Endorsements | Endorsements | Endorsements | Endorsements                                | Endorsements | Endorsements | Endorsements |   |
| Fixed-rate one- to four-family:                  |  |   |              |              |              |   |              |              |              |   |
| 15 years or less:                                |  |   |              |              |              |   |              |              |              |   |
| Originated                                       | \$ 902,259                                 | 7.5                                       | %            | 7.5          | %            | 7.8   | %            | 7.8          | %            | \$ (2,909)  |
| Correspondent purchased                          | 247,622                                    | 7.9                                       |              | 7.9          |              | 5.8   |              | 5.8          |              | 3,030   |
| Bulk purchased                                   | 14,260                                     | 25.5                                      |              | 25.5         |              | 40.8  |              | 40.8         |              | 92  |
|  | 1,164,141                                  | 7.8                                       |              | 7.8          |              | 7.8   |              | 7.8          |              | 213   |
| More than 15 years:                              |  |   |              |              |              |   |              |              |              |   |
| Originated                                       | 2,828,104                                  | 6.4                                       |              | 5.9          |              | 5.8   |              | 5.3          |              | (13,348)  |
| Correspondent purchased                          | 722,147                                    | 3.1                                       |              | 3.1          |              | 3.3   |              | 3.3          |              | 8,055   |
| Bulk purchased                                   | 33,567                                     | 11.4                                      |              | 11.4         |              | 10.9  |              | 10.9         |              | 1,279   |
|  | 3,583,818                                  | 5.8                                       |              | 5.4          |              | 5.4   |              | 5.0          |              | (4,014)   |
| Total fixed-rate one- to four-family loans:      | 4,747,959                                  | 6.3                                       |              | 6.0          |              | 6.0   |              | 5.7          |              | (3,801)   |
| Adjustable-rate one- to four-family:             |  |   |              |              |              |   |              |              |              |   |
| 36 months or less:                               |  |   |              |              |              |   |              |              |              |   |
| Originated                                       | 173,762                                    | 16.9                                      |              | 12.1         |              | 14.9  |              | 13.1         |              | (281)   |
| Correspondent purchased                          | 62,014                                     | 37.2                                      |              | 12.8         |              | 23.9  |              | 14.5         |              | 522   |
| Bulk purchased                                   | 559,919                                    | 9.4                                       |              | 9.4          |              | 9.0   |              | 9.0          |              | 2,313   |
|  | 795,695                                    | 13.2                                      |              | 10.3         |              | 11.3  |              | 10.3         |              | 2,554   |
| More than 36 months:                             |  |   |              |              |              |   |              |              |              |   |
| Originated                                       | 183,586                                    | 7.3                                       |              | 7.3          |              | 5.2   |              | 5.2          |              | (590)   |
| Correspondent purchased                          | 187,999                                    | 5.0                                       |              | 5.0          |              | 6.3   |              | 6.3          |              | 2,877   |
| Bulk purchased                                   | 411  | 0.7                                       |              | 0.7          |              | 1.0   |              | 1.0          |              | 6   |
|  | 371,996                                    | 6.1                                       |              | 6.1          |              | 5.7   |              | 5.7          |              | 2,293   |
| Total adjustable-rate one- to four-family loans: | 1,167,691                                  | 11.1                                      |              | 9.0          |              | 9.6   |              | 8.9          |              | 4,847   |
| Total one-to four-family loans                   | \$ 5,915,650                               | 7.2                                       |              | 6.6          |              | 6.7   |              | 6.3          |              | \$ 1,046  |



The following tables summarize activity in the loan portfolio, along with weighted average rates where applicable, for the periods indicated, excluding changes in undisbursed loan funds, ACL, discounts/unearned loan fees, and premiums/deferred costs. Loans that were paid-off as a result of refinances are included in repayments. Purchased loans include purchases from correspondent and nationwide lenders. Loan endorsements are not included in the activity in the following table because a new loan is not generated at the time of the endorsement. During the three and six months ended March 31, 2014, the Bank endorsed \$5.9 million and \$13.8 million, respectively, of one-to-four-family loans, reducing the average rate on those loans by 84 and 111 basis points, respectively. The endorsed balance and rate are included in the ending loan portfolio balance and rate.

|                               | For the Three Months Ended |        |                   |        |                    |        |               |        |
|-------------------------------|----------------------------|--------|-------------------|--------|--------------------|--------|---------------|--------|
|                               | March 31, 2014             |        | December 31, 2013 |        | September 30, 2013 |        | June 30, 2013 |        |
|                               | Amount                     | Rate   | Amount            | Rate   | Amount             | Rate   | Amount        | Rate   |
|                               | (Dollars in thousands)     |        |                   |        |                    |        |               |        |
| Beginning balance             | \$ 6,095,089               | 3.80 % | \$ 6,011,799      | 3.82 % | \$ 5,839,861       | 3.86 % | \$ 5,763,055  | 3.94 % |
| Originated and refinanced:    |                            |        |                   |        |                    |        |               |        |
| Fixed                         | 63,921                     | 4.09   | 108,829           | 3.95   | 217,328            | 3.70   | 182,177       | 3.35   |
| Adjustable                    | 38,790                     | 3.76   | 45,273            | 3.76   | 44,090             | 3.75   | 31,713        | 3.87   |
| Purchased and participations: |                            |        |                   |        |                    |        |               |        |
| Fixed                         | 65,793                     | 4.00   | 94,535            | 4.00   | 167,490            | 3.61   | 132,391       | 3.36   |
| Adjustable                    | 32,932                     | 3.27   | 45,541            | 3.34   | 41,479             | 2.75   | 23,499        | 2.77   |
| Repayments                    | (177,411)                  |        | (209,931)         |        | (297,318)          |        | (292,110)     |        |
| Principal recoveries, net     | (112)                      |        | (418)             |        | 83                 |        | (33)          |        |
| Other                         | (1,562)                    |        | (539)             |        | (1,214)            |        | (831)         |        |
| Ending balance                | \$ 6,117,440               | 3.79   | \$ 6,095,089      | 3.80   | \$ 6,011,799       | 3.82   | \$ 5,839,861  | 3.86   |

|                               | For the Six Months Ended |        |                |        |
|-------------------------------|--------------------------|--------|----------------|--------|
|                               | March 31, 2014           |        | March 31, 2013 |        |
|                               | Amount                   | Rate   | Amount         | Rate   |
|                               | (Dollars in thousands)   |        |                |        |
| Beginning balance             | \$ 6,011,799             | 3.82 % | \$ 5,649,156   | 4.15 % |
| Originated and refinanced:    |                          |        |                |        |
| Fixed                         | 172,750                  | 4.01   | 389,701        | 3.26   |
| Adjustable                    | 84,063                   | 3.76   | 62,640         | 3.71   |
| Purchased and participations: |                          |        |                |        |
| Fixed                         | 160,328                  | 4.00   | 208,097        | 3.32   |
| Adjustable                    | 78,473                   | 3.31   | 40,579         | 2.67   |

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|                              |              |      |              |      |
|------------------------------|--------------|------|--------------|------|
| Repayments                   | (387,342)    |      | (581,197)    |      |
| Principal (charge-offs), net | (530)        |      | (1,261)      |      |
| Other                        | (2,101)      |      | (4,660)      |      |
| Ending balance               | \$ 6,117,440 | 3.79 | \$ 5,763,055 | 3.94 |

The Bank's pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent lending markets. During the six months ended March 31, 2014, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 160 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 70 basis points above the average 10-year Treasury rate.



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The following tables present loan origination, refinance, and purchase activity for the periods indicated, excluding endorsement activity, along with associated weighted average rates and percent of total. Loan originations, purchases, and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination. Of the \$84.0 million of one- to four-family loan originations and refinances during the current quarter, 69% had loan values of \$417 thousand or less. Of the \$96.1 million of one- to four-family correspondent loans purchased during the current quarter, 45% had loan values of \$417 thousand or less.

|   | For the Three Months Ended |        |            |                |        |            |
|---|----------------------------|--------|------------|----------------|--------|------------|
|   | March 31, 2014             |        |            | March 31, 2013 |        |            |
|   | Amount                     | Rate   | % of Total | Amount         | Rate   | % of Total |
|   | (Dollars in thousands)     |        |            |                |        |            |
| Fixed-rate:                                       |                            |        |            |                |        |            |
| One- to four-family:                              |                            |        |            |                |        |            |
| <= 15 years                                       | \$ 35,695                  | 3.39 % | 17.7 %     | \$ 105,724     | 2.75 % | 31.0 %     |
| > 15 years  | 89,806                     | 4.28   | 44.6       | 192,169        | 3.49   | 56.4       |
| Multi-family and commercial real estate           | 3,600                      | 4.13   | 1.8        | 497            | 5.75   | 0.1        |
| Home equity                                       | 444                        | 6.17   | 0.2        | 542            | 6.16   | 0.1        |
| Other   | 169                        | 9.10   | 0.1        | 230            | 9.17   | 0.1        |
| Total fixed-rate                                  | 129,714                    | 4.04   | 64.4       | 299,162        | 3.24   | 87.7       |
| Adjustable-rate:                                  |                            |        |            |                |        |            |
| One- to four-family:                              |                            |        |            |                |        |            |
| <= 36 months                                      | 1,480                      | 2.78   | 0.7        | 669            | 2.20   | 0.2        |
| > 36 months                                       | 53,190                     | 3.20   | 26.4       | 26,316         | 2.65   | 7.7        |
| Multi-family and commercial real estate           | 2,595                      | 4.75   | 1.3        | --             | --     | --         |
| Home equity                                       | 13,999                     | 4.66   | 7.0        | 14,509         | 4.67   | 4.3        |
| Other   | 458                        | 3.26   | 0.2        | 327            | 3.36   | 0.1        |
| Total adjustable-rate                             | 71,722                     | 3.54   | 35.6       | 41,821         | 3.35   | 12.3       |
| Total originated, refinanced and purchased        | \$ 201,436                 | 3.86   | 100.0 %    | \$ 340,983     | 3.25   | 100.0 %    |
| Purchased and participation loans included above: |                            |        |            |                |        |            |
| Fixed-rate:                                       |                            |        |            |                |        |            |
| Correspondent - one- to four-family               | \$ 65,793                  | 4.00   |            | \$ 119,334     | 3.22   |            |
| Adjustable-rate:                                  |                            |        |            |                |        |            |
| Correspondent - one- to four-family               | 30,337                     | 3.14   |            | 19,145         | 2.64   |            |
| Participations - commercial real estate           | 2,595                      | 4.75   |            | --             | --     |            |
| Total adjustable-rate purchased/participations    | 32,932                     | 3.27   |            | 19,145         | 2.64   |            |
| Total purchased/participation loans               | \$ 98,725                  | 3.75   |            | \$ 138,479     | 3.14   |            |



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|  | For the Six Months Ended |             |                |                   |             |                |
|--|--------------------------|-------------|----------------|-------------------|-------------|----------------|
|  | March 31, 2014           |             |                | March 31, 2013    |             |                |
|  | Amount                   | Rate        | % of Total     | Amount            | Rate        | % of Total     |
| (Dollars in thousands)                                   |                          |             |                |                   |             |                |
| <b>Fixed-Rate:</b>                                       |                          |             |                |                   |             |                |
| <b>One- to four-family:</b>                              |                          |             |                |                   |             |                |
| <= 15 years  | \$ 87,098                | 3.35 %      | 17.6 %         | \$ 218,063        | 2.80 %      | 31.1 %         |
| > 15 years   | 235,865                  | 4.22        | 47.6           | 373,910           | 3.52        | 53.3           |
| Multi-family and commercial real estate                  | 8,600                    | 4.05        | 1.7            | 4,347             | 5.09        | 0.6            |
| Home equity  | 1,177                    | 6.10        | 0.2            | 998               | 6.07        | 0.1            |
| Other  | 338                      | 10.09       | 0.1            | 480               | 8.56        | 0.1            |
| <b>Total fixed-rate</b>                                  | <b>333,078</b>           | <b>4.00</b> | <b>67.2</b>    | <b>597,798</b>    | <b>3.28</b> | <b>85.2</b>    |
| <b>Adjustable-Rate:</b>                                  |                          |             |                |                   |             |                |
| <b>One- to four-family:</b>                              |                          |             |                |                   |             |                |
| <= 36 months   | 3,510                    | 2.77        | 0.7            | 2,738             | 2.24        | 0.4            |
| > 36 months  | 111,162                  | 3.14        | 22.4           | 68,455            | 2.68        | 9.8            |
| Multi-family and commercial real estate                  | 14,358                   | 4.34        | 2.9            | --                | --          | --             |
| Home equity  | 32,738                   | 4.65        | 6.6            | 31,275            | 4.76        | 4.5            |
| Other  | 768                      | 3.11        | 0.2            | 751               | 3.09        | 0.1            |
| <b>Total adjustable-rate</b>                             | <b>162,536</b>           | <b>3.54</b> | <b>32.8</b>    | <b>103,219</b>    | <b>3.30</b> | <b>14.8</b>    |
| <b>Total originated, refinanced and purchased</b>        | <b>\$ 495,614</b>        | <b>3.85</b> | <b>100.0 %</b> | <b>\$ 701,017</b> | <b>3.28</b> | <b>100.0 %</b> |
| <b>Purchased and participation loans included above:</b> |                          |             |                |                   |             |                |
| <b>Fixed-Rate:</b>                                       |                          |             |                |                   |             |                |
| Correspondent - one- to four-family                      | \$ 155,328               | 4.00        |                | \$ 204,247        | 3.28        |                |
| Participations - commercial real estate                  | 5,000                    | 4.00        |                | 3,850             | 5.00        |                |
| <b>Total fixed-rate purchased/participations</b>         | <b>160,328</b>           | <b>4.00</b> |                | <b>208,097</b>    | <b>3.32</b> |                |
| <b>Adjustable-Rate:</b>                                  |                          |             |                |                   |             |                |
| Correspondent - one- to four-family                      | 64,115                   | 3.08        |                | 40,579            | 2.67        |                |
| Participations - commercial real estate                  | 14,358                   | 4.34        |                | --                | --          |                |
| <b>Total adjustable-rate purchased/participations</b>    | <b>78,473</b>            | <b>3.31</b> |                | <b>40,579</b>     | <b>2.67</b> |                |
| <b>Total purchased/participation loans</b>               | <b>\$ 238,801</b>        | <b>3.77</b> |                | <b>\$ 248,676</b> | <b>3.21</b> |                |

The following tables present originated, refinanced, and correspondent purchased activity in our one- to four-family loan portfolio, excluding endorsement activity, along with associated weighted average LTVs and weighted average credit scores for the periods indicated.

For the Three Months Ended

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|                              | March 31, 2014         |      |                 | March 31, 2013 |      |                 |
|------------------------------|------------------------|------|-----------------|----------------|------|-----------------|
|                              | Amount                 | LTV  | Credit<br>Score | Amount         | LTV  | Credit<br>Score |
|                              | (Dollars in thousands) |      |                 |                |      |                 |
| Originated                   | \$ 70,125              | 77 % | 762             | \$ 101,576     | 75 % | 759             |
| Refinanced by Bank customers | 13,916                 | 67   | 763             | 84,823         | 67   | 762             |
| Correspondent purchased      | 96,130                 | 74   | 762             | 138,479        | 70   | 766             |
|                              | \$ 180,171             | 75   | 762             | \$ 324,878     | 71   | 763             |

36

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|                              | For the Six Months Ended<br>March 31, 2014 |      |                 | March 31, 2013 |      |                 |
|------------------------------|--|------|-----------------|----------------|------|-----------------|
|                              | Amount<br>(Dollars in thousands)           | LTV  | Credit<br>Score | Amount         | LTV  | Credit<br>Score |
| Originated                   | \$ 185,631                                 | 77 % | 766             | \$ 224,092     | 75 % | 764             |
| Refinanced by Bank customers | 32,561                                     | 69   | 761             | 194,248        | 67   | 767             |
| Correspondent purchased      | 219,443                                    | 74   | 761             | 244,826        | 69   | 767             |
|                              | \$ 437,635                                 | 75   | 763             | \$ 663,166     | 71   | 766             |

The following table presents the amount, percentage of total, and weighted average rate, by state, for one- to four-family loan originations and correspondent purchases where originations and purchases in the state exceeded \$1.5 million during the six months ended March 31, 2014.

| State          | For the Three Months Ended<br>March 31, 2014 |               |        | For the Six Months Ended<br>March 31, 2014 |               |        |
|----------------|--|---------------|--------|--|---------------|--------|
|                | Amount<br>(Dollars in thousands)             | % of<br>Total | Rate   | Amount                                     | % of<br>Total | Rate   |
| Kansas         | \$ 85,596                                    | 47.5 %        | 3.81 % | \$ 218,510                                 | 49.9 %        | 3.78 % |
| Missouri       | 56,261                                       | 31.2          | 3.79   | 131,620                                    | 30.1          | 3.77   |
| Texas          | 13,154                                       | 7.3           | 3.70   | 27,493                                     | 6.3           | 3.77   |
| Tennessee      | 5,362  | 3.0           | 3.91   | 16,113                                     | 3.7           | 3.77   |
| Alabama        | 7,206  | 4.0           | 3.72   | 15,268                                     | 3.5           | 3.48   |
| Oklahoma       | 3,501  | 1.9           | 3.95   | 9,498                                      | 2.2           | 4.05   |
| North Carolina | 1,747  | 1.0           | 2.93   | 5,092                                      | 1.1           | 3.28   |
| Other states   | 7,344  | 4.1           | 3.44   | 14,041                                     | 3.2           | 3.64   |
|                | \$ 180,171                                   | 100.0 %       | 3.77   | \$ 437,635                                 | 100.0 %       | 3.76   |

The following table summarizes our one- to four-family loan origination, refinance, and correspondent purchase commitments as of March 31, 2014, along with associated weighted average rates. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. A percentage of the commitments are expected to expire unfunded, so the amounts reflected in the table below are not necessarily indicative of future cash requirements.

|                       | Fixed-Rate          |                       | Adjustable-<br>Rate | Total<br>Amount | Rate   |
|-----------------------|---------------------|-----------------------|---------------------|-----------------|--------|
|                       | 15 years<br>or less | More than<br>15 years |                     |                 |        |
| Originate:<br>< 4.00% | \$ 8,082            | \$ 5,121              | \$ 19,209           | \$ 32,412       | 3.35 % |

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|                |           |            |           |            |      |
|----------------|-----------|------------|-----------|------------|------|
| >= 4.00%       | 96        | 29,268     | --        | 29,364     | 4.42 |
|                | 8,178     | 34,389     | 19,209    | 61,776     | 3.86 |
| Correspondent: |           |            |           |            |      |
| < 4.00%        | 19,521    | 1,776      | 52,455    | 73,752     | 3.31 |
| >= 4.00%       | --        | 83,738     | --        | 83,738     | 4.32 |
|                | 19,521    | 85,514     | 52,455    | 157,490    | 3.85 |
| Total:         |           |            |           |            |      |
| < 4.00%        | 27,603    | 6,897      | 71,664    | 106,164    | 3.32 |
| >= 4.00%       | 96        | 113,006    | --        | 113,102    | 4.35 |
|                | \$ 27,699 | \$ 119,903 | \$ 71,664 | \$ 219,266 | 3.85 |
| Rate           | 3.43 %    | 4.31 %     | 3.22 %    |            |      |

37

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Asset Quality – Loans and OREO

The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates and purchases. Loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the Consumer Financial Protection Bureau, with total debt to income ratios not exceeding 43% of the borrower's verified income. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan. See additional discussion regarding underwriting standards in "Lending Practices and Underwriting Standards" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. In the following asset quality discussion, unless otherwise noted, correspondent purchased loans are included with originated loans and bulk purchased loans are reported as purchased loans.

For one- to four-family originated and correspondent loans and home equity loans, when a borrower fails to make a loan payment 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan balances more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank employee. Beginning at approximately the 31st day of delinquency and again at approximately the 50th day of delinquency, information notices are mailed to the borrowers to inform them of the availability of payment assistance programs. The borrowers are encouraged to contact the Bank to initiate the process of reviewing such opportunities. Once a loan becomes 90 days delinquent, assuming a loss mitigation solution is not actively in process, a demand letter is issued requiring the loan to be brought current or foreclosure procedures will be implemented. Generally, when a loan becomes 120 days delinquent, and an acceptable repayment plan or loss mitigation solution has not been established, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether mortgagors who filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

For purchased loans we do not service, we monitor delinquencies using reports we receive from the servicers. We monitor these servicer reports to ensure that the servicer is upholding the terms of the servicing agreement. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. Management also utilizes information from the servicers to monitor property valuations and identify the need to charge-off loan balances. The servicers handle collection efforts per the terms of the servicing agreement.

Delinquent and non-performing loans and OREO

The following tables present the Company's 30 to 89 day delinquent loans, non-performing loans, and OREO at the dates indicated. Of the loans 30 to 89 days delinquent at March 31, 2014, 77% were 59 days or less delinquent. Non-performing loans are loans that are 90 or more days delinquent or in foreclosure or nonaccrual loans less than 90 days delinquent and that are required to be reported as nonaccrual pursuant to OCC reporting requirements, even if the loans are current. The balance of loans that are current or 30 to 89 days delinquent but are required by OCC reporting requirements to be reported as nonaccrual was \$8.1 million at March 31, 2014. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. OREO primarily includes assets acquired in settlement of loans. Over the past 12 months, OREO properties were owned by the Bank, on average, for approximately four months before the properties were sold. Non-performing assets include non-performing loans and OREO.

|   | Loans Delinquent for 30 to 89 Days at: |           |                      |           |                       |           |                  |           |                   |           |
|---|--|-----------|----------------------|-----------|-----------------------|-----------|------------------|-----------|-------------------|-----------|
|   | March 31,<br>2014                      |           | December 31,<br>2013 |           | September 30,<br>2013 |           | June 30,<br>2013 |           | March 31,<br>2013 |           |
|   | Number                                 | Amount    | Number               | Amount    | Number                | Amount    | Number           | Amount    | Number            | Amount    |
|   | (Dollars in thousands)                 |           |                      |           |                       |           |                  |           |                   |           |
| One- to four-family:  |  |           |                      |           |                       |           |                  |           |                   |           |
| Originated  | 119                                    | \$ 13,139 | 178                  | \$ 16,956 | 164                   | \$ 18,225 | 137              | \$ 12,838 | 124               | \$ 13,139 |
| Correspondent purchased                                       | 5                                      | 998       | 4                    | 2,243     | 5                     | 709       | 4                | 704       | 5                 | 1,000     |
| Bulk purchased  | 33                                     | 7,272     | 37                   | 7,858     | 37                    | 7,733     | 28               | 6,012     | 42                | 9,000     |
| Consumer Loans:   |  |           |                      |           |                       |           |                  |           |                   |           |
| Home equity   | 35                                     | 665       | 41                   | 721       | 45                    | 848       | 40               | 869       | 40                | 710       |
| Other   | 14                                     | 52        | 17                   | 100       | 13                    | 35        | 13               | 158       | 14                | 100       |
|   | 206                                    | \$ 22,126 | 277                  | \$ 27,878 | 264                   | \$ 27,550 | 222              | \$ 20,581 | 225               | \$ 24,000 |
| 30 to 89 days delinquent loans to total loans receivable, net |  | 0.37 %    |                      | 0.46 %    |                       | 0.46 %    |                  | 0.36 %    |                   | 0.46 %    |



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| Non-Performing Loans and OREO at:                      |        |                      |        |                       |        |                  |        |                   |        |                   |
|--|--------|----------------------|--------|-----------------------|--------|------------------|--------|-------------------|--------|-------------------|
| March 31,<br>2014                                      |        | December 31,<br>2013 |        | September 30,<br>2013 |        | June 30,<br>2013 |        | March 31,<br>2013 |        | March 31,<br>2013 |
| Number   | Amount | Number               | Amount | Number                | Amount | Number           | Amount | Number            | Amount | Number            |
| (Dollars in thousands)                                 |        |                      |        |                       |        |                  |        |                   |        |                   |
| Loans 90 or More Days Delinquent or in Foreclosure:    |        |                      |        |                       |        |                  |        |                   |        |                   |
| One- to four-family:                                   |        |                      |        |                       |        |                  |        |                   |        |                   |
| Originated   | 95     | \$ 9,508             | 110    | \$ 9,931              | 101    | \$ 8,579         | 91     | \$ 8,017          | 85     | \$ 7,931          |
| Correspondent purchased                                | 2      | 443                  | 5      | 635                   | 5      | 812              | 4      | 609               | 4      | 609               |
| Bulk purchased   | 33     | 10,301               | 33     | 10,134                | 34     | 9,608            | 37     | 9,535             | 40     | 9,535             |
| Consumer loans:  |        |                      |        |                       |        |                  |        |                   |        |                   |
| Home equity  | 23     | 305                  | 29     | 477                   | 29     | 485              | 21     | 295               | 22     | 305               |
| Other  | 4      | 8                    | 8      | 11                    | 4      | 5                | 7      | 23                | 5      | 23                |
|  | 157    | 20,565               | 185    | 21,188                | 173    | 19,489           | 160    | 18,479            | 156    | 18,479            |
| Nonaccrual loans less than 90 Days Delinquent:(1)      |        |                      |        |                       |        |                  |        |                   |        |                   |
| One- to four-family:                                   |        |                      |        |                       |        |                  |        |                   |        |                   |
| Originated   | 66     | 7,111                | 65     | 6,057                 | 57     | 5,833            | 62     | 7,578             | 61     | 7,578             |
| Correspondent purchased                                | 1      | 478                  | --     | --                    | 2      | 740              | --     | --                | 1      | 478               |
| Bulk purchased   | 4      | 472                  | 3      | 392                   | 2      | 280              | 2      | 168               | 4      | 472               |
| Consumer loans:  |        |                      |        |                       |        |                  |        |                   |        |                   |
| Home equity  | 4      | 74                   | 6      | 78                    | 6      | 101              | 8      | 174               | 7      | 74                |
|  | 75     | 8,135                | 74     | 6,527                 | 67     | 6,954            | 72     | 7,920             | 73     | 8,135             |
| Total non-performing loans                             | 232    | 28,700               | 259    | 27,715                | 240    | 26,443           | 232    | 26,399            | 229    | 26,399            |
| Non-performing loans as a percentage of total loans(2) |        |                      |        |                       |        |                  |        |                   |        |                   |
|  |        | 0.47                 | %      | 0.46                  | %      | 0.44             | %      | 0.46              | %      | 0.46              |
| OREO:  |        |                      |        |                       |        |                  |        |                   |        |                   |
| One- to four-family:                                   |        |                      |        |                       |        |                  |        |                   |        |                   |

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|   |     |           |     |           |     |           |     |           |     |           |
|---|-----|-----------|-----|-----------|-----|-----------|-----|-----------|-----|-----------|
| Originated(3)   | 26  | \$ 1,548  | 22  | \$ 1,531  | 28  | \$ 2,074  | 34  | \$ 3,283  | 51  | \$ 4,000  |
| Correspondent purchased                               | 4   | 403       | 1   | 110       | 2   | 71        | 3   | 269       | 2   | 100       |
| Bulk purchased  | 4   | 398       | 6   | 647       | 4   | 380       | 4   | 581       | 5   | 100       |
| Consumer loans:                                       |     |           |     |           |     |           |     |           |     |           |
| Home equity   | 1   | 18        | 2   | 57        | 2   | 57        | 3   | 66        | 4   | 100       |
| Other(4)  | 1   | 1,300     | 1   | 1,300     | 1   | 1,300     | 1   | 1,300     | 1   | 100       |
|   | 36  | 3,667     | 32  | 3,645     | 37  | 3,882     | 45  | 5,499     | 63  | 100       |
| Total non-performing assets                           | 268 | \$ 32,367 | 291 | \$ 31,360 | 277 | \$ 30,325 | 277 | \$ 31,898 | 292 | \$ 31,898 |
| Non-performing assets as a percentage of total assets |     | 0.36      | %   | 0.34      | %   | 0.33      | %   | 0.35      | %   | 0.35      |

- (1) Represents loans required to be reported as nonaccrual pursuant to OCC reporting requirements, even if the loans are current. At March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013 and March 31, 2013, this amount was comprised of \$881 thousand, \$1.1 million, \$1.1 million, \$1.1 million, and \$975 thousand, respectively, of loans that were 30 to 89 days delinquent and are reported as such, and \$7.3 million, \$5.4 million, \$5.9 million, \$6.8 million, and \$7.2 million, respectively, of loans that were current.
- (2) Excluding loans required to be reported as nonaccrual pursuant to OCC reporting requirements, even if the loans are current, non-performing loans as a percentage of total loans were 0.34%, 0.35%, 0.33%, 0.32%, and 0.32% at March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013 and March 31, 2013, respectively.
- (3) Real estate-related consumer loans where we also hold the first mortgage are included in the one- to four-family category as the underlying collateral is one- to four-family property.
- (4) Other represents a single property the Bank purchased for a potential branch site but now intends to sell.

The balance of loans 90 or more days delinquent or in foreclosure was \$20.6 million at March 31, 2014, an increase of \$1.1 million from September 30, 2013. The majority of the increase was in the originated one- to four-family loan portfolio, of which 73% of the loans were originated in calendar year 2007 or earlier. Of the \$10.3 million of bulk purchased one- to four-family loans 90 or more days delinquent or in foreclosure as of March 31, 2014, 97% were originated in calendar year 2004 or 2005. Once a one- to four-family loan is generally 180 days delinquent and/or enters foreclosure, a new collateral value is obtained through an appraisal, less estimated selling costs and anticipated private mortgage insurance (“PMI”) receipts. Any loss amounts as a result of this review are charged-off. At March 31, 2014, \$16.1 million, or 79%, of the one-to four-family loans 90 or more days delinquent or in foreclosure had been individually evaluated for loss and any losses were charged-off.

The following table presents the top 14 states where the properties securing our one- to four-family loans are located and their corresponding balance of loans 30 to 89 days delinquent, 90 or more days delinquent or in foreclosure, and weighted average LTV ratios for loans 90 or more days delinquent or in foreclosure at March 31, 2014. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. At March 31, 2014, potential losses, after taking into consideration anticipated PMI proceeds and the costs to sell the property, have been charged-off.

| State      | One- to Four-Family    |               | Loans 30 to 89<br>Days Delinquent |               | Loans 90 or More Days<br>Delinquent or<br>in Foreclosure |               | LTV  |
|------------|------------------------|---------------|-----------------------------------|---------------|--|---------------|------|
|            | Amount                 | % of<br>Total | Amount                            | % of<br>Total | Amount   | % of<br>Total |      |
|            | (Dollars in thousands) |               |                                   |               |  |               |      |
| Kansas     | \$ 3,739,134           | 64.0 %        | \$ 9,375                          | 43.8 %        | \$ 9,858   | 48.7 %        | 74 % |
| Missouri   | 1,084,360              | 18.6          | 4,316                             | 20.1          | 1,501  | 7.4           | 77   |
| California | 305,312                | 5.2           | --                                | --            | --   | --            | n/a  |
| Texas      | 157,778                | 2.7           | 1,615                             | 7.5           | 518  | 2.5           | 58   |
| Tennessee  | 78,749                 | 1.3           | 210                               | 1.0           | --   | --            | n/a  |
| Oklahoma   | 69,235                 | 1.2           | 27                                | 0.1           | 524  | 2.6           | 58   |

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|                |              |         |           |         |           |         |     |
|----------------|--------------|---------|-----------|---------|-----------|---------|-----|
| Alabama        | 68,543       | 1.2     | --        | --      | --        | --      | n/a |
| Illinois       | 36,195       | 0.6     | 769       | 3.6     | 1,268     | 6.3     | 67  |
| Nebraska       | 32,231       | 0.6     | 1,221     | 5.7     | 209       | 1.0     | 70  |
| North Carolina | 30,208       | 0.5     | --        | --      | --        | --      | n/a |
| Minnesota      | 20,712       | 0.4     | 472       | 2.2     | --        | --      | n/a |
| Colorado       | 19,634       | 0.3     | 252       | 1.2     | --        | --      | n/a |
| New York       | 17,988       | 0.3     | 484       | 2.3     | 906       | 4.5     | 86  |
| Florida        | 17,609       | 0.3     | --        | --      | 1,458     | 7.2     | 73  |
| Other states   | 162,649      | 2.8     | 2,668     | 12.5    | 4,010     | 19.8    | 72  |
|                | \$ 5,840,337 | 100.0 % | \$ 21,409 | 100.0 % | \$ 20,252 | 100.0 % | 73  |

41

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Troubled Debt Restructurings

At March 31, 2014 and September 30, 2013, the Bank had TDRs with a balance of \$41.4 million and \$49.5 million, respectively. Of the \$41.4 million of TDRs at March 31, 2014, \$31.3 million were originated loans, \$8.3 million were bulk purchased loans, and \$1.8 million were correspondent purchased loans. Additionally, of the \$41.4 million of TDRs at March 31, 2014, \$3.0 million were 30 to 89 days delinquent and \$6.9 million were 90 or more days delinquent or in foreclosure. See “Note 4 – Loans Receivable and Allowance for Credit Losses” for additional information regarding our TDRs.

The following table presents TDR activity, at recorded investment, during the six months ended March 31, 2014. The recorded investment in loans is defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process), less charge-offs and inclusive of unearned loan fees and deferred costs. Excluded from the restructuring activity in the table below is \$870 thousand of loans that were restructured during the current fiscal year, as well as in a prior fiscal year, and are therefore already presented in the beginning balance. Of the \$870 thousand of loans, \$424 thousand related to borrowers that endorsed during the current fiscal year in order to obtain a lower market interest rate. Additionally, \$183 thousand of loans were restructured more than once during the current fiscal year.

|                                    | Concession<br>Granted<br>by the<br>Bank | Loan<br>Endorsement<br>Program | Total     |
|------------------------------------|---|--------------------------------|-----------|
|                                    | (Dollars in thousands)                  |                                |           |
| Beginning balance                  | \$ 35,187                               | \$ 14,245                      | \$ 49,432 |
| Restructurings                     | 5,904                                   | 506                            | 6,410     |
| Chapter 7 TDRs                     | 889                                     | --                             | 889       |
| TDRs no longer reported as such(1) | (4,104)                                 | (7,585)                        | (11,689)  |
| Transfers to OREO                  | (567)                                   | --                             | (567)     |
| Principal repayments/payoffs       | (2,120)                                 | (954)                          | (3,074)   |
| Charge-offs, net                   | (12)                                    | --                             | (12)      |
| Ending balance                     | \$ 35,177                               | \$ 6,212                       | \$ 41,389 |

(1) These loans have met certain criteria and are no longer required to be reported as TDRs.

The following table presents the recorded investment in TDRs as of March 31, 2014 by asset classification.

|  | Concession<br>Granted<br>by the | Loan<br>Endorsement |
|--|---------------------------------|---------------------|
|--|---------------------------------|---------------------|

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|                   | Bank                   | Program  | Total     |
|-------------------|------------------------|----------|-----------|
|                   | (Dollars in thousands) |          |           |
| Not classified(1) | \$ 2,929               | \$ --    | \$ 2,929  |
| Special mention   | 2,615                  | 5,583    | 8,198     |
| Substandard       | 29,633                 | 629      | 30,262    |
|                   | \$ 35,177              | \$ 6,212 | \$ 41,389 |

(1) These loans have been discharged under Chapter 7 bankruptcy but the borrower has made 12 consecutive monthly payments subsequent to their discharge date and therefore the loans are no longer classified per the Bank's asset classification policies.

#### Impaired Loans

The unpaid principal balance of loans reported as impaired at March 31, 2014 and September 30, 2013 was \$61.7 million and \$69.4 million, respectively. See "Note 4 – Loans Receivable and Allowance for Credit Losses" for additional information regarding impaired loans.

Allowance for credit losses and provision for credit losses

Management maintains an ACL to absorb inherent losses in the loan portfolio based on ongoing quarterly assessments of the loan portfolio. Our ACL methodology considers a number of factors including the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, charge-off activity and trends, the current status and trends of local and national economies (particularly levels of unemployment), trends and current conditions in the real estate and housing markets, loan portfolio growth and concentrations, and certain ACL ratios such as ACL to loans receivable, net and annualized historical losses to ACL. See Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013 and "Note 1 – Summary of Significant Accounting Policies" for a full discussion of our ACL methodology.

The ACL is maintained through provisions for credit losses which are either charged to or credited to income. The provision for credit losses is based upon the results of management's quarterly assessment of the ACL. During the six months ended March 31, 2014, the Company recorded a provision for credit losses of \$675 thousand. The \$675 thousand provision for credit losses in the current year six month period takes into account net charge-offs of \$530 thousand and loan growth. For additional information regarding the provision for credit losses for the six months ended March 31, 2014, see "Comparison of Operating Results for the Six Months Ended March 31, 2014 and 2013."

The following table presents the Company's allocation of the ACL to each respective loan category at the dates presented.

|                                | At<br>March 31, 2014                          |                      |                | At<br>September 30, 2013 |                     |                      |                |
|--------------------------------|---|----------------------|----------------|--------------------------|---------------------|----------------------|----------------|
|                                | Amount<br>of<br>ACL<br>(Dollars in thousands) | % of<br>Total<br>ACL | Total<br>Loans | % of<br>Total<br>Loans   | Amount<br>of<br>ACL | % of<br>Total<br>ACL | Total<br>Loans |
| One- to four-family:           |   |                      |                |                          |                     |                      |                |
| Originated                     | \$ 6,699                                      | 74.7 %               | \$ 5,235,357   | 85.6 %                   | \$ 5,748            | 65.2 %               | \$ 5,098,563   |
| Purchased                      | 1,817   | 20.3                 | 604,980        | 9.9                      | 2,486               | 28.2                 | 644,484        |
| Multi-family and<br>commercial | 123   | 1.4                  | 47,505         | 0.8                      | 172                 | 1.9                  | 50,358         |
| Construction                   | 58  | 0.6                  | 94,286         | 1.5                      | 36                  | 0.4                  | 77,743         |
| Consumer:                      |   |                      |                |                          |                     |                      |                |
| Home equity                    | 243   | 2.7                  | 130,321        | 2.1                      | 342                 | 3.9                  | 135,028        |
| Other consumer                 | 27  | 0.3                  | 4,991          | 0.1                      | 38                  | 0.4                  | 5,623          |
|                                | \$ 8,967                                      | 100.0 %              | \$ 6,117,440   | 100.0 %                  | \$ 8,822            | 100.0 %              | \$ 6,011,799   |





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The following tables present ACL activity and selected ACL ratios for the periods presented. For additional information regarding our ACL activity during the current fiscal year, see “Note 4 – Loans Receivable and Allowance for Credit Losses.”

|  | For the Three Months Ended |                      |                       |                  |                   |
|--|----------------------------|----------------------|-----------------------|------------------|-------------------|
|  | March<br>31, 2014          | December<br>31, 2013 | September<br>30, 2013 | June 30,<br>2013 | March<br>31, 2013 |
|  | (Dollars in thousands)     |                      |                       |                  |                   |
| ACL beginning balance  | \$ 8,919                   | \$ 8,822             | \$ 9,239              | \$ 10,072        | \$ 10,477         |
| Charge-offs  | (121)                      | (425)                | (163)                 | (171)            | (457)             |
| Recoveries   | 9                          | 7                    | 246                   | 138              | 52                |
| Provision for credit losses  | 160                        | 515                  | (500)                 | (800)            | --                |
| ACL ending balance   | \$ 8,967                   | \$ 8,919             | \$ 8,822              | \$ 9,239         | \$ 10,072         |
| ACL to loans receivable, net at end of period  | 0.15 %                     | 0.15 %               | 0.15 %                | 0.16 %           | 0.18 %            |
| ACL to non-performing loans at end of period   | 31.24                      | 32.18                | 33.36                 | 35.00            | 38.23             |
| Ratio of net charge-offs (recoveries) during the period to average loans outstanding during the period | --                         | 0.01                 | --                    | --               | 0.01              |
| Ratio of net charge-offs (recoveries) during the period to average non-performing assets               | 0.35                       | 1.35                 | (0.27)                | 0.10             | 1.19              |

|   | For the Six Months Ended |                   |
|---|--------------------------|-------------------|
|   | March<br>31, 2014        | March<br>31, 2013 |
|   | (Dollars in thousands)   |                   |
| ACL beginning balance   | \$ 8,822                 | \$ 11,100         |
| Charge-offs   | (546)                    | (1,323)           |
| Recoveries  | 16                       | 62                |
| Provision for credit losses   | 675                      | 233               |
| ACL ending balance  | \$ 8,967                 | \$ 10,072         |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.01 %                   | 0.02 %            |
| Ratio of net charge-offs during the period to   |                          |                   |

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|   |      |   |      |   |
|---|------|---|------|---|
| average non-performing assets during the period | 1.69 |   | 3.46 |   |
| ACL to net charge-offs (annualized)             | 8.5  | x | 4.0  | x |

44

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Securities. The following table presents the distribution of our MBS and investment securities portfolios, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 78% of these portfolios at March 31, 2014. The weighted average life (“WAL”) is the estimated remaining maturity (in years) after three-month historical prepayment speeds and projected call option assumptions have been applied. The increase in the WAL between September 30, 2013 and March 31, 2014 was due primarily to an increase in market interest rates between periods, which resulted in a decrease in projected call assumptions on GSE debentures and a decrease in realized prepayments on MBS. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

|                                  | March 31, 2014 |        |      | December 31, 2013 |        |      | September 30, 2013 |        |      |
|----------------------------------|----------------|--------|------|-------------------|--------|------|--------------------|--------|------|
|                                  | Amount         | Yield  | WAL  | Amount            | Yield  | WAL  | Amount             | Yield  | WAL  |
| (Dollars in thousands)           |                |        |      |                   |        |      |                    |        |      |
| Fixed-rate securities:           |                |        |      |                   |        |      |                    |        |      |
| MBS                              | \$ 1,423,363   | 2.41 % | 4.1  | \$ 1,384,297      | 2.46 % | 4.1  | \$ 1,427,648       | 2.44 % | 3.5  |
| GSE debentures                   | 579,853        | 1.04   | 3.5  | 658,834           | 1.03   | 3.3  | 709,118            | 1.04   | 2.8  |
| Municipal bonds                  | 36,830         | 2.55   | 2.0  | 36,304            | 2.68   | 1.9  | 35,587             | 3.02   | 1.5  |
| Total fixed-rate securities      | 2,040,046      | 2.02   | 3.9  | 2,079,435         | 2.01   | 3.8  | 2,172,353          | 1.99   | 3.3  |
| Adjustable-rate securities:      |                |        |      |                   |        |      |                    |        |      |
| MBS                              | 565,242        | 2.29   | 6.3  | 572,721           | 2.31   | 6.0  | 601,359            | 2.32   | 4.9  |
| Trust preferred securities       | 2,538          | 1.49   | 23.2 | 2,579             | 1.50   | 23.5 | 2,594              | 1.51   | 23.7 |
| Total adjustable-rate securities | 567,780        | 2.28   | 6.4  | 575,300           | 2.31   | 6.1  | 603,953            | 2.31   | 4.9  |
| Total securities portfolio       | \$ 2,607,826   | 2.08   | 4.4  | \$ 2,654,735      | 2.07   | 4.3  | \$ 2,776,306       | 2.06   | 3.7  |

Mortgage-Backed Securities. The following tables provide a summary of the activity in our portfolio of MBS for the periods presented. The balance of MBS, which primarily consists of securities of U.S. GSEs, decreased \$42.6 million from \$2.05 billion at September 30, 2013 to \$2.01 billion at March 31, 2014. Repayments from the MBS portfolio not reinvested in the portfolio were used, in part, to fund loan growth. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yield for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The decrease in the weighted average yield on the MBS portfolio from September 30, 2013 to March 31, 2014 was due primarily to purchases of MBS with yields less than the average yield on the existing portfolio. The beginning and ending WAL is the estimated remaining maturity (in years) after three-month historical prepayment speeds have been applied. The increase in the WAL between September 30, 2013 and March 31, 2014 was due primarily to an increase in market interest rates between periods, which resulted in a decrease in realized prepayments.

|  | For the Three Months Ended |        |     | December 31, 2013 |        |     | September 30, 2013 |        |     | June 30, 2013 |
|--|----------------------------|--------|-----|-------------------|--------|-----|--------------------|--------|-----|---------------|
|  | March 31, 2014             |        |     | Amount            | Yield  | WAL | Amount             | Yield  | WAL | Amount        |
|  | (Dollars in thousands)     |        |     |                   |        |     |                    |        |     |               |
| Beginning balance - carrying value       | \$ 1,975,164               | 2.42 % | 4.7 | \$ 2,047,708      | 2.40 % | 3.9 | \$ 2,179,539       | 2.39 % | 3.6 | \$ 2,179,539  |
| Maturities and repayments                | (92,609)                   |        |     | (95,864)          |        |     | (149,555)          |        |     | (149,555)     |
| Net amortization of (premiums)/discounts | (1,271)                    |        |     | (1,397)           |        |     | (1,688)            |        |     | (1,688)       |
| Purchases:                               |                            |        |     |                   |        |     |                    |        |     |               |
| Fixed                                    | 103,730                    | 1.74   | 3.9 | 25,272            | 1.72   | 3.7 | --                 | --     | --  | --            |
| Adjustable                               | 21,737                     | 1.92   | 5.2 | --                | --     | --  | 22,246             | 1.80   | 5.1 | --            |
| Change in valuation on AFS securities    | (1,613)                    |        |     | (555)             |        |     | (2,834)            |        |     | (2,834)       |
| Ending balance - carrying value          | \$ 2,005,138               | 2.37   | 4.7 | \$ 1,975,164      | 2.42   | 4.7 | \$ 2,047,708       | 2.40   | 3.9 | \$ 2,047,708  |

|  | For the Six Months Ended |        |     | March 31, 2013 |        |     |
|--|--------------------------|--------|-----|----------------|--------|-----|
|  | March 31, 2014           |        |     | March 31, 2013 |        |     |
|  | Amount                   | Yield  | WAL | Amount         | Yield  | WAL |
|  | (Dollars in thousands)   |        |     |                |        |     |
| Beginning balance - carrying value       | \$ 2,047,708             | 2.40 % | 3.9 | \$ 2,332,942   | 2.78 % | 4.0 |
| Maturities and repayments                | (188,473)                |        |     | (382,077)      |        |     |
| Net amortization of (premiums)/discounts | (2,668)                  |        |     | (4,248)        |        |     |
| Purchases:                               |                          |        |     |                |        |     |
| Fixed                                    | 129,002                  | 1.73   | 3.8 | 420,272        | 1.24   | 3.9 |
| Adjustable                               | 21,737                   | 1.92   | 5.2 | --             | --     | --  |
| Change in valuation on AFS securities    | (2,168)                  |        |     | (8,794)        |        |     |
| Ending balance - carrying value          | \$ 2,005,138             | 2.37   | 4.7 | \$ 2,358,095   | 2.45   | 3.6 |



The following table presents the annualized prepayment speeds of our MBS portfolio for the monthly and quarterly periods ended March 31, 2014, along with associated net premium/(discount) information, weighted average rates for the portfolio, and weighted average remaining contractual terms (in years) for the portfolio. The annualized prepayment speeds are based on actual prepayment activity. Prepayments impact the amortization/accretion of premiums/discounts on our MBS portfolio. As prepayments increase, the related premiums/discounts are amortized/accreted at a faster rate. The amortization of premiums decreases interest income while the accretion of discounts increases interest income. The Bank could experience an increase in the premium amortization should prepayment speeds increase significantly, potentially reducing future interest income. The balances in the following table represent the amortized cost of MBS, and the terms represent the contractual terms for our fixed-rate MBS and current terms to repricing for our adjustable-rate MBS.

| Term                               | March 31, 2014                           |                               |            |                            |
|------------------------------------|--|-------------------------------|------------|----------------------------|
|                                    | Amortized Cost<br>(Dollars in thousands) | Prepayment Speed (annualized) |            | Net Premium/<br>(Discount) |
|                                    |  | Monthly                       | Quarterly  |                            |
| <b>Fixed-rate MBS:</b>             |  |                               |            |                            |
| 15 years or less                   | \$ 1,334,109                             | 7.5 %                         | 8.0 %      | \$ 17,969                  |
| More than 15 years                 | 89,254                                   | 8.7                           | 10.5       | 1,012                      |
|                                    | 1,423,363                                | 7.5                           | 8.2        | 18,981                     |
| Rate                               | 3.63 %                                   |                               |            |                            |
| Remaining contractual term (years) | 10.4                                     |                               |            |                            |
| <b>Adjustable-rate MBS:</b>        |  |                               |            |                            |
| 36 months or less                  | \$ 481,441                               | 9.3                           | 13.0       | 935                        |
| More than 36 months                | 83,801                                   | 13.1                          | 11.1       | 1,661                      |
|                                    | 565,242                                  | 9.8                           | 12.7       | 2,596                      |
| Rate                               | 2.94 %                                   |                               |            |                            |
| Remaining contractual term (years) | 23.8                                     |                               |            |                            |
| <b>Total MBS</b>                   | <b>\$ 1,988,605</b>                      | <b>8.2</b>                    | <b>9.5</b> | <b>\$ 21,577</b>           |
| Rate                               | 3.43 %                                   |                               |            |                            |
| Remaining contractual term (years) | 14.2                                     |                               |            |                            |

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Investment Securities. The following tables provide a summary of the activity of investment securities for the periods presented. Investment securities, which consist of U.S. GSE debentures (primarily issued by FNMA, FHLMC, or FHLB) and municipal investments, decreased \$129.5 million, from \$740.3 million at September 30, 2013 to \$610.8 million at March 31, 2014. Cash flows not reinvested in the portfolio were used, in part, to fund loan growth. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented. The beginning and ending WALs represent the estimated remaining maturity (in years) of the securities after projected call dates have been considered, based upon market rates at each date presented. The increase in the WAL between September 30, 2013 and March 31, 2014 was due primarily to an increase in market rates between periods, which resulted in a decrease in projected call assumptions. Of the \$129.8 million of fixed-rate investment securities purchased during the six months ended March 31, 2014, \$123.2 million are callable.

|  | For the Three Months Ended |        |     | December 31, 2013 |        |     | September 30, 2013 |        |     | June 30,   |
|--|----------------------------|--------|-----|-------------------|--------|-----|--------------------|--------|-----|------------|
|  | March 31, 2014             |        |     | Amount            | Yield  | WAL | Amount             | Yield  | WAL | Amount     |
|  | Amount                     | Yield  | WAL | Amount            | Yield  | WAL | Amount             | Yield  | WAL | Amount     |
|  | (Dollars in thousands)     |        |     |                   |        |     |                    |        |     |            |
| Beginning balance - carrying value       | \$ 686,913                 | 1.11 % | 3.3 | \$ 740,282        | 1.14 % | 2.9 | \$ 807,399         | 1.14 % | 3.2 | \$ 841,127 |
| Maturities and calls                     | (177,805)                  |        |     | (79,860)          |        |     | (69,838)           |        |     | (50,860)   |
| Net amortization of (premiums)/discounts | (84)                       |        |     | (114)             |        |     | (117)              |        |     | (76)       |
| Purchases:                               |                            |        |     |                   |        |     |                    |        |     |            |
| Fixed                                    | 99,393                     | 0.91   | 2.0 | 30,392            | 1.29   | 4.4 | --                 | --     | --  | 29,310     |
| Change in valuation of AFS securities    | 2,351                      |        |     | (3,787)           |        |     | 2,838              |        |     | (12,090)   |
| Ending balance - carrying value          | \$ 610,768                 | 1.13   | 3.5 | \$ 686,913        | 1.11   | 3.3 | \$ 740,282         | 1.14   | 2.9 | \$ 807,399 |

|  | For the Six Months Ended |        |     | March 31, 2013 |        |     |
|--|--------------------------|--------|-----|----------------|--------|-----|
|  | March 31, 2014           |        |     | March 31, 2013 |        |     |
|  | Amount                   | Yield  | WAL | Amount         | Yield  | WAL |
|  | (Dollars in thousands)   |        |     |                |        |     |
| Beginning balance - carrying value       | \$ 740,282               | 1.14 % | 2.9 | \$ 961,849     | 1.23 % | 1.0 |
| Maturities and calls                     | (257,665)                |        |     | (498,332)      |        |     |
| Net amortization of (premiums)/discounts | (198)                    |        |     | (267)          |        |     |
| Purchases:                               |                          |        |     |                |        |     |
| Fixed                                    | 129,785                  | 1.00   | 2.6 | 379,416        | 0.96   | 1.9 |
| Change in valuation of AFS securities    | (1,436)                  |        |     | (1,539)        |        |     |
| Ending balance - carrying value          | \$ 610,768               | 1.13   | 3.5 | \$ 841,127     | 1.14   | 2.3 |





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Liabilities. Total liabilities were \$7.59 billion at March 31, 2014 compared to \$7.55 billion at September 30, 2013. The \$31.1 million increase was due primarily to an \$82.3 million increase in deposits, partially offset by a \$46.4 million decrease in FHLB borrowings.

Deposits – Deposits were \$4.69 billion at March 31, 2014 compared to \$4.61 billion at September 30, 2013. The \$82.3 million increase was comprised of a \$60.2 million increase in the checking portfolio, a \$15.2 million increase in the savings portfolio, and an \$11.2 million increase in the money market portfolio, partially offset by a \$4.3 million decrease in the certificate of deposit portfolio. If interest rates were to rise, it is possible that our customers may move the funds from their checking, savings and money market accounts to higher yielding deposit products within the Bank or withdraw their funds to invest in higher yielding investments outside of the Bank.

The following table presents the amount, weighted average rate, and percentage of total deposits for checking, savings, money market, retail certificates of deposit, and public units/brokered deposits at the dates presented.

|                                | March 31, 2014                   |      |               | December 31, 2013 |      |               | September 30, 2013 |      |               |
|--------------------------------|----------------------------------|------|---------------|-------------------|------|---------------|--------------------|------|---------------|
|                                | Amount<br>(Dollars in thousands) | Rate | % of<br>Total | Amount            | Rate | % of<br>Total | Amount             | Rate | % of<br>Total |
| Noninterest-bearing checking   | \$ 168,276                       | --   | % 3.5         | \$ 155,446        | --   | % 3.3         | \$ 150,171         | --   | % 3.2         |
| Interest-bearing checking      | 547,872                          | 0.05 | 11.7          | 525,363           | 0.05 | 11.4          | 505,762            | 0.05 | 11.0          |
| Savings                        | 298,324                          | 0.10 | 6.4           | 285,906           | 0.10 | 6.2           | 283,169            | 0.13 | 6.1           |
| Money market                   | 1,139,836                        | 0.23 | 24.3          | 1,149,229         | 0.23 | 24.9          | 1,128,604          | 0.23 | 24.5          |
| Retail certificates of deposit | 2,240,792                        | 1.23 | 47.7          | 2,203,775         | 1.24 | 47.7          | 2,242,909          | 1.27 | 48.7          |
| Public units/brokered deposits | 298,662                          | 0.80 | 6.4           | 301,189           | 0.79 | 6.5           | 300,831            | 0.80 | 6.5           |
|                                | \$ 4,693,762                     | 0.71 | 100.0 %       | \$ 4,620,908      | 0.71 | 100.0 %       | \$ 4,611,446       | 0.74 | 100.0 %       |

At March 31, 2014 and September 30, 2013, brokered deposits totaled \$63.7 million. The \$63.7 million of brokered deposits at March 31, 2014 had a weighted average rate of 2.78% and a weighted average remaining term to maturity of nine months. The Bank monitors the cost of brokered deposits and considers them as a potential source of funding, provided that investment opportunities are balanced with the funding cost. At March 31, 2014, public unit deposits totaled \$235.0 million compared to \$237.1 million at September 30, 2013, and had a weighted average rate of 0.26% and a weighted average remaining term to maturity of eight months. Management will continue to monitor the wholesale deposit market for attractive opportunities relative to the use of proceeds for investments.



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The following tables set forth scheduled maturity information for our certificates of deposit, along with associated weighted average rates, at March 31, 2014.

| Rate range   | Amount Due             |                             |                              |                   | Total Amount | Rate   |
|--|------------------------|-----------------------------|------------------------------|-------------------|--------------|--------|
|  | 1 year or less         | More than 1 year to 2 years | More than 2 years to 3 years | More than 3 years |              |        |
|  | (Dollars in thousands) |                             |                              |                   |              |        |
| 0.00 – 0.99%   | \$ 841,603             | \$ 204,367                  | \$ 64,570                    | \$ 27,217         | \$ 1,137,757 | 0.46 % |
| 1.00 – 1.99%   | 220,407                | 184,985                     | 245,123                      | 314,285           | 964,800      | 1.40   |
| 2.00 – 2.99%   | 205,617                | 181,766                     | 16,255                       | 1,722             | 405,360      | 2.52   |
| 3.00 – 3.99%   | 13,246                 | 17,287                      | 257                          | 268               | 31,058       | 3.06   |
| 4.00 – 4.99%   | 222                    | 257                         | --                           | --                | 479          | 4.40   |
|  | \$ 1,281,095           | \$ 588,662                  | \$ 326,205                   | \$ 343,492        | \$ 2,539,454 | 1.18   |
| Percent of total   | 50.5                   | % 23.2                      | % 12.8                       | % 13.5            |              |        |
| Weighted average rate  | 0.93                   | 1.47                        | 1.41                         | 1.36              |              |        |
| Weighted average maturity (in years)   | 0.5                    | 1.4                         | 2.4                          | 3.7               | 1.4          |        |
| Weighted average maturity for the retail certificate of deposit portfolio (in years) |                        |                             |                              |                   | 1.5          |        |

|   | Maturity               |                    |                     |                | Total        |
|---|------------------------|--------------------|---------------------|----------------|--------------|
|   | 3 months or less       | Over 3 to 6 months | Over 6 to 12 months | Over 12 months |              |
|   | (Dollars in thousands) |                    |                     |                |              |
| Retail certificates of deposit less than \$100,000  | \$ 180,885             | \$ 234,492         | \$ 340,176          | \$ 778,824     | \$ 1,534,377 |
| Retail certificates of deposit of \$100,000 or more | 57,586                 | 122,275            | 138,007             | 388,547        | 706,415      |
| Public units/brokered deposits less than \$100,000  | 21,805                 | --                 | --                  | 41,852         | 63,657       |
| Public units of \$100,000 or more                   | 80,010                 | 54,619             | 51,240              | 49,136         | 235,005      |
| Total certificates of deposit                       | \$ 340,286             | \$ 411,386         | \$ 529,423          | \$ 1,258,359   | \$ 2,539,454 |

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Borrowings – The following tables present FHLB advance activity, at par, and repurchase agreement activity for the periods shown. Line of credit activity is excluded from the following table due to the short-term nature of the borrowings. The weighted average effective rate includes the net impact of the amortization of deferred prepayment penalties resulting from the prepayment of certain FHLB advances and deferred gains related to interest rate swaps previously terminated. Rates on new borrowings are fixed-rate. The weighted average maturity (“WAM”) is the remaining weighted average contractual term in years. The beginning and ending WAMs represent the remaining maturity at each date presented. For new borrowings, the WAMs presented are as of the date of issue.

|                             | For the Three Months Ended |                |     |                   |                |     |                    |                |     | June 30, 2013 |
|-----------------------------|----------------------------|----------------|-----|-------------------|----------------|-----|--------------------|----------------|-----|---------------|
|                             | March 31, 2014             |                |     | December 31, 2013 |                |     | September 30, 2013 |                |     |               |
|                             | Amount                     | Effective Rate | WAM | Amount            | Effective Rate | WAM | Amount             | Effective Rate | WAM |               |
|                             | (Dollars in thousands)     |                |     |                   |                |     |                    |                |     |               |
| Beginning principal balance | \$ 2,845,000               | 2.71 %         | 2.7 | \$ 2,845,000      | 2.75 %         | 2.6 | \$ 2,815,000       | 2.80 %         | 2.7 | \$ 2,965,000  |
| Maturities and prepayments: |                            |                |     |                   |                |     |                    |                |     |               |
| FHLB advances               | (200,000)                  | 5.01           |     | (150,000)         | 3.16           |     | --                 | --             |     | (225,000)     |
| Repurchase agreements       | --                         | --             |     | --                | --             |     | (70,000)           | 4.23           |     | (25,000)      |
| New borrowings:             |                            |                |     |                   |                |     |                    |                |     |               |
| FHLB advances               | 150,000                    | 2.59           | 7.0 | 150,000           | 2.32           | 6.0 | --                 | --             | --  | 100,000       |
| Repurchase agreements       | --                         | --             | --  | --                | --             | --  | 100,000            | 2.53           | 7.0 | --            |
| Ending principal balance    | \$ 2,795,000               | 2.54           | 2.9 | \$ 2,845,000      | 2.71           | 2.7 | \$ 2,845,000       | 2.75           | 2.6 | \$ 2,815,000  |

|                             | For the Six Months Ended |                |     |              |                |     |  |
|-----------------------------|--------------------------|----------------|-----|--------------|----------------|-----|--|
|                             | March 31, 2014           |                |     |              | March 31, 2013 |     |  |
|                             | Amount                   | Effective Rate | WAM | Amount       | Effective Rate | WAM |  |
|                             | (Dollars in thousands)   |                |     |              |                |     |  |
| Beginning principal balance | \$ 2,845,000             | 2.75 %         | 2.6 | \$ 2,915,000 | 3.13 %         | 2.7 |  |
| Maturities and prepayments: |                          |                |     |              |                |     |  |
| FHLB advances               | (350,000)                | 4.22           |     | (100,000)    | 4.85           |     |  |
| Repurchase agreements       | --                       | --             |     | (50,000)     | 3.48           |     |  |
| New borrowings:             |                          |                |     |              |                |     |  |
| FHLB advances               | 300,000                  | 2.46           | 6.5 | 200,000      | 1.04           | 5.0 |  |

|                          |              |      |     |              |      |     |
|--------------------------|--------------|------|-----|--------------|------|-----|
| Ending principal balance | \$ 2,795,000 | 2.54 | 2.9 | \$ 2,965,000 | 2.92 | 2.5 |
|--------------------------|--------------|------|-----|--------------|------|-----|

51

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The following table presents the maturity of FHLB advances, at par, and repurchase agreements, along with associated weighted average contractual and weighted average effective rates as of March 31, 2014. Management will continue to monitor the Bank's investment opportunities and balance those opportunities with the cost of FHLB advances and other funding sources.

| Maturity by Fiscal Year | FHLB Advances Amount<br>(Dollars in thousands) | Repurchase Agreements Amount | Contractual Rate | Effective Rate(1) |
|-------------------------|--|------------------------------|------------------|-------------------|
| 2014                    | \$ 100,000                                     | \$ 100,000                   | 3.42 %           | 3.50 %            |
| 2015                    | 600,000  | 20,000                       | 1.73             | 1.96              |
| 2016                    | 575,000  | --                           | 2.29             | 2.91              |
| 2017                    | 500,000  | --                           | 2.69             | 2.72              |
| 2018                    | 200,000  | 100,000                      | 2.90             | 2.90              |
| 2019                    | 100,000  | --                           | 1.29             | 1.29              |
| 2020                    | 250,000  | 100,000                      | 2.18             | 2.18              |
| 2021                    | 150,000  | --                           | 2.59             | 2.59              |
|                         | \$ 2,475,000                                   | \$ 320,000                   | 2.35             | 2.54              |

(1) The effective rate includes the net impact of the amortization of deferred prepayment penalties resulting from the prepayment of certain FHLB advances and deferred gains related to terminated interest rate swaps.

Maturities – The following table presents the maturity and weighted average repricing rate, which is also the weighted average effective rate, of borrowings and certificates of deposit, split between retail and public unit/brokered deposits, for the next four quarters as of March 31, 2014.

| Maturity by Quarter End | Borrowings Amount<br>(Dollars in thousands) | Repricing Rate | Retail Certificate Amount | Repricing Rate | Public Unit/<br>Brokered Deposit Amount | Repricing Rate | Total        | Repricing Rate |
|-------------------------|---|----------------|---------------------------|----------------|---|----------------|--------------|----------------|
| June 30, 2014           | \$ 100,000                                  | 2.80 %         | \$ 238,471                | 0.83 %         | \$ 101,815                              | 0.63 %         | \$ 440,286   | 1.23 %         |
| September 30, 2014      | 100,000                                     | 4.20           | 356,767                   | 1.06           | 54,619                                  | 0.27           | 511,386      | 1.59           |
| December 31, 2014       | 250,000                                     | 0.84           | 246,226                   | 1.06           | 32,909                                  | 0.29           | 529,135      | 0.91           |
| March 31, 2015          | 250,000                                     | 2.46           | 231,957                   | 1.16           | 18,331                                  | 0.27           | 500,288      | 1.78           |
|                         | \$ 700,000                                  | 2.18           | \$ 1,073,421              | 1.03           | \$ 207,674                              | 0.45           | \$ 1,981,095 | 1.38           |

Stockholders' Equity. Stockholders' equity was \$1.53 billion at March 31, 2014 compared to \$1.63 billion at September 30, 2013. The \$102.1 million decrease was due primarily to the payment of \$82.8 million in dividends and the repurchase of \$57.2 million of stock, partially offset by net income of \$37.5 million. Additionally, AOCI decreased \$2.2 million from September 30, 2013 to March 31, 2014 due to a decrease in unrealized gains on AFS securities as a result of an increase in market yields.

The \$82.8 million in dividends paid during the current year six month period consisted of a \$0.25 per share, or \$35.7 million, True Blue® Too dividend; an \$0.18 per share, or \$25.8 million, true-up dividend related to fiscal year 2013 earnings per the Company's dividend policy; and two regular quarterly dividends of \$0.075 per share each quarter, totaling \$0.15 per share, or \$21.3 million. The \$35.7 million True Blue® Too dividend was funded by a \$36.0 million capital distribution from the Bank to the holding company in December 2013. On April 16, 2014, the Company declared a regular quarterly cash dividend of \$0.075 per share, or approximately \$10.4 million, payable on May 16, 2014 to stockholders of record as of the close of business on May 2, 2014. Dividend payments depend upon a number of factors including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company. At March 31, 2014, Capitol Federal Financial, Inc., at the holding company level, had \$139.8 million of cash and cash equivalents at the Bank.

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The following table presents regular quarterly, true-up, and special dividends paid in calendar years 2014, 2013, and 2012. The amounts represent dividends paid during each period. For the quarter ending June 30, 2014, the amount presented does not represent the actual dividend payout, but rather management's estimate of the dividend payout as of April 23, 2014, based on the number of shares outstanding on that date and the dividend declared on April 16, 2014 of \$0.075 per share.

|                                      | Calendar Year          |            |            |
|--------------------------------------|------------------------|------------|------------|
|                                      | 2014                   | 2013       | 2012       |
|                                      | (Dollars in thousands) |            |            |
| Quarter ended March 31               |                        |            |            |
| Total dividends paid                 | \$ 10,513              | \$ 11,023  | \$ 12,145  |
| Quarter ended June 30                |                        |            |            |
| Total dividends paid                 | 10,399                 | 10,796     | 11,883     |
| Quarter ended September 30           |                        |            |            |
| Total dividends paid                 | --                     | 10,703     | 11,402     |
| Quarter ended December 31            |                        |            |            |
| Total dividends paid                 | --                     | 10,754     | 11,223     |
| True-up dividend                     |                        |            |            |
| Total dividends paid                 | --                     | 25,815     | 26,585     |
| True Blue® dividends                 |                        |            |            |
| Total dividends paid                 | --                     | 35,710     | 76,494     |
| Calendar year-to-date dividends paid | \$ 20,912              | \$ 104,801 | \$ 149,732 |

In November 2012, the Company announced that its Board of Directors approved the repurchase of up to \$175.0 million of the Company's common stock. The Company began repurchasing common stock under this plan during the second quarter of fiscal year 2013 and, as of March 31, 2014, had repurchased 8,596,719 shares at an average price of \$11.93 per share, at a total cost of \$102.6 million. There were no shares repurchased subsequent to March 31, 2014 through April 28, 2014. This plan, under which \$72.4 million remained available as of April 28, 2014, has no expiration date.



## Operating Results

The following table presents selected income statement and other information for the quarters indicated.

|  | For the Three Months Ended                    |                         |                          |                  |                      |
|--|---|-------------------------|--------------------------|------------------|----------------------|
|  | March<br>31,<br>2014                          | December<br>31,<br>2013 | September<br>30,<br>2013 | June 30,<br>2013 | March<br>31,<br>2013 |
|  | (Dollars in thousands, except per share data) |                         |                          |                  |                      |
| Interest and dividend income:                              |   |                         |                          |                  |                      |
| Loans receivable   | \$ 57,117                                     | \$ 56,948               | \$ 56,425                | \$ 56,627        | \$ 56,936            |
| MBS  | 11,597  | 11,962                  | 12,376                   | 13,419           | 14,446               |
| Investment securities                                      | 1,869   | 2,066                   | 2,251                    | 2,439            | 2,457                |
| Other interest and dividend income                         | 1,274   | 1,258                   | 1,171                    | 1,190            | 1,141                |
| Total interest and dividend income                         | 71,857  | 72,234                  | 72,223                   | 73,675           | 74,980               |
| Interest expense:  |   |                         |                          |                  |                      |
| FHLB borrowings  | 15,311  | 16,863                  | 16,902                   | 17,377           | 17,909               |
| Deposits   | 8,076   | 8,323                   | 8,614                    | 9,009            | 9,344                |
| Repurchase agreements                                      | 2,743   | 2,803                   | 2,901                    | 2,885            | 3,407                |
| Total interest expense                                     | 26,130  | 27,989                  | 28,417                   | 29,271           | 30,660               |
| Net interest income  | 45,727  | 44,245                  | 43,806                   | 44,404           | 44,320               |
| Provision for credit losses                                | 160   | 515                     | (500)                    | (800)            | --                   |
| Net interest income<br>(after provision for credit losses) | 45,567  | 43,730                  | 44,306                   | 45,204           | 44,320               |
| Non-interest income  | 5,727   | 5,500                   | 5,756                    | 5,821            | 5,944                |
| Non-interest expense                                       | 21,828  | 22,787                  | 25,387                   | 23,602           | 23,217               |
| Income tax expense   | 9,778   | 8,630                   | 8,608                    | 9,428            | 9,332                |
| Net income   | \$ 19,688                                     | \$ 17,813               | \$ 16,067                | \$ 17,995        | \$ 17,715            |
| Efficiency ratio   | 42.42 %                                       | 45.81 %                 | 51.22 %                  | 46.99 %          | 46.19 %              |
| Basic earnings per share                                   | \$ 0.14                                       | \$ 0.12                 | \$ 0.11                  | \$ 0.13          | \$ 0.12              |
| Diluted earnings per share                                 | 0.14  | 0.12                    | 0.11                     | 0.13             | 0.12                 |

## Comparison of Operating Results for the Six Months Ended March 31, 2014 and 2013

For the six month period ended March 31, 2014, the Company recognized net income of \$37.5 million, compared to net income of \$35.3 million for the six month period ended March 31, 2013. The \$2.2 million, or 6.3%, increase in net income was largely due to a \$3.3 million decrease in non-interest expense, partially offset by a \$485 thousand decrease in non-interest income and a \$442 thousand increase in provision for credit losses. The net interest margin increased three basis points, from 1.99% for the prior year six month period to 2.02% for the current year six month period. Decreases in the cost of funds and a shift in the mix of interest-earning assets from relatively lower yielding securities to higher yielding loans was enough to overcome the negative impact of decreasing asset yields.

## Interest and Dividend Income

The weighted average yield on total interest-earning assets decreased 14 basis points from 3.38% for the prior year six month period to 3.24% for the current year six month period and the average balance of interest-earning assets decreased \$142.1 million from the prior year six month period. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent. The decrease in interest income on MBS and investment securities was due largely to a decrease in the average balance of each portfolio as cash flows not reinvested in the portfolios were used to fund loan growth, pay dividends, and repurchase Company stock. The decrease in interest income on loans receivable was due to a decrease in the weighted average yield on the portfolio.

|                                      | For the Six Months<br>Ended |            | Change Expressed<br>in: |         |
|--------------------------------------|-----------------------------|------------|-------------------------|---------|
|                                      | March 31,<br>2014           | 2013       | Dollars                 | Percent |
| (Dollars in thousands)               |                             |            |                         |         |
| <b>INTEREST AND DIVIDEND INCOME:</b> |                             |            |                         |         |
| Loans receivable                     | \$ 114,065                  | \$ 115,403 | \$ (1,338)              | (1.2) % |
| MBS                                  | 23,559                      | 29,629     | (6,070)                 | (20.5)  |
| Investment securities                | 3,935                       | 5,322      | (1,387)                 | (26.1)  |
| Capital stock of FHLB                | 2,425                       | 2,233      | 192                     | 8.6     |
| Cash and cash equivalents            | 107                         | 69         | 38                      | 55.1    |
| Total interest and dividend income   | \$ 144,091                  | \$ 152,656 | \$ (8,565)              | (5.6)   |

The weighted average yield on the loans receivable portfolio decreased 29 basis points, from 4.08% for the prior year six month period to 3.79% for the current year six month period. The downward repricing of the loan portfolio largely resulted from loan originations and purchases at market rates less than the weighted average rate of the existing portfolio, along with a significant amount of adjustable-rate loans, refinances, and endorsements repricing to lower rates. The decrease in interest income on loans receivable resulting from the decrease in average yield was partially offset by a \$369.1 million increase in the average balance of the portfolio. Included in interest income on loans receivable for the current year six month period was \$114 thousand related to the net amortization of premiums/deferred costs and the accretion of discounts/unearned loan fees increasing the average yield of the portfolio by less than one basis point. During the prior year six month period, \$1.6 million, net, was accreted and

increased the average yield on the portfolio by five basis points.

The average balance of the MBS portfolio decreased \$355.7 million between the two periods and the average yield on the MBS portfolio decreased 16 basis points, from 2.55% during the prior year six month period to 2.39% for the current year six month period. The decrease in the average yield was due primarily to the downward repricing of existing adjustable-rate MBS, as well as purchases of MBS between periods with yields less than the average yield on the existing portfolio. Included in interest income on MBS for the current year six month period was \$2.7 million from the net amortization of premiums and the accretion of discounts decreasing the average yield of the portfolio by 27 basis points. During the prior year six month period, \$4.2 million of net premiums were amortized and decreased the average yield on the portfolio by 36 basis points.

The decrease in interest income on investment securities was due primarily to a \$179.4 million decrease in the average balance of the portfolio, along with a nine basis point decrease in the yield, from 1.22% during the prior year six month period, to 1.13% for the current year six month period.

## Interest Expense

The weighted average rate paid on total interest-bearing liabilities decreased 22 basis points from 1.68% for the prior year six month period to 1.46% for the current year six month period, while the average balance of interest-bearing liabilities decreased \$21.5 million from the prior year six month period. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent. The decrease in interest expense on FHLB borrowings and deposits was due primarily to a decrease in the weighted average rate paid on the portfolios, while the decrease in interest expense on repurchase agreements was due to both a decrease in the average balance and a decrease in the weighted average rate of the portfolio between the two periods.

|                          | For the Six Months<br>Ended |           | Change Expressed<br>in: |         |
|--------------------------|-----------------------------|-----------|-------------------------|---------|
|                          | March 31,<br>2014           | 2013      | Dollars                 | Percent |
| (Dollars in thousands)   |                             |           |                         |         |
| <b>INTEREST EXPENSE:</b> |                             |           |                         |         |
| FHLB borrowings          | \$ 32,174                   | \$ 36,537 | \$ (4,363)              | (11.9)% |
| Deposits                 | 16,399                      | 19,193    | (2,794)                 | (14.6)  |
| Repurchase agreements    | 5,546                       | 6,976     | (1,430)                 | (20.5)  |
| Total interest expense   | \$ 54,119                   | \$ 62,706 | \$ (8,587)              | (13.7)  |

The weighted average rate paid on the FHLB borrowings portfolio decreased 32 basis points, from 2.90% for the prior year six month period to 2.58% for the current year six month period. The decrease in the average rate paid was primarily a result of maturities and renewals to lower market rates that occurred between periods.

The decrease in the weighted average rate paid on the deposit portfolio was due primarily to a decrease in the weighted average rate paid on the retail certificate of deposit portfolio. The weighted average rate paid on the retail certificate of deposit portfolio decreased 20 basis points, from 1.44% for the prior year six month period to 1.24% for the current year six month period.

The decrease in interest expense on repurchase agreements was due to a \$40.2 million decrease in the average balance between periods, as well as a 40 basis point decrease in the weighted average rate paid between periods, from 3.83% for the prior year six month period to 3.43% for the current year six month period. The decrease in the average balance was due to the maturity of agreements between the two periods, some of which were replaced with FHLB borrowings. The decrease in the average rate paid on repurchase agreements was due to maturities and a new agreement entered into between periods which had a rate less than the existing portfolio.

## Provision for Credit Losses

The Bank recorded a provision for credit losses during the current year six month period of \$675 thousand, compared

to a \$233 thousand provision for credit losses for the prior year six month period. The \$675 thousand provision for credit losses in the current year six month period takes into account net charge-offs of \$530 thousand and loan growth.

Non-Interest Income

The following table presents the components of non-interest income for the time periods presented, along with the change measured in dollars and percent.

|                             | For the Six Months<br>Ended |           | Change Expressed<br>in: |         |
|-----------------------------|-----------------------------|-----------|-------------------------|---------|
|                             | March 31,<br>2014           | 2013      | Dollars                 | Percent |
| (Dollars in thousands)      |                             |           |                         |         |
| <b>NON-INTEREST INCOME:</b> |                             |           |                         |         |
| Retail fees and charges     | \$ 7,264                    | \$ 7,513  | \$ (249)                | (3.3) % |
| Insurance commissions       | 1,762                       | 1,550     | 212                     | 13.7    |
| Loan fees                   | 854                         | 885       | (31)                    | (3.5)   |
| Income from BOLI            | 668                         | 743       | (75)                    | (10.1)  |
| Other non-interest income   | 679                         | 1,021     | (342)                   | (33.5)  |
| Total non-interest income   | \$ 11,227                   | \$ 11,712 | \$ (485)                | (4.1)   |

The decrease in other non-interest income was due primarily to a decrease in premium income from Capitol Federal Mortgage Reinsurance Company (“CFMRC”) as it is no longer writing new business. The decrease in retail fees and charges was due primarily to a decrease in service charges earned. The increase in insurance commissions was due largely to an increase in annual commissions received from certain insurance providers as a result of favorable claims experience during the prior year.

#### Non-Interest Expense

The following table presents the components of non-interest expense for the time periods presented, along with the change measured in dollars and percent.

|   | For the Six Months Ended |           | Change Expressed in: |         |
|---|--------------------------|-----------|----------------------|---------|
|   | March 31, 2014           | 2013      | Dollars              | Percent |
| (Dollars in thousands)                    |                          |           |                      |         |
| <b>NON-INTEREST EXPENSE:</b>              |                          |           |                      |         |
| Salaries and employee benefits            | \$ 21,450                | \$ 24,336 | \$ (2,886)           | (11.9)% |
| Occupancy                                 | 5,183                    | 4,709     | 474                  | 10.1    |
| Information technology and communications | 4,612                    | 4,430     | 182                  | 4.1     |
| Regulatory and outside services           | 2,553                    | 3,055     | (502)                | (16.4)  |
| Deposit and loan transaction costs        | 2,650                    | 2,910     | (260)                | (8.9)   |
| Federal insurance premium                 | 2,186                    | 2,230     | (44)                 | (2.0)   |
| Advertising and promotional               | 1,883                    | 2,036     | (153)                | (7.5)   |
| Other non-interest expense                | 4,098                    | 4,252     | (154)                | (3.6)   |
| Total non-interest expense                | \$ 44,615                | \$ 47,958 | \$ (3,343)           | (7.0)   |

The decrease in salaries and employee benefits was due primarily to a decrease in ESOP related expenses resulting largely from the final allocation of ESOP shares acquired in our initial public offering (March 1999) being made at September 30, 2013. In fiscal year 2014, the only ESOP shares to be allocated will be the shares acquired in the Company’s corporate reorganization in December 2010. The decrease in regulatory and outside services was due largely to the timing of fees paid for our external audit. The increase in occupancy expense was due largely to an increase in depreciation expense, which was primarily associated with the remodeling of our home office.

The Company’s efficiency ratio was 44.09% for the current year six month period compared to 47.17% for the prior year six month period. The decrease in the efficiency ratio was due primarily to a decrease in total non-interest expense. The efficiency ratio is a measure of a financial institution’s total non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income. A lower value indicates that the financial institution is generating revenue with a lower level of expense.

Income Tax Expense

Income tax expense was \$18.4 million for the current year six month period compared to \$18.2 million for the prior year six month period. The effective tax rate for the current year six month period was 32.9% compared to 34.0% for the prior year six month period. The decrease in the effective tax rate between periods was due largely to a lower amount of nondeductible ESOP related expenses due to the final ESOP allocation on September 30, 2013, as discussed in the non-interest expense section above, along with higher tax credits related to our low-income housing partnerships. Management anticipates the effective tax rate for fiscal year 2014 will be approximately 33% to 34%, based on fiscal year 2014 estimates as of March 31, 2014.

## Average Balance Sheet

The following table presents the average balances of our assets, liabilities, and stockholders' equity and the related annualized yields and rates on our interest-earning assets and interest-bearing liabilities for the periods indicated and the weighted average yield/rate on our interest-earning assets and interest-bearing liabilities at March 31, 2014. Average yields are derived by dividing annualized income by the average balance of the related assets and average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The yields and rates include amortization of fees, costs, premiums and discounts which are considered adjustments to yields/rates. Yields on tax-exempt securities were not calculated on a fully taxable equivalent basis.

|  | At<br>March 31,<br>2014 | For the Six Months Ended          |                             |                |                                   |                             |                |
|--|-------------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|  |                         | March 31, 2014                    |                             |                | March 31, 2013                    |                             |                |
|  | Yield/<br>Rate          | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
| (Dollars in thousands)                   |                         |                                   |                             |                |                                   |                             |                |
| Assets:                                  |                         |                                   |                             |                |                                   |                             |                |
| Interest-earning assets:                 |                         |                                   |                             |                |                                   |                             |                |
| Loans receivable(1)                      | 3.78%                   | \$ 6,023,062                      | \$ 114,065                  | 3.79 %         | \$ 5,653,923                      | \$ 115,403                  | 4.08 %         |
| MBS(2)                                   | 2.37                    | 1,968,835                         | 23,559                      | 2.39           | 2,324,497                         | 29,629                      | 2.55           |
| Investment securities(2)(3)              | 1.13                    | 695,925                           | 3,935                       | 1.13           | 875,321                           | 5,322                       | 1.22           |
| Capital stock of FHLB                    | 3.96                    | 129,685                           | 2,425                       | 3.75           | 131,662                           | 2,233                       | 3.40           |
| Cash and cash equivalents                | 0.25                    | 85,286                            | 107                         | 0.25           | 59,506                            | 69                          | 0.23           |
| Total interest-earning<br>assets(1)(2)   | 3.25                    | 8,902,793                         | 144,091                     | 3.24           | 9,044,909                         | 152,656                     | 3.38           |
| Other noninterest-earning<br>assets      |                         | 221,562                           |                             |                | 237,402                           |                             |                |
| Total assets                             |                         | \$ 9,124,355                      |                             |                | \$ 9,282,311                      |                             |                |
| Liabilities and stockholders'<br>equity: |                         |                                   |                             |                |                                   |                             |                |
| Interest-bearing liabilities:            |                         |                                   |                             |                |                                   |                             |                |
| Checking                                 | 0.04                    | \$ 662,600                        | 127                         | 0.04           | \$ 617,686                        | \$ 119                      | 0.04           |
| Savings                                  | 0.10                    | 287,642                           | 148                         | 0.10           | 267,401                           | 133                         | 0.10           |
| Money market                             | 0.23                    | 1,135,843                         | 1,310                       | 0.23           | 1,131,513                         | 1,266                       | 0.22           |
| Retail certificates                      | 1.23                    | 2,219,493                         | 13,671                      | 1.24           | 2,264,723                         | 16,302                      | 1.44           |
| Wholesale certificates                   | 0.80                    | 303,788                           | 1,143                       | 0.75           | 278,829                           | 1,373                       | 0.99           |
| Total deposits                           | 0.71                    | 4,609,366                         | 16,399                      | 0.71           | 4,560,152                         | 19,193                      | 0.84           |
| FHLB borrowings(4)                       | 2.42                    | 2,500,530                         | 32,174                      | 2.58           | 2,531,094                         | 36,537                      | 2.90           |
| Repurchase agreements                    | 3.43                    | 320,000                           | 5,546                       | 3.43           | 360,192                           | 6,976                       | 3.83           |
| Total borrowings                         | 2.54                    | 2,820,530                         | 37,720                      | 2.68           | 2,891,286                         | 43,513                      | 3.01           |
| Total interest-bearing<br>liabilities    | 1.39                    | 7,429,896                         | 54,119                      | 1.46           | 7,451,438                         | 62,706                      | 1.68           |



|  |              |              |
|--|--------------|--------------|
| Other noninterest-bearing liabilities      | 108,070      | 112,121      |
| Stockholders' equity                       | 1,586,389    | 1,718,752    |
| Total liabilities and stockholders' equity | \$ 9,124,355 | \$ 9,282,311 |

(Continued)

|  | At                | For the Six Months Ended          |                             |                |                                   |                             |                |
|--|-------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|  | March 31,<br>2014 | March 31, 2014                    |                             |                | March 31, 2013                    |                             |                |
|  | Yield/<br>Rate    | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
|  |                   | (Dollars in thousands)            |                             |                |                                   |                             |                |
| Net interest income(5)   |                   |                                   | \$ 89,972                   |                |                                   | \$ 89,950                   |                |
| Net interest rate spread(6)  | 1.86%             |                                   |                             | 1.78 %         |                                   |                             | 1.70 %         |
| Net interest-earning assets  |                   | \$ 1,472,897                      |                             |                | \$ 1,593,471                      |                             |                |
| Net interest margin(7)   |                   |                                   |                             | 2.02           |                                   |                             | 1.99           |
| Ratio of interest-earning<br>assets<br>to interest-bearing liabilities |                   |                                   |                             | 1.20 x         |                                   |                             | 1.21 x         |
| Selected performance ratios:   |                   |                                   |                             |                |                                   |                             |                |
| Return on average assets<br>(annualized)                               |                   |                                   |                             | 0.82 %         |                                   |                             | 0.76 %         |
| Return on average equity<br>(annualized)                               |                   |                                   |                             | 4.73           |                                   |                             | 4.11           |
| Average equity to average<br>assets                                    |                   |                                   |                             | 17.39          |                                   |                             | 18.52          |
| Operating expense ratio<br>(annualized)(8)                             |                   |                                   |                             | 0.98           |                                   |                             | 1.03           |
| Efficiency ratio(9)  |                   |                                   |                             | 44.09          |                                   |                             | 47.17          |

(Concluded)

- (1) Calculated net of unearned loan fees, deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.
- (2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of nontaxable securities of \$36.4 million and \$44.0 million for the six months ended March 31, 2014 and 2013, respectively.
- (4) The balance and rate of FHLB borrowings are stated net of deferred gains and deferred prepayment penalties.
- (5) Net interest income represents the difference between interest income earned on interest-earning assets such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities such as deposits, FHLB borrowings, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (6) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (7) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (8) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.

- (9) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.

59

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## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the six months ended March 31, 2014 to the six months ended March 31, 2013. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

|  | For the Six Months Ended<br>March 31, 2014 vs. March 31,<br>2013 |            |            |
|--|--|------------|------------|
|  | Increase (Decrease) Due to                                       |            |            |
|  | Volume   | Rate       | Total      |
|  | (Dollars in thousands)   |            |            |
| Interest-earning assets:                       |  |            |            |
| Loans receivable                               | \$ 7,143   | \$ (8,481) | \$ (1,338) |
| MBS  | (4,335)  | (1,735)    | (6,070)    |
| Investment securities                          | (1,034)  | (353)      | (1,387)    |
| Capital stock of FHLB                          | (34)   | 226        | 192        |
| Cash and cash equivalents                      | 32   | 6          | 38         |
| Total interest-earning assets                  | 1,772  | (10,337)   | (8,565)    |
| Interest-bearing liabilities:                  |  |            |            |
| Checking                                       | 9  | (1)        | 8          |
| Savings  | 10   | 5          | 15         |
| Money market                                   | 5  | 40         | 45         |
| Certificates of deposit                        | (140)  | (2,722)    | (2,862)    |
| FHLB borrowings                                | (456)  | (3,907)    | (4,363)    |
| Repurchase agreements                          | (736)  | (694)      | (1,430)    |
| Total interest-bearing liabilities             | (1,308)  | (7,279)    | (8,587)    |
| Net change in net interest and dividend income | \$ 3,080   | \$ (3,058) | \$ 22      |



## Comparison of Operating Results for the Three Months Ended March 31, 2014 and 2013

For the quarter ended March 31, 2014, the Company recognized net income of \$19.7 million, compared to net income of \$17.7 million for the quarter ended March 31, 2013. The \$2.0 million, or 11.1%, increase in net income was due primarily to a \$1.4 million increase in net interest income and \$1.4 million decrease in non-interest expense, partially offset by a \$446 thousand increase in income tax expense. The net interest margin increased 10 basis points, from 1.97% for the prior year quarter to 2.07% for the current quarter. Decreases in the cost of funds and a shift in the mix of interest-earning assets from relatively lower yielding securities to higher yielding loans was enough to overcome the negative impact of decreasing asset yields.

## Interest and Dividend Income

The weighted average yield on total interest-earning assets decreased eight basis points from 3.33% for the prior year quarter to 3.25% for the current quarter and the average balance of interest-earning assets decreased \$156.5 million between the two periods. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent. The decrease in the weighted average balance between the two periods was primarily in the lower yielding MBS and investment securities portfolios as cash flows not reinvested in the portfolios were used to fund loan growth, as well as to pay dividends and repurchase Company stock.

|                                      | For the Three<br>Months Ended |           | Change Expressed<br>in: |         |
|--------------------------------------|-------------------------------|-----------|-------------------------|---------|
|                                      | March 31,<br>2014             | 2013      | Dollars                 | Percent |
| (Dollars in thousands)               |                               |           |                         |         |
| <b>INTEREST AND DIVIDEND INCOME:</b> |                               |           |                         |         |
| Loans receivable                     | \$ 57,117                     | \$ 56,936 | \$ 181                  | 0.3 %   |
| MBS                                  | 11,597                        | 14,446    | (2,849)                 | (19.7)  |
| Investment securities                | 1,869                         | 2,457     | (588)                   | (23.9)  |
| Capital stock of FHLB                | 1,229                         | 1,105     | 124                     | 11.2    |
| Cash and cash equivalents            | 45                            | 36        | 9                       | 25.0    |
| Total interest and dividend income   | \$ 71,857                     | \$ 74,980 | \$ (3,123)              | (4.2)   |

The increase in interest income on loans receivable was due to a \$361.6 million increase in average balance of the portfolio, partially offset by a decrease in the average yield on the portfolio. Cash flows from the securities portfolio were used, in part, to fund loan growth. The weighted average yield on the loans receivable portfolio decreased 23 basis points, from 4.01% for the prior year quarter to 3.78% for the current quarter. The downward repricing of the loan portfolio largely resulted from loan originations and purchases at market rates less than the weighted average rate of the existing portfolio, along with a significant amount of adjustable-rate loans, refinances, and endorsements repricing to lower rates. Included in interest income on loans receivable for the current quarter was \$67 thousand related to the net amortization of premiums/deferred costs and the accretion of discounts/unearned loan fees increasing the average yield of the portfolio by less than one basis point. During the prior year quarter, \$555 thousand, net, was accreted and increased the average yield on the portfolio by four basis points.

The decrease in interest income on MBS and investment securities was due primarily to decreases in the average balances of the portfolios of \$369.6 million and \$155.9 million, respectively. The average yield on the MBS portfolio decreased 11 basis points, from 2.50% during the prior year quarter to 2.39% for the current quarter. The decrease in the average yield was due primarily to the downward repricing of existing adjustable-rate MBS, as well as to purchases of MBS between periods with yields less than the average yield on the existing portfolio. Included in interest income on MBS for the current quarter was \$1.3 million from the net amortization of premiums and the accretion of discounts decreasing the average yield of the portfolio by 26 basis points. During the prior year quarter, \$2.1 million of net premiums were amortized and decreased the average yield on the portfolio by 37 basis points.

#### Interest Expense

The weighted average rate paid on total interest-bearing liabilities decreased 24 basis points from 1.66% for the prior year quarter to 1.42% for the current quarter, while the average balance of interest-bearing liabilities decreased \$53.1 million from the prior year quarter. The decrease in the average balance of interest-bearing liabilities was due to a decrease in the average balances of FHLB borrowings and repurchase agreements, partially offset by an increase in the average balance of deposits.

The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent. The decrease in interest expense on FHLB borrowings and deposits was due primarily to a decrease in the weighted average rate paid on the portfolios, while the decrease in interest expense on repurchase agreements was due to both a decrease in the average balance and weighted average rate between the two periods.

|                          | For the Three<br>Months Ended |           | Change Expressed |          |
|--------------------------|-------------------------------|-----------|------------------|----------|
|                          | March 31,<br>2014             | 2013      | in:<br>Dollars   | Percent  |
|                          | (Dollars in thousands)        |           |                  |          |
| <b>INTEREST EXPENSE:</b> |                               |           |                  |          |
| FHLB borrowings          | \$ 15,311                     | \$ 17,909 | \$ (2,598)       | (14.5) % |
| Deposits                 | 8,076                         | 9,344     | (1,268)          | (13.6)   |
| Repurchase agreements    | 2,743                         | 3,407     | (664)            | (19.5)   |
| Total interest expense   | \$ 26,130                     | \$ 30,660 | \$ (4,530)       | (14.8)   |

The weighted average rate paid on the FHLB borrowings portfolio decreased 37 basis points, from 2.87% for the prior year quarter to 2.50% for the current quarter. The decrease in the average rate paid was primarily a result of maturities and renewals to lower market rates that occurred between periods.

The decrease in the weighted average rate paid on the deposit portfolio was due primarily to a decrease in the weighted average rate paid on the retail certificate of deposit portfolio. The weighted average rate paid on the retail certificate of deposit portfolio decreased 20 basis points, from 1.42% for the prior year quarter to 1.22% for the current quarter.

The decrease in interest expense on repurchase agreements was due to a \$35.3 million decrease in the average balance between periods, as well as a 41 basis point decrease in the weighted average rate paid between periods, from 3.84% for the prior year quarter to 3.43% for the current quarter. The decrease in the average balance was due to the maturity of agreements between the two periods, some of which were replaced with FHLB borrowings. The decrease in the average rate paid on repurchase agreements was due to maturities and a new agreement entered into between periods which had a rate less than the existing portfolio.

#### Provision for Credit Losses

The Bank recorded a provision for credit losses during the current quarter of \$160 thousand, compared to no provision for credit losses for the prior year quarter. The \$160 thousand provision for credit losses in the current quarter takes into account net charge-offs of \$112 thousand and loan growth during the current quarter.



## Non-Interest Income

The following table presents the components of non-interest income for the time periods presented, along with the change measured in dollars and percent.

|                             | For the Three<br>Months Ended |          | Change Expressed |         |
|-----------------------------|-------------------------------|----------|------------------|---------|
|                             | March 31,<br>2014             | 2013     | in:<br>Dollars   | Percent |
| (Dollars in thousands)      |                               |          |                  |         |
| <b>NON-INTEREST INCOME:</b> |                               |          |                  |         |
| Retail fees and charges     | \$ 3,454                      | \$ 3,521 | \$ (67)          | (1.9) % |
| Insurance commissions       | 1,204                         | 979      | 225              | 23.0    |
| Loan fees                   | 404                           | 418      | (14)             | (3.3)   |
| Income from BOLI            | 330                           | 361      | (31)             | (8.6)   |
| Other non-interest income   | 335                           | 665      | (330)            | (49.6)  |
| Total non-interest income   | \$ 5,727                      | \$ 5,944 | \$ (217)         | (3.7)   |

The decrease in other non-interest income was due primarily to a decrease in premium income from CFMRC as it is no longer writing new business. The increase in insurance commissions was due largely to an increase in annual commissions received from certain insurance providers as a result of favorable claims experience during the prior year.

## Non-Interest Expense

The following table presents the components of non-interest expense for the time periods presented, along with the change measured in dollars and percent.

|   | For the Three<br>Months Ended               |           | Change Expressed<br>in: |         |
|---|---|-----------|-------------------------|---------|
|   | March 31,<br>2014<br>(Dollars in thousands) | 2013      | Dollars                 | Percent |
| <b>NON-INTEREST EXPENSE:</b>              |   |           |                         |         |
| Salaries and employee benefits            | \$ 10,724                                   | \$ 12,155 | \$ (1,431)              | (11.8)% |
| Occupancy                                 | 2,634                                       | 2,391     | 243                     | 10.2    |
| Information technology and communications | 2,320                                       | 2,232     | 88                      | 3.9     |
| Regulatory and outside services           | 1,157                                       | 1,290     | (133)                   | (10.3)  |
| Deposit and loan transaction costs        | 1,263                                       | 1,384     | (121)                   | (8.7)   |
| Federal insurance premium                 | 1,103                                       | 1,116     | (13)                    | (1.2)   |
| Advertising and promotional               | 877   | 1,004     | (127)                   | (12.6)  |
| Other non-interest expense                | 1,750                                       | 1,645     | 105                     | 6.4     |
| Total non-interest expense                | \$ 21,828                                   | \$ 23,217 | \$ (1,389)              | (6.0)   |

The decrease in salaries and employee benefits was due primarily to a decrease in ESOP related expenses resulting largely from the final allocation of ESOP shares acquired in our initial public offering (March 1999) being made at September 30, 2013. In fiscal year 2014, the only ESOP shares to be allocated will be the shares acquired in the Company's corporate reorganization in December 2010. The increase in occupancy expense was due largely to an increase in depreciation expense, which was primarily associated with the remodeling of our home office.

The Company's efficiency ratio was 42.42% for the current quarter compared to 46.19% for the prior year quarter. The decrease in the efficiency ratio was due primarily to a decrease in total non-interest expense and an increase in net interest income.

## Income Tax Expense

Income tax expense was \$9.8 million for the current quarter compared to \$9.3 million for the prior year quarter. The effective income tax rate for the current quarter was 33.2% compared to 34.5% for the prior year quarter. The decrease in the effective tax rate between periods was due largely to a lower amount of nondeductible ESOP related expenses due to the final ESOP allocation on September 30, 2013, as discussed in the non-interest expense section above, along with higher tax credits related to our low-income housing partnerships.



## Average Balance Sheet

As previously mentioned, average yields are derived by dividing annualized income by the average balance of the related assets and average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The yields and rates include amortization of fees, costs, premiums and discounts which are considered adjustments to yields/rates. Yields on tax-exempt securities were not calculated on a fully taxable equivalent basis.

|  | For the Three Months Ended  |                       |             | March 31, 2013              |                       |             |
|--|-----------------------------|-----------------------|-------------|-----------------------------|-----------------------|-------------|
|  | March 31, 2014              |                       |             | March 31, 2013              |                       |             |
|  | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate |
|  | (Dollars in thousands)      |                       |             |                             |                       |             |
| Assets:                                    |                             |                       |             |                             |                       |             |
| Interest-earning assets:                   |                             |                       |             |                             |                       |             |
| Loans receivable(1)                        | \$ 6,045,516                | \$ 57,117             | 3.78 %      | \$ 5,683,867                | \$ 56,936             | 4.01 %      |
| MBS(2)                                     | 1,942,336                   | 11,597                | 2.39        | 2,311,938                   | 14,446                | 2.50        |
| Investment securities(2)(3)                | 662,266                     | 1,869                 | 1.13        | 818,147                     | 2,457                 | 1.20        |
| Capital stock of FHLB                      | 128,859                     | 1,229                 | 3.87        | 130,716                     | 1,105                 | 3.43        |
| Cash and cash equivalents                  | 71,652                      | 45                    | 0.25        | 62,420                      | 36                    | 0.23        |
| Total interest-earning assets(1)(2)        | 8,850,629                   | 71,857                | 3.25        | 9,007,088                   | 74,980                | 3.33        |
| Other noninterest-earning assets           | 222,552                     |                       |             | 238,232                     |                       |             |
| Total assets                               | \$ 9,073,181                |                       |             | \$ 9,245,320                |                       |             |
| Liabilities and stockholders' equity:      |                             |                       |             |                             |                       |             |
| Interest-bearing liabilities:              |                             |                       |             |                             |                       |             |
| Checking                                   | \$ 674,447                  | 63                    | 0.04        | \$ 637,161                  | \$ 61                 | 0.04        |
| Savings                                    | 291,106                     | 77                    | 0.11        | 272,418                     | 62                    | 0.09        |
| Money market                               | 1,139,010                   | 650                   | 0.23        | 1,146,185                   | 609                   | 0.22        |
| Retail certificates                        | 2,217,967                   | 6,699                 | 1.22        | 2,259,559                   | 7,937                 | 1.42        |
| Wholesale certificates                     | 305,848                     | 587                   | 0.78        | 282,276                     | 675                   | 0.97        |
| Total deposits                             | 4,628,378                   | 8,076                 | 0.71        | 4,597,599                   | 9,344                 | 0.82        |
| FHLB borrowings(4)                         | 2,485,393                   | 15,311                | 2.50        | 2,533,961                   | 17,909                | 2.87        |
| Repurchase agreements                      | 320,000                     | 2,743                 | 3.43        | 355,278                     | 3,407                 | 3.84        |
| Total borrowings                           | 2,805,393                   | 18,054                | 2.60        | 2,889,239                   | 21,316                | 2.99        |
| Total interest-bearing liabilities         | 7,433,771                   | 26,130                | 1.42        | 7,486,838                   | 30,660                | 1.66        |
| Other noninterest-bearing liabilities      | 96,460                      |                       |             | 99,798                      |                       |             |
| Stockholders' equity                       | 1,542,950                   |                       |             | 1,658,684                   |                       |             |
| Total liabilities and stockholders' equity | \$ 9,073,181                |                       |             | \$ 9,245,320                |                       |             |

(Continued)

|   | For the Three Months Ended |           |        | March 31, 2013 |           |        |
|---|----------------------------|-----------|--------|----------------|-----------|--------|
|   | March 31, 2014             |           |        | March 31, 2013 |           |        |
|   | Average                    | Interest  | Yield/ | Average        | Interest  | Yield/ |
|   | Outstanding                | Earned/   | Rate   | Outstanding    | Earned/   | Rate   |
|   | Balance                    | Paid      | Rate   | Balance        | Paid      | Rate   |
|   | (Dollars in thousands)     |           |        |                |           |        |
| Net interest income(5)  |                            | \$ 45,727 |        |                | \$ 44,320 |        |
| Net interest rate spread(6)   |                            |           | 1.83 % |                |           | 1.67 % |
| Net interest-earning assets   | \$ 1,416,858               |           |        | \$ 1,520,250   |           |        |
| Net interest margin(7)  |                            |           | 2.07   |                |           | 1.97   |
| Ratio of interest-earning assets<br>to interest-bearing liabilities |                            |           | 1.19 x |                |           | 1.20 x |
| Selected performance ratios:  |                            |           |        |                |           |        |
| Return on average assets (annualized)                               |                            |           | 0.87 % |                |           | 0.77 % |
| Return on average equity (annualized)                               |                            |           | 5.10   |                |           | 4.27   |
| Average equity to average assets                                    |                            |           | 17.01  |                |           | 17.94  |
| Operating expense ratio (annualized)(8)                             |                            |           | 0.96   |                |           | 1.00   |
| Efficiency ratio(9)   |                            |           | 42.42  |                |           | 46.19  |

(Concluded)

- (1) Calculated net of unearned loan fees and deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.
- (2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of non-taxable securities of \$36.4 million and \$42.9 million for the three month periods ended March 31, 2014 and 2013, respectively.
- (4) The balance and rate of FHLB borrowings are stated net of deferred gains and deferred prepayment penalties.
- (5) Net interest income represents the difference between interest income earned on interest-earning assets, such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities, such as deposits, FHLB borrowings, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (6) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (7) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (8) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.
- (9) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.



## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended March 31, 2014 to the three months ended March 31, 2013. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

|  | For the Three Months Ended<br>March 31,<br>2014 vs. 2013 |            |          |
|--|--|------------|----------|
|  | Increase (Decrease) Due to<br>Volume                     | Rate       | Total    |
| (Dollars in thousands)                         |  |            |          |
| Interest-earning assets:                       |  |            |          |
| Loans receivable                               | \$ 3,455   | \$ (3,274) | \$ 181   |
| MBS  | (2,229)  | (620)      | (2,849)  |
| Investment securities                          | (446)  | (142)      | (588)    |
| Capital stock of FHLB                          | (16)   | 140        | 124      |
| Cash equivalents                               | 6  | 3          | 9        |
| Total interest-earning assets                  | 770  | (3,893)    | (3,123)  |
| Interest-bearing liabilities:                  |  |            |          |
| Checking                                       | 4  | (1)        | 3        |
| Savings  | 4  | 11         | 15       |
| Money market                                   | (4)  | 45         | 41       |
| Certificates of deposit                        | (61)   | (1,266)    | (1,327)  |
| FHLB borrowings                                | (346)  | (2,252)    | (2,598)  |
| Repurchase agreements                          | (320)  | (344)      | (664)    |
| Total interest-bearing liabilities             | (723)  | (3,807)    | (4,530)  |
| Net change in net interest and dividend income | \$ 1,493   | \$ (86)    | \$ 1,407 |

## Comparison of Operating Results for the Three Months Ended March 31, 2014 and December 31, 2013

Net income increased \$1.9 million, or 10.5%, from \$17.8 million for the quarter ended December 31, 2013 to \$19.7 million for the quarter ended March 31, 2014. The increase in net income was due primarily to a decrease in interest

expense on FHLB borrowings. The net interest margin increased nine basis points, from 1.98% for the prior quarter, to 2.07% for the current quarter. The increase in the net interest margin was largely a result of the partial renewal of a maturing FHLB advance at a lower market rate.



## Interest and Dividend Income

The weighted average yield on total interest-earning assets increased two basis points from the prior quarter to 3.25% for the current quarter while the average balance of interest-earning assets decreased \$103.2 million between the two periods. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent. The decrease in interest income on MBS and investment securities was due largely to a decrease in the average balance of each portfolio as cash flows not reinvested in the portfolios were used to pay dividends and repurchase Company stock, as well as to fund loan growth. The increase in interest income on loans receivable was due to an increase in the average balance.

|                                      | For the Three Months<br>Ended |                         |   |        |
|--------------------------------------|-------------------------------|-------------------------|---|--------|
|                                      | March<br>31,<br>2014          | December<br>31,<br>2013 | Change Expressed<br>in:<br>Dollars    Percent |        |
| (Dollars in thousands)               |                               |                         |   |        |
| <b>INTEREST AND DIVIDEND INCOME:</b> |                               |                         |   |        |
| Loans receivable                     | \$ 57,117                     | \$ 56,948               | \$ 169  | 0.3 %  |
| MBS                                  | 11,597                        | 11,962                  | (365)   | (3.1)  |
| Investment securities                | 1,869                         | 2,066                   | (197)   | (9.5)  |
| Capital stock of FHLB                | 1,229                         | 1,196                   | 33  | 2.8    |
| Cash and cash equivalents            | 45                            | 62                      | (17)  | (27.4) |
| Total interest and dividend income   | \$ 71,857                     | \$ 72,234               | \$ (377)                                      | (0.5)  |

The increase in interest income on loans receivable was due to a \$44.4 million increase in the average balance of the portfolio, partially offset by a one basis point decrease in the weighted average yield of the portfolio to 3.78% for the current quarter. Included in interest income on loans receivable for the current quarter was \$67 thousand related to the net amortization of premiums/deferred costs and the accretion of discounts/unearned loan fees increasing the average yield of the portfolio by less than one basis point. During the prior quarter, \$47 thousand, net, was accreted and increased the average yield on the portfolio by less than one basis point.

The decrease in interest income on MBS and investment securities was due primarily to decreases in the average balances of the portfolios of \$52.4 million and \$66.6 million, respectively. Included in interest income on MBS for the current quarter was \$1.3 million from the net amortization of premiums and the accretion of discounts decreasing the average yield of the portfolio by 26 basis points. During the prior quarter, \$1.4 million of net premiums were amortized and decreased the average yield on the portfolio by 28 basis points.

## Interest Expense

The weighted average rate paid on total interest-bearing liabilities decreased seven basis points from the prior quarter to 1.42% for the current quarter, and the average balance of interest-bearing liabilities increased \$7.7 million between the two periods. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

For the Three Months  
 Ended  
 March 31, 2014    December 31, 2013    Change  
 Expressed  
 in:  
 Dollars    Percent  
 (Dollars in thousands)

INTEREST EXPENSE:

|                        |           |           |            |         |
|------------------------|-----------|-----------|------------|---------|
| FHLB borrowings        | \$ 15,311 | \$ 16,863 | \$ (1,552) | (9.2) % |
| Deposits               | 8,076     | 8,323     | (247)      | (3.0)   |
| Repurchase agreements  | 2,743     | 2,803     | (60)       | (2.1)   |
| Total interest expense | \$ 26,130 | \$ 27,989 | \$ (1,859) | (6.6)   |

The decrease in interest expense on FHLB borrowings was due primarily to a decrease in the weighted average rate paid on the portfolio. In early February 2014, a \$200.0 million FHLB advance with an effective rate of 5.01% matured and was partially replaced with a \$150.0 million FHLB advance with a term of 84 months and a fixed-rate of 2.59%.

The decrease in interest expense on deposits was due primarily to a decrease in the weighted average rate paid on the retail certificate of deposit portfolio. The weighted average rate paid on the retail certificate of deposit portfolio decreased three basis points, from 1.25% for the prior quarter to 1.22% for the current quarter.

### Provision for Credit Losses

The Bank recorded a provision for credit losses during the current quarter of \$160 thousand compared to a provision for credit losses during the prior quarter of \$515 thousand. The \$160 thousand provision for credit losses in the current quarter takes into account net charge-offs of \$112 thousand and loan growth during the current quarter.

### Non-Interest Income

The following table presents the components of non-interest income for the time periods presented, along with the change measured in dollars and percent.

|                             | For the Three<br>Months Ended |                         | Change Expressed |         |
|-----------------------------|-------------------------------|-------------------------|------------------|---------|
|                             | March<br>31,<br>2014          | December<br>31,<br>2013 | in:<br>Dollars   | Percent |
| (Dollars in thousands)      |                               |                         |                  |         |
| <b>NON-INTEREST INCOME:</b> |                               |                         |                  |         |
| Retail fees and charges     | \$ 3,454                      | \$ 3,810                | \$ (356)         | (9.3) % |
| Insurance commissions       | 1,204                         | 558                     | 646              | 115.8   |
| Loan fees                   | 404                           | 450                     | (46)             | (10.2)  |
| Income from BOLI            | 330                           | 338                     | (8)              | (2.4)   |
| Other non-interest income   | 335                           | 344                     | (9)              | (2.6)   |
| Total non-interest income   | \$ 5,727                      | \$ 5,500                | \$ 227           | 4.1     |

The increase in insurance commissions was due largely to the receipt of annual commissions from certain insurance providers as a result of favorable claims experience during the prior year. The decrease in retail fees and charges was due primarily to a decrease in debit card income, due in part to seasonality, and a decrease in service charges earned.

### Non-Interest Expense

The following table presents the components of non-interest expense for the time periods presented, along with the change measured in dollars and percent.

|                        | For the Three Months<br>Ended |                         | Change Expressed |         |
|------------------------|-------------------------------|-------------------------|------------------|---------|
|                        | March<br>31,<br>2014          | December<br>31,<br>2013 | in:<br>Dollars   | Percent |
| (Dollars in thousands) |                               |                         |                  |         |

## NON-INTEREST EXPENSE:

|   |           |           |          |         |
|---|-----------|-----------|----------|---------|
| Salaries and employee benefits            | \$ 10,724 | \$ 10,726 | \$ (2)   | (0.0) % |
| Occupancy                                 | 2,634     | 2,549     | 85       | 3.3     |
| Information technology and communications | 2,320     | 2,292     | 28       | 1.2     |
| Regulatory and outside services           | 1,157     | 1,396     | (239)    | (17.1)  |
| Deposit and loan transaction costs        | 1,263     | 1,387     | (124)    | (8.9)   |
| Federal insurance premium                 | 1,103     | 1,083     | 20       | 1.8     |
| Advertising and promotional               | 877       | 1,006     | (129)    | (12.8)  |
| Other non-interest expense                | 1,750     | 2,348     | (598)    | (25.5)  |
| Total non-interest expense                | \$ 21,828 | \$ 22,787 | \$ (959) | (4.2)   |

The decrease in other non-interest expense was due primarily to a decrease in amortization expenses related to low-income housing partnerships. Included in the current quarter amortization expense was approximately \$350 thousand of expense reversal from the prior quarter. This item is not expected to recur during fiscal year 2014. The decrease in regulatory and outside services was due primarily to the timing of fees paid for external audit services.

The Company's efficiency ratio was 42.42% for the current quarter compared to 45.81% for the prior quarter. The decrease in the efficiency ratio was due primarily to a decrease in total non-interest expense and an increase in net interest income.

## Income Tax Expense

Income tax expense was \$9.8 million for the current quarter compared to \$8.6 million for the prior quarter. The increase in expense between periods was due primarily to an increase in pretax income. The effective income tax rate for the current quarter was 33.2% compared to 32.6% for the prior quarter.

## Average Balance Sheet

As mentioned above, average yields are derived by dividing annualized income by the average balance of the related assets and average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The yields and rates include amortization of fees, costs, premiums and discounts which are considered adjustments to yields/rates. Yields on tax-exempt securities were not calculated on a fully taxable equivalent basis.

|  | For the Three Months Ended        |                             |                |                                   |                             |                |
|--|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|  | March 31, 2014                    |                             |                | December 31, 2013                 |                             |                |
|  | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
| Assets:                                    | (Dollars in thousands)            |                             |                |                                   |                             |                |
| Interest-earning assets:                   |                                   |                             |                |                                   |                             |                |
| Loans receivable(1)                        | \$ 6,045,516                      | \$ 57,117                   | 3.78 %         | \$ 6,001,095                      | \$ 56,948                   | 3.79 %         |
| MBS(2)                                     | 1,942,336                         | 11,597                      | 2.39           | 1,994,759                         | 11,962                      | 2.40           |
| Investment securities(2)(3)                | 662,266                           | 1,869                       | 1.13           | 728,853                           | 2,066                       | 1.13           |
| Capital stock of FHLB                      | 128,859                           | 1,229                       | 3.87           | 130,492                           | 1,196                       | 3.63           |
| Cash and cash equivalents                  | 71,652                            | 45                          | 0.25           | 98,624                            | 62                          | 0.25           |
| Total interest-earning assets(1)(2)        | 8,850,629                         | 71,857                      | 3.25           | 8,953,823                         | 72,234                      | 3.23           |
| Other noninterest-earning assets           | 222,552                           |                             |                | 220,628                           |                             |                |
| Total assets                               | \$ 9,073,181                      |                             |                | \$ 9,174,451                      |                             |                |
| Liabilities and stockholders' equity:      |                                   |                             |                |                                   |                             |                |
| Interest-bearing liabilities:              |                                   |                             |                |                                   |                             |                |
| Checking                                   | \$ 674,447                        | 63                          | 0.04           | \$ 651,011                        | 63                          | 0.04           |
| Savings                                    | 291,106                           | 77                          | 0.11           | 284,252                           | 72                          | 0.10           |
| Money market                               | 1,139,010                         | 650                         | 0.23           | 1,132,744                         | 660                         | 0.23           |
| Retail certificates                        | 2,217,967                         | 6,699                       | 1.22           | 2,220,986                         | 6,972                       | 1.25           |
| Wholesale certificates                     | 305,848                           | 587                         | 0.78           | 301,773                           | 556                         | 0.73           |
| Total deposits                             | 4,628,378                         | 8,076                       | 0.71           | 4,590,766                         | 8,323                       | 0.72           |
| FHLB borrowings(4)                         | 2,485,393                         | 15,311                      | 2.50           | 2,515,339                         | 16,863                      | 2.66           |
| Repurchase agreements                      | 320,000                           | 2,743                       | 3.43           | 320,000                           | 2,803                       | 3.43           |
| Total borrowings                           | 2,805,393                         | 18,054                      | 2.60           | 2,835,339                         | 19,666                      | 2.75           |
| Total interest-bearing liabilities         | 7,433,771                         | 26,130                      | 1.42           | 7,426,105                         | 27,989                      | 1.49           |
| Other noninterest-bearing liabilities      | 96,460                            |                             |                | 119,463                           |                             |                |
| Stockholders' equity                       | 1,542,950                         |                             |                | 1,628,883                         |                             |                |
| Total liabilities and stockholders' equity | \$ 9,073,181                      |                             |                | \$ 9,174,451                      |                             |                |

(Continued)

|   | For the Three Months Ended |           |        | December 31, 2013 |           |        |
|---|----------------------------|-----------|--------|-------------------|-----------|--------|
|   | March 31, 2014             |           |        | December 31, 2013 |           |        |
|   | Average                    | Interest  | Yield/ | Average           | Interest  | Yield/ |
|   | Outstanding                | Earned/   | Rate   | Outstanding       | Earned/   | Rate   |
|   | Balance                    | Paid      |        | Balance           | Paid      |        |
|   | (Dollars in thousands)     |           |        |                   |           |        |
| Net interest income(5)  |                            | \$ 45,727 |        |                   | \$ 44,245 |        |
| Net interest rate spread(6)   |                            |           | 1.83 % |                   |           | 1.74 % |
| Net interest-earning assets   | \$ 1,416,858               |           |        | \$ 1,527,718      |           |        |
| Net interest margin(7)  |                            |           | 2.07   |                   |           | 1.98   |
| Ratio of interest-earning assets<br>to interest-bearing liabilities |                            |           | 1.19 x |                   |           | 1.21 x |
| Selected performance ratios:  |                            |           |        |                   |           |        |
| Return on average assets (annualized)                               |                            |           | 0.87 % |                   |           | 0.78 % |
| Return on average equity (annualized)                               |                            |           | 5.10   |                   |           | 4.37   |
| Average equity to average assets                                    |                            |           | 17.01  |                   |           | 17.75  |
| Operating expense ratio (annualized)(8)                             |                            |           | 0.96   |                   |           | 0.99   |
| Efficiency ratio(9)   |                            |           | 42.42  |                   |           | 45.81  |

(Concluded)

- (1) Calculated net of unearned loan fees and deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.
- (2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of non-taxable securities of \$36.4 million and \$36.5 million for the three month periods ended March 31, 2014 and December 31, 2013, respectively.
- (4) The balance and rate of FHLB borrowings are stated net of deferred gains and deferred prepayment penalties.
- (5) Net interest income represents the difference between interest income earned on interest-earning assets, such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities, such as deposits, FHLB borrowings, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (6) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (7) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (8) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.
- (9) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.



## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended March 31, 2014 to the three months ended December 31, 2013. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous quarter's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous quarter. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

|  | For the Three Months Ended<br>March 31, 2014 vs. December<br>31, 2013 |          |          |
|--|---|----------|----------|
|  | Increase (Decrease) Due to  |          |          |
|  | Volume  | Rate     | Total    |
|  | (Dollars in thousands)  |          |          |
| Interest-earning assets:                       |   |          |          |
| Loans receivable                               | \$ 380  | \$ (211) | \$ 169   |
| MBS  | (313)   | (52)     | (365)    |
| Investment securities                          | (188)   | (9)      | (197)    |
| Capital stock of FHLB                          | (20)  | 53       | 33       |
| Cash and cash equivalents                      | (17)  | --       | (17)     |
| Total interest-earning assets                  | (158)   | (219)    | (377)    |
| Interest-bearing liabilities:                  |   |          |          |
| Checking                                       | 1   | (1)      | --       |
| Savings  | 1   | 4        | 5        |
| Money market                                   | (9)   | (1)      | (10)     |
| Certificates of deposit                        | (3)   | (239)    | (242)    |
| FHLB borrowings                                | (233)   | (1,319)  | (1,552)  |
| Repurchase agreements                          | (30)  | (30)     | (60)     |
| Total interest-bearing liabilities             | (273)   | (1,586)  | (1,859)  |
| Net change in net interest and dividend income | \$ 115  | \$ 1,367 | \$ 1,482 |



## Liquidity and Capital Resources

Liquidity refers to our ability to generate sufficient cash to fund ongoing operations, to pay maturing certificates of deposit and other deposit withdrawals, to repay maturing borrowings, and to fund loan commitments. Liquidity management is both a daily and long-term function of our business management. The Company's most available liquid assets are represented by cash and cash equivalents, AFS MBS and investment securities, and short-term investment securities. The Bank's primary sources of funds are deposits, FHLB borrowings, repurchase agreements, repayments and maturities of outstanding loans and MBS and other short-term investments, and funds provided by operations. The Bank's borrowings primarily have been used to invest in U.S. GSE debentures and MBS in an effort to manage the Bank's interest rate risk with the intent to improve the earnings of the Bank while maintaining capital ratios in excess of regulatory standards for well-capitalized financial institutions. In addition, the Bank's focus on managing risk has provided additional liquidity capacity by remaining below FHLB borrowing limits and by maintaining the balance of MBS and investment securities available as collateral for borrowings.

We generally intend to maintain cash reserves sufficient to meet short-term liquidity needs, which are routinely forecasted for 10, 30, and 365 days. Additionally, on a monthly basis, we perform a liquidity stress test in accordance with the Interagency Policy Statement on Funding and Liquidity Risk Management. The liquidity stress test incorporates both short-term and long-term liquidity scenarios in order to identify and to quantify liquidity risk. Management also continuously monitors key liquidity statistics related to items such as wholesale funding gaps, borrowings capacity, and available unpledged collateral, along with various liquidity ratios in an effort to further mitigate liquidity risk. In the event short-term liquidity needs exceed available cash, the Bank has access to lines of credit at the FHLB and the Federal Reserve Bank. The FHLB line of credit, when combined with FHLB advances, may generally not exceed 40% of total assets. The outstanding amount of FHLB advances was \$2.48 billion at March 31, 2014, of which \$600.0 million is scheduled to mature in the next 12 months. At March 31, 2014, the Bank's ratio of the par value of FHLB borrowings to total assets, as reported to the OCC, was 27%. The borrowings are secured by a blanket pledge of our loan portfolio, as collateral, supported by quarterly reporting to the FHLB. Our excess capacity at the FHLB as of March 31, 2014 was \$1.80 billion. It is possible that increases in our borrowings or decreases in our loan portfolio or changes in FHLB lending guidelines could require the Bank to pledge securities as collateral on FHLB borrowings. The amount of the Federal Reserve Bank line of credit is based upon the fair values of the securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. At March 31, 2014, the Bank had \$1.34 billion of securities that were eligible but unused as collateral for borrowing or other liquidity needs. This collateral amount is comprised of AFS and HTM securities with individual fair values greater than \$10.0 million, which is then reduced by a collateralization ratio of 10% to account for potential market value fluctuations. Borrowings on the lines of credit are outstanding until replaced by cash flows from long-term sources of liquidity.

If management observes a trend in the amount and frequency of lines of credit utilization, the Bank will likely utilize long-term wholesale borrowing sources such as FHLB advances and/or repurchase agreements to provide permanent fixed-rate funding. The maturity of these borrowings is generally structured in such a way as to stagger maturities in order to reduce the risk of a highly negative cash flow position at maturity. The Bank's internal policy limits total borrowings to 55% of total assets. At March 31, 2014, the Bank had total borrowings, at par, of \$2.80 billion, or approximately 31% of total assets. Additionally, the Bank could utilize the repayment and maturity of outstanding loans, MBS, and other investments for liquidity needs rather than reinvesting such funds into the related portfolios.

At March 31, 2014, the Bank had repurchase agreements of \$320.0 million, or approximately 4% of total assets, \$100.0 million of which were scheduled to mature in the next 12 months. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets. The Bank had pledged securities with an estimated fair value of \$356.5 million as collateral for repurchase agreements at March 31, 2014. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

The Bank has access to and utilizes other sources for liquidity purposes, such as brokered deposits and public unit deposits. As of March 31, 2014, the Bank's policy allows for combined brokered and public unit deposits up to 15% of total deposits. At March 31, 2014, the Bank had brokered and public unit deposits totaling \$298.7 million, or approximately 6% of total deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain brokered and public unit deposits at attractive rates. The Bank has pledged securities with an estimated fair value of \$274.8 million as collateral for public unit deposits. The securities pledged as collateral for public unit deposits are held under joint custody receipt by the FHLB and generally will be released upon deposit maturity.

While scheduled payments from the amortization of loans and MBS and payments on short-term investments are relatively predictable sources of funds, deposit flows, prepayments on loans and MBS, and calls of investment securities are greatly influenced by general interest rates, economic conditions and competition, and are less predictable sources of funds. To the extent possible, the Bank manages the cash flows of its loan and deposit portfolios by the rates it offers customers.

At March 31, 2014, cash and cash equivalents totaled \$114.8 million, an increase of \$949 thousand from September 30, 2013. During the six months ended March 31, 2014, loan originations and purchases, net of principal repayments and related loan activity, resulted in a cash outflow of \$97.8 million. See additional discussion regarding loan activity in "Financial Condition – Loans Receivable." During the six months ended March 31, 2014, proceeds from called or matured investment securities were \$257.7 million and principal payments on MBS were \$188.5 million. During the six months ended March 31, 2014, the Company purchased \$129.8 million of investment securities and \$150.7 million of MBS. Cash flows from the securities portfolio were used, in part, to fund loan growth during the six months ended March 31, 2014.

The following table presents the contractual maturity of our loan, MBS, and investment securities portfolios at March 31, 2014, along with associated weighted average rates. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses. As of March 31, 2014, the amortized cost of investment securities in our portfolio which are callable or have pre-refunding dates within one year totaled \$439.9 million.

|                           | Loans(1)               |        | MBS          |      | Investment Securities |        | Total        |        |
|---------------------------|------------------------|--------|--------------|------|-----------------------|--------|--------------|--------|
|                           | Amount                 | Rate   | Amount       | Rate | Amount                | Rate   | Amount       | Rate   |
|                           | (Dollars in thousands) |        |              |      |                       |        |              |        |
| Amounts due:              |                        |        |              |      |                       |        |              |        |
| Within one year           | \$ 49,441              | 3.84 % | \$ --        | -- % | \$ 7,429              | 3.11 % | \$ 56,870    | 3.74 % |
| After one year:           |                        |        |              |      |                       |        |              |        |
| Over one to two           | 58,071                 | 4.07   | --           | --   | 4,407                 | 3.49   | 62,478       | 4.03   |
| Over two to three         | 15,310                 | 5.27   | 631          | 6.00 | 84,684                | 1.46   | 100,625      | 2.07   |
| Over three to five        | 71,890                 | 4.78   | 48,118       | 4.37 | 457,432               | 1.09   | 577,440      | 1.83   |
| Over five to ten          | 309,182                | 4.15   | 583,873      | 2.91 | 54,447                | 1.29   | 947,502      | 3.22   |
| Over ten to fifteen years | 1,487,751              | 3.50   | 765,648      | 2.58 | --                    | --     | 2,253,399    | 3.19   |
| After fifteen years       | 4,125,795              | 3.83   | 606,868      | 2.52 | 2,369                 | 0.52   | 4,735,032    | 3.66   |
| Total due after one year  | 6,067,999              | 3.79   | 2,005,138    | 2.70 | 603,339               | 1.18   | 8,676,476    | 3.35   |
|                           | \$ 6,117,440           | 3.79   | \$ 2,005,138 | 2.70 | \$ 610,768            | 1.20   | \$ 8,733,346 | 3.36   |

(1) Demand loans, loans having no stated maturity, and overdraft loans are included in the amounts due within one year. Construction loans are presented based on the term to complete construction. The maturity date for home

equity loans assumes the customer always makes the required minimum payment.

At March 31, 2014, \$1.28 billion of the Bank's \$2.54 billion of certificates of deposit was scheduled to mature within one year. Included in the \$1.28 billion was \$207.7 million of public unit and brokered deposits. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products at the prevailing rate, although no assurance can be given in this regard.

During the six months ended March 31, 2014, the Company paid \$82.8 million in cash dividends and repurchased 4,770,075 shares at an average price of \$11.99 per share, at a total cost of \$57.2 million. See additional discussion regarding dividends and common stock repurchases in "Financial Condition – Stockholders' Equity." At March 31, 2014, Capitol Federal Financial, Inc., at the holding company level, had \$139.8 million of cash and cash equivalents at the Bank.

73

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## Limitations on Dividends and Other Capital Distributions

Although savings and loan holding companies are not currently subject to regulatory capital requirements or specific restrictions on the payment of dividends or other capital distributions, the OCC does prescribe such restrictions on subsidiary savings associations. The OCC regulations impose restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account.

Generally, savings institutions, such as the Bank, may make capital distributions during any calendar year equal to earnings of the previous two calendar years and current year-to-date earnings under the FRB and OCC safe harbor regulations. It is generally required that the Bank remain well capitalized before and after the proposed distribution.

However, an institution deemed to be in need of more than normal supervision by the OCC may have its capital distribution authority restricted. A savings institution, such as the Bank, that is a subsidiary of a savings and loan holding company and that proposes to make a capital distribution must submit written notice to the OCC and FRB 30 days prior to such distribution. The OCC and FRB may object to the distribution during that 30-day period based on safety and soundness or other concerns. Savings institutions that desire to make a larger capital distribution, or are under special restrictions, or are not, or would not be, well capitalized following a proposed capital distribution, however, must obtain regulatory non-objection prior to making such distribution.

The long-term ability of the Company to pay dividends to its stockholders is based primarily upon the ability of the Bank to make capital distributions to the Company. So long as the Bank continues to remain “well capitalized” after each capital distribution and operates in a safe and sound manner, it is management’s belief that the OCC and FRB will continue to allow the Bank to distribute its net income to the Company, although no assurance can be given in this regard.

In connection with the corporate reorganization, a “liquidation account” was established for the benefit of certain depositors of the Bank in an amount equal to Capitol Federal Savings Bank MHC’s ownership interest in the retained earnings of Capitol Federal Financial as of June 30, 2010. Under applicable federal banking regulations, neither the Company nor the Bank is permitted to pay dividends on its capital stock to its stockholders if stockholders’ equity would be reduced below the amount of the liquidation account at that time.

The Company paid cash dividends of \$82.8 million during the six months ended March 31, 2014. Dividend payments depend upon a number of factors including the Company’s financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank’s ability to make capital distributions to the Company, and the amount of cash at the holding company.

Off-Balance Sheet Arrangements, Commitments and Contractual Obligations

The Company, in the normal course of business, makes commitments to buy or sell assets or to incur or fund liabilities. Commitments may include, but are not limited to:

- the origination, purchase, or sale of loans;
- the purchase or sale of investment securities and MBS;
- extensions of credit on home equity loans, construction loans, and commercial loans;
- terms and conditions of operating leases; and
- funding withdrawals of deposit accounts at maturity.

There have been no material changes in off-balance sheet arrangements, commitments or contractual obligations from September 30, 2013. We anticipate we will continue to have sufficient funds, through repayments and maturities of loans and securities, deposits and borrowings, to meet our current commitments. For additional information, see Item 7 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Off-Balance Sheet Arrangements, Commitments and Contractual Obligations” in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Contingencies

In the normal course of business, the Company and its subsidiary are named defendants in various lawsuits and counter claims. In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a materially adverse effect on the Company’s consolidated financial statements for the quarter ended March 31, 2014, or future periods.

Capital

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a “well-capitalized” status for the Bank in accordance with regulatory standards. As of March 31, 2014, the Bank exceeded all regulatory capital requirements. The Company currently does not have any regulatory capital requirements. The following table presents the Bank’s regulatory capital ratios at March 31, 2014 based upon regulatory guidelines.

|                           | Bank<br>Ratios | Regulatory<br>Requirement For<br>“Well-Capitalized”<br>Status |
|---------------------------|----------------|---|
| Tier 1 leverage ratio     | 14.6%          | 5.0%  |
| Tier 1 risk-based capital | 34.6           | 6.0   |
| Total risk-based capital  | 34.8           | 10.0  |

A reconciliation of the Bank's equity under GAAP to regulatory capital amounts as of March 31, 2014 is as follows (dollars in thousands):

|  |              |
|--|--------------|
| Total Bank equity as reported under GAAP | \$ 1,337,898 |
| Unrealized gains on AFS securities       | (5,026)      |
| Total Tier 1 capital                     | 1,332,872    |
| ACL                                      | 8,967        |
| Total risk-based capital                 | \$ 1,341,839 |

75

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## Item 3. Quantitative and Qualitative Disclosure about Market Risk

For a complete discussion of the Bank's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Bank's portfolios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk" in the Company's Annual Report to Stockholders for the year ended September 30, 2013, attached as Exhibit 13 to the Company's Annual Report on Form 10-K for the year ended September 30, 2013. The analyses presented in the tables below reflect the level of market risk at the Bank, including the cash the holding company has deposited at the Bank.

The rates of interest the Bank earns on its assets and pays on its liabilities are generally established contractually for a period of time. Fluctuations in interest rates have a significant impact not only upon our net income, but also upon the cash flows and market values of our assets and liabilities. Our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities. Risk associated with changes in interest rates on the earnings of the Bank and the market value of its financial assets and liabilities is known as interest rate risk. Interest rate risk is our most significant market risk and our ability to adapt to changes in interest rates is known as interest rate risk management.

The general objective of our interest rate risk management program is to determine and manage an appropriate level of interest rate risk while maximizing net interest income in a manner consistent with our policy to reduce, to the extent practicable, the exposure of net interest income to changes in market interest rates. The Asset and Liability Committee regularly reviews the interest rate risk exposure of the Bank by forecasting the impact of hypothetical, alternative interest rate environments on net interest income and the market value of portfolio equity ("MVPE") at various dates. The MVPE is defined as the net of the present value of cash flows from existing assets, liabilities, and off-balance sheet instruments. The present values are determined based upon market conditions as of the date of the analysis, as well as in alternative interest rate environments providing potential changes in the MVPE under those alternative interest rate environments. Net interest income is projected in the same alternative interest rate environments with both a static balance sheet and with management strategies considered. The MVPE and net interest income analyses are also conducted to estimate our sensitivity to rates for future time horizons based upon market conditions as of the date of the analysis. In addition to the interest rate environments presented below, management also reviews the impact of non-parallel rate shock scenarios on a quarterly basis. These scenarios consist of flattening and steepening the yield curve by changing short-term and long-term interest rates independent of each other, and simulating cash flows and determining valuations as a result of these hypothetical changes in interest rates to identify rate environments that pose the greatest risk to the Bank. This analysis helps management quantify the Bank's exposure to changes in the shape of the yield curve.

For each period presented in the following table, the estimated percentage change in the Bank's net interest income based on the indicated instantaneous, parallel and permanent change in interest rates is presented. The percentage change in each interest rate environment represents the difference between estimated net interest income in the 0 basis point interest rate environment ("base case," assumes the forward market and product interest rates implied by the yield curve are realized) and the estimated net interest income in each alternative interest rate environment (assumes market and product interest rates have a parallel shift in rates across all maturities by the indicated change in rates). Estimations of net interest income used in preparing the table below were based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities do not change materially and that any repricing of assets or liabilities occurs at anticipated product and market rates for the alternative rate environments as of the dates presented. The estimation of net interest income does not include any projected gains or losses related to



the sale of loans or securities, or income derived from non-interest income sources, but does include the use of different prepayment assumptions in the alternative interest rate environments. It is important to consider that estimated changes in net interest income are for a cumulative four-quarter period. These do not reflect the earnings expectations of management.

| Change<br>(in Basis Points) | Percentage Change in Net<br>Interest Income |                      |                       |
|-----------------------------|---|----------------------|-----------------------|
|                             | At  |                      |                       |
|                             | March<br>31, 2014                           | December<br>31, 2013 | September<br>30, 2013 |
| in Interest Rates(1)        | N/A   | N/A                  | N/A                   |
| -100 bp                     | --  | --                   | --                    |
| 000 bp                      | (1.17)%                                     | (2.06) %             | (2.29) %              |
| +100 bp                     | (3.02)                                      | (4.17)               | (4.76)                |
| +200 bp                     | (6.07)                                      | (7.39)               | (7.89)                |
| +300 bp                     |   |                      |                       |

- (1) Assumes an instantaneous, permanent and parallel change in interest rates at all maturities.

The Bank's net interest income projections are a reflection of the response to interest rates of the assets and liabilities that are expected to mature or reprice over the next year. Repricing can occur as a result of variable interest rate characteristics of the Bank's assets or liabilities as a result of cash flows that are received or paid on assets or due on liabilities which would be replaced at then current market interest rates. The Bank's borrowings and certificate of deposit portfolios have stated maturities and the cash flows related to the Bank's liabilities do not generally fluctuate as a result of changes in interest rates. Cash flows from mortgage-related assets and callable agency debentures can vary significantly as a result of changes in interest rates. As interest rates decrease, borrowers have an economic incentive to lower their cost of debt by refinancing or endorsing their mortgage to a lower interest rate. Similarly, agency debt issuers are more likely to exercise embedded call options for agency securities and issue new securities at a lower interest rate.

Market interest rates increased slightly from September 30, 2013 to March 31, 2014. The increase in rates resulted in a decrease in the amount of cash flows from assets that were expected to reprice over the coming year at March 31, 2014, compared to September 30, 2013. This would typically result in an increase in our interest rate risk exposure measured by net interest income projections to higher interest rates since fewer assets are expected to benefit from repricing to higher rates. However, during the December 31, 2013 quarter, changes were made to the behavioral characteristics of the adjustable-rate MBS in our interest rate risk model to more accurately reflect the expected behavior of these assets. The change resulted in less sensitivity to changes in rates at March 31, 2014 compared to September 30, 2013. Management continually monitors the performance and assumptions of our interest rate risk model.

The sensitivity of the Bank's one-year net interest income projection decreased at March 31, 2014 compared to December 31, 2013. The Bank's one-year gap amount, the net amount of assets projected to reprice minus the amount of liabilities projected to reprice, went from a positive gap at December 31, 2013 to a negative gap at March 31, 2014. See full discussion of the gap analysis below. A negative gap position means the Bank has more liabilities repricing than assets at March 31, 2014. Periods with a positive gap will typically have more favorable net interest income projections in rising rate scenarios compared to periods with a negative gap due to assets repricing higher at a faster pace than liabilities. This is not the case when comparing March 31, 2014 to December 31, 2013. The slight improvement in the performance of the projected net interest income at March 31, 2014 was primarily driven by the timing of liabilities repricing, specifically a FHLB advance. The within three months gap at December 31, 2013 was negative due primarily to a FHLB advance that was scheduled to mature early in the March 31, 2014 quarter. When the FHLB advance matured during the current quarter, it was partially replaced with a seven year FHLB advance. This means that as interest rates were shocked higher, the negative impact to the Bank occurred almost immediately at December 31, 2013 and impacted a larger percentage of the forecast horizon compared to March 31, 2014, where the new FHLB advance repriced later in the forecast horizon, thus having a smaller impact to the 12-month net interest income projection.

The following table sets forth the estimated percentage change in the MVPE for each period presented based on the indicated instantaneous, parallel and permanent change in interest rates. The percentage change in each interest rate environment represents the difference between the MVPE in the base case and the MVPE in each alternative interest rate environment. The estimations of the MVPE used in preparing the table below were based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities do not change, that any repricing of assets or liabilities occurs at current product or market rates for the alternative rate environments as of the dates presented, and that different prepayment rates were used in each alternative interest rate environment. The estimated MVPE results from the valuation of cash flows from financial assets and liabilities over the anticipated lives of each

for each interest rate environment. The table below presents the effects of the changes in interest rates on our assets and liabilities as they mature, repay or reprice, as shown by the change in the MVPE for alternative interest rates.

| Change<br>(in Basis Points) | Percentage Change in MVPE |                      |                       |
|-----------------------------|---------------------------|----------------------|-----------------------|
|                             | At                        |                      |                       |
|                             | March 31,<br>2014         | December<br>31, 2013 | September<br>30, 2013 |
| in Interest Rates(1)        |                           |                      |                       |
| -100 bp                     | N/A                       | N/A                  | N/A                   |
| 000 bp                      | --                        | --                   | --                    |
| +100 bp                     | (10.64)%                  | (12.32)%             | (11.44)%              |
| +200 bp                     | (22.71)                   | (25.54)              | (23.86)               |
| +300 bp                     | (34.86)                   | (38.53)              | (36.36)               |

- (1) Assumes an instantaneous, permanent and parallel change in interest rates at all maturities.

Changes in the estimated market values of our financial assets and liabilities drive changes in estimates of MVPE. The market value of an asset or liability reflects the present value of all the projected cash flows over its remaining life, discounted at current market interest rates. As interest rates rise, generally the market value for both financial assets and liabilities decrease. The opposite is generally true as interest rates fall. The MVPE represents the theoretical market value of capital that is calculated by netting the market value of assets, liabilities, and off-balance sheet instruments. If the market values of financial assets increase at a faster pace than the market values of financial liabilities, or if the market values of financial liabilities decrease at a faster pace than the market values of financial assets, the MVPE will increase. The magnitude of the changes in the Bank's MVPE represents the Bank's interest rate risk. The market value of shorter term-to-maturity financial instruments is less sensitive to changes in interest rates than are longer term-to-maturity financial instruments. Because of this, the market values of our certificates of deposit (which generally have relatively shorter average lives) tend to display less sensitivity to changes in interest rates than do our mortgage-related assets (which generally have relatively longer average lives). The average life expected on our mortgage-related assets varies under different interest rate environments because borrowers have the ability to prepay their mortgage loans. Therefore, as interest rates decrease, the WAL of mortgage-related assets decrease as well. As interest rates increase, the WAL would be expected to increase, as well as increasing the sensitivity of these assets in higher rate environments.

The MVPE is negatively impacted by higher interest rates for all periods presented. As interest rates rise, projected prepayments decrease as fewer borrowers have an economic incentive to refinance or endorse their mortgage to a lower interest rate. Prepayments in the higher interest rate environments will likely only be realized through changes in borrowers' lives such as divorce, death, job-related relocations, or other life changing events, resulting in an increase in the average life of mortgage-related assets. Also, call projections for the Bank's callable agency debentures decrease as interest rates rise, which results in their cash flows moving towards their contractual maturity dates. The longer expected average lives of these assets, relative to the assumptions in the base case interest rate environment, increased the sensitivity of their market value to changes in interest rates. The negative impact to the Bank's MVPE indicates that the market value of the Bank's assets is more sensitive to changes in rising interest rates than the market value of liabilities.

At March 31, 2014, the percentage change in the Bank's MVPE was less adversely impacted by higher interest rates than at December 31, 2013. This was due primarily to lower interest rates, particularly lower mortgage interest rates, at March 31, 2014 than at December 31, 2013. This resulted in shorter WAL's for the Bank's mortgage-related assets in the base case at March 31, 2014 compared to December 31, 2013. In addition, the Bank replaced a \$200.0 million FHLB advance that matured during the current quarter with a \$150.0 million seven year fixed-rate advance which lengthen the overall WAL of the Bank's borrowings and reduced the Bank's exposure to higher interest rates compared to December 31, 2013.

The following gap table summarizes the anticipated maturities or repricing periods of the Bank's interest-earning assets and interest-bearing liabilities as of March 31, 2014 based on the information and assumptions set forth in the notes below. Cash flow projections for mortgage-related assets are calculated based on current interest rates. Prepayment projections are subjective in nature, involve uncertainties and assumptions and, therefore, cannot be determined with a high degree of accuracy. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react differently to changes in market interest rates. Assumptions may not reflect how actual yields and costs respond to market changes. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as ARM loans, have features that restrict changes in interest rates on a

short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table below. For additional information regarding the impact of changes in interest rates, see the preceding Percentage Change in Net Interest Income and Percentage Change in MVPE discussions and tables.

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|   | Within<br>Three<br>Months<br>(Dollars in thousands) | Three to<br>Twelve<br>Months | More Than<br>One Year<br>to<br>Three<br>Years | More<br>Than<br>Three<br>Years<br>to Five<br>Years | Over<br>Five Years | Total        |
|---|---|------------------------------|---|--|--------------------|--------------|
| <b>Interest-earning assets:</b>   |   |                              |   |  |                    |              |
| <b>Loans receivable:(1)</b>   |   |                              |   |  |                    |              |
| <b>Mortgage loans:</b>  |   |                              |   |  |                    |              |
| Fixed-rate  | \$ 247,839  | \$ 587,935                   | \$ 1,050,218                                  | \$ 682,942   | \$ 2,221,242       | \$ 4,790,176 |
| Adjustable-rate   | 129,376   | 622,983                      | 284,460                                       | 91,864   | 43,093             | 1,171,776    |
| Other loans   | 114,360   | 11,638                       | 5,189   | 2,082  | 1,654              | 134,923      |
| <b>Investment securities(2)</b>   |   |                              |   |  |                    |              |
| MBS(3)  | 7,721   | 10,607                       | 85,637  | 473,930  | 41,325             | 619,220      |
| Other interest-earning assets   | 265,336   | 466,835                      | 541,665                                       | 303,192  | 411,577            | 1,988,605    |
| Total interest-earning assets   | 93,596  | --                           | --  | --   | --                 | 93,596       |
|   | 858,228   | 1,699,998                    | 1,967,169                                     | 1,554,010  | 2,718,891          | 8,798,296    |
| <b>Interest-bearing liabilities:</b>  |   |                              |   |  |                    |              |
| <b>Deposits:</b>  |   |                              |   |  |                    |              |
| Checking(4)   | 129,468   | 50,027                       | 112,101                                       | 87,918   | 336,634            | 716,148      |
| Savings(4)  | 73,475  | 14,984                       | 34,549  | 26,796   | 148,520            | 298,324      |
| Money market(4)   | 194,883   | 150,554                      | 277,521                                       | 154,964  | 483,998            | 1,261,920    |
| Certificates  | 350,912   | 933,306                      | 912,290                                       | 342,653  | 293                | 2,539,454    |
| Borrowings(5)   | 100,000   | 600,000                      | 795,000                                       | 700,000  | 647,260            | 2,842,260    |
| Total interest-bearing liabilities  | 848,738   | 1,748,871                    | 2,131,461                                     | 1,312,331  | 1,616,705          | 7,658,106    |
| Excess (deficiency) of interest-earning assets over interest-bearing liabilities            | \$ 9,490  | \$ (48,873)                  | \$ (164,292)                                  | \$ 241,679   | \$ 1,102,186       | \$ 1,140,190 |
| Cumulative excess (deficiency) of interest-earning assets over interest-bearing liabilities | \$ 9,490  | \$ (39,383)                  | \$ (203,675)                                  | \$ 38,004  | \$ 1,140,190       |              |
| Cumulative excess (deficiency) of   |   |                              |   |  |                    |              |

interest-earning  
 assets over  
 interest-bearing  
 liabilities as a  
 percent of total Bank  
 assets at

|                    |        |   |        |   |        |   |        |   |       |   |
|--------------------|--------|---|--------|---|--------|---|--------|---|-------|---|
| March 31, 2014     | 0.10   | % | (0.43) | % | (2.23) | % | 0.42   | % | 12.51 | % |
| December 31, 2013  | (1.48) |   | 0.72   |   | (5.54) |   | (3.08) |   | 12.02 |   |
| September 30, 2013 | (0.88) |   | 4.04   |   | (3.47) |   | (2.87) |   | 12.59 |   |

79

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- (1) ARM loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur, or prepayments are expected to be received, prior to their next rate adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances are net of deferred fees and exclude loans 90 or more days delinquent or in foreclosure, which totaled \$20.6 million at March 31, 2014.
- (2) Based on contractual maturities, term to call dates or pre-refunding dates as of March 31, 2014, at amortized cost.
- (3) Reflects projected prepayments of MBS, at amortized cost.
- (4) Although the Bank's checking, savings, and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rates at which the balances of existing accounts would decline) used on these accounts is based on assumptions developed from our actual experiences with these accounts. If all of the Bank's checking, savings and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$1.70 billion, for a cumulative one-year gap of (18.7)% of total assets.
- (5) Borrowings exclude \$7.9 million of deferred prepayment penalty costs and \$49 thousand of deferred gains on terminated interest rate swap agreements.

The decrease in the one-year gap in the base case at March 31, 2014 compared to December 31, 2013 was due to a decrease in cash flows in the Bank's investment portfolio, caused by a decrease in the amount of callable investment securities with call options during the upcoming year. This was somewhat offset by an increase in anticipated cash flows on fixed-rate mortgage-related assets due to lower interest rates at March 31, 2014 compared to interest rates at December 31, 2013. In addition, at March 31, 2014, more liabilities were projected to reprice over the next 12 months than at December 31, 2013 due to the timing of borrowings scheduled to mature.

If interest rates were to increase 200 basis points, the Bank's one-year gap would become more negative. This indicates that cash flows from the Bank's mortgage-related assets and callable investment securities are projected to decrease over the next 12 months if interest rates were to increase as a result of the diminished economic incentive to prepay mortgages or exercise embedded call option for the debtor. The +200 basis point gap in this scenario would be negative (4.22)% of total assets at March 31, 2014.



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The following table presents the weighted average yields/rates and WALs (in years), after applying prepayment, call assumptions, and decay rates, for major categories of our assets and liabilities as of the date presented. Yields presented for interest-earning assets include the amortization of fees, costs, premiums and discounts which are considered adjustments to the yield. The interest rate presented for borrowings is the effective rate, which includes the net impact of the amortization of deferred prepayment penalties resulting from the prepayment of certain FHLB advances and deferred gains related to interest rate swaps previously terminated.

|                                      | March 31, 2014         |            |     | % of     | % of    |
|--------------------------------------|------------------------|------------|-----|----------|---------|
|                                      | Amount                 | Yield/Rate | WAL | Category | Total   |
|                                      | (Dollars in thousands) |            |     |          |         |
| Investment securities                | \$ 610,768             | 1.13 %     | 3.5 | 23.4 %   | 6.8 %   |
| MBS - fixed                          | 1,431,243              | 2.41       | 4.1 | 54.7     | 15.9    |
| MBS - adjustable                     | 573,895                | 2.29       | 6.3 | 21.9     | 6.4     |
| Total investment securities and MBS  | 2,615,906              | 2.08       | 4.4 | 100.0 %  | 29.1    |
| Loans receivable:                    |                        |            |     |          |         |
| Fixed-rate one- to four-family:      |                        |            |     |          |         |
| <= 15 years                          | 1,164,135              | 3.49       | 4.2 | 19.0 %   | 13.0    |
| > 15 years                           | 3,531,611              | 4.15       | 6.7 | 57.8     | 39.4    |
| All other fixed-rate loans           | 128,899                | 4.87       | 4.6 | 2.1      | 1.4     |
| Total fixed-rate loans               | 4,824,645              | 4.01       | 6.0 | 78.9     | 53.8    |
| Adjustable-rate one- to four-family: |                        |            |     |          |         |
| <= 36 months                         | 393,135                | 2.39       | 3.8 | 6.4      | 4.4     |
| > 36 months                          | 751,456                | 2.91       | 3.4 | 12.3     | 8.4     |
| All other adjustable-rate loans      | 148,204                | 4.45       | 1.5 | 2.4      | 1.6     |
| Total adjustable-rate loans          | 1,292,795              | 2.93       | 3.3 | 21.1     | 14.4    |
| Total loans receivable               | 6,117,440              | 3.78       | 5.5 | 100.0 %  | 68.2    |
| Capital stock of FHLB                | 125,829                | 3.96       | 2.8 |          | 1.4     |
| Cash and cash equivalents            | 114,835                | 0.25       | --  |          | 1.3     |
| Total interest-earning assets        | \$ 8,974,010           | 3.24       | 5.0 |          | 100.0 % |
| Transaction deposits                 | \$ 2,154,308           | 0.15       | 6.8 | 45.9 %   | 28.8 %  |
| Certificates of deposit              | 2,539,454              | 1.18       | 1.4 | 54.1     | 33.9    |
| Total deposits                       | 4,693,762              | 0.71       | 3.9 | 100.0 %  | 62.7    |
| Borrowings                           | 2,795,000              | 2.54       | 2.9 |          | 37.3    |
| Total interest-bearing liabilities   | \$ 7,488,762           | 1.39       | 3.5 |          | 100.0 % |

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Act") as of March 31, 2014. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of March 31, 2014, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Act is accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Act) identified in connection with the evaluation required by Rule 13a-15(d) of the Act that occurred during the Company's quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## Part II - OTHER INFORMATION

## Item 1. Legal Proceedings

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that these routine legal proceedings, in the aggregate, are immaterial to our financial condition and results of operations.

## Item 1A. Risk Factors

There have been no material changes to our risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. For a summary of risk factors relevant to our operations, see Part I, Item 1A. in our 2013 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

See “Liquidity and Capital Resources - Capital” in “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding the OCC restrictions on dividends from the Bank to the Company.

The following table summarizes our share repurchase activity during the quarter ended March 31, 2014 and additional information regarding our share repurchase program. In November 2012, the Company announced its Board of Directors approved a \$175.0 million stock repurchase program. This plan has no expiration date.

| Period  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plans | Approximate<br>Dollar Value<br>of<br>Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plans |
|---|---|---------------------------------------|---|--|
| January 1, 2014 through<br>January 31, 2014   | 2,163,600                                 | \$ 11.99                              | 2,163,600   | \$ 96,674,417  |
| February 1, 2014 through<br>February 28, 2014 | 1,990,683                                 | 11.95                                 | 1,990,683   | 72,886,472   |
| March 1, 2014 through<br>March 31, 2014       | 36,912                                    | 12.08                                 | 36,912  | 72,440,747   |
| Total   | 4,191,195                                 | 11.97                                 | 4,191,195   | 72,440,747   |

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Index to Exhibits.

82

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SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the following authorized signatory:

CAPITOL FEDERAL FINANCIAL, INC.

Date: May 5, 2014 By: /s/ John B. Dicus  
John B. Dicus, Chairman, President and Chief Executive Officer

Date: May 5, 2014 By: /s/ Kent G. Townsend  
Kent G. Townsend, Executive Vice President,  
Chief Financial Officer and Treasurer

INDEX TO EXHIBITS

| Exhibit<br>Number | Document   |
|-------------------|--|
| 2.0               | Amended Plan of Conversion and Reorganization filed on October 27, 2010 as Exhibit 2 to Capitol Federal Financial, Inc.'s Post Effective Amendment No. 2 Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference |
| 3(i)              | Charter of Capitol Federal Financial, Inc., as filed on May 6, 2010, as Exhibit 3(i) to Capitol Federal Financial, Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference                                |
| 3(ii)             | Bylaws of Capitol Federal Financial, Inc. as filed on May 6, 2010, as Exhibit 3(ii) to Capitol Federal Financial Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference                                  |
| 10.1(i)           | Capitol Federal Financial's Thrift Plan filed on November 29, 2007 as Exhibit 10.1(i) to the Annual Report on Form 10-K for Capitol Federal Financial and incorporated herein by reference   |
| 10.1(ii)          | Capitol Federal Financial, Inc.'s Employee Stock Ownership Plan, as amended, filed on May 10, 2011 as Exhibit 10.1(ii) to the March 31, 2011 Form 10-Q for Capitol Federal Financial, Inc., and incorporated herein by reference                       |
| 10.1(iii)         | Form of Change of Control Agreement with each of John B. Dicus, Kent G. Townsend, R. Joe Aleshire, and Rick C. Jackson filed on January 20, 2011 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference   |
| 10.1(iv)          | Form of Change of Control Agreement with each Natalie G. Haag and Carlton A. Ricketts filed on November 29, 2012 as Exhibit 10.1(iv) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference                               |
| 10.1(v)           | Form of Change of Control Agreement with Frank H. Wright filed on November 29, 2013 as Exhibit 10.1(v) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference   |
| 10.2              | Capitol Federal Financial's 2000 Stock Option and Incentive Plan (the "Stock Option Plan") filed on April 13, 2000 as Appendix A to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference      |
| 10.3              | Capitol Federal Financial's 2000 Recognition and Retention Plan filed on April 13, 2000 as Appendix B to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference                                 |
| 10.4              | Capitol Federal Financial Deferred Incentive Bonus Plan, as amended, filed on May 5, 2009 as Exhibit 10.4 to the March 31, 2009 Form 10-Q for Capitol Federal Financial and incorporated herein by reference   |
| 10.5              | Form of Incentive Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.5 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference                                   |
| 10.6              | Form of Non-Qualified Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.6 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference                               |
| 10.7              | Form of Restricted Stock Agreement under the Recognition and Retention Plan filed on February 4, 2005 as Exhibit 10.7 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference                            |
| 10.8              | Description of Named Executive Officer Salary and Bonus Arrangements filed on November 29, 2013 as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K and incorporated herein by reference  |
| 10.9              |  |

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- Description of Director Fee Arrangements filed on February 9, 2011 as Exhibit 10.9 to the December 31, 2010 Form 10-Q and incorporated herein by reference
- 10.10 Short-term Performance Plan filed on August 4, 2011 as Exhibit 10.10 to the June 30, 2011 Form 10-Q and incorporated herein by reference
- 10.11 Capitol Federal Financial, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") filed on December 22, 2011 as Appendix A to Capitol Federal Financial, Inc.'s Proxy Statement (File No. 001-34814) and incorporated herein by reference
- 10.12 Form of Incentive Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.12 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 10.13 Form of Non-Qualified Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.13 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 10.14 Form of Stock Appreciation Right Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.14 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 10.15 Form of Restricted Stock Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.15 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 11 Statement re: computation of earnings per share\*
- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer
- 31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

101 The following information from the Company's Quarterly Report on Form 10-Q for the three and six months ended March 31, 2014, filed with the SEC on May 5, 2014, has been formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets at March 31, 2014 and September 30, 2013, (ii) Consolidated Statements of Income for the three and six months ended March 31, 2014 and 2013, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2014 and 2013, (iv) Consolidated Statement of Stockholders' Equity for the six months ended March 31, 2014, (v) Consolidated Statements of Cash Flows for the six months ended March 31, 2014 and 2013, and (vi) Notes to the Unaudited Consolidated Financial Statements

\*No statement is provided because the computation of per share earnings can be clearly determined from the Financial Statements

85

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