

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  
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(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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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	March 31, 2014	September 30, 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>	<b>--</b>	<b>--</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
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 9,115,417</b>	<b>\$ 9,186,449</b>

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 Months Ended March 31,		For the Six Months Ended 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 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

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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 March 31,		For the Six Months Ended 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>
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
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 Months Ended March 31,		For the Six Months Ended 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, net of deferred income tax (benefits) expenses of \$(279) and \$1,594 for the three months ended March 31, 2014 and 2013, respectively, and \$1,363 and \$3,907 for the six months ended 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 Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' 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), 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 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 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 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 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
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
Effect of dilutive stock options	291	113	604	107
Total diluted average common shares outstanding	139,489,324	145,381,718	141,204,751	146,646,006
Net earnings per share:				
Basic	\$ 0.14	\$ 0.12	\$ 0.26	\$ 0.24
Diluted	\$ 0.14	\$ 0.12	\$ 0.26	\$ 0.24
Antidilutive stock options, excluded from the diluted average common shares 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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair 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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair 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 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized 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 12 Months			Equal to or Greater Than 12 Months		
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized 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, 2014	September 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 Months Ended March 31,		For the Six Months Ended 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 Cost	Estimated Fair Value	Amortized Cost	Estimated Fair 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, 2014	September 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				
		90 or More	Total		Total
	30 to 89	Days	Delinquent	Current	Recorded
	Days	or	Delinquent	Loans	Investment
	Delinquent	in	Loans	Loans	Investment
	(Dollars in thousands)				
One- to four-family loans - originated	\$ 14,111	\$ 9,921	\$ 24,032	\$ 5,238,614	\$ 5,262,646
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				
		90 or More	Total		Total
	30 to 89	Days	Delinquent	Current	Recorded
	Days	or	Delinquent	Loans	Investment
	Delinquent	in	Loans	Loans <td>Investment</td>	Investment
	(Dollars in thousands)				
One- to four-family loans - originated	\$ 18,889	\$ 9,379	\$ 28,268	\$ 5,092,581	\$ 5,120,849
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 Mention	Substandard	Special 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

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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 March 31, 2014			For the Six Months Ended March 31, 2014		
	Number of Contracts (Dollars in thousands)	Pre- Restructured Outstanding	Post- Restructured Outstanding	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding
One- to four-family loans - originated	31	\$ 4,247	\$ 4,220	69	\$ 8,072	\$ 8,073
One- to four-family loans - 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 March 31, 2013			For the Six Months Ended March 31, 2013		
	Number of Contracts (Dollars in thousands)	Pre- Restructured Outstanding	Post- Restructured Outstanding	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding
One- to four-family loans - originated	45	\$ 6,826	\$ 6,857	100	\$ 19,404	\$ 19,507
One- to four-family loans - purchased	5	983	982	7	1,538	1,580
Multi-family and commercial 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 Four- Family - Originated	One- to Four- Family - Purchased	One- to Four- Family - Total	Multi-family and 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 impairment						
Recorded investment in loans individually evaluated for 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 evaluated 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 Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable	
	Carrying Value (Dollars in thousands)	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)(1)
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 Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable	
	Carrying Value (Dollars in thousands)	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)(2)
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 Prices in Active Markets for Identical	Assets (Level 1)	Significant Other Observable	Significant Unobservable
Carrying Value (Dollars in thousands)	Inputs (Level 2)	Inputs (Level 3)		
Loans individually evaluated for impairment	\$ 29,509	\$ --	\$ --	\$ 29,509
OREO	3,667	--	--	3,667
	\$ 33,176	\$ --	\$ --	\$ 33,176

	September 30, 2013			
	Quoted Prices in Active Markets for Identical	Assets (Level 1)	Significant Other Observable	Significant Unobservable
Carrying Value (Dollars in thousands)	Inputs (Level 2)	Inputs (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 Amount	Estimated Fair Value	Carrying Amount	Estimated Fair 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.

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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, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 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 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

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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 (Dollars in thousands)	Monthly Prepayment Speeds (annualized)				Quarterly Prepayment Speeds (annualized)				Net Premiums/ Deferred Costs & (Discounts/ Unearned 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 Score	Amount	LTV	Credit 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

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	For the Six Months Ended			March 31, 2013		
	March 31, 2014			March 31, 2013		
	Amount	LTV	Credit Score	Amount	LTV	Credit Score
	(Dollars in thousands)					
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			For the Six Months Ended		
	March 31, 2014			March 31, 2014		
	Amount	% of Total	Rate	Amount	% of Total	Rate
	(Dollars in thousands)					
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.

Originate:	Fixed-Rate		Adjustable-Rate	Total Amount	Rate
	15 years or less	More than 15 years			
	(Dollars in thousands)				
< 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	%	

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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, 2014		December 31, 2013		September 30, 2013		June 30, 2013		March 31, 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, 2014		December 31, 2013		September 30, 2013		June 30, 2013		March 31, 2013		March 31, 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 Days Delinquent		Loans 90 or More Days Delinquent or in Foreclosure		LTV
	Amount	% of Total	Amount	% of Total	Amount	% of 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

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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 Granted by the Bank	Loan Endorsement 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 Granted by the	Loan 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 March 31, 2014			At September 30, 2013			
	Amount of ACL (Dollars in thousands)	% of Total ACL	Total Loans	% of Total Loans	Amount of ACL	% of Total ACL	Total 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 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 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 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 31, 2014	March 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

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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									June 30, 2014
	March 31, 2014			December 31, 2013			September 30, 2013			
	Amount	Yield	WAL	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	\$ 2,047,708
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, 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 (Dollars in thousands)	Prepayment Speed (annualized)		Net Premium/ (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			

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	Rate	% of Total	Amount	Rate	% of Total	Amount	Rate	% of Total
(Dollars in thousands)									
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
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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 (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 (Dollars in thousands)	Repricing Rate	Retail Certificate Amount	Repricing Rate	Public Unit/ 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 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 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 (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 Ended		Change Expressed in:	
	March 31, 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 Ended		Change Expressed in:	
	March 31, 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 Ended		Change Expressed in:	
	March 31, 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 (Dollars in thousands)	2013	Dollars	Percent
<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 March 31, 2014	For the Six Months Ended					
		March 31, 2014			March 31, 2013		
	Yield/ Rate	Average Outstanding Balance (Dollars in thousands)	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
<b>Assets:</b>							
<b>Interest-earning assets:</b>							
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 assets(1)(2)	3.25	8,902,793	144,091	3.24	9,044,909	152,656	3.38
Other noninterest-earning assets		221,562			237,402		
Total assets		\$ 9,124,355			\$ 9,282,311		
<b>Liabilities and stockholders' equity:</b>							
<b>Interest-bearing liabilities:</b>							
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 liabilities	1.39	7,429,896	54,119	1.46	7,451,438	62,706	1.68



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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)

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	At	For the Six Months Ended					
	March 31, 2014	March 31, 2014			March 31, 2013		
	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ 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 assets to interest-bearing liabilities				1.20 x			1.21 x
Selected performance ratios:							
Return on average assets (annualized)				0.82 %			0.76 %
Return on average equity (annualized)				4.73			4.11
Average equity to average assets				17.39			18.52
Operating expense ratio (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.

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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 March 31, 2014 vs. March 31, 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 Months Ended		Change Expressed in:	
	March 31, 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 Months Ended		Change Expressed	
	March 31, 2014	2013	in: 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 Months Ended		Change Expressed	
	March 31, 2014	2013	in: 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 Months Ended		Change Expressed in:	
	March 31, 2014 (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)					
<b>Assets:</b>						
<b>Interest-earning assets:</b>						
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		
<b>Liabilities and stockholders' equity:</b>						
<b>Interest-bearing liabilities:</b>						
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, 2014	March 31, 2013
Average Interest	Average Interest
Outstanding	Outstanding
Yield/	