Capitol Federal Financial Inc
Form 10-Q
May 03, 2013

UNITED STATES SECURITIES

AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2013

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	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(Zip Code)

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 þ 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 þ 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 þ 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 þ

As of April 24, 2013, there were 148,958,246 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, 2013	September 30, 2012
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $30,975 and $127,544)	$ 48,574	$ 141,705
Securities:		
Available-for-sale (“AFS”) at estimated fair value (amortized cost of $1,216,857 and $1,367,925)	1,245,443	1,406,844
Held-to-maturity (“HTM”) at amortized cost (estimated fair value of $2,014,843 and $1,969,899)	1,953,779	1,887,947
Loans receivable, net (of allowance for credit losses (“ACL”) of $10,072 and $11,100)	5,715,273	5,608,083
Bank-owned life insurance (“BOLI”)	58,756	58,012
Capital stock of Federal Home Loan Bank (“FHLB”), at cost	130,680	132,971
Accrued interest receivable	24,447	26,092
Premises and equipment, net	61,754	57,766
Other real estate owned (“OREO”), net	6,682	8,047
Other assets	148,330	50,837
TOTAL ASSETS	$ 9,393,718	$ 9,378,304
LIABILITIES:		
Deposits	$ 4,693,573	$ 4,550,643
Advances from FHLB, net	2,634,465	2,530,322
Repurchase agreements	315,000	365,000
Advance payments by borrowers for taxes and insurance	49,959	55,642
Income taxes payable	3,199	918
Deferred income tax liabilities, net	22,500	25,042
Accounts payable and accrued expenses	32,015	44,279
Total liabilities	7,750,711	7,571,846
STOCKHOLDERS’ EQUITY:		
	--	--

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; 149,301,782 and 155,379,739				
shares issued and outstanding as of March 31, 2013 and September 30, 2012, respectively		1,493		1,554
Additional paid-in capital		1,245,057		1,292,122
Unearned compensation, Employee Stock Ownership Plan ("ESOP")		(46,089)		(47,575)
Retained earnings		424,765		536,150
Accumulated other comprehensive income ("AOCI"), net of tax		17,781		24,207
Total stockholders' equity		1,643,007		1,806,458
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	9,393,718	$	9,378,304

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,	
	2013	2012	2013	2012
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$ 56,936	$ 59,785	$ 115,403	$ 120,460
Mortgage-backed securities (“MBS”)	14,446	18,169	29,629	36,542
Investment securities	2,457	4,115	5,322	8,752
Capital stock of FHLB	1,105	1,111	2,233	2,202
Cash and cash equivalents	36	94	69	145
Total interest and dividend income	74,980	83,274	152,656	168,101
INTEREST EXPENSE:				
FHLB advances	17,909	20,443	36,537	42,782
Deposits	9,344	11,835	19,193	24,622
Repurchase agreements	3,407	3,530	6,976	7,857
Total interest expense	30,660	35,808	62,706	75,261
NET INTEREST INCOME	44,320	47,466	89,950	92,840
PROVISION FOR CREDIT LOSSES	--	1,500	233	2,040
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	44,320	45,966	89,717	90,800
OTHER INCOME:				
Retail fees and charges	3,521	3,854	7,513	8,018
Insurance commissions	979	774	1,550	1,343
Loan fees	418	560	885	1,135
Income from BOLI	361	387	743	799
Other income, net	665	597	1,021	1,029
Total other income	5,944	6,172	11,712	12,324

(Continued)

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	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
OTHER EXPENSES:				
Salaries and employee benefits	12,155	10,586	24,336	21,173
Occupancy	2,391	2,091	4,709	4,170
Information technology and communications	2,232	1,834	4,430	3,664
Regulatory and outside services	1,290	1,113	3,055	2,548
Deposit and loan transaction costs	1,384	1,245	2,910	2,505
Federal insurance premium	1,116	1,084	2,230	2,176
Advertising and promotional	1,004	841	2,036	1,751
Other expenses, net	1,645	3,175	4,252	6,049
Total other expenses	23,217	21,969	47,958	44,036
INCOME BEFORE INCOME TAX EXPENSE	27,047	30,169	53,471	59,088
INCOME TAX EXPENSE	9,332	10,854	18,193	20,984
NET INCOME	$ 17,715	$ 19,315	$ 35,278	$ 38,104
Basic earnings per share	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Diluted earnings per share	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Dividends declared per share	$ 0.08	$ 0.08	$ 0.85	$ 0.25
Basic weighted average common shares	145,381,605	161,721,616	146,645,899	161,822,674
Diluted weighted average common shares	145,381,718	161,727,618	146,646,006	161,829,691

(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,	
	2013	2012	2013	2012
Net income	$ 17,715	$ 19,315	$ 35,278	$ 38,104
Other comprehensive income, net of tax:				
Changes in unrealized holding losses on AFS securities, net of deferred income taxes of $1,594 and $976 for the three months ended March 31, 2013 and 2012, respectively, and $3,907 and $1,091 for the six months ended March 31, 2013 and 2012, respectively	(2,621)	(1,597)	(6,426)	(1,853)
Comprehensive income	$ 15,094	$ 17,718	$ 28,852	$ 36,251

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, 2012	$ 1,554	$ 1,292,122	$ (47,575)	$ 536,150	$ 24,207	$ 1,806,458
Net income				35,278		35,278
Other comprehensive income, net of tax					(6,426)	(6,426)
ESOP activity, net		1,790	1,486			3,276
Restricted stock activity, net		155				155
Stock-based compensation		1,586				1,586
Repurchase of common stock	(61)	(50,596)		(21,338)		(71,995)
Dividends on common stock to stockholders ($0.85 per share)				(125,325)		(125,325)
Balance at March 31, 2013	$ 1,493	$ 1,245,057	$ (46,089)	$ 424,765	$ 17,781	$ 1,643,007

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,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 35,278	$ 38,104
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(2,233)	(2,202)
Provision for credit losses	233	2,040
Originations of loans receivable held-for-sale (“LHFS”)	(2,769)	(2,491)
Proceeds from sales of LHFS	2,868	3,207
Amortization and accretion of premiums and discounts on securities	4,515	4,279
Depreciation and amortization of premises and equipment	2,581	2,400
Amortization of deferred amounts related to FHLB advances, net	4,143	4,010
Common stock committed to be released for allocation - ESOP	3,276	3,151
Stock-based compensation	1,586	83
Changes in:		
Prepaid federal insurance premium	1,977	1,921
Accrued interest receivable	1,645	1,892
Other assets, net	(915)	1,934
Income taxes payable/receivable	3,801	2,489
Accounts payable and accrued expenses	(12,242)	(10,094)
Net cash provided by operating activities	43,744	50,723
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(379,187)	(563,330)
Purchase of HTM securities	(420,501)	(516,374)
Proceeds from calls, maturities and principal reductions of AFS securities	529,899	329,721
Proceeds from calls, maturities and principal reductions of HTM securities	350,510	718,835
Proceeds from the redemption of capital stock of FHLB	4,524	2,117
Purchases of capital stock of FHLB	--	(3,652)
Net increase in loans receivable	(111,672)	(81,808)
Purchases of premises and equipment	(6,233)	(4,348)
Proceeds from sales of OREO	5,858	4,583
Net cash used in investing activities	(26,802)	(114,256)

(Continued)

	For the Six Months Ended March 31,	
	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(125,325)	(40,483)
Deposits, net of withdrawals	142,930	161,837
Proceeds from borrowings	403,130	600,100
Repayments on borrowings	(453,130)	(600,100)
Deferred FHLB prepayment penalty	--	(7,937)
Change in advance payments by borrowers for taxes and insurance	(5,683)	(5,495)
Repurchase of common stock	(71,995)	(21,752)
Net cash (used in) provided by financing activities	(110,073)	86,170
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(93,131)	22,637
CASH AND CASH EQUIVALENTS:		
Beginning of period	141,705	121,070
End of period	$ 48,574	$ 143,707
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$ 14,391	$ 18,560
Interest payments	$ 58,747	$ 72,177
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
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, 2012, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

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 Capitol Federal Savings Bank (the "Bank"). The 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.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 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.

Loans Receivable - Loans receivable that management has the intent and ability to hold for the foreseeable future are carried at the amount of unpaid principal, net of ACL, undisbursed loan funds, unamortized premiums and discounts, and deferred loan origination fees and costs. Net loan origination fees and costs and premiums and discounts are amortized as yield adjustments to interest income using the level-yield method, adjusted for the estimated prepayment speeds of the related loans when applicable. Interest on loans is credited to income as earned and accrued only if deemed collectible.

Endorsed loans - Existing loan customers, whose loans have not been sold to third parties, who have not been delinquent on their contractual loan payments during the previous 12 months and who are not currently in bankruptcy, have the opportunity, for a cash fee, to endorse their original loan terms to current loan terms being offered. The fee assessed for endorsing the mortgage loan is deferred and amortized over the remaining life of the endorsed loan using the level-yield method and is reflected as an adjustment to interest income. Each endorsement is examined on a loan-by-loan basis and if the new loan terms represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs associated with the mortgage loan are recognized in interest income at the time of the endorsement. If the endorsement of terms does not represent more than a minor change to the loan, then the unamortized balance of the pre-endorsement deferred fees and/or costs continue to be deferred.

Troubled debt restructurings ("TDRs") - For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower. Generally, the Bank grants a short-term payment concession to borrowers who are experiencing a temporary cash flow problem. The most frequently used concession is to reduce the monthly payment amount for a period of 6 to 12 months, often by requiring payments of only interest and escrow during this period, resulting in an extension of the maturity date of the loan. For more severe situations requiring long-term solutions, the Bank also offers interest rate reductions to currently-offered rates and the capitalization of delinquent interest and/or escrow resulting in an extension of the maturity date of the loan. The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for the capitalization of delinquent interest and/or escrow not to exceed the original loan balance, to these borrowers.

Endorsed loans are classified as TDRs when certain guidelines for soft credit scores and/or estimated loan-to-value ("LTV") ratios are not met. These guidelines are intended to identify changes in the borrower's credit condition since origination, signifying the borrower could be experiencing financial difficulties even though the borrower has not been delinquent on his contractual loan payment in the previous 12 months.

The TDRs discussed above will be reported as such until paid-off, unless the loan has been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.

During July 2012, the Office of the Comptroller of the Currency ("OCC") provided guidance to the industry regarding loans that had been discharged under Chapter 7 bankruptcy proceedings where the borrower has not reaffirmed the debt owed to the lender. The OCC requires that these loans be reported as TDRs, regardless of their delinquency status. These loans will be reported as TDRs until the borrower has made 48 consecutive monthly loan payments after the Chapter 7 discharge date.

Delinquent loans - A loan is considered delinquent when payment has not been received within 30 days of its contractual due date.

Nonaccrual loans - The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears or, for TDR loans, the borrower has not made six consecutive monthly payments per the restructured loan terms or since the discharge date for loans discharged under Chapter 7 bankruptcy proceedings where the borrower did not reaffirm the debt. Loans on which the accrual of income has been discontinued are designated as nonaccrual and outstanding interest previously credited beyond 90 days delinquent is reversed. A nonaccrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due or, in the case of a TDR loan, the borrower has made six consecutive payments per the restructured loan terms or the borrower has made six consecutive payments since the discharge date for loans discharged under Chapter 7 bankruptcy proceedings where the borrower did not reaffirm the debt.

Impaired loans - 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. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. The following types of loans are reported as impaired loans: all nonaccrual loans, loans classified as substandard, loans partially charged-off, and all TDRs except those that have been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months.

The majority of the Bank's impaired loans are related to one- to four-family properties. Impaired loans related to one- to four-family properties are individually evaluated for loss when the loan becomes 180 days delinquent or at any time management has knowledge of the existence of a potential loss to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs.

Allowance for Credit Losses - The ACL represents management's best estimate of the amount of inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ACL consists of an analysis ("formula analysis") model, along with analyzing several other factors. Management maintains the ACL through provisions for credit losses that are charged to income.

For one- to four-family secured loans, losses are charged-off when the loan is generally 180 days delinquent. Losses are based on new collateral values obtained through appraisals, less estimated costs to sell. Anticipated private mortgage insurance ("PMI") proceeds are taken into consideration when calculating the loss amount. An updated appraisal is requested, at a minimum, every 12 months thereafter if the loan remains 180 days or more delinquent. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. Charge-offs for real estate-secured loans may also occur at any time if the Bank has knowledge of the existence of a potential loss. For all real estate loans that are not secured by one- to four-family property, losses are charged-off when the collection of such amounts is unlikely. When a non-real estate secured loan is 120 days delinquent, any identified losses are charged-off.

The Bank's primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by

residential property located in Kansas and Missouri. Based on the composition of the Bank's loan portfolio, the primary risk characteristics inherent in the one- to four-family and consumer loan portfolios are a decline in economic conditions, elevated levels of unemployment or underemployment, and declines in residential real estate values. Any one or a combination of these events may adversely affect borrowers' ability to repay their loans, resulting in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Although the multi-family and commercial loan portfolio is subject to the same risk of declines in economic conditions, the primary risk characteristics inherent in this portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, and/or the ability to utilize personal and/or business resources to pay their contractual debt payments if the cash flows are not sufficient. Additionally, if the Bank were to repossess the secured collateral of a multi-family or commercial loan, the pool of potential buyers is limited more than that for a residential property. Therefore, the Bank could hold the property for an extended period of time and/or potentially be forced to sell at a discounted price, resulting in additional losses.

Each quarter, a formula analysis is prepared which segregates the loan portfolio into categories based on certain risk characteristics. The categories include the following: one- to four-family loans; multi-family and commercial loans; consumer home equity loans; and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis model to calculate a combined LTV ratio. Loans individually evaluated for loss are excluded from the formula analysis model. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated or bulk purchased; interest payments (fixed-rate, adjustable-rate, and interest-only); LTV ratios; borrower's credit scores; and geographic location. The categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in residential real estate values in certain areas of the U.S. and unemployment rates. The geographic location categories, specifically for bulk purchased loans, pertain primarily to certain states in which the Bank has experienced measurable loan losses.

Quantitative loss factors are applied to each loan category in the formula analysis model based on the historical loss experience for each respective loan category. Each quarter, management reviews the historical loss time periods and utilizes the historical loss time periods believed to be the most reflective of the current economic conditions and recent charge-off experience.

Qualitative loss factors are applied to each loan category in the formula analysis model. The qualitative loss factors that are applied in the formula analysis model for one- to four-family and consumer loan portfolios are: unemployment rate trends; collateral value trends; credit score trends; and delinquent loan trends. The qualitative loss factors that are applied in the formula analysis model for multi-family and commercial loan portfolio are: unemployment rate trends; credit score trends; delinquent loan trends; and a factor based on management's judgment due to the higher risk nature of these loans, as compared to one- to four-family loans. As loans are classified or become delinquent, the qualitative loss factors increase for each respective loan category. Additionally, TDRs that have not been partially charged-off are included in a category within the formula analysis model with an overall higher qualitative loss factor than corresponding performing loans, for the life of the loan. The qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

Management utilizes the formula analysis, along with analyzing several other factors, when evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, charge-off 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, and loan portfolio growth and concentrations. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ACL. Reviewing these factors assists management in evaluating the overall credit quality of the loan portfolio and the reasonableness of the ACL on an ongoing basis, and whether changes need to be made to the Bank's ACL methodology. Management seeks to apply the ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Assessing the adequacy of the ACL is inherently subjective. Actual results could differ from estimates as a result of changes in economic or market conditions. Changes in estimates could result in a material change in the ACL. In the opinion of management, the ACL, when taken as a whole, is adequate to absorb estimated losses inherent in the loan portfolio. However, future adjustments may be necessary if loan portfolio performance or economic or market conditions differ substantially from the conditions that existed at the time of the initial determinations.

Recent Accounting Pronouncements - In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-05, Presentation of Comprehensive Income, which revised how entities present comprehensive income in their financial statements. The ASU requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. In a continuous statement of comprehensive income, an entity would be required to present the components of the income statement as presented today, along with the components of other comprehensive income. In the two-statement approach, an entity would be required to present a statement that is consistent with the income statement format used today, along with a second statement, which would immediately follow the income statement that would include the components of other comprehensive income. The ASU did not change the items that an entity must report in other comprehensive income. ASU 2011-05 was effective October 1, 2012 for the Company. The Company elected the two-statement approach upon adoption on October 1, 2012 and applied the ASU retrospectively for all periods presented in the financial statements.

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 is October 1, 2013 for the Company. The Company has not yet completed its evaluation of ASU 2013-01 and ASU 2011-11; however, the standards are disclosure-related and therefore, their adoption is not expected to have an impact on the Company's financial condition or results of operations.

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 accumulated other comprehensive income. 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 accumulated other comprehensive income 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 is October 1, 2013 for the Company, and should be applied prospectively. The adoption of this ASU is disclosure-related and therefore, is not expected to have an impact on the Company's financial condition or results of operations.

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.

2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its restricted stock benefit plans in accordance with Accounting Standard Codification ("ASC") 260, which requires that unvested restricted stock awards be 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. 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.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands, except per share data)			
Net income	$ 17,715	$ 19,315	$ 35,278	$ 38,104
Income allocated to participating securities (unvested restricted stock)	(51)	--	(111)	--
Net income available to common stockholders	$ 17,664	$ 19,315	$ 35,167	$ 38,104
Average common shares outstanding	145,242,074	161,582,102	146,576,142	161,752,544

Average committed ESOP shares outstanding	139,531	139,514	69,757	70,130
Total basic average common shares outstanding	145,381,605	161,721,616	146,645,899	161,822,674
Effect of dilutive restricted stock	--	1,982	--	3,169
Effect of dilutive stock options	113	4,020	107	3,848
Total diluted average common shares outstanding	145,381,718	161,727,618	146,646,006	161,829,691
Net earnings per share:				
Basic	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Diluted	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Antidilutive stock options and restricted stock, excluded from the diluted average common shares outstanding calculation	2,463,165	881,128	2,466,339	883,608

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3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at March 31, 2013 and September 30, 2012. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	March 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 794,920	$ 2,741	$ 491	$ 797,170
MBS	417,796	26,344	1	444,139
Trust preferred securities	2,830	--	74	2,756
Municipal bonds	1,311	67	--	1,378
	1,216,857	29,152	566	1,245,443
HTM:				
MBS	1,913,956	63,271	3,643	1,973,584
Municipal bonds	39,823	1,438	2	41,259
	1,953,779	64,709	3,645	2,014,843
	$ 3,170,636	$ 93,861	$ 4,211	$ 3,260,286

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$ 857,409	$ 4,317	$ 2	$ 861,724
MBS	505,169	35,137	--	540,306
Municipal bonds	2,435	81	--	2,516
Trust preferred securities	2,912	--	614	2,298
	1,367,925	39,535	616	1,406,844
HTM:				
MBS	1,792,636	79,883	--	1,872,519
GSE debentures	49,977	247	--	50,224
Municipal bonds	45,334	1,822	--	47,156
	1,887,947	81,952	--	1,969,899
	$ 3,255,872	$ 121,487	$ 616	$ 3,376,743

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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 March 31, 2013 and September 30, 2012 was reported and the continuous unrealized loss position for at least 12 months or less than 12 months as of March 31, 2013 and September 30, 2012.

	March 31, 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	11	$ 263,650	$ 491	--	$ --	$ --
MBS	1	37	1	--	--	--
Trust preferred securities	--	--	--	1	2,756	74
	12	$ 263,687	$ 492	1	$ 2,756	$ 74
HTM:						
MBS	18	$ 399,401	$ 3,643	--	$ --	$ --
Municipal bonds	2	980	2	--	--	--
	20	$ 400,381	$ 3,645	--	$ --	$ --

	September 30, 2012					
	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	2	$ 42,733	$ 2	--	$ --	$ --
MBS	--	--	--	--	--	--
Trust preferred securities	--	--	--	1	2,298	614
	2	$ 42,733	$ 2	1	$ 2,298	$ 614
HTM:						
MBS	--	$ --	$ --	--	$ --	$ --
Municipal bonds	--	--	--	--	--	--
	--	$ --	$ --	--	$ --	$ --

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, 2013 are primarily a result of increases in market yields from the time of purchase. 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. The unrealized losses at September 30, 2012 are primarily a result of a decrease in the credit rating of a trust preferred security held by the Bank. Management reviews the underlying cash flows of this security on a quarterly basis. As of March 31, 2013 and September 30, 2012, the analysis indicated the present value of future expected cash flows are adequate to recover the entire amortized cost. 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. As a result of the analysis discussed above, management does not believe any other-than-temporary impairments existed at March 31, 2013 or September 30, 2012.

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, 2013 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. As of March 31, 2013, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $655.0 million. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments. Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$ 191	$ 193	$ 5,950	$ 6,008
One year through five years	673,348	676,450	27,579	28,765
Five years through ten years	256,948	266,756	481,104	493,176
Ten years and thereafter	286,370	302,044	1,439,146	1,486,894
	$ 1,216,857	$ 1,245,443	$ 1,953,779	$ 2,014,843

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

	March 31, 2013	September 30, 2012
	(Dollars in thousands)	
Federal National Mortgage Association ("FNMA")	$ 1,443,503	$ 1,324,293
Federal Home Loan Mortgage Corporation ("FHLMC")	746,607	824,197
Government National Mortgage Association	167,848	183,778
Private Issuer	137	674
	$ 2,358,095	$ 2,332,942

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

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2013	2012	2013	2012
	(Dollars in thousands)			
Taxable	$ 2,147	$ 3,688	$ 4,685	$ 7,885
Non-taxable	310	427	637	867
	$ 2,457	$ 4,115	$ 5,322	$ 8,752

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

	March 31, 2013		September 30, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Repurchase agreements	$ 350,779	$ 372,474	$ 400,827	$ 427,864
Public unit deposits	212,315	222,416	219,913	232,514
Federal Reserve Bank	41,430	43,463	49,472	52,122
	$ 604,524	$ 638,353	$ 670,212	$ 712,500

4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at March 31, 2013 and September 30, 2012 is summarized as follows:

	March 31, 2013	September 30, 2012
	(Dollars in thousands)	
Real estate loans:		
One- to four-family	$ 5,508,452	$ 5,392,429
Multi-family and commercial	46,579	48,623
Construction	64,572	52,254
Total real estate loans	5,619,603	5,493,306
Consumer loans:		
Home equity	137,380	149,321
Other	6,072	6,529
Total consumer loans	143,452	155,850
Total loans receivable	5,763,055	5,649,156
Less:		
Undisbursed loan funds	32,619	22,874
ACL	10,072	11,100

Discounts/unearned loan fees	22,149	21,468
Premiums/deferred costs	(17,058)	(14,369)
	$ 5,715,273	$ 5,608,083

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 located generally throughout the central, northeastern, and southern United States. As a result of originating loans in our branches, along with the purchasing of loans from correspondent lenders in our local markets, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. Additionally, the Bank periodically purchases whole one- to four-family loans in bulk packages from nationwide and correspondent lenders. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings.

One- to four-family loans - One- to four-family loans are underwritten manually or by using an internal loan origination auto-underwriting method. The method closely resembles the Bank's manual underwriting standards which are generally in accordance with FHLMC and FNMA manual underwriting guidelines. The method includes, but is not limited to, an emphasis on credit scoring, qualifying ratios reflecting the applicant's ability to repay, asset reserves, LTV ratio, property, and occupancy type. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. 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.

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 generally 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, 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 service ratios, property appraisals, and other underwriting related documentation. For the tables within Note 4, 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. The majority of the one- to four-family construction loans are secured by property located within the Bank's Kansas City market area. 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 and commercial real estate 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. At the time of origination, LTV ratios on multi-family and commercial real estate 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 sufficient to cover 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.

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.

The following table presents the recorded investment of loans, defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process and charge-offs) inclusive of unearned loan fees and deferred costs, of the Company's loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, total current loans, and the total loans receivable balance at March 31, 2013 and September 30, 2012, by class. Delinquent loans that are included in the formula analysis model are assigned a higher qualitative loss factor than corresponding performing loans. At March 31, 2013 and September 30, 2012, all loans in the 90 or more days delinquent were on nonaccrual status. In addition to loans 90 or more days delinquent, the Bank also had $7.5 million and $10.0 million of originated loan TDRs classified as nonaccrual at March 31, 2013 and September 30, 2012, respectively, as well as $711 thousand and $2.4 million of purchased loan TDRs classified as nonaccrual at March 31, 2013 and September 30, 2012, respectively, as required by the OCC Call Report requirements. Of these amounts, $7.2 million and $11.2 million were current at March 31, 2013 and September 30, 2012, respectively. At March 31, 2013 and September 30, 2012, the balance of loans on nonaccrual status was $26.3 million and $31.8 million, respectively.

	March 31, 2013				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 14,754	$ 8,317	$ 23,071	$ 4,770,458	$ 4,793,529
One- to four-family loans - purchased	9,268	9,488	18,756	709,084	727,840
Multi-family and commercial loans	--	--	--	60,524	60,524
Consumer - home equity	719	393	1,112	136,268	137,380
Consumer - other	104	26	130	5,942	6,072
	$ 24,845	$ 18,224	$ 43,069	$ 5,682,276	$ 5,725,345

	September 30, 2012				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$ 14,902	$ 8,602	$ 23,504	$ 4,590,194	$ 4,613,698
One- to four-family loans - purchased	7,788	10,530	18,318	771,755	790,073
Multi-family and commercial loans	--	--	--	59,562	59,562

Consumer - home equity	521	369	890	148,431	149,321
Consumer - other	106	27	133	6,396	6,529
	$ 23,317	$ 19,528	$ 42,845	$ 5,576,338	$ 5,619,183

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.

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 loans are individually evaluated for loss.

The following tables set forth the recorded investment in loans classified as special mention or substandard at March 31, 2013 and September 30, 2012, by class. At March 31, 2013 and September 30, 2012, there were no loans classified as doubtful or loss that were not fully charged-off.

	March 31, 2013		September 30, 2012	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family - originated	$ 33,086	$ 26,310	$ 36,055	$ 23,153
One- to four-family - purchased	2,270	14,244	2,829	14,538
Multi-family and commercial	2,583	--	2,578	--
Consumer - home equity	230	1,026	413	815
Consumer - other	--	36	--	39
	$ 38,169	$ 41,616	$ 41,875	$ 38,545

The following table shows the weighted average LTV and credit score information for originated and purchased one- to four-family loans and originated consumer home equity loans at March 31, 2013 and September 30, 2012. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are typically updated in the last month of the quarter and are obtained 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.

	March 31, 2013		September 30, 2012	
	Weighted Average		Weighted Average	
	Credit Score	LTV	Credit Score	LTV
One- to four-family - originated	763	65 %	763	65 %
One- to four-family - purchased	749	67	749	67
Consumer - home equity	744	19	747	19
	761	64 %	761	64 %

Troubled Debt Restructurings - The following table presents the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the three and six months ended March 31, 2013 and 2012. These tables do not reflect the recorded investment at the end of the periods indicated. The increase in the recorded investment at the time of the restructuring was generally due to the capitalization of delinquent interest and/or escrow balances.

	For the Three Months Ended March 31, 2013			For the Six Months Ended March 31, 2013		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)					
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

	For the Three Months Ended March 31, 2012			For the Six Months Ended March 31, 2012		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)					
One- to four-family loans - originated	55	$ 9,394	$ 9,446	125	$ 19,725	$ 19,816
One- to four-family loans - purchased	--	--	--	--	--	--
Multi-family and commercial loans	--	--	--	--	--	--
Consumer - home equity	--	--	--	1	--	10
Consumer - other	--	--	--	--	--	--
	55	$ 9,394	$ 9,446	126	$ 19,725	$ 19,826

The following table provides information on TDRs restructured within the last 12 months that became delinquent during the three and six months ended March 31, 2013 and 2012.

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2013		March 31, 2012		March 31, 2013		March 31, 2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)							
One- to four-family loans - originated	11	$ 1,106	6	$ 762	17	$ 1,511	7	$ 838
One- to four-family loans - purchased	3	1,067	--	--	4	1,114	1	401
Multi-family and commercial loans	--	--	--	--	--	--	--	--
Consumer - home equity	1	5	--	--	2	7	--	--
Consumer - other	--	--	--	--	--	--	--	--
	15	$ 2,178	6	$ 762	23	$ 2,632	8	$ 1,239

Impaired loans – The following is a summary of information pertaining to impaired loans by class as of March 31, 2013 and September 30, 2012.

	March 31, 2013			September 30, 2012		
	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	$ 11,483	$ 11,523	$ --	$ 10,729	$ 10,765	$ --
One- to four-family - purchased	14,753	14,625	--	15,340	15,216	--
Multi-family and commercial	--	--	--	--	--	--
Consumer - home equity	622	622	--	882	881	--
Consumer - other	33	33	--	27	27	--
	26,891	26,803	--	26,978	26,889	--
With an allowance recorded						
One- to four-family - originated	38,368	38,503	228	41,125	41,293	268
One- to four-family - purchased	1,762	1,746	52	2,028	2,016	54
Multi-family and commercial	77	79	3	--	--	--
Consumer - home equity	500	500	74	307	307	52
Consumer - other	10	10	1	12	12	1
	40,717	40,838	358	43,472	43,628	375
Total						
One- to four-family - originated	49,851	50,026	228	51,854	52,058	268
One- to four-family - purchased	16,515	16,371	52	17,368	17,232	54
Multi-family and commercial	77	79	3	--	--	--
Consumer - home equity	1,122	1,122	74	1,189	1,188	52
Consumer - other	43	43	1	39	39	1
	$ 67,608	$ 67,641	$ 358	$ 70,450	$ 70,517	$ 375

The following is a summary of information pertaining to impaired loans by class for the three and six months ended March 31, 2013 and 2012.

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2013		March 31, 2012		March 31, 2013		March 31, 2012	
	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	$ 7,784	$ 63	$ 49,682	$ 481	$ 8,572	$ 139	$ 49,025	$ 872
One- to four-family - purchased	15,058	51	11,876	49	15,108	97	9,942	108
Multi-family and commercial	--	--	277	--	--	--	372	--
Consumer - home equity	474	15	466	3	596	22	467	5
Consumer - other	29	--	10	--	28	--	9	--
	23,345	129	62,311	533	24,304	258	59,815	985
With an allowance recorded								
One- to four-family - originated	42,937	452	3,225	24	42,457	905	3,249	70
One- to four-family - purchased	2,136	21	7,022	13	2,145	46	9,228	18
Multi-family and commercial	78	--	--	--	44	--	--	--
Consumer - home equity	605	9	138	1	507	14	180	3
Consumer - other	26	--	--	--	28	--	--	--
	45,782	482	10,385	38	45,181	965	12,657	91
Total								
One- to four-family - originated	50,721	515	52,907	505	51,029	1,044	52,274	942
One- to four-family - purchased	17,194	72	18,898	62	17,253	143	19,170	126
Multi-family and commercial	78	--	277	--	44	--	372	--

Consumer - home equity	1,079	24	604	4	1,103	36	647	8
Consumer - other	55	--	10	--	56	--	9	--
	$ 69,127	$ 611	$ 72,696	$ 571	$ 69,485	$ 1,223	$ 72,472	$ 1,076

Allowance for credit losses - The following is a summary of the activity in the ACL by segment and the ending balance of the ACL based on the Company's impairment methodology for and at the beginning and end of the periods presented. Net charge-offs during the six months ended March 31, 2013 were $1.3 million, of which $372 thousand related to loans that were discharged in a prior fiscal year under Chapter 7 bankruptcy that must be, in accordance with OCC regulations, evaluated for collateral value loss, even if the loans are current. In January 2012, management implemented a loan charge-off policy as OCC Call Report requirements do not permit the use of specific valuation allowances ("SVAs"), which the Bank was previously utilizing for potential loan losses, as permitted by the Bank's previous regulator. As a result of the implementation of the charge-off policy change, $3.5 million of SVAs were charged-off during the three months ended March 31, 2012. These charge-offs did not impact the provision for credit losses, and therefore had no additional income statement impact, as the amounts were expensed in previous periods.

	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)					
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

Ratio of net charge-offs during the period to average loans outstanding during the period	0.01 %
Ratio of net charge-offs during the period to average non-performing assets during the period	1.19 %

	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

Ratio of net charge-offs during the period to average loans outstanding during the period	0.02	%
Ratio of net charge-offs during the period to average non-performing assets during the period	3.46	%

	For the Three Months Ended March 31, 2012					
	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	$ 4,921	$ 10,342	$ 15,263	$ 83	$ 259	$ 15,605
Charge-offs	(497)	(3,850)	(4,347)	--	(199)	(4,546)
Recoveries	--	--	--	--	--	--
Provision for credit losses	368	1,000	1,368	(1)	133	1,500
Ending balance	$ 4,792	$ 7,492	$ 12,284	$ 82	$ 193	$ 12,559

Ratio of net charge-offs during the period to average loans outstanding during the period	0.09	%
Ratio of net charge-offs during the period to average non-performing assets during the period	11.11	%

	For the Six Months Ended March 31, 2012					
	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	$ 4,915	$ 9,901	$ 14,816	$ 254	$ 395	$ 15,465
Charge-offs	(587)	(4,154)	(4,741)	--	(205)	(4,946)
Recoveries	--	--	--	--	--	--
Provision for credit losses	464	1,745	2,209	(172)	3	2,040
Ending balance	$ 4,792	$ 7,492	$ 12,284	$ 82	$ 193	$ 12,559

Ratio of net charge-offs during the period to average loans outstanding during the period	0.10 %
Ratio of net charge-offs during the period to average non-performing assets during the period	12.37 %

The following is a summary of the loan portfolio and related ACL balances at March 31, 2013 and September 30, 2012 by loan portfolio segment disaggregated by the Company's impairment method. There was no ACL for loans individually evaluated for impairment at March 31, 2013 or September 30, 2012, as all potential losses were charged-off.

	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)					
Recorded investment of loans collectively evaluated for impairment	$ 4,782,046	$ 713,087	$ 5,495,133	$ 60,524	$ 142,797	$ 5,698,454
Recorded investment of loans individually evaluated for impairment	11,483	14,753	26,236	--	655	26,891
	$ 4,793,529	$ 727,840	$ 5,521,369	$ 60,524	$ 143,452	$ 5,725,345
ACL for loans collectively evaluated for impairment	$ 6,002	$ 3,495	$ 9,497	$ 208	$ 367	$ 10,072

	September 30, 2012					
				Multi-family		

	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	and Commercial	Consumer	Total
	(Dollars in thousands)					
Recorded investment of loans collectively evaluated for impairment	$ 4,602,969	$ 774,734	$ 5,377,703	$ 59,562	$ 154,940	$ 5,592,205
Recorded investment of loans individually evaluated for impairment	10,729	15,339	26,068	--	910	26,978
	$ 4,613,698	$ 790,073	$ 5,403,771	$ 59,562	$ 155,850	$ 5,619,183
ACL for loans collectively evaluated for impairment	$ 6,074	$ 4,453	$ 10,527	$ 219	$ 354	$ 11,100

As noted above, 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, 2013, the level of the ACL remains an estimate that is subject to significant judgment and short-term changes. Additions to the ACL may be necessary if future economic and other conditions worsen substantially from the current environment.

5. Fair Value of Financial Instruments

Fair Value Measurements - ASC 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. ASC 820 was issued to increase consistency and comparability in reporting fair values.

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at March 31, 2013 or September 30, 2012. 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.

In accordance with ASC 820, 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. As required by ASC 820, 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'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. (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. (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. (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)

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets m
which consists of AFS securities, at March 31, 2013 and September 30, 2012.

	March 31, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [1]
	(Dollars in thousands)			
AFS Securities:				
GSE debentures	$ 797,170	$ --	$ 797,170	$ --
MBS	444,139	--	444,139	--
Trust preferred securities	2,756	--	--	2,756
Municipal bonds	1,378	--	1,378	--
	$ 1,245,443	$ --	$ 1,242,687	$ 2,756

	September 30, 2012			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3) [2]
	(Dollars in thousands)			
AFS Securities:				
GSE debentures	$ 861,724	$ --	$ 861,724	$ --
MBS	540,306	--	540,306	--
Municipal bonds	2,516	--	2,516	--
Trust preferred securities	2,298	--	--	2,298
	$ 1,406,844	$ --	$ 1,404,546	$ 2,298

(1) The Company's Level 3 AFS securities had no activity from September 30, 2012 to March 31, 2013, except for principal repayments of $117 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, 2013 were $336 thousand.
(2) The Company's Level 3 AFS securities had no activity from September 30, 2011 to September 30, 2012, except for principal repayments of $996 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the year ended September 30, 2012 were $78 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, 2013 and September 30, 2012 was $26.8 million and $26.9 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. 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, 2013 and September 30, 2012; 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. 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, 2013 and September 30, 2012 was $6.7 million and $8.0 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets m
March 31, 2013 and September 30, 2012.

	March 31, 2013			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	$ 26,803	$ --	$ --	$ 26,803
OREO	6,682	--	--	6,682
	$ 33,485	$ --	$ --	$ 33,485

	September 30, 2012			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Loans individually evaluated for impairment	$ 26,890	$ --	$ --	$ 26,890
OREO	8,047	--	--	8,047
	$ 34,937	$ --	$ --	$ 34,937

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 March 31, 2013 and September 30, 2012.

The carrying amounts and estimated fair values of the Company's financial instruments as of March 31, 2013 and September 30, 2012 were as follows:

	March 31, 2013		September 30, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$ 48,574	$ 48,574	$ 141,705	$ 141,705
HTM securities	1,953,779	2,014,843	1,887,947	1,969,899
Loans receivable	5,715,273	6,065,659	5,608,083	5,978,872
BOLI	58,756	58,756	58,012	58,012
Capital stock of FHLB	130,680	130,680	132,971	132,971
Liabilities:				
Deposits	4,693,573	4,737,225	4,550,643	4,607,732
Advances from FHLB	2,634,465	2,772,436	2,530,322	2,701,142
Repurchase agreements	315,000	332,836	365,000	388,761

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 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, 2013 and September 30, 2012 was $2.13 billion and $1.98 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, 2013 and September 30, 2012 was $2.61 billion and $2.63 billion, respectively. (Level 2)

Advances from FHLB 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, 2013, 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, 2013.

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 and the exhibits attached to it, 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, that 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;
- the 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;
- 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 financial services laws and regulations, including laws concerning taxes, banking, securities, consumer protection and insurance and the impact of 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 2012 Annual Report on Form 10-K 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. To a lesser extent, we also originate consumer loans, loans secured by first mortgages on non-owner-occupied one- to four-family residences, multi-family and commercial real estate loans, and construction loans. 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, and invest in certain investment securities and MBS using funding from retail deposits, advances from FHLB, 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 personal 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 generally prices its first mortgage loan products based on secondary market and competitor pricing. 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 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 March 2013 statement and minutes that economic activity has returned to moderate growth following a pause late last year. Although the unemployment rate remains elevated, labor market conditions have shown signs of improvement in recent months. The FOMC stated that household spending and business fixed investment have advanced, and that the housing sector continues to strengthen. Rising home prices are strengthening household balance sheets by increasing wealth and progressively affording homeowners the ability to refinance their mortgages at lower rates. The FOMC views this dynamic as potentially leading to a virtuous cycle that could help support household spending and financial market conditions over time. For the most part, inflation has been running somewhat below the FOMC's longer-run objective and longer-term inflationary expectations have remained stable. The FOMC decided to 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 at a pace of $45 billion per month and agency MBS at a pace of $40 billion per month. The FOMC expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The FOMC believes that these actions, taken together, will maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative. The FOMC remarked that it will continue to maintain the overnight lending rate at zero to 0.25% as long as the unemployment rate remains above 6.5%, inflation between one and two years ahead is projected to be no more than a half percentage point above the FOMC's 2% longer-run goal, and longer-term inflation expectations continue to be well anchored.

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 2013, the unemployment rate was 5.6% for Kansas and 6.7% for Missouri, compared to the national average of 7.6% based on information from the Bureau of Economic Analysis. The unemployment rate remains relatively low in our market areas, compared to the national average, due to diversified industries within our market areas, primarily in the Kansas City metropolitan statistical area, but it is higher than the historical average. Our Kansas City market area, which comprises the largest segment of our loan portfolio and deposit base, has an average household income of approximately $79 thousand per annum, based on 2012 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 $68 thousand per annum, with 92% of the population at or above the poverty level, also based on the 2012 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 historically in property values in our local market areas.

Total assets increased $15.4 million, from $9.38 billion at September 30, 2012 to $9.39 billion at March 31, 2013, due primarily to a $107.2 million increase in the loan portfolio and a $97.5 million increase in other assets, partially offset by a $95.6 million decrease in the securities portfolio and a $93.1 million decrease in cash and cash equivalents. The increase in other assets was due primarily to a $100.0 million FHLB advance commitment, which settled in early April 2013.

The overall performance of our loan portfolio continued to improve during the current fiscal year. Loans 90 or more days delinquent or in foreclosure decreased $1.3 million, or 6.7%, from $19.5 million at September 30, 2012 to $18.2 million at March 31, 2013. Net charge-offs during the current six month period were $1.3 million, of which $372 thousand related to loans that were discharged in a prior fiscal year under Chapter 7 bankruptcy that had to be, in accordance with OCC regulations, evaluated for collateral value loss, even if the loan was current.

Total liabilities increased $178.9 million, from $7.57 billion at September 30, 2012, to $7.75 billion at March 31, 2013 due largely to a $142.9 million increase in deposits and a $100.0 million FHLB advance commitment, partially offset by the repayment of $50.0 million of repurchase agreements that matured during the current quarter. Stockholders' equity decreased $163.5 million, from $1.81 billion at September 30, 2012 to $1.64 billion at March 31, 2013. The decrease was due primarily to the payment of $125.3 million of dividends and the repurchase of $72.0 million of stock, partially offset by net income of $35.3 million.

Net income for the quarter ended March 31, 2013 was $17.7 million, compared to $19.3 million for the quarter ended March 31, 2012. The $1.6 million, or 8.3%, decrease in net income was due primarily to a decrease in net interest income and an increase in other expenses, partially offset by decreases in provision for credit losses and income tax expense. The net interest margin decreased nine basis points, from 2.06% for the prior year quarter to 1.97% for the current quarter, primarily as a result of continued downward pressure on loan and security yields.

Net income for the six months ended March 31, 2013 was $35.3 million, compared to net income of $38.1 million for the six months ended March 31, 2012. The $2.8 million, or 7.4%, decrease in net income was due primarily to an increase in other expenses and a decrease in net interest income, partially offset by a decrease in income tax expense and provision for credit losses. The net interest margin decreased three basis points, from 2.02% for the prior year six month period to 1.99% for the current year six month period. The decrease in the net interest margin was primarily a result of a decrease in loan and security yields, which more than offset the benefit received from a decrease in the cost of funds between the two periods.

The Bank currently expects to open one new branch in calendar year 2013. The branch will be located in our Kansas City market area. Management continues to consider expansion opportunities in all of our market areas.

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.

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 our audit committee. 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, 2012.

Financial Condition

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

	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
	(Dollars in thousands)				
Total assets	$ 9,393,718	$ 9,238,786	$ 9,378,304	$ 9,420,614	$ 9,573,144
Cash and cash equivalents	48,574	105,157	141,705	172,948	143,707
AFS securities	1,245,443	1,259,392	1,406,844	1,632,297	1,715,445
HTM securities	1,953,779	1,902,228	1,887,947	2,073,951	2,165,036
Loans receivable, net	5,715,273	5,640,077	5,608,083	5,209,990	5,224,178
Capital stock of FHLB	130,680	130,784	132,971	131,437	130,614