Capitol Federal Financial Inc
Form 10-K
November 26, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-34814

Capitol Federal Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $0.01 per share	The NASDAQ Stock Market LLC
(Title of Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No þ
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 filing 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
(do not check if smaller reporting company)

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such stock on the NASDAQ Stock Market as of March 31, 2014, was $1.76 billion.

As of November 17, 2014, there were issued and outstanding 140,653,358 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K - Portions of the proxy statement for the Annual Meeting of Stockholders for the year ended September 30, 2014.

			Page No.
PART I	Item 1.	Business	2
	Item 1A.	Risk Factors	31
	Item 1B.	Unresolved Staff Comments	35
	Item 2.	Properties	35
	Item 3.	Legal Proceedings	35
	Item 4.	Mine Safety Disclosures	35
PART II	Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	36
	Item 6.	Selected Financial Data	38
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	40
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	76
	Item 8.	Financial Statements and Supplementary Data	83
	Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	128
	Item 9A.	Controls and Procedures	128
	Item 9B.	Other Information	128
PART III	Item 10.	Directors, Executive Officers, and Corporate Governance	129
	Item 11.	Executive Compensation	129
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	129
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	130
	Item 14.	Principal Accountant Fees and Services	130
PART IV	Item 15.	Exhibits and Financial Statement Schedules	131
SIGNATURES			132
INDEX TO EXHIBITS			133

Private Securities Litigation Reform Act-Safe Harbor Statement

Capitol Federal Financial, Inc. (the "Company"), and Capitol Federal Savings Bank ("Capitol Federal Savings" or the "Bank"), 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 Securities and Exchange Commission ("SEC"). These forward-looking statements may be included in this Annual Report on Form 10-K 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, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause our future results to differ materially from the plans, objectives, goals, expectations, anticipations, estimates and intentions expressed in the forward-looking statements:

- our ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate and purchase a sufficient volume of one- to four-family loans in order to at least maintain the balance of that portfolio;
- our ability to invest funds in wholesale or secondary markets at favorable yields 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 home values, and changes in estimates of the adequacy of the allowance for credit losses ("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;
- changes in accounting principles, policies, or guidelines;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations, including areas where we have purchased large amounts of correspondent loans;
- 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;

- significant litigation;
- 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.

PART I

As used in this Form 10-K, 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.

Item 1. Business

General

The Company is a Maryland corporation that was incorporated in April 2010. In December 2010, we completed our conversion from a mutual holding company form of organization to a stock form of organization ("the corporate reorganization"). The Company's common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN."

The Bank is a wholly-owned subsidiary of the Company and is a federally chartered and insured savings bank headquartered in Topeka, Kansas. The Bank is examined and regulated by the Office of the Comptroller of the Currency (the "OCC"), its primary regulator, and its deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City through 37 traditional and 10 in-store branches. The Company, as a savings and loan holding company, is examined and regulated by the FRB.

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. While our primary business is the origination of one- to four-family mortgage loans, we also purchase whole one- to four-family mortgage loans from correspondent lenders, originate consumer loans primarily secured by mortgages on one- to four-family residences, originate and participate in loans with other lenders that are secured by commercial or multi-family real estate, and invest in certain investment securities and mortgage-backed securities ("MBS") using funding from retail deposits, Federal Home Loan Bank Topeka ("FHLB") borrowings, and repurchase agreements. We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, interest-bearing and noninterest-bearing checking accounts, and certificates of deposit with terms ranging from 91 days to 96 months. Our revenues are derived principally from interest on loans, MBS and investment securities.

The Company is significantly affected by prevailing economic conditions, including federal monetary and fiscal policies and federal regulation of financial institutions. Retail deposit balances are influenced by a number of factors, including interest rates paid on competing investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, our loan underwriting guidelines compared to those of our competitors, as well as interest rate pricing competition from other lending institutions.

Our executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603, and our telephone number at that address is (785) 235-1341.

Available Information

Our Internet website address is www.capfed.com. Financial information, including our 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 website. These reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are also available on the SEC's website at http://www.sec.gov.

2

Market Area and Competition

Our corporate office is located in Topeka, Kansas. We currently have a network of 47 branches (37 traditional branches and 10 in-store branches) located in nine counties throughout Kansas and three counties in Missouri. We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia, and Salina, Kansas and a portion of the metropolitan area of greater Kansas City. In addition to providing full service banking offices, we provide our customers mobile banking, telephone banking and bill payment services, and online banking and bill payment services. We also have a call center which operates on extended hours.

The Bank ranked second in deposit market share, at 7.23%, in the state of Kansas as reported in the June 30, 2014 FDIC "Summary of Deposits - Market Share Report." This represents a modest decrease from our deposit market share at June 30, 2013, which was 7.51%. The first and third ranked institutions at June 30, 2014 had a 7.77% and 5.28% deposit market share, respectively. Deposit market share is measured by total deposits, without consideration for type of deposit. We do not offer commercial deposit accounts, while many of our competitors have both commercial and retail deposits in their total deposit base. Some of our competitors also offer products and services that we do not, such as trust services and private banking, which may add to their total deposits. Consumers also have the ability to utilize online financial institutions and investment brokerages that are not confined to any specific market area. Management considers our well-established retail banking network together with our reputation for financial strength and customer service to be major factors in our success at attracting and retaining customers in our market areas.

The Bank consistently has been one of the top one- to four-family lenders with regard to loan origination volume in the state of Kansas. Through our strong relationships with real estate agents and marketing efforts which reflect our reputation and pricing, we attract mortgage loan business from walk-in customers, customers that apply online, and existing customers. Competition in originating one- to four-family mortgage loans primarily comes from other savings institutions, commercial banks, credit unions, and mortgage bankers. Other savings institutions, commercial banks, credit unions, and finance companies provide vigorous competition in consumer lending.

Lending Practices and Underwriting Standards

General. 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 located in Kansas and Missouri. The Bank also originates consumer loans and construction loans secured by residential properties, and originates and participates in commercial and multi-family real estate loans and construction loans secured by multi-family or commercial real estate.

For a discussion of our market risk associated with loans see "Part II, Item 7A. Quantitative and Qualitative Disclosure about Market Risk."

One- to Four-Family Residential Real Estate Lending. The Bank originates and services conventional mortgage loans that are not guaranteed or insured by the federal government, and purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders. The Bank previously originated Federal Housing Administration ("FHA") insured loan products and sold them servicing released to a private investor; however, the Bank has discontinued offering the FHA loan product due to the recent increases in mortgage insurance premiums on FHA loans, which makes the product less attractive to borrowers than a conventional loan with traditional private mortgage insurance.

Originated loans

New loans are originated through referrals from real estate brokers and builders, our marketing efforts, our reputation for customer service, and our existing and walk-in customers. While the Bank originates both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition, and the interest rate environment. During fiscal years

2014 and 2013, the Bank originated and refinanced $484.3 million and $849.9 million of one- to four-family mortgage loans, respectively.

Purchased loans
The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders. Loan purchases enable the Bank to attain some geographic diversification in the loan portfolio. At September 30, 2014, the Bank had correspondent lending relationships in 27 states. During fiscal years 2014 and 2013, the Bank purchased $515.5 million and $585.0 million, respectively, of one- to four-family loans from correspondent lenders. We pay a premium of 0.50% to 1.0% of the loan balance to purchase these loans, and we pay 1.0% of the loan balance to purchase the servicing of these loans.

The Bank has an agreement with a third-party mortgage sub-servicer to provide loan servicing for loans originated by the Bank's correspondent lenders in certain states. The sub-servicer has experience servicing loans in the market areas in which we purchase loans and services the loans according to the Bank's servicing standards, which is intended to allow the Bank greater control over servicing and help maintain a standard of loan performance.

The Bank has also purchased one- to four-family loans from correspondent and nationwide lenders in bulk loan packages. The last bulk loan package purchased by the Bank was in August 2012. The servicing rights were generally retained by the lender/seller for the loans purchased from nationwide lenders; however, our sub-servicer services bulk loan packages purchased from nationwide lenders and certain correspondent lenders, when economically feasible. The servicing with nationwide lenders is governed by a servicing agreement, which outlines collection policies and procedures, as well as oversight requirements, such as servicer certifications attesting to and providing proof of compliance with the servicing agreement.

Underwriting
Full documentation to support an applicant's credit and income, and sufficient funds to cover all applicable fees and reserves at closing, are required on all loans. Loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the Consumer Financial Protection Bureau ("CFPB"), with total debt-to-income ratios not exceeding 43% of a borrower's verified income. Information pertaining to the creditworthiness of the borrower generally consists of a summary of the borrower's credit history, employment stability, sources of income, assets, net worth, and debt ratios. The value of the property must be supported by an appraisal report prepared in accordance with our appraisal policy by either a staff appraiser or a fee appraiser, both of which are independent of the loan origination function and who are approved by our Board of Directors.

Loans over $500 thousand must be underwritten by two of our highest class of underwriters. Any loan greater than $750 thousand must be approved by the Asset and Liability Management Committee ("ALCO"), and loans over $1.5 million must be approved by our Board of Directors. For loans requiring ALCO and/or Board of Directors' approval, lending management is responsible for presenting to ALCO and/or the Board of Directors information about the creditworthiness of the borrower and the market value of the subject property.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of correspondent loans is performed by the Bank's underwriters. Our standard contractual agreement with the lender/seller includes recourse options for any breach of representation or warranty with respect to the loans purchased. The Bank did not request any lenders/sellers to repurchase loans for breach of representation during fiscal year 2014.

Adjustable-rate loans
Current adjustable-rate one- to four-family mortgage loans originated by the Bank generally provide for a specified rate limit or cap on the periodic adjustment to the interest rate, as well as a specified maximum lifetime cap and minimum rate, or floor. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Negative amortization of principal is not allowed. For three- and five-year adjustable-rate mortgage ("ARM") loans, borrowers are qualified based on the principal, interest, tax and insurance payments at the initial interest rate plus the life of loan cap and the initial interest rate plus the first period cap, respectively. For

seven-year ARM loans, borrowers are qualified based on the principal, interest, tax and insurance payments at the initial rate. After the initial three-, five-, or seven-year period, the interest rate resets annually and the new principal and interest payment is based on the new interest rate, remaining unpaid principal balance and term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans; however, we do allow borrowers to pay an endorsement fee to convert an ARM loan to a fixed-rate loan. ARM loans can

4

pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment also rises, increasing the potential for default. This specific type of risk is known as repricing risk.

The Bank no longer offers an interest-only ARM product; however it still holds in its portfolio originated and purchased interest-only ARM loans. At the time of origination, these loans did not require principal payments for a period of up to 10 years. For originated interest-only ARM loans, borrowers were qualified based on a fully amortizing payment at the initial loan rate. The Bank was more restrictive on debt-to-income ratios and credit scores on originated interest-only ARM loans than on other ARM loans to offset the potential risk of payment shock at the time the loan rate resets and/or the principal and interest payments begin. At September 30, 2014, $52.8 million, or approximately 1% of our one- to four-family loan portfolio, consisted of non-amortizing interest-only ARM loans. The majority of these loans were purchased from nationwide lenders during fiscal year 2005.

Pricing

Our pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent lending markets. ARM loans are offered with a three-year, five-year, or seven-year term to the initial repricing date. After the initial period, the interest rate for each ARM loan generally adjusts annually for the remainder of the term of the loan. Currently, new originations are tied to London Interbank Offered Rates ("LIBOR"), however, other indices have been used in the past. During fiscal year 2014, the average daily spread between the Bank's 30-year fixed-rate one- to four-family loan offer rate, with no points paid by the borrower, and the 10-year Treasury rate was approximately 160 basis points, while the average daily spread between the Bank's 15-year fixed-rate one- to four-family loan offer rate and the 10-year Treasury rate was approximately 70 basis points.

Mortgage Insurance

For a mortgage with a loan-to-value ("LTV") ratio in excess of 80% at the time of origination, private mortgage insurance ("PMI") is required in order to reduce the Bank's loss exposure. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for one- to four-family loans, provided PMI is obtained. Management continuously monitors the claim-paying ability of our PMI counterparties. We believe our PMI counterparties have the ability to meet potential claim obligations we may file in the foreseeable future.

Loan endorsement program

In an effort to offset the impact of repayments and to retain our customers, existing loan customers, including customers whose loans were purchased from a correspondent lender, have the opportunity, for a cash fee, to endorse their original loan terms to current loan terms being offered. Customers whose loans have been sold to third parties, or have been delinquent on their contractual loan payments during the previous 12 months, or are currently in bankruptcy, are ineligible to participate in the program. The Bank does not solicit customers for this program, but considers it a valuable opportunity to retain customers who, based on our initial underwriting criteria, could likely obtain similar financing elsewhere. During fiscal years 2014 and 2013, we endorsed $36.4 million and $487.0 million of one- to four-family loans, respectively.

Repayment

The Bank's one- to four-family loans are primarily fully amortizing fixed-rate or ARM loans. The contractual maturities for fixed-rate loans can be up to 30 years and the contractual maturities for ARM loans can be up to 40 years. Our one- to four-family loans are generally not assumable and do not contain prepayment penalties. A "due on sale" clause, allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the secured property, is generally included in the security instrument.

Loan sales

One- to four-family loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated to reduce interest rate risk and/or maintain a certain liquidity position. Loans originated by the Bank are generally eligible for sale in the secondary market. The Bank generally retains the servicing on these loans. ALCO

determines the criteria upon which one- to four-family loans are to be originated as held-for-sale or held-for-investment. One- to four-family loans originated as held-for-sale are to be sold in accordance with policies set forth by ALCO. One- to four-family loans originated as held-for-investment are generally not sold unless a specific segment of the portfolio is identified for asset restructuring purposes. The Bank did not sell any conventional one- to four-family loans during fiscal years 2014 or 2013.

Construction Lending. The Bank originates and purchases construction-to-permanent loans primarily secured by one- to four-family residential real estate, as well as by multi-family dwellings and commercial real estate. The underwriting details for multi-family dwelling and commercial real estate are presented in the "Multi-family and Commercial Lending" below. At September 30, 2014, we had $106.8 million in construction-to-permanent loans outstanding, including undisbursed loan funds, representing approximately 2% of our total loan portfolio. Of the $106.8 million in construction-to-permanent loans outstanding at September 30, 2014, $72.1 million, or approximately 68%, related to 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.
The Bank's one- to four-family construction-to-permanent loan program combines the construction loan and the permanent loan into one loan allowing the borrower to secure the same interest rate throughout the construction period and the permanent loan. The loan products and interest rate offered on the one- to four-family construction-to-permanent loan program are the same as what is offered for non-construction one- to four-family loans. The loan term is longer than the non-construction one- to four-family loans due to consideration for the construction period, which is generally between 12 and 18 months.

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. The Bank charges a 1% fee at closing, based on the loan amount, for these administrative requirements. Interest is not capitalized during the construction period, it is billed and collected monthly based on the amount of funds disbursed. Once the construction period is complete, the payment method is changed from interest-only to an amortized principal and interest payment for the remaining term of the loan.

Consumer Lending. 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. All consumer loans are originated in the Bank's market areas. At September 30, 2014, our consumer loan portfolio totaled $135.0 million, or approximately 2% of our total loan portfolio.

The majority of the consumer loan portfolio is comprised of home equity lines of credit which have interest rates that can adjust monthly based upon changes in the Prime rate, to a maximum of 18%. For the majority of the home equity lines of credit, the Bank has the first mortgage or the Bank is in the first lien position. Home equity lines of credit may be originated up to 90% of the value of the property securing the loan if no first mortgage exists, or up to 90% of the value of the property securing the loans if taking into consideration an existing first mortgage. Approximately 60%, or $65.3 million, of our home equity lines at September 30, 2014 were originated with a payment requirement of 1.5% of the outstanding loan balance per month, but have no stated term-to-maturity and no repayment period. Repaid principal may be re-advanced at any time, not to exceed the original credit limit of the loan. Approximately 37%, or $40.1 million, of our home equity lines at September 30, 2014 were originated with a seven year draw period, a 10 year repayment term and typically a payment requirement of 1.5% of the outstanding loan balance per month during the draw period, with an amortizing payment during the repayment period. Repaid principal may be re-advanced at any time during the draw period, not to exceed the original credit limit of the loan. We also offer interest-only home equity lines of credit. These loans have a maximum term of 12 months and require monthly payments of accrued interest, and a balloon payment at maturity. At September 30, 2014, approximately 3%, or $3.9 million, of our home equity lines were interest-only. Closed-end home equity loans, which totaled $21.2 million at September 30, 2014,

may be originated up to 95% of the value of the property securing the loans if taking into consideration an existing first mortgage, or the lesser of up to $40 thousand or 25% of the value of the property securing the loan if no first mortgage exists. The term-to-maturity for closed-end home equity loans in the first lien position may be up to 10 years, or may be up to 20 years for loans in the second lien position. Other consumer loan terms vary according to the type of collateral and the length of the contract. Home equity loans, including lines of credit and closed-end loans, comprised approximately 97% of our consumer loan portfolio, or $130.5 million, at September 30, 2014; of that amount, 84% was adjustable-rate.

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.

Consumer loans generally have shorter terms to maturity or reprice more frequently, usually without periodic caps, which reduces our exposure to credit risk and changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater credit risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles. Management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.
Multi-family and Commercial Lending. At September 30, 2014, the Bank's multi-family and commercial loans, including those that were in the construction period, totaled $110.4 million ($97.1 million net of undisbursed loan funds), or approximately 2% of our total loan portfolio. These loans were originated by the Bank or were in participation with a lead bank, and are secured primarily by multi-family dwellings or commercial real estate. The Bank also originates or participates with a lead bank in construction loans related to multi-family dwellings and commercial real estate.

Multi-family and commercial real estate loans and multi-family and commercial real estate construction loans are granted based on the income producing potential of the property and the financial strength of the borrower and/or guarantors. At the time of origination, LTV ratios on these loans cannot exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be in excess of the required payments related to the outstanding debt (debt service coverage ratio) at the time of origination. The Bank generally requires a debt service coverage ratio of at least 1.25 times the required payments related to 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. These loans are originated with either a fixed or adjustable interest rate. The interest rate on ARM loans is based on a variety of indices, generally determined through negotiation with the borrower or determined by the lead bank. While maximum maturities may extend to 30 years, these loans frequently have shorter maturities and may not be fully amortizing, requiring balloon payments of unamortized principal at maturity.

We generally do not maintain a tax or insurance escrow account for multi-family or commercial real estate loans. In order to monitor the adequacy of cash flows on income-producing properties with a principal balance of $1.5 million or more, the borrower is notified annually to provide financial information including rental rates and income, maintenance costs, and an update of real estate property tax payments, as well as personal financial information for the guarantors.

Our multi-family and commercial real estate loans are generally large dollar loans and involve a greater degree of credit risk than one- to four-family loans. Such loans typically involve large balances to single borrowers or groups of related borrowers. Because payments on these loans are often dependent on the successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the economy or the real estate market. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may become impaired.

Loan Portfolio. The following table presents the composition of our loan portfolio as of the dates indicated.

	September 30,									
	2014		2013		2012		2011		2010	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Per
	(Dollars in thousands)									
Real estate loans:										
One- to four-family	$5,972,031	95.0 %	$5,743,047	95.5 %	$5,392,429	95.5 %	$4,918,778	94.7 %	$4,915,651	94.
Multi-family and commercial	75,677	1.2	50,358	0.9	48,623	0.9	57,965	1.1	66,476	1.3
Construction:										
One- to four-family	72,113	1.1	63,208	1.1	38,279	0.7	47,368	0.9	33,168	0.6
Multi-family and commercial	34,677	0.6	14,535	0.2	13,975	0.2	—	—	—	—
Total real estate loans	6,154,498	97.9	5,871,148	97.7	5,493,306	97.3	5,024,111	96.7	5,015,295	96.
Consumer loans:										
Home equity	130,484	2.0	135,028	2.2	149,321	2.6	164,541	3.2	186,347	3.6
Other	4,537	0.1	5,623	0.1	6,529	0.1	7,224	0.1	7,671	0.1
Total consumer loans	135,021	2.1	140,651	2.3	155,850	2.7	171,765	3.3	194,018	3.7
Total loans receivable	6,289,519	100.0%	6,011,799	100.0%	5,649,156	100.0%	5,195,876	100.0%	5,209,313	100
Less:										
Undisbursed loan funds	52,001		42,807		22,874		22,531		15,489	
ACL	9,227		8,822		11,100		15,465		14,892	
Discounts/unearned loan fees	23,687		23,057		21,468		19,093		22,267	
Premiums/deferred costs	(28,566)		(21,755)		(14,369)		(10,947)		(11,537)	
Total loans receivable, net	$6,233,170		$5,958,868		$5,608,083		$5,149,734		$5,168,202	

8

The following table presents the contractual maturity of our loan portfolio, along with associated weighted average yields, at September 30, 2014. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

	Real Estate						Consumer					
	One- to Four-Family		Multi-family and Commercial		Construction[2]		Home Equity[3]		Other		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yiel
	(Dollars in thousands)											
Amounts due:												
Within one year[1]	$1,111	4.33%	$2,207	4.71%	$70,097	3.81%	$3,316	5.00%	$672	3.67%	$77,403	3.89
After one year:												
Over one to two	3,038	5.46	12,620	3.42	36,693	3.69	882	5.48	797	6.25	54,030	3.79
Over two to three	10,932	5.46	16	6.88	—	—	660	5.46	994	4.04	12,602	5.35
Over three to five	61,541	4.89	9,173	5.50	—	—	1,697	5.80	1,934	3.29	74,345	4.94
Over five to ten	316,144	4.04	37,649	4.42	—	—	9,946	5.64	140	7.08	363,879	4.13
Over ten to fifteen	1,360,385	3.41	1,256	4.28	—	—	45,185	5.62	—	—	1,406,826	3.48
After fifteen years	4,218,880	3.76	12,756	4.51	—	—	68,798	4.70	—	—	4,300,434	3.78
Total due after one year	5,970,920	3.71	73,470	4.40	36,693	3.69	127,168	5.12	3,865	4.23	6,212,116	3.75
Totals loans	$5,972,031	3.71	$75,677	4.41	$106,790	3.77	$130,484	5.12	$4,537	4.15	6,289,519	3.75
Less:												
Undisbursed loan funds											52,001	
ACL											9,227	
Discounts/unearned loan fees											23,687	
Premiums/deferred costs											(28,566)	
Total loans receivable, net											$6,233,170	

(1) Includes demand loans, loans having no stated maturity, and overdraft loans.

(2) Construction loans are presented based upon the term to complete construction.

(3) For home equity loans, the maturity date calculated assumes the customer always makes the required minimum payment. The majority of interest-only home equity lines of credit assume a balloon payment of unpaid principal at 120 months. All other home equity lines of credit generally assume a term of 240 months.

The following table presents, as of September 30, 2014, the amount of loans due after September 30, 2015, and whether these loans have fixed or adjustable interest rates.

	Fixed	Adjustable	Total
	(Dollars in thousands)		
Real estate loans:			
One- to four-family	$4,790,049	$1,180,871	$5,970,920
Multi-family and commercial	70,913	2,557	73,470
Construction	16,360	20,333	36,693
Consumer loans:			
Home equity	21,189	105,979	127,168
Other	1,253	2,612	3,865
Total	$4,899,764	$1,312,352	$6,212,116

Asset Quality

The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates or purchases. One- to four-family owner occupied loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the CFPB, with total debt-to-income ratios not exceeding 43% of the borrower's verified income. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan. A full credit analysis is also performed on multi-family and commercial real estate loans taking into consideration property cash flows, debt service ratios, stress testing, borrowing entity experience, guarantor strength, demographic research of the project, global cash flows when appropriate, and the appraisal information. The Bank performs ongoing monitoring of the multi-family and commercial real estate loans with a loan balance in excess of $1.5 million to identify any potential risk.

For one- to four-family loans and consumer loans, when a borrower fails to make a loan payment within 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan accounts more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank employee. For residential mortgage loans serviced by the Bank, beginning at approximately the 31st day of delinquency, and again at approximately the 50th day of delinquency, information notices are mailed to borrowers to inform them of the availability of payment assistance programs. Borrowers are encouraged to contact the Bank to initiate the process of reviewing such opportunities. Once a loan becomes 90 days delinquent, assuming a loss mitigation solution is not actively in process, a demand letter is issued requiring the loan be brought current or foreclosure procedures will be implemented. Generally, when a loan becomes 120 days delinquent, and an acceptable repayment plan or loss mitigation solution has neither been established nor is in the process of being negotiated, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether borrowers who have filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

For purchased loans serviced by a third party, we monitor delinquencies using reports received from the servicers. We monitor these servicer reports to ensure that the servicer is upholding the terms of the servicing agreement. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. Management also utilizes information from the servicers to monitor property valuations and identify the need to charge-off loan balances. The servicers handle collection efforts per the terms of the servicing agreement.

Delinquent and non-performing loans and other real estate owned ("OREO")

The following table presents the Company's 30 to 89 day delinquent loans at the dates indicated. Of the loans 30 to 89 days delinquent at September 30, 2014, 71% were 59 days or less delinquent.

	Loans Delinquent for 30 to 89 Days at September 30,					
	2014		2013		2012	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
One- to four-family:						
Originated	138	$ 13,074	164	$ 18,225	142	$ 14,178
Correspondent purchased	9	2,335	5	709	3	770
Bulk purchased	37	7,860	37	7,733	39	7,695
Consumer loans:						
Home equity	33	770	45	848	28	521
Other	18	69	13	35	16	106
	235	$ 24,108	264	$ 27,550	228	$ 23,270
30 to 89 days delinquent loans to total loans receivable, net		0.39 %		0.46 %		0.41 %

The table below presents the Company's non-performing loans and OREO at the dates indicated. Non-performing loans are loans that are 90 or more days delinquent or in foreclosure and nonaccrual loans less than 90 days delinquent but required to be reported as nonaccrual pursuant to regulatory reporting requirements, even if the loans are current. The balance of loans that are current or 30 to 89 days delinquent but required by regulatory reporting requirements to be reported as nonaccrual was $8.8 million at September 30, 2014. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. Non-performing assets include non-performing loans and OREO. OREO primarily includes assets acquired in settlement of loans. Over the past 12 months, OREO properties were owned by the Bank, on average, for approximately three months before the properties were sold.

	September 30, 2014		2013		2012		2011		2010	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
Loans 90 or More Days Delinquent or in Foreclosure:										
One- to four-family:										
Originated	82	$7,880	101	$8,579	86	$7,885	101	$11,727	105	$12,134
Correspondent purchased	2	709	5	812	5	722	5	648	4	750
Bulk purchased	28	7,120	34	9,608	43	10,447	46	13,749	60	18,375
Consumer loans:										
Home equity	25	397	29	485	19	369	21	380	31	685
Other	4	13	4	5	4	27	3	3	6	12
	141	16,119	173	19,489	157	19,450	176	26,507	206	31,956
Nonaccrual loans less than 90 Days Delinquent:[1]										
One- to four-family:										
Originated	67	7,473	57	5,833	77	8,815	—	—	—	—
Correspondent purchased	4	553	2	740	4	686	—	—	—	—
Bulk purchased	5	724	2	280	10	2,405	—	—	—	—
Consumer loans:										
Home equity	2	45	6	101	22	456	—	—	—	—
Other	—	—	—	—	1	12	—	—	—	—
	78	8,795	67	6,954	114	12,374	—	—	—	—
Total non-performing loans	219	24,914	240	26,443	271	31,824	176	26,507	206	31,956
Non-performing loans as a percentage of total loans[2]		0.40 %		0.44 %		0.57 %		0.51 %		0.62 %
OREO:										
One- to four-family:										
Originated[3]	25	$2,040	28	$2,074	59	$5,374	67	$5,843	66	$5,338
Correspondent purchased	1	179	2	71	1	92	7	1,099	7	834
Bulk purchased	2	575	4	380	6	1,172	12	2,877	17	3,748
Consumer loans:										
Home equity	—	—	2	57	1	9	—	—	—	—
Other[4]	1	1,300	1	1,300	1	1,400	1	1,502	—	—
	29	4,094	37	3,882	68	8,047	87	11,321	90	9,920
Total non-performing assets	248	$29,008	277	$30,325	339	$39,871	263	$37,828	296	$41,876
Non-performing assets as a percentage of total assets		0.29 %		0.33 %		0.43 %		0.40 %		0.49 %

(1) Represents loans required to be reported as nonaccrual pursuant to regulatory reporting requirements, even if the loans are current. At September 30, 2014, 2013, and 2012, this amount was comprised of $1.1 million, $1.1 million, and $1.2 million, respectively, of loans that were 30 to 89 days delinquent and were reported as such, and $7.7 million, $5.9 million, and $11.2 million, respectively, of loans that were current.
(2) Excluding loans required to be reported as nonaccrual pursuant to regulatory reporting requirements, even if the loans are current, non-performing loans as a percentage of total loans were 0.26%, 0.33%, and 0.35% at September 30, 2014, 2013, and 2012, respectively.
(3) Real estate-related consumer loans where we also hold the first mortgage are included in the one- to four-family category as the underlying collateral is one- to four-family property.
(4) Represents a single property the Bank purchased for a potential branch site but now intends to sell.

Of the $7.1 million of bulk purchased one-to four-family loans 90 or more days delinquent or in foreclosure as of September 30, 2014, 94% were originated in calendar year 2004 or 2005. Of the $7.9 million of originated one- to four-family loans 90 or more days delinquent or in foreclosure as of September 30, 2014, 70% of the loans were originated in calendar years 2003 to 2009.

Once a one- to four-family loan is generally 180 days delinquent, a new collateral value is obtained through an appraisal, less estimated selling costs and anticipated PMI receipts. Any loss amounts identified as a result of this review are charged-off. At September 30, 2014, $12.3 million, or 78%, of the one-to four-family loans 90 or more days delinquent or in foreclosure had been individually evaluated for loss and any related losses have been charged-off.

The amount of interest income on nonaccrual loans and troubled debt restructurings ("TDRs") as of September 30, 2014 included in interest income was $1.9 million for the year ended September 30, 2014. The amount of additional interest income that would have been recorded on nonaccrual loans and TDRs as of September 30, 2014, if they had performed in accordance with their original terms, was $454 thousand for the year ended September 30, 2014.

The following table presents the top 13 states where the properties securing our one- to four-family loans are located and the corresponding balance of loans 30 to 89 days delinquent, 90 or more days delinquent or in foreclosure, and weighted average LTV ratios for loans 90 or more days delinquent or in foreclosure at September 30, 2014. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. At September 30, 2014, potential losses, after taking into consideration anticipated PMI proceeds and estimated selling costs, have been charged-off.

	One- to Four-Family		Loans 30 to 89 Days Delinquent		Loans 90 or More Days Delinquent or in Foreclosure		
State	Amount	% of Total	Amount	% of Total	Amount	% of Total	LTV
	(Dollars in thousands)						
Kansas	$3,712,890	62.2 %	$11,177	48.0 %	$7,391	47.1 %	76 %
Missouri	1,149,524	19.2	3,185	13.7	1,768	11.3	66
California	290,972	4.9	—	—	—	—	n/a
Texas	217,001	3.6	2,042	8.8	—	—	n/a
Tennessee	99,910	1.7	208	0.9	—	—	n/a
Oklahoma	76,125	1.3	—	—	330	2.1	63
Alabama	75,991	1.3	—	—	—	—	n/a
North Carolina	40,202	0.7	—	—	—	—	n/a
Illinois	33,453	0.6	921	4.0	1,417	9.0	62
Nebraska	31,972	0.5	1,065	4.6	209	1.3	65
Colorado	23,055	0.4	166	0.7	82	0.5	74
Massachusetts	19,733	0.3	469	2.0	—	—	n/a
Minnesota	19,669	0.3	676	2.9	—	—	n/a

Other states	181,534	3.0		3,360	14.4		4,512	28.7		70
	$5,972,031	100.0	%	$23,269	100.0	%	$15,709	100.0	%	72

13

Troubled Debt Restructurings. 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 situations generally involving the capitalization of delinquent interest and/or escrow not to exceed the original loan balance, to these borrowers. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1 – Summary of Significant Accounting Policies" for additional information related to TDRs.

The following table presents the Company's TDRs, based on accrual status, at the dates indicated. At September 30, 2014, $22.9 million of TDRs were included in the ACL formula analysis model and $69 thousand of the ACL was related to these loans. The remaining $15.1 million of TDRs at September 30, 2014 were individually evaluated for loss and any potential losses have been charged-off.

	September 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Accruing TDRs	$24,636	$37,074	$36,316	$47,509	$24,736
Nonaccrual TDRs[1]	13,370	12,426	15,857	2,898	2,451
Total TDRs	$38,006	$49,500	$52,173	$50,407	$27,187

(1) Nonaccrual TDRs are included in the non-performing loan table above.

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 unpaid principal balance of loans reported as impaired at September 30, 2014, 2013, and 2012 was $56.3 million, $69.4 million and $70.5 million, respectively. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1 – Summary of Significant Accounting Policies" for additional information related to impaired loans.

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

- Special mention - These assets are performing assets 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 - An asset 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 assets include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - Assets 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 - Assets classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

The following table sets forth the recorded investment in assets, classified as special mention or substandard, at September 30, 2014. At September 30, 2014, there were no loans classified as doubtful, and all loans classified as loss were fully charged-off.

	Special Mention		Substandard	
	Number	Amount	Number	Amount
	(Dollars in thousands)			
One- to four-family:				
Originated	122	$ 16,825	261	$ 27,437
Correspondent purchased	13	3,243	8	1,714
Bulk purchased	11	2,738	44	11,470
Multi-family and commercial	—	—	—	—
Consumer Loans:				
Home equity	10	146	69	887
Other	1	5	4	13
Total loans	157	22,957	386	41,521
OREO:				
Originated	—	—	25	2,040
Correspondent purchased	—	—	1	179
Bulk purchased	—	—	2	575
Total OREO	—	—	28	2,794
Trust preferred securities ("TRUPs")	—	—	1	2,296
Total classified assets	157	$ 22,957	415	$ 46,611

Allowance for credit losses and provision for credit losses. Management maintains an ACL to absorb inherent losses in the loan portfolio based on ongoing quarterly assessments of the loan portfolio. Our ACL methodology considers a number of factors including the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, charge-off 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. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Allowance for Credit Losses" for a full discussion of our ACL methodology.

At September 30, 2014, our ACL was $9.2 million, or 0.15% of the total loan portfolio and 37.0% of total non-performing loans. This compares with an ACL of $8.8 million, or 0.15% of the total loan portfolio and 33.4% of total non-performing loans as of September 30, 2013. The ACL is maintained through provisions for credit losses which are either charged or credited to income. The provision for credit losses is established after considering the results of management's quarterly assessment of the ACL. For the year ended September 30, 2014, the Company recorded a provision for credit losses of $1.4 million. The provision in the current fiscal year takes into account net charge-offs of $1.0 million.

The following table presents the ACL activity and related ratios at the dates and for the periods indicated.

	Year Ended September 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Balance at beginning of period	$ 8,822	$ 11,100	$ 15,465	$ 14,892	$ 10,150
Charge-offs:					
One- to four-family loans - originated	(284)	(624)	(804)	(313)	(342)
One- to four-family loans - correspondent purchased	(96)	(13)	(88)	(101)	(82)
One- to four-family loans - bulk purchased	(653)	(761)	(5,186)	(2,928)	(3,707)
Multi-family and commercial loans	—	—	—	—	—
Construction	—	—	—	—	—
Home equity	(103)	(252)	(330)	(133)	(28)
Other consumer loans	(6)	(7)	(27)	(12)	(17)
Total charge-offs	(1,142)	(1,657)	(6,435)	(3,487)	(4,176)
Recoveries:					
One- to four-family loans - originated	1	14	14	—	—
One- to four-family loans - correspondent purchased	—	—	2	—	—
One- to four-family loans - bulk purchased	64	398	8	—	172
Multi-family and commercial loans	—	—	—	—	—
Construction	—	—	—	—	—
Home equity	72	33	6	—	—
Other consumer loans	1	1	—	—	—
Total recoveries	138	446	30	—	172
Net (charge-offs) recoveries	(1,004)	(1,211)	(6,405)	(3,487)	(4,004)
ACL on loans in the loan swap transaction	—	—	—	—	(135)
Provision for credit losses	1,409	(1,067)	2,040	4,060	8,881
Balance at end of period	$ 9,227	$ 8,822	$ 11,100	$ 15,465	$ 14,892
Ratio of net charge-offs during the period to average loans outstanding during the period	0.02 %	0.02 %	0.12 %	0.07 %	0.07 %
Ratio of net charge-offs during the period to average non-performing assets	3.38	3.45	16.49	8.75	9.99
ACL to non-performing loans at end of period	37.04	33.36	34.88	58.34	46.60
ACL to loans receivable, net at end of period	0.15	0.15	0.20	0.30	0.29
ACL to net charge-offs	9.2x	7.3x	1.7x (1)	4.4x	3.7x

(1) As a result of the implementation of a new loan charge-off policy in January 2012 in accordance with regulatory requirements, $3.5 million of specific valuation allowances ("SVAs") were charged-off and are reflected in the year ended September 30, 2012 activity. 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. Excluding the $3.5 million of SVAs that were charged off in January 2012, ACL to net charge-offs would have been 3.8x for fiscal year 2012. Management believes it is important to present this ratio excluding the $3.5 million of SVAs charged-off for comparability purposes.

16

The distribution of our ACL at the dates indicated is summarized below. Correspondent purchased one- to four-family loans are included with originated one- to four-family loans, and bulk purchased one- to four-family loans are reported as purchased one- to four-family loans.

	September 30, 2014		2013		2012		2011		2010	
	Amount of ACL	% of Loans to Total Loans	Amount of ACL	% of Loans to Total Loans	Amount of ACL	% of Loans to Total Loans	Amount of ACL	% of Loans to Total Loans	Amount of ACL	% of Loans to Total Loans
	(Dollars in thousands)									
One- to four-family:										
Originated	$6,228	86.0 %	$5,748	84.8 %	$6,057	81.6 %	$4,898	84.4 %	$3,801	83.5 %
Purchased	2,323	8.9	2,486	10.7	4,453	13.9	9,899	10.3	10,425	10.8
Multi-family and commercial	312	1.2	172	0.8	196	0.9	254	1.1	275	1.3
Construction	123	1.7	36	1.3	40	0.9	19	0.9	12	0.6
Consumer:										
Home equity	211	2.1	342	2.3	301	2.6	354	3.2	319	3.6
Other consumer	30	0.1	38	0.1	53	0.1	41	0.1	60	0.2
	$9,227	100.0 %	$8,822	100.0 %	$11,100	100.0 %	$15,465	100.0 %	$14,892	100.0 %

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including U.S. Treasury obligations; securities of various federal agencies; government-sponsored enterprises ("GSEs"), including callable agency securities; municipal bonds; certain certificates of deposit of insured banks and savings institutions; certain bankers' acceptances; repurchase agreements; and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in investment grade commercial paper, corporate debt securities, and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. As a member of the FHLB, the Bank is required to maintain a specified investment in FHLB stock. See "Regulation and Supervision – Federal Home Loan Bank System," "Capitol Federal Savings Bank," and "Office of the Comptroller of the Currency" for a discussion of additional restrictions on our investment activities.

The Chief Investment Officer has the primary responsibility for the management of the Bank's investment portfolio, subject to the direction and guidance of ALCO. The Chief Investment Officer considers various factors when making decisions, including the marketability, maturity, and tax consequences of the proposed investment. The composition of the investment portfolio will be affected by various market conditions, including the slope of the yield curve, the level of interest rates, the impact on the Bank's interest rate risk, the trend of net deposit flows, the volume of loan sales, the anticipated demand for funds via withdrawals, repayments of borrowings, and loan originations and purchases.

The general objectives of the Bank's investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low, and to maximize earnings while satisfactorily managing liquidity risk, interest rate risk, reinvestment risk, and credit risk. The portfolio is also intended to create a steady stream of cash flows that can be redeployed into other assets as the Bank grows the loan portfolio, or reinvested into higher yielding assets should interest rates rise. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Cash flow projections are reviewed regularly and updated to assure that adequate liquidity is maintained.

We classify securities as either trading, available-for-sale ("AFS"), or held-to-maturity ("HTM") at the date of purchase. Securities that are purchased and held principally for resale in the near future are classified as trading securities and are reported at fair value, with unrealized gains and losses reported in the consolidated statements of income. AFS securities are reported at fair value, with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) within stockholders' equity, net of deferred income taxes. HTM securities are reported at cost, adjusted for amortization of premium and accretion of discount. We have both the ability and intent to hold our HTM securities to maturity.

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. Management does not believe any other-than-temporary impairments existed at September 30, 2014.

Investment Securities. Our investment securities portfolio consists primarily of securities issued by GSEs (primarily Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Banks) and taxable and non-taxable municipal bonds. At September 30, 2014, our investment securities portfolio totaled $590.9 million. The portfolio consisted of securities classified as either HTM or AFS. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 3 –

Securities" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Investment Securities" for additional information.

During fiscal year 2014, our investment securities portfolio decreased $149.4 million from $740.3 million at September 30, 2013 to $590.9 million at September 30, 2014. The decrease in the balance was primarily a result of maturities and calls of $289.6 million, partially offset by purchases of $138.9 million. The cash flows from calls and maturities of investment securities that were not reinvested into the portfolio were used largely to fund loan growth, pay dividends, and repurchase Company stock. The purchases during fiscal year 2014 were fixed-rate and had a weighted average yield of 1.04% and a weighted average life ("WAL") of approximately 2.8 years at the time of purchase.

Mortgage-Backed Securities. At September 30, 2014, our MBS portfolio totaled $1.80 billion. The portfolio consisted of securities classified as either HTM or AFS. Our MBS portfolio consists primarily of securities issued by GSEs. The principal and interest payments of MBS issued by GSEs are collateralized by the underlying mortgage assets with principal and interest payments guaranteed by the agencies. The underlying mortgage assets are conforming mortgages that comply with FNMA and FHLMC underwriting guidelines, as applicable, and are therefore not considered subprime. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 3 – Securities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Mortgage-Backed Securities" for additional information.

During fiscal year 2014, our MBS portfolio decreased $245.2 million, from $2.05 billion at September 30, 2013, to $1.80 billion at September 30, 2014. During fiscal year 2014, $150.7 million of MBS were purchased of which $129.0 million, or approximately 86%, were fixed-rate and the remaining $21.7 million, or approximately 14%, were adjustable-rate. The cash flows from MBS that were not reinvested into the portfolio were used largely to fund loan growth, pay dividends, and repurchase Company stock.

MBS generally yield less than the loans that underlie such securities because of the servicing fee retained by the servicer and the cost of payment guarantees or credit enhancements that reduce credit risk. However, MBS are generally more liquid than individual mortgage loans and may be used to collateralize certain borrowings and public unit deposits of the Bank. In general, MBS issued or guaranteed by FNMA and FHLMC are weighted at no more than 20% for risk-based capital purposes compared to the 50% risk-weighting assigned to most non-securitized one- to four-family loans.

When securities are purchased for a price other than par value, the difference between the price paid and par is accreted to or amortized against the interest earned over the life of the security, depending on whether a discount or premium to par is paid. Movements in interest rates affect prepayment rates which, in turn, affect the average lives of MBS and the speed at which the discount or premium is accreted to or amortized against earnings.

At September 30, 2014, the MBS portfolio included $313.0 million of collateralized mortgage obligations ("CMOs"). CMOs are special types of securities in which the stream of principal and interest payments on the underlying mortgages or MBS are used to create investment classes with different maturities and, in some cases, different amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. We do not purchase residual interest bonds.

While MBS issued or backed by FNMA and FHLMC carry a reduced credit risk compared to whole mortgage loans, these securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of the underlying mortgage loans and consequently affect both the prepayment speed and value of the securities. As noted above, the Bank, on some transactions, pays a premium over par value for MBS purchased. Large premiums could cause significant negative yield adjustments due to accelerated prepayments on the underlying mortgages. The balance of net premiums on our portfolio of MBS was $18.6 million at September 30, 2014.

19

The following table sets forth the composition of our investment and MBS portfolios at the dates indicated. At September 30, 2014, our investment securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our stockholders' equity, excluding those issued by GSEs.

	September 30,								
	2014			2013			2012		
	Carrying Value	% of Total	Fair Value	Carrying Value	% of Total	Fair Value	Carrying Value	% of Total	Fair Value
	(Dollars in thousands)								
AFS:									
GSE debentures	$549,755	65.4 %	$549,755	$702,228	65.7 %	$702,228	$861,724	61.3 %	$861,724
MBS	287,606	34.2	287,606	363,964	34.0	363,964	540,306	38.4	540,306
TRUPs	2,296	0.3	2,296	2,423	0.2	2,423	2,298	0.1	2,298
Municipal bonds	1,133	0.1	1,133	1,352	0.1	1,352	2,516	0.2	2,516
	840,790	100.0 %	840,790	1,069,967	100.0 %	1,069,967	1,406,844	100.0 %	1,406,844
HTM:									
MBS	1,514,941	97.6 %	1,533,136	1,683,744	98.0 %	1,706,638	1,792,636	95.0 %	1,872,519
Municipal bonds	37,758	2.4	38,388	34,279	2.0	35,208	45,334	2.4	47,156
GSE debentures	—	—	—	—	—	—	49,977	2.6	50,224
	1,552,699	100.0 %	1,571,524	1,718,023	100.0 %	1,741,846	1,887,947	100.0 %	1,969,899
	$2,393,489		$2,412,314	$2,787,990		$2,811,813	$3,294,791		$3,376,743

The composition and maturities of the investment and MBS portfolio at September 30, 2014 are indicated in the following table by remaining contractual maturity, without consideration of call features or pre-refunding dates, along with associated weighted average yields. Yields on tax-exempt investments are not calculated on a fully taxable equivalent basis.

	1 year or less		More than 1 to 5 years		More than 5 to 10 years		Over 10 years		Total Securities		
	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Carrying Value	Yield	Fair Value
	(Dollars in thousands)										
AFS:											
GSE debentures	$—	— %	$496,958	1.04 %	$52,797	1.25 %	$—	— %	$549,755	1.06 %	$549,755
MBS	—	—	14,352	4.86	70,337	4.84	202,917	2.44	287,606	3.14	287,606
TRUPs	—	—	—	—	—	—	2,296	1.49	2,296	1.49	2,296
Municipal bonds	200	3.64	933	3.72	—	—	—	—	1,133	3.70	1,133
	200	3.64	512,243	1.15	123,134	3.30	205,213	2.43	840,790	1.75	840,790
HTM:											
MBS	—	—	50,514	4.32	435,237	1.69	1,029,190	2.27	1,514,941	2.17	1,533,136
Municipal bonds	3,153	2.63	24,634	2.46	9,971	1.60	—	—	37,758	2.25	38,388
	3,153	2.63	75,148	3.71	445,208	1.69	1,029,190	2.27	1,552,699	2.17	1,571,524
	$3,353	2.69	$587,391	1.48	$568,342	2.04	$1,234,403	2.30	$2,393,489	2.02	$2,412,314

Sources of Funds
General. Our primary sources of funds are deposits, FHLB borrowings, repurchase agreements, repayments and maturities of outstanding loans and MBS and other short-term investments, and funds provided by operations.

Deposits. We offer a variety of retail deposit accounts having a wide range of interest rates and terms. Our deposits consist of savings accounts, money market accounts, interest-bearing and noninterest-bearing checking accounts, and certificates of deposit. We rely primarily upon competitive pricing policies, marketing, and customer service to attract and retain deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition. The variety of deposit accounts we offer has allowed us to utilize strategic pricing to obtain funds and to respond with flexibility to changes in consumer demand. We seek to manage the pricing of our deposits in keeping with our asset and liability management, liquidity, and profitability objectives. Based on our experience, we believe that our deposits are stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been, and will continue to be, significantly affected by market conditions.

The Board of Directors has authorized the utilization of brokers to obtain deposits as a source of funds. The Bank has entered into several relationships with nationally recognized wholesale deposit brokerage firms to accept deposits from these firms. Depending on market conditions, the Bank may use brokered deposits to fund asset growth and gather deposits that may help to manage interest rate risk. At September 30, 2014, the rates paid on brokered deposits plus fees were generally higher than the rates offered by the FHLB on advances and rates paid on retail deposits. At September 30, 2014 and 2013, the balance of brokered deposits was $41.9 million and $63.7 million, respectively. No brokered deposits were acquired during fiscal year 2014, and all existing brokered deposits are scheduled to mature by the end of May 2015.

The Board of Directors also has authorized the utilization of public unit deposits as a source of funds. In order to qualify to obtain such deposits, the Bank must have a branch in each county in which it collects public unit deposits and, by law, must pledge securities as collateral for all such balances in excess of the FDIC insurance limits. At September 30, 2014 and 2013, the balance of public unit deposits was $258.6 million and $237.1 million, respectively.

As of September 30, 2014, the Bank's policy allows for combined brokered and public unit deposits up to 15% of total deposits. At September 30, 2014, the balance of brokered and public unit deposits was approximately 6% of total deposits.

Borrowings. We utilize borrowings when, at the time of the borrowing, the proceeds can be invested at a positive rate spread relative to current asset yields, when we desire additional capacity to fund loan demand, or when they help us meet our asset and liability management objectives. Historically, our term borrowings have consisted primarily of FHLB advances. FHLB advances may be made pursuant to several different credit programs, each of which has its own interest rate, maturity, repayment, and convertible features, if any. All FHLB advances at September 30, 2014 were fixed-rate advances. The Bank supplements FHLB borrowings with repurchase agreements, wherein the Bank enters into agreements with approved counterparties to sell securities under agreements to repurchase them. These agreements are recorded as financing transactions as the Bank maintains effective control over the transferred securities. The Bank's internal policy limits total borrowings to 55% of total assets.

During the fourth quarter of fiscal year 2014, the Bank implemented a leverage strategy ("daily leverage strategy") to increase earnings. The daily leverage strategy involves borrowing up to $2.10 billion against the Bank's FHLB line of credit and currently consists of two leverage tiers. The first tier of $800.0 million is intended to remain borrowed against the line of credit for an extended period of time. The second tier of $1.30 billion is borrowed in the first days of each quarter and paid off prior to each quarter end. The proceeds of the borrowings, net of the required FHLB stock holdings, is deposited at the Federal Reserve Bank of Kansas City.

At September 30, 2014, we had $2.58 billion of FHLB advances, at par, outstanding, and $800.0 million against the FHLB line of credit. Total FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with the FHLB and certain securities. At September 30, 2014, we had securities with a fair value of $488.4 million pledged as collateral for FHLB borrowings. Per the FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of total Bank assets without the pre-approval of the FHLB president. In July 2014, the president of the FHLB approved an increase in the Bank's borrowing limit to 55% of total assets for one year as FHLB borrowings have been and will be in excess of 40% of total Bank assets at certain points of time due to the daily leverage strategy.

At September 30, 2014, repurchase agreements totaled $220.0 million, or approximately 2% of total assets. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets, and subject to the 55% limit on total borrowings discussed above. The securities underlying the agreements continue to be carried in the Bank's securities portfolio. At September 30, 2014, we had securities with a fair value of $247.3 million pledged as collateral on repurchase agreements. Repurchase agreements are made at mutually agreed upon terms between counterparties and the Bank. The use of repurchase agreements allows for the diversification of funding sources and the use of securities that were not being leveraged as collateral.

The following table sets forth certain information relating to the category of borrowings for which the average short-term balance outstanding during the period was at least 30% of stockholders' equity at the end of the period shown. There were no short-term borrowings outstanding that were at least 30% of stockholders' equity during fiscal years 2013 and 2012. The maximum balance, average balance, and weighted average interest rate during fiscal year 2014 reflect borrowings that were scheduled to mature within one year at any month-end during fiscal year 2014.

	2014	
	(Dollars in thousands)	
FHLB Borrowings:		
Balance at end of year	$ 1,400,000	
Maximum balance outstanding at any month-end during fiscal year	2,700,000	
Average balance	931,889	
Weighted average interest rate during the year	1.26	%
Weighted average interest rate at end of year	0.84	%

Subsidiary and Other Activities

As a federally chartered savings bank, we are permitted by federal regulations to invest up to 2% of our Bank assets, as reported to the OCC, or $197.6 million at September 30, 2014, in the stock of, or as unsecured loans to, service corporation subsidiaries. We may invest an additional 1% of our assets, or $98.8 million at September 30, 2014, in service corporations where such additional funds are used for inner-city or community development purposes.

At September 30, 2014, the Bank had one subsidiary, Capitol Funds, Inc., which had a capital balance of $7.0 million. Capitol Funds, Inc. has a wholly owned subsidiary, Capitol Federal Mortgage Reinsurance Company ("CFMRC"). CFMRC serves as a reinsurance company for the PMI companies the Bank uses in its normal course of operations. CFRMC stopped writing new business for the Bank in January 2010. CFMRC provides mortgage reinsurance on certain one- to four-family loans in the Bank's portfolio. During fiscal year 2014, Capitol Funds, Inc. reported consolidated net income of $77 thousand which included net income of $80 thousand from CFMRC.

Regulation and Supervision

Set forth below is a description of certain laws and regulations that are applicable to Capitol Federal Financial, Inc. and the Bank.

General. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. This law significantly changed the bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. See additional information regarding the Dodd-Frank Act in "Item 1A. Risk Factors – We operate in a highly regulated industry, which limits the manner and scope of our business activities and will continue to increase our operational and compliance costs."

The OCC has extensive enforcement authority over all federal savings associations, including the Bank, and the FRB has enforcement authority over their holding companies, including Capitol Federal Financial, Inc. This enforcement authority includes, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders, and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and

unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed. Except under certain circumstances, public disclosure of final enforcement actions by the OCC or the FRB is required by law.

Capitol Federal Financial, Inc. The purpose and powers of the Company are to pursue any or all of the lawful objectives of a savings and loan holding company and to exercise any of the powers accorded to a savings and loan holding company.

If the Bank fails the Qualified Thrift Lender test, within one year of such failure the Company must register as, and will become subject to, the restrictions applicable to bank holding companies, unless the Bank requalifies within the year. The activities authorized for a bank holding company are more limited than are the activities authorized for a savings and loan holding company. If the Bank fails the test a second time, the Company must immediately register as, and become subject to, the restrictions applicable to a bank holding company. For additional information, see "Regulation and Supervision – Office of the Comptroller of the Currency."

The Company must obtain regulatory approval before acquiring control of any other depository institution.

Capitol Federal Savings Bank. The Bank, as a federally chartered savings bank, is subject to regulation and oversight by the OCC extending to all aspects of its operations. This regulation of the Bank is intended for the protection of depositors and not for the purpose of protecting the Company's stockholders. The Bank is required to maintain minimum levels of regulatory capital and is subject to some limitations on capital distributions to the Company. The Bank also is subject to regulation and examination by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law.

Office of the Comptroller of the Currency. The investment and lending authority of the Bank is prescribed by federal laws and regulations and the Bank is prohibited from engaging in any activities not permitted by such laws and regulations.

As a federally chartered savings bank, the Bank is required to meet a Qualified Thrift Lender test. This test requires the Bank to have at least 65% of its portfolio assets, as defined by statute, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. Under an alternative test, the Bank may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, the Bank is required to maintain a significant portion of its assets in residential housing related loans and investments. An institution that fails to meet the Qualified Thrift Lender test must become subject to certain restrictions on its operations, unless within one year it meets the test, and thereafter remains a Qualified Thrift Lender. These restrictions include a prohibition against capital distributions, except, with the prior approval of both the OCC and the FRB, for the purpose of paying obligations of a company controlling the institution. An institution that fails the test a second time must be subjected to the restrictions. Any savings and loan holding company of an institution that fails the test and does not re-qualify within a year must become subject to the same statute and regulations as a bank holding company. Three years after failing the test, an institution must divest all investments and cease all activities not permissible for both a national bank and a savings association. Failure to meet the Qualified Thrift Lender test is a statutory violation subject to enforcement action. As of September 30, 2014, the Bank met the Qualified Thrift Lender test.

The Bank is subject to a 35% of total assets limit on non-real estate consumer loans, commercial paper and corporate debt securities, and a 20% limit on commercial non-mortgage loans. At September 30, 2014, the Bank had 0.1% of its assets in non-real estate consumer loans, commercial paper and corporate debt securities and 0% of its assets in commercial non-mortgage loans.

The Bank's relationship with its depositors and borrowers is regulated to a great extent by federal laws and regulations, especially in such matters as the ownership of savings accounts and the form and content of mortgage requirements. In addition, the branching authority of the Bank is regulated by the OCC. The Bank is generally authorized to branch nationwide.

The Bank is subject to a statutory lending limit on aggregate loans to one person or a group of persons combined because of certain common interests. That limit is equal to 15% of our unimpaired capital and surplus, plus an additional 10% for loans fully secured by readily marketable collateral. At September 30, 2014, the Bank's lending limit under this restriction was $196.3 million. The Bank has no loans or loan relationships in excess of its lending limit. Total loan commitments and loans outstanding to the Bank's largest borrower group totaled $69.3 million at September 30, 2014, all of which were current.

The Bank is subject to periodic examinations by the OCC. During these examinations, the examiners may require the Bank to increase the ACL and/or recognize additional charge-offs based on their judgments, which can impact our capital and earnings. As a federally chartered savings bank, the Bank is subject to a semi-annual assessment, based upon its total assets, to fund the operations of the OCC.

The OCC has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure, and compensation and other employee benefits. Any institution regulated by the OCC that fails to comply with these standards must submit a compliance plan.

Insurance of Accounts and Regulation by the FDIC. The DIF of the FDIC insures deposit accounts in the Bank up to applicable limits. The FDIC assesses deposit insurance premiums on each FDIC-insured institution quarterly based on annualized rates for one of four risk categories, applied to its assessment base. Under the FDIC's rules, an institution's assessment base is equal to average total assets minus its average tangible equity (defined as Tier 1 capital). An institution with total assets of less than $10 billion is assigned to one of four risk categories based on its capital, supervisory ratings, and other factors. Well-capitalized institutions that are financially sound with only a few minor weaknesses are assigned to Risk Category I. Risk Categories II, III and IV present progressively greater risks to the DIF. A range of initial base assessment rates applies to each Risk Category, adjusted downward based on unsecured debt issued by the institution and, except for an institution in Risk Category I, adjusted upward if the institution's brokered deposits exceed 10% of its domestic deposits, to produce total base assessment rates. Total base assessment rates currently range from 2.5 to 9.0 basis points for Risk Category I, 9.0 to 24 basis points for Risk Category II, 18 to 33 basis points for Risk Category III, and 30 to 45 basis points for Risk Category IV, all subject to further adjustment upward if the institution holds more than a de minimis amount of unsecured debt issued by another FDIC-insured institution. An institution with assets of $10 billion or more is assessed under a complex scorecard method employing many factors. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment. For the fiscal year ended September 30, 2014, the Bank paid $4.1 million in FDIC premiums.

FDIC-insured institutions are required to pay an additional quarterly assessment called the FICO assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. This assessment rate is adjusted quarterly to reflect changes in the assessment base, which is average total assets less average tangible equity, and is the same base as used for the deposit insurance assessment. These assessments are expected to continue until the bonds mature in the years 2017 through 2019. For the fiscal year ended September 30, 2014, the Bank paid $483 thousand in FICO assessments.

Transactions with Affiliates. Transactions between the Bank and its affiliates are required to be on terms as favorable to the institution as transactions with non-affiliates, and certain of these transactions are restricted to a percentage of the Bank's capital, and, in the case of loans, require eligible collateral in specified amounts. In addition, the Bank may not lend to any affiliate engaged in activities not permissible for a bank holding company or purchase or invest in the securities of affiliates.

Regulatory Capital Requirements. The Bank is required to maintain specified levels of regulatory capital under regulations of the OCC. OCC regulations state that to be adequately capitalized, an institution must have a leverage ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 4.0% and a total risk-based capital ratio of at least 8.0%. To be well capitalized, an institution must have a leverage ratio of at least 5.0%, a Tier 1 risk-based capital ratio of at least 6.0% and a total risk-based capital ratio of at least 10.0%.

The term leverage ratio means the ratio of Tier 1 capital to adjusted total assets. The term Tier 1 risk-based capital ratio means the ratio of Tier 1 capital to total risk-weighted assets. The term total risk-based capital ratio means the ratio of total risk-based capital to total risk-weighted assets.

Tier 1 capital generally consists of common stockholders' equity, retained earnings, noncumulative perpetual preferred stock and minority interest in the equity accounts of consolidated subsidiaries, excluding goodwill and other non-qualifying intangible assets. At September 30, 2014, the Bank had $7.0 million of accumulated gains on AFS securities, net of deferred taxes, which was subtracted from Tier 1 capital.

Total risk-based capital consists of the sum of an institution's Tier 1 capital and the amount of its allowable Tier 2 capital up to the amount of its Tier 1 capital. Tier 2 capital consists of all cumulative perpetual and limited-life preferred stock, hybrid capital instruments, including mandatory convertible securities, term debt, ACL up to 1.25% of risk-weighted assets, and certain unrealized gains on equity securities. At September 30, 2014, the Bank had $9.2 million of ACL, which was less than 1.25% of risk-weighted assets. The entire $9.2 million of ACL is allowable Tier 2 capital and includable in total risk-based capital.

Adjusted total assets consist of total assets as specified in the Call Report less certain items such as disallowed servicing assets and accumulated gains/losses on AFS securities. At September 30, 2014, the Bank had $7.0 million of accumulated gains on AFS securities, net of deferred taxes, which was subtracted from Call Report total assets of $9.88 billion to arrive at adjusted total assets of $9.87 billion.

Risk-weighted assets are determined under the OCC capital regulations, which assign to every asset and certain off-balance sheet items a risk weight generally ranging from 0% to 100% based on the inherent risk of the asset. Institutions that are not well capitalized are subject to certain restrictions on brokered deposits and interest rates on deposits. At September 30, 2014, the Bank had Tier 1 capital of $1.30 billion, total risk-based capital of $1.31 billion, adjusted total assets of $9.87 billion, and risk-weighted assets of $3.94 billion. At September 30, 2014, the Bank had a Tier 1 leverage ratio of 13.2%, a Tier 1 capital to risk-weighted assets ratio of 33.0%, and a total risk-based capital to risk-weighted assets ratio of 33.2%. At September 30, 2014, the Bank was considered a well-capitalized institution under OCC regulations.

The OCC has the ability to establish an individual minimum capital requirement for a particular institution, which varies from the capital levels that would otherwise be required under the capital regulations based on such factors as concentrations of credit risk, levels of interest rate risk, and the risks of non-traditional activities as well as others. The OCC has not imposed any such requirement on the Bank.

The OCC is authorized and, under certain circumstances, required to take certain actions against savings banks that fail to meet the minimum ratios for an adequately capitalized institution. Any such institution must submit a capital restoration plan and, until such plan is approved by the OCC, may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The plan must include a guaranty by the institution's holding company limited to the lesser of 5% of the institution's assets when it became undercapitalized, or the amount necessary to restore the institution to adequately capitalized status. The OCC is authorized to impose the additional restrictions on institutions that are less than adequately capitalized.

Federal regulations state that any institution that fails to comply with its capital plan or has Tier 1 risk-based capital ratios of less than 3.0% or a total risk-based capital ratio of less than 6.0% is considered significantly undercapitalized and must be made subject to one or more additional specified actions and operating restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is critically undercapitalized and becomes subject to further mandatory restrictions on its operations. The OCC generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OCC of any of these measures on the Bank may have a substantial adverse effect on its operations and profitability. In general, the FDIC must be appointed receiver for a critically undercapitalized institution whose capital is not restored within the time provided. When the FDIC as receiver liquidates an institution, the claims of depositors and the FDIC as their successor (for deposits covered by FDIC insurance) have priority over other unsecured claims against the institution.

Basel III Capital Rules. In July 2013, the FRB, FDIC and OCC published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The agencies believe that the new rule will result in capital requirements that better reflect banking organizations' risk profiles. The rules implement the "Basel III"

regulatory capital reforms and changes required by the Dodd-Frank Act. Basel III refers to various documents released by the Basel Committee on Banking Supervision. The new rules become effective for the Company and Bank in January 2015, with some rules transitioned into full effectiveness over two to four years. The new capital rules, among other things, introduce a new capital measure called "Common Equity Tier 1" ("CET1"), increase the leverage and Tier 1 capital ratios, change the risk-weightings of certain assets for purposes of risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios, and change what qualifies as capital for purposes of meeting the various capital requirements.

Under the new capital rules, CET1 is defined as common stock, plus related surplus, and retained earnings plus limited amounts of minority interest in the form of common stock, less certain regulatory deductions. The new capital rules, like the current capital rules, specify that total capital consists of Tier 1 capital and Tier 2 capital. Tier 1 capital for the Company and the Bank consists of common stock, plus related surplus and retained earnings. Tier 2 capital for the Company and the Bank currently includes the entire amount of ACL; however, the includable amount of ACL could be limited in the future if the ACL amount exceeds 1.25% of risk-weighted assets.

The new capital rules require a number of changes to regulatory capital deductions and adjustments, subject to a two-year transition period. One such change relates to accumulated other comprehensive income. Under current capital rules, the effects of accumulated other comprehensive income or loss items included in shareholders' equity are reversed for the purposes of determining regulatory capital ratios. Under the new capital rules, the effects of certain accumulated other comprehensive items are not excluded; however, non-advanced approaches banking organizations, including the Company and the Bank, may make a one-time permanent election to continue to exclude these items. Management is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new capital rules also include changes in the risk-weighing of assets to better reflect credit risk and other risk exposure. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status and a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%). Of particular importance to the Bank is that the new capital rules' treatment of one- to four-family residential mortgage exposures remains the same as under the current capital rule. This includes a 50% risk weighting for prudently underwritten first lien mortgage loans that are not past due, reported as nonaccrual, or restructured, and a 100% risk weight for all other residential mortgages.

Under the new capital rules, the minimum capital ratios as of January 1, 2015 will be as follows:
- 4.5% CET1 to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% Total capital to risk-weighted assets.
- 4% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the "leverage ratio").

The new capital rules will require the Company and the Bank to meet a capital conservation buffer requirement in order to avoid constraints on dividends, equity repurchases, and certain compensation. To meet the requirement when it is fully phased in, the organization must maintain an amount of CET1 capital that exceeds the buffer level of 2.5% above each of the minimum risk-weighted asset ratios. The requirement will be phased in over a four year period, starting January 1, 2016, when the amount of such capital must exceed the buffer level of 0.625%. The buffer level will increase by 0.625% each year until it reaches 2.5% on January 1, 2019. When the capital conservation buffer requirement is fully phased in, to avoid constraints, a banking organization must maintain the following capital ratios: (1) CET1 to risk-weighted assets more than 7.0%, (2) Tier 1 capital to risk-weighted assets more than 8.5%, and (3) total capital (Tier 1 plus Tier 2) to risk-weighted assets more than 10.5%.

With respect to the Bank, the new capital rules also revise the "prompt corrective action" regulations effective January 1, 2015, by (1) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (2) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (compared to the current 6%); and (3) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The new capital rules do not change the total risk-based capital requirement for any "prompt corrective action" category.

Although we continue to evaluate the impact that the new capital rules will have on the Company and the Bank, we currently anticipate that the Company and the Bank will be well-capitalized under the new capital rules, and that the Company and the Bank will meet the capital conservation buffer requirement.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ("SAFE Act"), and the Community Reinvestment Act ("CRA"). In addition, federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties.

The CRA requires the appropriate federal banking agency, in connection with its examination of an FDIC-insured institution, to assess its record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. The federal banking regulators take into account the institution's record of performance under the CRA when considering applications for mergers, acquisitions, and branches. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or substantial non-compliance. The Bank received a satisfactory rating in its most recent CRA evaluation.

Bank Secrecy Act /Anti-Money Laundering Laws. The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

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

Generally, savings institutions, such as the Bank, may make capital distributions during any calendar year equal to the earnings of the previous two calendar years and current year-to-date earnings. It is generally required that the Bank remain well capitalized before and after the proposed distribution. However, an institution deemed to be in need of more than normal supervision by the OCC may have its capital distribution authority restricted. A savings institution, such as the Bank, that is a subsidiary of a savings and loan holding company that proposes to make a capital distribution must submit written notice to the OCC and FRB 30 days prior to such distribution. The OCC and FRB may object to the distribution during that 30-day period based on safety and soundness or other concerns. Savings institutions that desire to make a larger capital distribution, or are under special restrictions, or are not, or would not be, well capitalized following a proposed capital distribution, however, must obtain regulatory approval prior to making such distribution. For additional information, see "Regulation and Supervision – Regulatory Capital Requirements."

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

Federal Securities Law. The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

The Company stock held by persons who are affiliates of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. Affiliates are generally considered to be officers, directors and principal stockholders. If the Company meets specified current public information requirements, each affiliate of the Company will be able to sell in the public market, without registration, a limited number of shares in any three-month period.

Federal Reserve System. The FRB requires all depository institutions to maintain reserves at specified levels against their transaction accounts, primarily checking accounts. At September 30, 2014, the Bank was in compliance with these reserve requirements. The Bank is authorized to borrow from the Federal Reserve Bank "discount window." An eligible institution need not exhaust other sources of funds before going to the discount window, nor are there restrictions on the purposes for which the borrower can use primary credit. At September 30, 2014, the Bank had no outstanding borrowings from the discount window.

Federal Home Loan Bank System. The Bank is a member of FHLB Topeka, which is one of 12 regional Federal Home Loan Banks. Each FHLB serves as a reserve, or central bank, for its members within its assigned region and is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans, called advances, to members and provides access to a line of credit in accordance with policies and procedures, established by the Board of Directors of FHLB, which are subject to the oversight of the Federal Housing Finance Agency ("FHFA").

As a member, the Bank is required to purchase and maintain capital stock in the FHLB. The minimum required FHLB stock amount is generally 4.5% of the Bank's FHLB advances and outstanding balance against the FHLB line of credit, and 2% of the outstanding principal of loans sold into the Mortgage Partnership Finance program. At September 30, 2014, the Bank had a balance of $213.1 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received dividends on its FHLB stock, although no assurance can be given that these dividends will continue. On a quarterly basis, management conducts a review of the FHLB to determine whether an other-than-temporary impairment of the FHLB stock is present. At September 30, 2014, management concluded there was no such impairment.

Federal Savings and Loan Holding Company Regulation. The Company is a unitary savings and loan holding company within the meaning of the Home Owners Loan Act ("HOLA"). As such, the Company is registered with the FRB and subject to the FRB regulations, examinations, supervision, and reporting requirements. In addition, the FRB has enforcement authority over the Company and the Bank. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the Bank.

The HOLA prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring another savings association, or holding company thereof, without prior written approval from the FRB; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by savings and loan holding companies to acquire savings associations, the FRB must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, competitive factors, and other factors.

Taxation

Federal Taxation

General

The Company and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Neither the Company nor the Bank has been subject to an Internal Revenue Service audit during the past five years.

Method of Accounting

For federal income tax purposes, the Bank currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on September 30 for filing its federal income tax return.

Minimum Tax

The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of the regular tax. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

Net Operating Loss Carryovers
A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. As of September 30, 2014, the Company had no net operating loss carryovers.

State Taxation

The earnings/losses of Capitol Federal Financial, Inc. and Capitol Funds, Inc. are combined for purposes of filing a consolidated Kansas corporate tax return. The Kansas corporate tax rate is 4.0%, plus a surcharge of 3.0% on earnings greater than $50 thousand.

The Bank files a Kansas privilege tax return. For Kansas privilege tax purposes, for taxable years beginning after 1997, the minimum tax rate is 4.5% of earnings, which is calculated based on federal taxable income, subject to certain adjustments. The Bank has not received notification from the state of any potential tax liability for any years still subject to audit.

Additionally, the Bank files state tax returns in various other states where it has significant purchased loans and/or foreclosure activities. In these states, the Bank has either established nexus under an economic nexus theory or has exceeded enumerated nexus thresholds based on the amount of interest derived from sources within the state.
Employees
At September 30, 2014, we had a total of 716 employees, including 134 part-time employees. The full-time equivalent of our total employees at September 30, 2014 was 674. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good.
Executive Officers of the Registrant
John B. Dicus. Age 53 years. Mr. Dicus is Chairman of the Board of Directors, Chief Executive Officer, and President of the Bank and the Company. He has served as Chairman since January, 2009 and Chief Executive Officer since January, 2003. He has served as President of the Bank since 1996 and of the Company since its inception in March 1999. Prior to accepting the responsibilities of Chief Executive Officer, he served as Chief Operating Officer of the Bank and the Company. Prior to that, he served as the Executive Vice President of Corporate Services for the Bank for four years. He has been with the Bank in various other positions since 1985.

Kent G. Townsend. Age 53 years. Mr. Townsend serves as Executive Vice President and Chief Financial Officer of the Bank, its subsidiary, and the Company. Mr. Townsend also serves as Treasurer for the Company, Capitol Funds, Inc. and CFMRC. Mr. Townsend was promoted to Executive Vice President, Chief Financial Officer and Treasurer on September 1, 2005. Prior to that, he served as Senior Vice President, a position he held since April 1999, and Controller of the Company, a position he held since March 1999. He has served in similar positions with the Bank since September 1995. He served as the Financial Planning and Analysis Officer with the Bank for three years and other financial related positions since joining the Bank in 1984.

Rick C. Jackson. Age 49 years. Mr. Jackson serves as Executive Vice President, Chief Lending Officer and Community Development Director of the Bank and the Company. He also serves as the President of Capitol Funds, Inc., a subsidiary of the Bank and President of CFMRC. He has been with the Bank since 1993 and has held the position of Community Development Director since that time. He has held the position of Chief Lending Officer since February 2010.

Natalie G. Haag. Age 55 years. Ms. Haag serves as Executive Vice President and General Counsel of the Bank and the Company. Prior to joining the Bank in August of 2012, Ms. Haag was 2nd Vice President, Director of Governmental Affairs and Assistant General Counsel for Security Benefit Corporation and Security Benefit Life Insurance Company in Topeka, Kansas. Security Benefit provides retirement products and services, including annuities and mutual funds. Ms. Haag was employed by Security Benefit since June 2003. The Security Benefit

companies are not parents, subsidiaries or affiliates of the Bank or the Company.

Carlton A. Ricketts. Age 57 years. Mr. Ricketts serves as Executive Vice President, Chief Corporate Services Officer of the Bank and the Company. Prior to accepting those responsibilities in 2012, he served as Chief Strategic Planning Officer of the Bank for the previous five years.

Frank H. Wright. Age 65 years. Mr. Wright serves as Executive Vice President, Chief Retail Operations Officer of the Bank and the Company. Prior to accepting those responsibilities in 2013, he served as Senior Vice President for Retail Operations, a position held since 1999. Mr. Wright has been an officer of the Bank since 1972, primarily in various roles within retail and electronic banking operations.

Tara D. Van Houweling. Age 41 years. Ms. Van Houweling has been employed with the Bank and Company since May 2003 and currently serves as First Vice President, Principal Accounting Officer and Reporting Director. She has held the position of Reporting Director since May 2003.

Item 1A. Risk Factors

The following is a summary of risk factors relating to the operations of the Bank and the Company. These risk factors are not necessarily presented in order of significance.

Changes in interest rates could have an adverse impact on our results of operations and financial condition.

Our results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, MBS, and investment securities, and the interest paid on deposits and borrowings. Changes in interest rates could have an adverse impact on our results of operations and financial condition because the majority of our interest-earning assets are long-term, fixed-rate loans, while the majority of our interest-bearing liabilities are shorter term, and therefore subject to a greater degree of interest rate fluctuations. This type of risk is known as interest rate risk and is affected by prevailing economic and competitive conditions, including monetary and fiscal policies of the federal government.

The impact of changes in interest rates is generally observed on the income statement. The magnitude of the impact will be determined by the difference between the amount of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. This difference provides an indication of the extent to which our net interest rate spread will be impacted by changes in interest rates. In addition, changes in interest rates will impact the expected level of repricing of the Bank's mortgage-related assets and callable debt securities. Generally, as interest rates decline, the amount of interest-earning assets expected to reprice will increase as borrowers have an economic incentive to reduce the cost of their mortgage or debt, which would negatively impact the Bank's interest income. Conversely, as interest rates rise, the amount of interest-earning assets expected to reprice will decline as the economic incentive to refinance the mortgage or debt is diminished. As this occurs, the amount of interest-earning assets repricing could diminish to the point where interest-bearing liabilities reprice to a higher interest rate, at a faster pace, than interest-earning assets, thus negatively impacting the Bank's net interest income.

Changes in interest rates can also have an adverse effect on our financial condition as AFS securities are reported at estimated fair value. We increase or decrease our stockholders' equity, specifically accumulated other comprehensive income (loss), by the amount of change in the estimated fair value of our AFS securities, net of deferred taxes. Increases in interest rates generally decrease the fair value of AFS securities. Decreases in the fair value of AFS securities would, therefore, adversely impact stockholders' equity.

Changes in interest rates, as they relate to customers, can also have an adverse impact on our financial condition and results of operations. In times of rising interest rates, default risk may increase among borrowers with ARM loans as the rates on their loans adjust upward and their payments increase. Fluctuations in interest rates also affect customer demand for deposit products. Local competition could affect our ability to attract deposits, or could result in us paying more than competitors for deposits.

In addition to general changes in interest rates, changes that affect the shape of the yield curve could negatively impact the Bank. The Bank's interest-bearing liabilities are generally priced based on short-term interest rates while the majority of the Bank's interest-earning assets are priced based on long-term interest rates. Income for the Bank is primarily driven by the spread between these rates. As a result, a steeper yield curve, meaning long-term interest rates are significantly higher than short-term interest rates, would provide the Bank with a better opportunity to increase net interest income. When the yield curve is flat, meaning long-term interest rates and short-term interest rates are essentially the same, or when the yield curve is

inverted, meaning long-term interest rates are lower than short-term interest rates, the yield between interest-earning assets and interest-bearing liabilities that reprice is compressed or diminished and would likely negatively impact the Bank's net interest income.

An economic downturn, especially one affecting our geographic market area, could adversely affect our operations and financial results.
Our primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties; therefore, we are particularly exposed to downturns in regional housing markets and, to a lesser extent, the U.S. housing market. The primary risks inherent in our one- to four-family loan portfolio are declines 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 have an adverse impact on borrowers' ability to repay their loans, which could result in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions.

Additionally, we have a concentration of loans secured in Kansas and Missouri due to our lending practices. Approximately 63% of our loan portfolio is comprised of loans secured by property located in Kansas, and approximately 19% is comprised of loans secured by property located in Missouri. This makes us vulnerable to a downturn in local economies and real estate markets. Adverse conditions in these local economies such as inflation, unemployment, recession, natural disasters, or other factors beyond our control, could impact the ability of our borrowers to repay their loans. Decreases in local real estate values could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure. Currently, there is not a single employer or industry in the area on which the majority of our customers are dependent.

We operate in a highly regulated industry, which limits the manner and scope of our business activities and will continue to increase our operational and compliance costs.
Our business is highly regulated; in addition, the laws and applicable regulations are subject to frequent change. The Dodd-Frank Act significantly changed, and will continue to significantly change, the current banking regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. As of July 2011 the Bank's primary federal regulator became the OCC while the Company, as a savings and loan holding company, is subject to regulation and supervision by the FRB. The Dodd-Frank Act gave various federal agencies significant discretion in drafting a broad range of new rules and regulations. The full details and impact of the Dodd-Frank Act may not be known for many years.

We are subject to extensive regulation, supervision, and examination by the OCC, FRB, and the FDIC. These regulatory authorities exercise broad discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's ACL, and determine the level of deposit insurance premiums assessed. The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws, including a wide range of consumer protection laws that apply to all banks and savings institutions, like the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB also has examination and enforcement authority over all banks with more than $10 billion in assets. The Company does not currently have assets in excess of $10 billion, but it may at some point in the future. Banks with $10 billion or less in assets will continue to be examined for compliance with the consumer laws and regulations of the CFPB by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws. Change in the authority and oversight of any of these agencies, and of other agencies, such as the U.S. Department of Housing and Urban Development, whether in the form of regulatory policy, new regulations or legislation, or additional deposit insurance premiums, could have a material impact on our operations.

Since the enactment of the Dodd-Frank Act, the CFPB has issued a number of new regulations and changes to existing consumer protections regulations, including new rules, most (including the qualified mortgage rule) effective January 10, 2014, which generally prohibit creditors from extending mortgage loans without regard for the consumer's ability-to-repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules limit prepayment penalties and require the creditor to retain evidence of compliance with the ability-to-repay requirement for three years. Compliance with these rules has, and may continue to, change our underwriting practices with respect to mortgage loans and increase our overall regulatory compliance costs. Moreover, these rules may adversely affect the volume of

mortgage loans that we underwrite and may subject us to increased potential liabilities related to such residential loan origination activities.

The Dodd-Frank Act requires minimum leverage (Tier 1) and risk-based capital requirements for savings and loan holding companies and bank holding companies that are no less stringent than those applicable to banks, which will limit our ability to borrow at the holding company level and invest the proceeds from such borrowings as capital in the Bank.

The Dodd-Frank Act also broadens the base for FDIC deposit insurance assessments. Assessments are now based on the average consolidated total assets less average tangible equity capital of a financial institution, rather than deposits. The Dodd-Frank Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions, and credit unions to $250 thousand per depositor, retroactive to January 1, 2008. The legislation also increases the required minimum reserve ratio for the DIF, from 1.15% to 1.35% of insured deposits, and directs the FDIC to offset the effects of increased assessments on depository institutions with less than $10 billion in assets by charging higher assessments on institutions with more than $10 billion in assets.

The potential exists for additional laws and regulations, or changes in policy, affecting lending practices, regulatory capital limits, interest rate risk management, and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements and/or assessing monetary penalties. Bank regulatory agencies, such as the OCC and the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of investors. The CFPB enforces consumer protection laws and regulations for the benefit of the consumer and not the protection or benefit of investors. In addition, new laws and regulations may continue to increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and securities, the products we offer, the fees we can charge and our ongoing operations, costs, and profitability.

It is difficult to predict at this time the full impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that, at a minimum, they will continue to increase our operating and compliance costs.

Strong competition may limit growth and profitability.
While we are one of the largest mortgage loan originators in the state of Kansas, we compete in the same market areas as local, regional, and national banks, credit unions, mortgage brokerage firms, investment banking firms, investment brokerage firms, and savings institutions. We must also compete with online investment and mortgage brokerages and online banks that are not confined to any specific market area. Many of these competitors operate on a national or regional level, are a conglomerate of various financial services providers housed under one corporation, or otherwise have substantially greater financial or technological resources than the Bank. We compete primarily on the basis of the interest rates offered to depositors and the terms of loans offered to borrowers. Should we face competitive pressure to increase deposit rates or decrease loan rates, our net interest income could be adversely affected. Additionally, our competitors may offer products and services that we do not or cannot provide, as certain deposit and loan products fall outside of our accepted level of risk. Our profitability depends upon our ability to compete in our local market areas.

We may be required to provide remedial consideration to borrowers whose loans we purchase from correspondent and nationwide lenders if it is discovered that the originating company did not properly comply with lending regulations during the origination process.
We purchase whole one- to four-family mortgage loans from correspondent and nationwide lenders. While loans purchased on a loan-by-loan basis from correspondent lenders are underwritten by the Bank's underwriters and loans

purchased in bulk packages from correspondent and nationwide lenders are evaluated on a certain set of criteria before being purchased, we are still subject to some risks associated with the loan origination process itself. By law, loan originators are required to comply with lending regulations at all times during the origination process. Any compliance related risks associated with the origination process itself is effectively transferred from the originating company to the Bank once the Bank purchases the loan. Should, at any point, it be discovered that an instance of noncompliance occurred by the originating company during the origination process, the Bank would still be held responsible and required to remedy the issue for the loans it purchased from the originator. Remedial actions can include such actions as refunding interest paid to the borrower and adjusting the contractual interest rate on the loan to the current market rate if advantageous to the borrower.

The short-term and long-term impact of the changing regulatory capital requirements and new capital rules is uncertain.
As discussed in "Regulation and Supervision – New Capital Rules", effective January 1, 2015, the Company and the Bank will be subject to new capital requirements under regulations adopted by the federal banking regulators to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. These new requirements establish the following minimum capital ratios:

(1) CET1 capital ratio of 4.5% of risk-weighted assets; (2) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (3) a total capital ratio of 8.0% of risk-weighted assets; and (4) a leverage ratio of 4.0%. In addition, there is a new requirement to maintain a capital conservation buffer, comprised of CET1 capital, in an amount greater than 2.5% of risk-weighted assets over the minimum capital required by each of the minimum risk-based capital ratios in order to avoid limitations on the organization's ability to pay dividends, repurchase shares or pay discretionary bonuses. The capital conservation buffer requirement will be phased in, beginning January 1, 2016, requiring during 2016 a buffer amount greater than 0.625% in order to avoid these limitations, and with the amount increasing by that amount each year until beginning January 1, 2019, the buffer amount must be greater than 2.5% in order to avoid the limitation. The new regulations also change what qualifies as capital for purposes of meeting these various capital requirements, as well as the risk-weights of certain assets for purposes of the risk-based capital ratios.

Under the new regulations, in order to be considered well-capitalized for prompt corrective action purposes, the Bank will be required to maintain the following ratios: (1) a CET1 ratio of at least 6.5% of risk-weighted assets; (2) a Tier 1 capital ratio of at least 8.0% of risk-weighted assets; (3) a total capital ratio of at least 10.0% of risk-weighted assets; and (4) a leverage ratio of at least 5.0%.

Although we continue to evaluate the impact the more restrictive Basel III capital rules will have on the Bank, we currently anticipate the Bank will remain well-capitalized in accordance with the regulatory standards.

Changes in accounting standards could impact the Company's financial statements and reported earnings.
Accounting standard-setting bodies, such as the Financial Accounting Standards Board, periodically change and approve new financial accounting and reporting standards that affect the preparation of the consolidated financial statements. These changes are beyond the Company's control and could have a meaningful impact on its consolidated financial statements.

The Company's ability to pay dividends is subject to the ability of the Bank to make capital distributions to the Company.
The long-term ability of the Company to pay dividends to its stockholders is based primarily upon the ability of the Bank to make capital distributions to the Company, and also on the availability of cash at the holding company level in the event earnings are not sufficient to pay dividends according to the cash dividend payout policy.

The Company's risk-management framework may not be effective in mitigating risk and loss.
The Company maintains an enterprise risk management program that is designed to identify, quantify, monitor, report, and control the risks that it faces. These include interest-rate risk, credit risk, liquidity risk, operational risk, reputation risk, and compliance and litigation risk. While the Company assesses and improves this program on an ongoing basis, there can be no assurance that its approach and framework for risk management and related controls will effectively mitigate risk and limit losses in its business. If conditions or circumstances arise that expose flaws or gaps in the Company's risk-management program, or if its controls break down, the performance and value of its business could be adversely affected.

Risks associated with cyber-security, information system failures, interruptions, or other breaches of security involving our systems or network, or those of our third-party vendors, may negatively affect the Bank in multiple

ways.
The Bank relies heavily on communications and information systems to conduct business. It is also dependent on its network and information processing systems and, in some cases, those of the Bank's third-party vendors. The Bank has a business continuity plan which is reviewed and updated on a regular basis and is tested periodically. The Bank also reviews and evaluates business continuity programs implemented by its third-party vendors.

Cyber-security and the continued development and enhancement of the controls and processes designed to protect the Bank's systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. Disruption or failure of those systems, or a breach in security, may adversely affect the Bank's operations, financial performance, or

reputation. Furthermore, as cyber threats continue to evolve and increase, the Bank may be required to expend significant additional resources to modify or enhance its protective measures, or to investigate and remediate any identified information security vulnerabilities.

While the Bank has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of the Bank's information systems or network in place, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At September 30, 2014, we had 37 traditional branch offices and 10 in-store branch offices. The Bank owns the office building and related land in which its home office and executive offices are located, and 28 of its other branch offices. The remaining 18 branches are either leased or partially owned.

For additional information regarding our lease obligations, see "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 5 – Premises and Equipment, net."

Management believes that our current facilities are adequate to meet our present and immediately foreseeable needs, after consideration of the remodeling of our Kansas City market area operations center. However, we will continue to monitor customer growth and expand our branching network, if necessary, to serve our customers' needs.

Item 3. Legal Proceedings

The Company and the Bank are involved as plaintiff or defendant in various legal actions arising in the normal course of business. In our opinion, after consultation with legal counsel, we believe it unlikely that such pending legal actions will have a material adverse effect on our financial condition, results of operations or liquidity.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for the Registrant's Common Stock, Related Security Holder Matters and Issuer Purchases of Equity Securities

Stock Listing

Capitol Federal Financial, Inc. common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN". At November 17, 2014, there were approximately 10,943 Capitol Federal Financial, Inc. stockholders of record.

Price Range of Common Stock

The high and low sales prices for the common stock as reported on the NASDAQ Stock Market, as well as dividends declared per share, are reflected in the table below.

FISCAL YEAR 2014	HIGH	LOW	DIVIDENDS
First Quarter	$ 13.21	$ 11.69	$ 0.505
Second Quarter	12.91	11.78	0.075
Third Quarter	12.74	11.75	0.325
Fourth Quarter	12.44	11.61	0.075

FISCAL YEAR 2013	HIGH	LOW	DIVIDENDS
First Quarter	$ 12.29	$ 11.44	$ 0.775
Second Quarter	12.17	11.58	0.075
Third Quarter	12.31	11.67	0.075
Fourth Quarter	12.93	12.08	0.075

Share Repurchases

The following table summarizes our share repurchase activity during the three months ended September 30, 2014 and additional information regarding our share repurchase program. In December 2011, the Company announced that its Board of Directors approved the repurchase of up to $193.0 million of the Company's common stock. The Company began repurchasing common stock during the second quarter of fiscal year 2012 and completed the plan during the second quarter of fiscal year 2013. In November 2012, the Company announced its Board of Directors approved a new $175.0 million stock repurchase program to commence upon the completion of the aforementioned $193.0 million repurchase plan. The new plan has no expiration date.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
July 1, 2014 through July 31, 2014	451,700	$ 11.96	451,700	$ 57,897,467
August 1, 2014 through August 31, 2014	491,900	11.89	491,900	52,048,818
September 1, 2014 through September 30, 2014	470,000	11.96	470,000	46,427,061
Total	1,413,600	11.94	1,413,600	46,427,061

Stockholders and General Inquiries

Copies of our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 are available at no charge to stockholders upon request. Please direct requests or inquiries to: James D. Wempe, Vice President, Investor Relations, 700 South Kansas Avenue, Topeka, KS 66603, (785) 270-6055, or jwempe@capfed.com.

Stockholder Return Performance Presentation

The line graph below compares the cumulative total stockholder return on the Company's common stock to the cumulative total return of a broad index of the NASDAQ Stock Market and the SNL Midcap Bank and Thrift industry index for the period September 30, 2009 through September 30, 2014. The information presented below assumes $100 invested on September 30, 2009 in the Company's common stock and in each of the indices, and assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

	Period Ending					
Index	9/30/2009	9/30/2010	9/30/2011	9/30/2012	9/30/2013	9/30/2014
Capitol Federal Financial, Inc.	100.00	80.50	86.27	101.18	114.37	117.86
NASDAQ Composite	100.00	112.74	116.12	151.70	186.60	225.17
SNL Midcap Bank & Thrift Index	100.00	105.20	85.66	115.18	147.22	157.17

Restrictions on the Payments of Dividends

The Company's ability to pay dividends is dependent, in part, upon its ability to obtain capital distributions from the Bank. The dividend policy of the Company is subject to the discretion of the Board of Directors and will depend upon a number of factors, including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company level. See "Item 1. Business – Regulation and Supervision – Limitations on Dividends and Other Capital Distributions" for additional information regarding the Company's ability to pay dividends.

Item 6. Selected Financial Data

The summary information presented below under "Selected Balance Sheet Data" and "Selected Operations Data" for, and as of the end of, each of the years ended September 30 is derived from our audited consolidated financial statements. The following information is only a summary and should be read in conjunction with our consolidated financial statements. In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization ("the corporate reorganization"). All share information prior to the corporate reorganization has been revised to reflect the 2.2637 exchange ratio.

	September 30,				
	2014	2013	2012	2011	2010
	(Dollars in thousands)				
Selected Balance Sheet Data:					
Total assets	$9,865,028	$9,186,449	$9,378,304	$9,450,799	$8,487,130
Loans receivable, net	6,233,170	5,958,868	5,608,083	5,149,734	5,168,202
Securities:					
AFS	840,790	1,069,967	1,406,844	1,486,439	1,060,366
HTM	1,552,699	1,718,023	1,887,947	2,370,117	1,880,154
FHLB stock	213,054	128,530	132,971	126,877	120,866
Deposits	4,655,272	4,611,446	4,550,643	4,495,173	4,386,310
FHLB borrowings	3,369,677	2,513,538	2,530,322	2,379,462	2,348,371
Other borrowings	220,000	320,000	365,000	515,000	668,609
Stockholders' equity	1,492,882	1,632,126	1,806,458	1,939,529	961,950

	For the Year Ended September 30,				
	2014	2013	2012	2011	2010
	(Dollars and counts in thousands, except per share amounts)				
Selected Operations Data:					
Total interest and dividend income	$290,246	$298,554	$328,051	$346,865	$374,051
Total interest expense	106,103	120,394	143,170	178,131	204,486
Net interest and dividend income	184,143	178,160	184,881	168,734	169,565
Provision for credit losses	1,409	(1,067)	2,040	4,060	8,881
Net interest and dividend income after provision for credit losses	182,734	179,227	182,841	164,674	160,684
Retail fees and charges	14,937	15,342	15,915	15,509	17,789
Other non-interest income	8,018	7,947	8,318	9,486	16,622
Total non-interest income	22,955	23,289	24,233	24,995	34,411
Salaries and employee benefits	43,757	49,152	44,235	44,913	42,666
Other non-interest expense	46,780	47,795	46,840	87,404	47,064
Total non-interest expense	90,537	96,947	91,075	132,317	89,730
Income before income tax expense	115,152	105,569	115,999	57,352	105,365
Income tax expense	37,458	36,229	41,486	18,949	37,525
Net income	$77,694	$69,340	$74,513	$38,403	$67,840
Basic earnings per share	$0.56	$0.48	$0.47	$0.24 (1)	$0.41
Average basic shares outstanding	139,440	144,847	157,913	162,625	165,862
Diluted earnings per share	0.56	0.48	0.47	0.24 (1)	0.41
Average diluted shares outstanding	139,442	144,848	157,916	162,633	165,899

	2014		2013		2012		2011		2010	
Selected Performance and Financial Ratios and Other Data:										
Performance Ratios:										
Return on average assets	0.82	%	0.75	%	0.79	%	0.41	% (1)	0.80	%
Return on average equity	5.00		4.14		3.93		2.20	(1)	7.09	
Dividends paid per share	$0.98		$1.00		$0.40		$1.63		$2.29	(2)
Dividend payout ratio	177.84	%	211.75	%	85.58	%	390.88	%	71.34	%
Operating expense ratio	0.96		1.05		0.97		1.40	(1)	1.06	
Efficiency ratio	43.72		48.13		43.55		68.30	(1)	43.99	
Ratio of average interest-earning assets to average interest-bearing liabilities	1.18x		1.21x		1.24x		1.22x		1.11x	
Net interest margin	2.00	%	1.97	%	2.01	%	1.84	%	2.06	%
Interest rate spread information:										
Average during period	1.79		1.70		1.64		1.42		1.78	
End of period	1.84		1.72		1.68		1.60		1.76	
Asset Quality Ratios:										
Non-performing assets to total assets	0.29		0.33		0.43		0.40		0.49	
Non-performing loans to total loans	0.40		0.44		0.57		0.51		0.62	
ACL to non-performing loans	37.04		33.36		34.88		58.34		46.60	
ACL to loans receivable, net	0.15		0.15		0.20		0.30		0.29	
Capital Ratios:										
Equity to total assets at end of period	15.13		17.77		19.26		20.52		11.33	
Average equity to average assets	16.45		18.12		20.11		18.50		11.30	
Regulatory Capital Ratios of Bank:										
Tier 1 leverage ratio	13.2		14.8		14.6		15.1		9.8	
Tier 1 risk-based capital	33.0		35.6		36.4		37.9		23.5	
Total risk-based capital	33.2		35.9		36.7		38.3		23.8	
Other Data:										
Number of traditional offices	37		36		36		35		35	
Number of in-store offices	10		10		10		10		11	

(1) Excluding the $40.0 million ($26.0 million, net of income tax benefit) contribution to the Capitol Federal Foundation (the "Foundation") in connection with the corporate reorganization, basic and diluted earnings per share would have been $0.40, return on average assets would have been 0.68%, return on average equity would have been 3.69%, the operating expense ratio would have been 0.98%, and the efficiency ratio would have been 47.65%. This adjusted financial data is not presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes it is important for comparability purposes to provide this adjusted financial data because of the magnitude and non-recurring nature of the contribution to the Foundation. Set forth below is a reconciliation of the adjusted financial data to the financial data calculated and presented in accordance with GAAP:

	For the Year Ended September 30, 2011					
	Actual (GAAP)		Contribution to Foundation		Adjusted (Non-GAAP)	
Return on average assets	0.41	%	(0.27	)%	0.68	%

Return on average equity	2.20	(1.49)	3.69
Operating expense ratio	1.40	0.42	0.98
Efficiency ratio	68.30	20.65	47.65

(2) For fiscal year 2010, Capitol Federal Savings Bank MHC ("MHC") owned a majority of the outstanding shares of Capitol Federal Financial common stock and waived its right to receive dividends paid on the common stock with the exception of the $0.50 per share dividend paid on 500,000 shares in February 2010. Public shares excluded shares held by MHC, as well as unallocated shares held in the Capitol Federal Financial Employee Stock Ownership Plan ("ESOP"). The ownership portion of MHC was sold in a public offering in conjunction with the corporate reorganization.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity, and capital resources of the Company. The Bank comprises almost all of the consolidated assets and liabilities of the Company and the Company is dependent primarily upon the performance of the Bank for the results of its operations. Because of this relationship, references to management actions, strategies and results of actions apply to both the Bank and the Company.

Executive Summary
The Company completed its conversion from a mutual holding company form of organization to a stock form of organization in December 2010. The Company's common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN." The Company provides a full range of retail banking services through the Bank, which is a wholly-owned subsidiary headquartered in Topeka Kansas. The Bank has 37 traditional and 10 in-store banking offices serving primarily the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and portions of the metropolitan area of greater Kansas City.

We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. We attract retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate consumer loans primarily secured by first mortgages on one- to four-family residences, commercial and multi-family real estate loans, and construction loans secured by residential, multi-family, or commercial real estate. While our primary business is the origination of one- to four-family mortgage loans funded through retail deposits, we also purchase whole one- to four-family mortgage loans from correspondent and nationwide lenders, participate in loans with other lenders that are secured by multi-family or commercial real estate, and invest in certain investment securities and MBS using funding from retail deposits, FHLB borrowings, and repurchase agreements.

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

The Company is significantly affected by prevailing economic conditions, including federal monetary and fiscal policies and federal regulation of financial institutions. Retail deposit balances are influenced by a number of factors, including interest rates paid on competing investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, our loan underwriting guidelines compared to those of our competitors, as well as interest rate pricing competition from other lending institutions.

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their October 2014 statement that economic activity has expanded at a moderate pace. Labor market conditions further improved with solid job gains and lower unemployment as underutilization of labor resources gradually diminished. The FOMC stated that household spending and business fixed investment continued to advance, but recovery in the housing sector remained slow. Inflation continued to run below the FOMC's longer-run objective while longer-term inflationary expectations have remained stable. Given the substantial improvement in the outlook for the labor market since the inception of the FOMC's current asset purchase program, and the sufficient underlying strength it sees in the broader economy, the

FOMC decided to conclude its asset purchase program. The FOMC will continue its existing policy of reinvesting principal payments from its holdings of agency debt and agency MBS in agency MBS, and rolling over maturing Treasury securities at auction. The FOMC reaffirmed its view that the current 0% to 0.25% target range for the federal funds rate remains appropriate and that it will likely be so for a considerable time following the end of the asset purchase program, especially if projected inflation continues to run below the FOMC's 2% longer-run goal. If incoming information indicates faster progress toward the FOMC's employment and inflation objectives, then increases in the federal funds target range are likely to occur sooner than currently anticipated.

Conversely, if progress is restricted more than expected, then increases in the federal funds target range are likely to occur later than currently anticipated. Even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the FOMC views as normal in the long run. When the FOMC decides to begin to remove policy accommodation, they stated they will take a balanced approach consistent with their longer-run goals of maximum employment and inflation of 2%.

Economic conditions in the Bank's local market areas have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. The industries in our market areas are very diversified, specifically in the Kansas City metropolitan statistical area which comprises the largest segment of our loan portfolio and deposit base. As of October 2014, the unemployment rate was 4.4% for Kansas and 5.9% for Missouri, compared to the national average of 5.8% based on information from the Bureau of Economic Analysis. The Kansas City market area has an average household income of approximately $74 thousand per annum, based on 2014 estimates from the American Community Survey, which is a statistical survey by the U.S. Census Bureau. The average household income in our combined market areas is approximately $69 thousand per annum, with 90% of the population at or above the poverty level, also based on the 2014 estimates from the American Community Survey. The FHFA price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, unlike other market areas of the United States, which indicates relative stability in property values in our local market areas.

The structure of the Bank's retail branches is currently undergoing a transformation as more customers utilize electronic and other remote channels to conduct business. The physical footprint of the branch is being reduced. The last branch opened by the Bank occupies approximately 2,100 square feet and we anticipate that future retail branches will be even smaller, operating with three to five retail staff members. The interior layout of the branch also will transform, with future or remodeled branches designed without a teller counter and designed for more consultative interactions with less emphasis on transaction processing. To support this operating concept, the Bank has fully implemented a new branch staffing model that eliminates our traditional teller role, blending transaction processing and account servicing functions under Customer Service Associates and Customer Service Representatives. The expanded skill set of branch staff provides branch managers greater flexibility to manage customer flows within the branches. Also, the branch management ranks have been pared, with 32 of our 47 branches now operating under a manager responsible for either two or three offices. Currently, any future branch management reductions are expected to result from retirements and attrition. Management continues to monitor the role and functions of the branch staff and will adjust the branch management and overall branch staffing structure as necessary to achieve the Bank's targets for deposit and loan production. Since 2010, the Bank has reduced retail branch staff by 24 full-time equivalent positions while adding four new branch locations. Additionally, lending staff have been deployed from regionally centralized locations to the branch network. By utilizing paperless electronic document technology, the Bank can better utilize staff resources regardless of their physical location. This promotes a more efficient loan process which benefits the customer and the loan operation. Having loan staff located in the branch network also provides them with more frequent opportunities to interact with customers and cross-sell additional products and services.

During the fourth quarter of fiscal year 2014, the Bank implemented the daily leverage strategy to increase earnings. The daily leverage strategy currently involves borrowing up to $2.10 billion on the Bank's FHLB line of credit in two leverage tiers. The first tier of $800.0 million is intended to remain borrowed on the FHLB line of credit for an extended period of time. The second tier of $1.30 billion is borrowed at the beginning of each quarter and paid off prior to each quarter end. The proceeds of the borrowings, net of the required FHLB stock holdings, are deposited at the Federal Reserve Bank of Kansas City. The daily leverage strategy was fully implemented beginning on August 1, 2014 and increased fiscal year 2014 net income by $501 thousand. The daily leverage strategy has had minimal impact on the Bank's interest rate risk and liquidity. The pre-tax yield of the daily leverage strategy, which is defined as the annualized pre-tax income resulting from the transaction as a percentage of the interest-earning assets associated with the transaction, was 0.21% for the period that the strategy was in place during fiscal year 2014. Management expects to continue this strategy and will monitor it on a continuous basis.

For fiscal year 2014, the Company recognized net income of $77.7 million, compared to net income of $69.3 million for fiscal year 2013. The $8.4 million, or 12.0%, increase in net income was due primarily to a $6.0 million increase in net interest income, and a $5.4 million decrease in salaries and employee benefits due primarily to a reduction in ESOP related expenses. The net interest margin increased three basis points, from 1.97% for the prior fiscal year to 2.00% for the current fiscal year. Excluding the effects of the daily leverage strategy, the net interest margin would have been 2.07% for the current fiscal year. Decreases in the cost of funds and a shift in the mix of interest-earning assets from relatively lower yielding securities to higher yielding loans were the primary drivers for the higher net interest margin in the current fiscal year.

Total assets were $9.87 billion at September 30, 2014 compared to $9.19 billion at September 30, 2013. The $678.6 million increase was due primarily to a $697.0 million increase in cash and cash equivalents resulting largely from the daily leverage strategy, a $274.3 million increase in loans receivable and an $84.5 million increase in FHLB stock, also due largely to the daily leverage strategy, partially offset by a $394.5 million decrease in the securities portfolio. Cash flows from the securities portfolio were used to fund loan growth, pay dividends, and repurchase stock. During the current fiscal year, the Bank originated and refinanced $566.9 million of loans with a weighted average rate of 3.91%, purchased $515.5 million of loans from correspondent lenders with a weighted average rate of 3.70%, and participated in $58.3 million of commercial real estate loans with a weighted average rate of 3.94%.

Total liabilities were $8.37 billion at September 30, 2014 compared to $7.55 billion at September 30, 2013. The $817.8 million increase was due primarily to an $856.1 million increase in FHLB borrowings, largely due to an $800.0 million increase in the FHLB line of credit resulting from the daily leverage strategy, as well as to a $43.8 million increase in deposits. Repurchase agreements decreased $100.0 million between periods as a result of an agreement that matured being replaced with a FHLB advance.

Stockholders' equity was $1.49 billion at September 30, 2014 compared to $1.63 billion at September 30, 2013. The $139.2 million decrease was due primarily to the payment of $138.2 million in dividends and the repurchase of $83.2 million of stock, partially offset by net income of $77.7 million.

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. The following is a description of our critical accounting policies and an explanation of the methods and assumptions underlying their application.

Allowance for Credit Losses. The Company maintains an ACL to absorb inherent losses in the loan portfolio based upon ongoing quarterly assessments of the loan portfolio. The ACL is maintained through provisions for credit losses which are either charged or credited to income. The methodology for determining the ACL is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in economic conditions that could result in changes to the amount of the recorded ACL. Additionally, bank regulators have the ability to require the Bank, as they can require all institutions, to increase the ACL or recognize additional charge-offs based upon their judgment, which may differ from management's judgment. Although management believes that the Bank has established and maintained the ACL at appropriate levels, additions may be necessary if economic and other conditions worsen substantially from the current operating environment, and/or if bank regulators require the Bank to increase the ACL and/or recognize additional charge-offs.

Our primary lending emphasis is the origination and purchase of one- to four-family loans and, to a lesser extent, consumer loans secured by one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. As a result of our lending practices, we also have a concentration of loans secured by property located in Kansas and Missouri. At September 30, 2014, approximately 63% and 19% of the Bank's loans were secured by property located in Kansas and Missouri, respectively.

We believe the primary risks inherent in our 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. Changes in 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.

Generally, when a one- to four-family secured loan is 180 days delinquent, a new collateral value is obtained through an appraisal. If the estimated fair value of the collateral, less estimated costs to sell, is less than the current loan balance, the difference is charged-off. Anticipated PMI proceeds are taken into consideration when calculating the amount of the charge-off. An updated appraisal is requested, at a minimum, every 12 months thereafter if the loan remains 180 days or more delinquent or in foreclosure. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. For multi-family and commercial loans, losses are charged-off when the collection of such amounts is determined to be unlikely. When a non-real estate secured loan, which includes consumer loans - other, is 120 days delinquent, any identified losses are charged-off. Charge-offs for any loan type may also occur at any time if the Bank has knowledge of the existence of a potential loss. Loans individually evaluated for loss are excluded from the formula analysis model.

Each quarter, we prepare a formula analysis which segregates our loan portfolio into categories based on certain risk characteristics such as loan type (one- to four-family, multi-family, etc.), interest payments (fixed-rate and adjustable-rate/interest-only), loan source (originated and correspondent purchased, or bulk purchased), LTV ratios, borrower's credit score and payment status (i.e. current or number of days delinquent). Consumer loans, such as second mortgages and home equity lines of credit, 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 to calculate a combined LTV ratio.

Quantitative loss factors are applied to each loan category in the formula analysis based on the historical net 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. Additionally, qualitative loss factors that management believes impact the collectability of the loan portfolio as of the evaluation date are applied to certain loan categories. Loss factors increase as loans are classified or become delinquent. Additionally, TDRs that have not been individually evaluated for loss 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 factors applied in the formula analysis are reviewed quarterly by management to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. Our ACL methodology permits modifications to the formula analysis in the event that, in management's judgment, significant factors which affect the collectability of the portfolio or any category of the loan portfolio, as of the evaluation date, have changed from the current formula analysis. Management's evaluation of the qualitative factors with respect to these conditions is subject

to a higher degree of uncertainty because they are not identified with a specific problem loan or portfolio segment.

Management utilizes the formula analysis, along with considering several other data elements, when evaluating the adequacy of the ACL. Such data elements 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 economic conditions (particularly levels of unemployment), trends and current conditions in the real estate and housing markets, and loan portfolio growth and concentrations. Since our 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 we lend, in order to determine what impact, if any, such trends may have on the level of ACL. Reviewing these data elements 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 our ACL methodology. In addition, the adequacy of the Company's ACL is reviewed during bank regulatory examinations. We consider any comments from our regulators when assessing the appropriateness of our ACL. We seek to apply ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions.

Fair Value Measurements. The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures in accordance with Accounting Standard Codification ("ASC") 820 and ASC 825. The Company 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, with Level 1 (quoted prices for identical assets in an active market) being considered the most reliable, and Level 3 having the most unobservable inputs and therefore being considered the least reliable. The Company bases its fair values on the price that would be received from the sale of an asset in an orderly transaction between market participants at the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company did not have any liabilities that were measured at fair value at September 30, 2014.

The Company's AFS securities are its most significant assets measured at fair value on a recurring basis. Changes in the fair value of AFS securities are recorded, net of tax, as accumulated other comprehensive income in stockholders' equity. The Company primarily uses prices obtained from third party pricing services to determine the fair value of its securities. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing, discounted cash flow models, and similar techniques. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. There is one security, with a balance of $2.3 million at September 30, 2014, in the AFS portfolio that has significant unobservable inputs requiring the independent pricing services to use some judgment in pricing the related securities. This AFS security is classified as Level 3. All other AFS securities are classified as Level 2.

Loans individually evaluated for impairment and OREO are the Company's significant assets measured at fair value on a non-recurring basis. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets. Fair values of loan individually evaluated for impairment are estimated through current appraisals or analyzed based on market indicators. OREO fair values are estimated using 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.

Recent Accounting Pronouncements. For a discussion of Recent Accounting Pronouncements, see "Item 8. Financial Statements and Supplementary Data – Notes to Financial Statements – Note 1 – Summary of Significant Accounting Policies."

Management Strategy

We are a community-oriented financial institution dedicated to serving the needs of customers in our market areas. Our commitment is to provide qualified borrowers the broadest possible access to home ownership through our mortgage lending programs and to offer a complete set of personal banking products and services to our customers. We strive to enhance stockholder value while maintaining a strong capital position. To achieve these goals, we focus on the following strategies:

- Residential Portfolio Lending. We are one of the leading originators of one- to four-family loans in the state of Kansas. We originate these loans primarily for our own portfolio, and we service the loans we originate. We also purchase one- to four-family loans from correspondent and nationwide lenders. We offer both fixed- and adjustable-rate products with various terms to maturity and pricing options. We maintain strong relationships with local real estate agents to attract mortgage loan business. We rely on our marketing efforts and customer service reputation to attract mortgage business from walk-in customers, customers that apply online, and existing customers.
- Retail Financial Services. We offer a wide array of deposit products and retail services. These products include checking, savings, money market, certificates of deposit, and retirement accounts. They are provided through a branch network of 47 locations, including traditional branches and retail in-store locations, our call center which operates on extended hours, mobile banking, telephone banking and bill payment services, and online banking and bill payment services.
- Cost Control. We generally are very effective at controlling our costs of operations. By using technology, we are able to centralize our lending and deposit support functions for efficient processing. We have located our branches to serve a broad range of customers through relatively few branch locations. Our average deposit base per traditional branch at September 30, 2014 was approximately $111.2 million. This large average deposit base per branch helps to control costs. Our one- to four-family lending strategy and our effective management of credit risk allows us to service a large portfolio of loans at efficient levels because it costs less to service a portfolio of performing loans.
- Asset Quality. We utilize underwriting standards for our lending products that are designed to limit our exposure to credit risk. We require complete documentation for both originated and purchased loans, and make credit decisions based on our assessment of the borrower's ability to repay the loan in accordance with its terms.
- Capital Position. Our policy has always been to protect the safety and soundness of the Bank through credit and operational risk management, balance sheet strength, and sound operations. The end result of these activities has been a capital ratio in excess of the well-capitalized standards set by the OCC. We believe that maintaining a strong capital position safeguards the long-term interests of the Bank, the Company, and our stockholders.
- Stockholder Value. We strive to enhance stockholder value while maintaining a strong capital position. One way that we continue to provide returns to stockholders is through our dividend payments. Total dividends declared and paid during fiscal year 2014 were $138.2 million. The Company's cash dividend payout policy is reviewed quarterly by management and the Board of Directors, and the ability to pay dividends under the policy depends upon a number of factors, including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company level. It is the intent of the Board of Directors to continue to pay regular quarterly and special cash dividends each year, and for fiscal year 2015, it is the intent of the Board of Directors and management to continue with the payout of 100% of the Company's earnings to its stockholders. Another way we have provided returns to stockholders is through our share repurchase programs. During fiscal year 2014, the Company repurchased 6,947,065 shares of common stock at an average price of $11.98 per share, or $83.2 million.
- Interest Rate Risk Management. Changes in interest rates are our primary market risk as our balance sheet is almost entirely comprised of interest-earning assets and interest-bearing liabilities. As such, fluctuations in interest rates have a significant impact not only upon our net income but also upon the cash flows related to those assets and liabilities and the market value of our assets and liabilities. In order to maintain what we believe to be acceptable levels of net interest income in varying interest rate environments, we actively manage our interest rate risk and assume a moderate amount of interest rate risk consistent with board policies.

45

Financial Condition

Assets. Total assets were $9.87 billion at September 30, 2014 compared to $9.19 billion at September 30, 2013. The $678.6 million increase was due primarily to a $697.0 million increase in cash and cash equivalents, a $274.3 million increase in loans receivable, and an $84.5 million increase in FHLB stock, partially offset by a $394.5 million decrease in the securities portfolio.

Loans Receivable. The loans receivable portfolio, net, increased $274.3 million, or 4.6%, to $6.23 billion at September 30, 2014, from $5.96 billion at September 30, 2013. The increase in the portfolio was due primarily to correspondent one- to four-family loan purchases outpacing principal repayments between periods. The growth in the loan portfolio was primarily funded with cash flows from the securities portfolio.

The following table presents information related to the composition of our loan portfolio (before deductions for undisbursed loan funds, unearned loan fees and deferred costs, and ACL) as of the dates indicated. The weighted average rate of the loan portfolio decreased six basis points from 3.82% at September 30, 2013 to 3.76% at September 30, 2014. The decrease in the rate was due primarily to adjustable-rate loans repricing to lower rates and repayments of loans with rates greater than the weighted average rate of the existing portfolio. Within the one- to four-family loan portfolio at September 30, 2014, 67% of the loans had a balance at origination of less than $417 thousand.

	September 30, 2014		September 30, 2013	
	Amount	Average Rate	Amount	Average Rate
	(Dollars in thousands)			
Real estate loans:				
One-to four-family	$5,972,031	3.72 %	$5,743,047	3.77 %
Multi-family and commercial	75,677	4.39	50,358	5.22
Construction:				
One- to four-family	72,113	3.66	63,208	3.51
Multi-family and commercial	34,677	4.01	14,535	4.17
Total real estate loans	6,154,498	3.73	5,871,148	3.78
Consumer loans:				
Home equity	130,484	5.14	135,028	5.26
Other	4,537	4.16	5,623	4.41
Total consumer loans	135,021	5.11	140,651	5.23
Total loans receivable	6,289,519	3.76	6,011,799	3.82
Less:				
Undisbursed loan funds	52,001		42,807	
ACL	9,227		8,822	
Discounts/unearned loan fees	23,687		23,057	
Premiums/deferred costs	(28,566)		(21,755)	
Total loans receivable, net	$6,233,170		$5,958,868	

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

	September 30, 2014					September 30, 2013				
	Amount	% of Total	Credit Score	LTV	Average Balance	Amount	% of Total	Credit Score	LTV	Average Balance
	(Dollars in thousands)									
Originated	$3,978,396	66.6 %	764	64 %	$127	$4,054,436	70.6 %	763	65 %	$127
Correspondent purchased	1,431,745	24.0	764	68	332	1,044,127	18.2	761	67	341
Bulk purchased	561,890	9.4	749	67	311	644,484	11.2	747	67	316
	$5,972,031	100.0 %	763	65	159	$5,743,047	100.0 %	761	65	155

Included in the loan portfolio at September 30, 2014 were $96.2 million, or 1.5% of the total loan portfolio, of ARM loans that were originated as interest-only. Of these interest-only loans, $81.1 million were purchased in bulk loan packages from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either 5 or 10 years. The $81.1 million of bulk purchased interest-only ARM loans had a weighted average credit score of 724 and a weighted average LTV ratio of 70% at September 30, 2014. At September 30, 2014, $52.8 million, or 55%, of the interest-only loans were still in their interest-only payment term and $4.2 million, or 17% of non-performing loans, were interest-only ARMs.

The following tables summarize activity in the loan portfolio, along with weighted average rates where applicable, for the periods indicated, excluding changes in undisbursed loan funds, ACL, discounts/unearned loan fees, and premiums/deferred costs. Loans that were paid-off as a result of refinances are included in repayments. Purchased loans include purchases from correspondent and nationwide lenders. There were no loan purchases from nationwide lenders during the periods presented. Loan endorsements are not included in the activity in the following table because a new loan is not generated at the time of the endorsement. The endorsed balance and rate are included in the ending loan portfolio balance and rate. During the fiscal years ended September 30, 2014 and 2013, the Bank endorsed $36.4 million and $487.0 million, respectively, of one- to four-family loans, reducing the average rate on those loans by 113 basis points and 112 basis points, respectively.

	For the Three Months Ended							
	September 30, 2014		June 30, 2014		March 31, 2014		December 31, 2013	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$6,197,114	3.78 %	$6,117,440	3.79 %	$			