

Capitol Federal Financial Inc  
Form 10-Q  
August 03, 2012

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

or

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

Commission file number: 001-34814

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Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

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Maryland  
(State or other jurisdiction of incorporation or organization)

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

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

66603  
(Zip Code)

Registrant's telephone number, including area code:

(785) 235-1341

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small business issuer:

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

(do not check if a smaller reporting company)

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

As of July 31, 2012, there were 157,592,937 shares of Capitol Federal Financial, Inc. common stock outstanding.



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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

## CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)

|  | June 30,<br>2012    | September 30,<br>2011 |
|--|---------------------|-----------------------|
| <b>ASSETS:</b>   |                     |                       |
| Cash and cash equivalents (includes interest-earning deposits of \$153,606 and \$105,292)                                  | \$ 172,948          | \$ 121,070            |
| Securities:  |                     |                       |
| Available-for-sale ("AFS") at estimated fair value (amortized cost of \$1,593,725 and \$1,443,529)                         | 1,632,297           | 1,486,439             |
| Held-to-maturity ("HTM") at amortized cost (estimated fair value of \$2,143,961 and \$2,434,392)                           | 2,073,951           | 2,370,117             |
| Loans receivable, net (of allowance for credit losses ("ACL") of \$11,777 and \$15,465)                                    | 5,209,990           | 5,149,734             |
| Bank-owned life insurance ("BOLI")   | 57,667              | 56,534                |
| Capital stock of Federal Home Loan Bank ("FHLB"), at cost  | 131,437             | 126,877               |
| Accrued interest receivable  | 27,416              | 29,316                |
| Premises and equipment, net  | 54,707              | 48,423                |
| Other real estate owned ("OREO"), net  | 9,913               | 11,321                |
| Other assets   | 50,288              | 50,968                |
| <b>TOTAL ASSETS</b>  | <b>\$ 9,420,614</b> | <b>\$ 9,450,799</b>   |
| <b>LIABILITIES:</b>  |                     |                       |
| Deposits   | \$ 4,592,437        | \$ 4,495,173          |
| Advances from FHLB, net  | 2,527,903           | 2,379,462             |
| Other borrowings   | 365,000             | 515,000               |
| Advance payments by borrowers for taxes and insurance  | 32,231              | 55,138                |
| Income taxes payable   | 2,763               | 2,289                 |
| Deferred income tax liabilities, net   | 22,584              | 20,447                |
| Accounts payable and accrued expenses  | 44,838              | 43,761                |
| Total liabilities  | 7,587,756           | 7,511,270             |
| <b>STOCKHOLDERS' EQUITY:</b>   |                     |                       |
| Preferred stock (\$0.01 par value) 100,000,000 shares authorized; none issued  | --                  | --                    |
| Common stock (\$0.01 par value) 1,400,000,000 shares authorized; 158,203,649 and 167,498,133 shares issued and outstanding |                     |                       |

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|   |              |              |
|---|--------------|--------------|
| as of June 30, 2012 and September 30, 2011, respectively      | 1,582        | 1,675        |
| Additional paid-in capital                                    | 1,315,352    | 1,392,567    |
| Unearned compensation, Employee Stock Ownership Plan ("ESOP") | (48,318)     | (50,547)     |
| Retained earnings   | 540,253      | 569,127      |
| Accumulated other comprehensive income ("AOCI"), net of tax   | 23,989       | 26,707       |
| Total stockholders' equity                                    | 1,832,858    | 1,939,529    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                    | \$ 9,420,614 | \$ 9,450,799 |

See accompanying notes to consolidated financial statements.

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## CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)

|  | For the Three<br>Months Ended<br>June 30, |               | For the Nine Months<br>Ended<br>June 30, |                |
|--|---|---------------|--|----------------|
|  | 2012                                      | 2011          | 2012                                     | 2011           |
| <b>INTEREST AND DIVIDEND INCOME:</b>                             |   |               |  |                |
| Loans receivable   | \$ 57,547                                 | \$ 62,393     | \$ 178,007                               | \$ 189,890     |
| Mortgage-backed securities ("MBS")                               | 18,144                                    | 19,619        | 54,686                                   | 52,379         |
| Investment securities  | 3,783                                     | 5,103         | 12,535                                   | 14,621         |
| Capital stock of FHLB  | 1,111                                     | 925           | 3,313                                    | 2,710          |
| Cash and cash equivalents  | 60  | 43            | 205                                      | 671            |
| Total interest and dividend income                               | 80,645                                    | 88,083        | 248,746                                  | 260,271        |
| <b>INTEREST EXPENSE:</b>   |   |               |  |                |
| FHLB advances  | 19,859                                    | 22,539        | 62,641                                   | 67,638         |
| Deposits   | 11,068                                    | 15,516        | 35,690                                   | 48,966         |
| Other borrowings   | 3,530                                     | 5,720         | 11,387                                   | 18,798         |
| Total interest expense   | 34,457                                    | 43,775        | 109,718                                  | 135,402        |
| <b>NET INTEREST INCOME</b>                                       | <b>46,188</b>                             | <b>44,308</b> | <b>139,028</b>                           | <b>124,869</b> |
| <b>PROVISION FOR CREDIT LOSSES</b>                               | <b>--</b>                                 | <b>1,240</b>  | <b>2,040</b>                             | <b>2,410</b>   |
| <b>NET INTEREST INCOME AFTER<br/>PROVISION FOR CREDIT LOSSES</b> | <b>46,188</b>                             | <b>43,068</b> | <b>136,988</b>                           | <b>122,459</b> |
| <b>OTHER INCOME:</b>   |   |               |  |                |
| Retail fees and charges  | 3,940                                     | 3,961         | 11,958                                   | 11,465         |
| Insurance commissions  | 870                                       | 548           | 2,213                                    | 2,254          |
| Loan fees  | 499                                       | 589           | 1,634                                    | 1,865          |
| Income from BOLI   | 334                                       | 512           | 1,133                                    | 1,348          |
| Other income, net  | 437                                       | 490           | 1,466                                    | 1,629          |
| Total other income   | 6,080                                     | 6,100         | 18,404                                   | 18,561         |
| <b>OTHER EXPENSES:</b>   |   |               |  |                |
| Salaries and employee benefits                                   | 11,517                                    | 12,046        | 32,690                                   | 33,104         |
| Communications, information technology, and occupancy            | 4,093                                     | 4,168         | 11,927                                   | 12,021         |
| Regulatory and outside services                                  | 1,148                                     | 1,243         | 3,696                                    | 3,571          |
| Deposit and loan transaction costs                               | 1,357                                     | 1,033         | 3,862                                    | 3,659          |
| Federal insurance premium  | 1,133                                     | 1,158         | 3,309                                    | 4,144          |
| Advertising and promotional                                      | 923                                       | 1,110         | 2,674                                    | 2,634          |
| Contribution to Capitol Federal Foundation ("Foundation")        | --  | --            | --                                       | 40,000         |
| Other expenses, net  | 2,734                                     | 2,344         | 8,783                                    | 10,162         |



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|                                  |           |           |           |           |
|----------------------------------|-----------|-----------|-----------|-----------|
| Total other expenses             | 22,905    | 23,102    | 66,941    | 109,295   |
| INCOME BEFORE INCOME TAX EXPENSE | 29,363    | 26,066    | 88,451    | 31,725    |
| INCOME TAX EXPENSE               | 10,690    | 8,807     | 31,674    | 10,088    |
| NET INCOME                       | \$ 18,673 | \$ 17,259 | \$ 56,777 | \$ 21,637 |

(Continued)

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|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Basic earnings per common share        | \$ 0.12     | \$ 0.10     | \$ 0.35     | \$ 0.13     |
| Diluted earnings per common share      | \$ 0.12     | \$ 0.10     | \$ 0.35     | \$ 0.13     |
| Dividends declared per public share    | \$ 0.08     | \$ 0.08     | \$ 0.33     | \$ 1.55     |
| Basic weighted average common shares   | 156,962,024 | 161,641,630 | 160,208,370 | 162,908,873 |
| Diluted weighted average common shares | 156,966,036 | 161,647,914 | 160,212,276 | 162,916,379 |

(Concluded)

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except per share data)

|   | Common<br>Stock | Additional<br>Paid-In<br>Capital | Unearned<br>Compensation<br>ESOP | Retained<br>Earnings | AOCI<br>(Loss) | Total<br>Stockholders'<br>Equity |
|---|-----------------|----------------------------------|----------------------------------|----------------------|----------------|----------------------------------|
| Balance at October 1, 2011  | \$ 1,675        | \$ 1,392,567                     | \$ (50,547)                      | \$ 569,127           | \$ 26,707      | \$ 1,939,529                     |
| Comprehensive income:   |                 |                                  |                                  |                      |                |                                  |
| Net income  |                 |                                  |                                  | 56,777               |                | 56,777                           |
| Changes in unrealized<br>gain/losses on<br>securities AFS, net of deferred<br>income taxes of \$1,620 |                 |                                  |                                  |                      | (2,718)        | (2,718)                          |
| Total comprehensive income  |                 |                                  |                                  |                      |                | 54,059                           |
| ESOP activity, net  |                 | 2,541                            | 2,229                            |                      |                | 4,770                            |
| Restricted stock activity, net  | 4               | (14)                             |                                  |                      |                | (10)                             |
| Stock-based compensation  |                 | 569                              |                                  |                      |                | 569                              |
| Repurchase of common stock  | (97)            | (80,311)                         |                                  | (33,285)             |                | (113,693)                        |
| Dividends on common stock<br>to<br>stockholders (\$0.33 per share)                                    |                 |                                  |                                  | (52,366)             |                | (52,366)                         |
| Balance at June 30, 2012  | \$ 1,582        | \$ 1,315,352                     | \$ (48,318)                      | \$ 540,253           | \$ 23,989      | \$ 1,832,858                     |

See accompanying notes to consolidated financial statements.

## CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

|   | For the Nine Months Ended |             |
|---|---------------------------|-------------|
|   | June 30,                  |             |
|   | 2012                      | 2011        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                           |             |
| Net income  | \$ 56,777                 | \$ 21,637   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |             |
| FHLB stock dividends  | (3,313)                   | (2,710)     |
| Provision for credit losses   | 2,040                     | 2,410       |
| Originations of loans receivable held-for-sale ("LHFS")                           | (4,410)                   | (9,611)     |
| Proceeds from sales of LHFS   | 5,084                     | 11,590      |
| Amortization and accretion of premiums and discounts on securities                | 6,456                     | 5,548       |
| Depreciation and amortization of premises and equipment                           | 3,584                     | 3,297       |
| Amortization of deferred amounts related to FHLB advances, net                    | 6,378                     | 5,271       |
| Common stock committed to be released for allocation - ESOP                       | 4,770                     | 4,490       |
| Stock-based compensation  | 569                       | 189         |
| Changes in:   |                           |             |
| Prepaid federal insurance premium   | 2,923                     | 3,774       |
| Accrued interest receivable   | 1,900                     | (1,131)     |
| Other assets, net   | 2,481                     | 1,228       |
| Income taxes payable/receivable   | 4,221                     | (296)       |
| Accounts payable and accrued expenses   | (12,499)                  | (5,763)     |
| Net cash provided by operating activities   | 76,961                    | 39,923      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                           |             |
| Purchase of AFS securities  | (613,330)                 | (480,815)   |
| Purchase of HTM securities  | (560,024)                 | (1,775,436) |
| Proceeds from calls, maturities and principal reductions of AFS securities        | 460,930                   | 261,366     |
| Proceeds from calls, maturities and principal reductions of HTM securities        | 851,938                   | 959,066     |
| Proceeds from the redemption of capital stock of FHLB                             | 2,405                     | 4,941       |
| Purchases of capital stock of FHLB  | (3,652)                   | (7,162)     |
| Net increase in loans receivable  | (71,184)                  | (7,705)     |
| Purchases of premises and equipment   | (9,119)                   | (8,360)     |

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|   |        |             |
|---|--------|-------------|
| Proceeds from sales of OREO                         | 9,753  | 10,060      |
| Net cash provided by (used in) investing activities | 67,717 | (1,044,045) |

(Continued)

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|  | For the Nine Months<br>Ended<br>June 30, |               |
|--|--|---------------|
|  | 2012                                     | 2011          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                       |  |               |
| Dividends paid   | (52,366)                                 | (138,004)     |
| Deposits, net of withdrawals   | 97,264                                   | 189,954       |
| Deferred FHLB prepayment penalty   | (7,937)                                  | --            |
| Proceeds from borrowings   | 657,414                                  | 644,062       |
| Repayments of borrowings   | (657,414)                                | (647,671)     |
| Change in advance payments by borrowers for taxes and insurance                    | (22,907)                                 | (24,017)      |
| Repurchase of common stock   | (106,854)                                | --            |
| Net proceeds from common stock offering  | --                                       | 1,076,411     |
| Stock options exercised  | --                                       | 34            |
| Excess tax benefits from stock options   | --                                       | 8             |
| Net cash (used in) provided by financing activities                                | (92,800)                                 | 1,100,777     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                   | <b>51,878</b>                            | <b>96,655</b> |
| <b>CASH AND CASH EQUIVALENTS:</b>  |  |               |
| Beginning of period  | 121,070                                  | 65,217        |
| End of period  | \$ 172,948                               | \$ 161,872    |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>                          |  |               |
| Income tax payments  | \$ 27,500                                | \$ 10,371     |
| Interest payments  | \$ 104,807                               | \$ 131,371    |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH<br/>INVESTING AND FINANCING ACTIVITIES:</b> |  |               |
| Note received from ESOP in exchange for common stock                               | \$ --                                    | \$ 47,260     |
| Customer deposit holds related to common stock offering                            | \$ --                                    | \$ 17,690     |
| Loans transferred to OREO  | \$ 9,429                                 | \$ 11,186     |

(Concluded)

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X.

Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation are included in the accompanying consolidated financial statements.

These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2011, filed with the Securities and Exchange Commission ("SEC").

Interim results are not necessarily indicative of results for a full year.

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

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

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

For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower. Generally, the Bank grants a short-term payment accommodation to borrowers who are experiencing a temporary cash flow problem. The most frequently used accommodation is to reduce the monthly payment amount for a period of six to 12 months, often by requiring payments of only interest and escrow during this period. These restructurings result 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 more lengthy extensions of the maturity date. Each such concession is considered a troubled debt restructuring (“TDR”). The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for the capitalization of delinquent principal, interest and/or escrow balances not to exceed the original loan balance, to debtors whose terms have been modified in TDRs. A restructured loan will be reported as a TDR and an impaired loan until it pays off, unless it has been restructured to an interest rate equal to or greater than the rate the Bank was willing to accept at the time of the restructuring for a new loan with comparable risk, and has performed under the new terms of the restructuring agreement for at least 12 consecutive months. TDRs are reported as nonaccrual if the loan was either nonaccrual at the time of restructuring or if the borrower(s) did not receive a credit evaluation prior to the restructuring and have not made six consecutive monthly payments per the restructured loan terms.

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



when certain guidelines for soft credit scores and/or estimated loan-to-value (“LTV”) ratios are not met. As a result of these changes since origination, the borrower could be experiencing financial difficulties even though the borrower has not been delinquent on their contractual loan payment in the previous 12 months.

A loan is considered delinquent when payment has not been received within 30 days of its contractual due date. The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears or, until a nonaccrual TDR has made six consecutive monthly payments per the restructured loan terms. Loans on which the accrual of income has been discontinued are designated as nonaccrual and outstanding interest previously credited beyond 90 days delinquent is reversed. A nonaccrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due or in the case of a TDR, the borrower has made six consecutive payments under the restructured terms.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. The following types of loans are reported as impaired loans: all nonaccrual loans, loans classified as substandard, loans partially charged-off, and certain TDRs. However, all TDRs are accounted for as impaired loans in regards to evaluating the ACL.

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

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

The Bank’s primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by residential property located in Kansas and Missouri. Based on the composition of the Bank’s loan portfolio, the primary risks inherent in the one- to four-family and consumer loan portfolios are the continued weakened economic

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

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

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

Qualitative loss factors are applied to each loan category in the formula analysis model. The qualitative factors for the one- to four-family and consumer loan portfolios are: unemployment rate trends; collateral value trends; credit score trends; and delinquent loan trends. The qualitative factors for the multi-family and commercial loan portfolio are: unemployment rate trends; collateral value trends; and delinquent loan trends. As loans are classified as special mention or become delinquent, the qualitative loss factors increase. The qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

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

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

Repurchase of Common Stock - Prior to the second-step stock offering in December 2010 (the "corporate reorganization"), common stock that was repurchased was classified as treasury stock and recorded at cost. Effective with the corporate reorganization, the Company became a Maryland corporation which does not recognize treasury shares but considers repurchased shares as going back into authorized but unissued shares.

Recent Accounting Pronouncements - In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for

Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers certain provisions of ASU 2011-05, Presentation of Comprehensive Income. One of ASU 2011-05's provisions requires entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). Accordingly, this requirement is indefinitely deferred by ASU 2011-12 and will be further deliberated by the FASB at a future date. ASUs 2011-05 and 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, which is October 1, 2012 for the Company, and should be applied retrospectively for all periods presented in the financial statements. The Company has not yet decided which statement format it will adopt.

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

## 2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its restricted stock benefit plans in accordance with Accounting Standards Codification (“ASC”) 260, which requires that unvested restricted stock awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee’s individual account.

|   | For the Three Months Ended<br>June 30,        |             | For the Nine Months Ended<br>June 30, |             |
|---|---|-------------|---------------------------------------|-------------|
|   | 2012  | 2011        | 2012                                  | 2011        |
|   | (Dollars in thousands, except per share data) |             |                                       |             |
| Net income  | \$ 18,673                                     | \$ 17,259   | \$ 56,777                             | \$ 21,637   |
| Income allocated to participating securities<br>(unvested restricted stock) <sup>(1)</sup>  | (23)  | --          | (25)                                  | --          |
| Net income available to common stockholders   | 18,650  | 17,259      | 56,752                                | 21,637      |
| Average common shares outstanding   | 156,684,512                                   | 161,385,084 | 160,069,365                           | 162,783,841 |
| Average committed ESOP shares outstanding   | 277,512                                       | 256,546     | 139,005                               | 125,032     |
| Total basic average common shares outstanding   | 156,962,024                                   | 161,641,630 | 160,208,370                           | 162,908,873 |
| Effect of dilutive restricted stock   | --  | 1,313       | --                                    | 2,516       |
| Effect of dilutive stock options  | 4,012   | 4,971       | 3,906                                 | 4,990       |
| Total diluted average common shares outstanding   | 156,966,036                                   | 161,647,914 | 160,212,276                           | 162,916,379 |
| Net earnings per share:   |   |             |                                       |             |
| Basic   | \$ 0.12                                       | \$ 0.10     | \$ 0.35                               | \$ 0.13     |
| Diluted   | \$ 0.12                                       | \$ 0.10     | \$ 0.35                               | \$ 0.13     |
| Antidilutive stock options and restricted stock,<br>excluded<br>from the diluted average common shares<br>outstanding calculation | 1,458,510                                     | 901,816     | 1,074,543                             | 895,025     |

<sup>(1)</sup>Income allocated to participating securities (unvested restricted stock) was inconsequential for the three and nine month periods ended June 30, 2011.



## 3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at June 30, 2012 and September 30, 2011. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises (“GSEs”).

|                            | June 30, 2012          |                              |                               |                            |
|----------------------------|------------------------|------------------------------|-------------------------------|----------------------------|
|                            | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|                            | (Dollars in thousands) |                              |                               |                            |
| AFS:                       |                        |                              |                               |                            |
| GSE debentures             | \$ 1,035,981           | \$ 4,137                     | \$ 16                         | \$ 1,040,102               |
| Municipal bonds            | 2,439                  | 94                           | --                            | 2,533                      |
| Trust preferred securities | 2,932                  | --                           | 847                           | 2,085                      |
| MBS                        | 552,373                | 35,204                       | --                            | 587,577                    |
|                            | 1,593,725              | 39,435                       | 863                           | 1,632,297                  |
| HTM:                       |                        |                              |                               |                            |
| GSE debentures             | 99,962                 | 521                          | --                            | 100,483                    |
| Municipal bonds            | 50,907                 | 1,876                        | 7                             | 52,776                     |
| MBS                        | 1,923,082              | 67,676                       | 56                            | 1,990,702                  |
|                            | 2,073,951              | 70,073                       | 63                            | 2,143,961                  |
|                            | \$ 3,667,676           | \$ 109,508                   | \$ 926                        | \$ 3,776,258               |

|                            | September 30, 2011     |            |            |              |
|----------------------------|------------------------|------------|------------|--------------|
|                            | Amortized              | Gross      | Gross      | Estimated    |
|                            | Cost                   | Unrealized | Unrealized | Fair         |
|                            |                        | Gains      | Losses     | Value        |
|                            | (Dollars in thousands) |            |            |              |
| AFS:                       |                        |            |            |              |
| GSE debentures             | \$ 746,545             | \$ 1,996   | \$ 233     | \$ 748,308   |
| Municipal bonds            | 2,628                  | 126        | --         | 2,754        |
| Trust preferred securities | 3,681                  | --         | 740        | 2,941        |
| MBS                        | 690,675                | 41,764     | 3          | 732,436      |
|                            | 1,443,529              | 43,886     | 976        | 1,486,439    |
| HTM:                       |                        |            |            |              |
| GSE debentures             | 633,483                | 3,171      | --         | 636,654      |
| Municipal bonds            | 56,994                 | 2,190      | 4          | 59,180       |
| MBS                        | 1,679,640              | 59,071     | 153        | 1,738,558    |
|                            | 2,370,117              | 64,432     | 157        | 2,434,392    |
|                            | \$ 3,813,646           | \$ 108,318 | \$ 1,133   | \$ 3,920,831 |



The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at June 30, 2012 and September 30, 2011 was reported and the continuous unrealized loss position for at least 12 months or less than 12 months as of June 30, 2012 and September 30, 2011.

|                            | June 30, 2012       |                        |                   | Equal to or Greater Than 12 Months |                      |                   |
|----------------------------|---------------------|------------------------|-------------------|------------------------------------|----------------------|-------------------|
|                            | Less Than 12 Months | Estimated Fair Value   | Unrealized Losses | Count                              | Estimated Fair Value | Unrealized Losses |
|                            | Count               | (Dollars in thousands) |                   |                                    |                      |                   |
| AFS:                       |                     |                        |                   |                                    |                      |                   |
| GSE debentures             | 2                   | \$ 42,729              | \$ 16             | --                                 | \$ --                | \$ --             |
| Trust preferred securities | --                  | --                     | --                | 1                                  | 2,085                | 847               |
| MBS                        |                     |                        |                   |                                    |                      |                   |
|                            | 2                   | \$ 42,729              | \$ 16             | 1                                  | \$ 2,085             | \$ 847            |
| HTM:                       |                     |                        |                   |                                    |                      |                   |
| GSE debentures             | --                  | \$ --                  | \$ --             | --                                 | \$ --                | \$ --             |
| Municipal bonds            | 5                   | 1,924                  | 7                 | --                                 | --                   | --                |
| MBS                        | 2                   | 42,987                 | 56                | --                                 | --                   | --                |
|                            | 7                   | \$ 44,911              | \$ 63             | --                                 | \$ --                | \$ --             |
| September 30, 2011         |                     |                        |                   |                                    |                      |                   |
|                            | Less Than 12 Months |                        |                   | Equal to or Greater Than 12 Months |                      |                   |
|                            | Count               | Estimated Fair Value   | Unrealized Losses | Count                              | Estimated Fair Value | Unrealized Losses |
|                            |                     | (Dollars in thousands) |                   |                                    |                      |                   |
| AFS:                       |                     |                        |                   |                                    |                      |                   |
| GSE debentures             | 7                   | \$ 230,848             | \$ 233            | --                                 | \$ --                | \$ --             |
| Trust preferred securities | --                  | --                     | --                | 1                                  | 2,941                | 740               |
| MBS                        |                     |                        |                   |                                    |                      |                   |
|                            | 5                   | 1,189                  | 3                 | --                                 | --                   | --                |
|                            | 12                  | \$ 232,037             | \$ 236            | 1                                  | \$ 2,941             | \$ 740            |
| HTM:                       |                     |                        |                   |                                    |                      |                   |
| GSE debentures             | --                  | \$ --                  | \$ --             | --                                 | \$ --                | \$ --             |
| Municipal bonds            | 2                   | 615                    | 4                 | --                                 | --                   | --                |
| MBS                        | 1                   | 25,142                 | 153               | --                                 | --                   | --                |

3      \$ 25,757      \$ 157      --      \$ --      \$ --

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

The unrealized losses at June 30, 2012 and September 30, 2011 were primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of June 30, 2012 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalties. As of June 30, 2012, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled \$737.8 million. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments. Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties.

|                              | AFS                    |                            | HTM               |                            |
|------------------------------|------------------------|----------------------------|-------------------|----------------------------|
|                              | Amortized<br>Cost      | Estimated<br>Fair<br>Value | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|                              | (Dollars in thousands) |                            |                   |                            |
| One year or less             | \$ 120,276             | \$ 120,437                 | \$ 3,132          | \$ 3,145                   |
| One year through five years  | 893,287                | 897,321                    | 130,442           | 132,201                    |
| Five years through ten years | 163,825                | 174,995                    | 396,470           | 414,194                    |
| Ten years and thereafter     | 416,337                | 439,544                    | 1,543,907         | 1,594,421                  |
|                              | \$ 1,593,725           | \$ 1,632,297               | \$ 2,073,951      | \$ 2,143,961               |

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

|  | June<br>30, 2012       | September<br>30, 2011 |
|--|------------------------|-----------------------|
|  | (Dollars in thousands) |                       |
| Federal National Mortgage Association ("FNMA")   | \$ 1,428,447           | \$ 1,384,396          |
| Federal Home Loan Mortgage Corporation ("FHLMC") | 891,748                | 823,728               |
| Government National Mortgage Association         | 189,529                | 202,340               |
| Private Issuer                                   | 935                    | 1,612                 |
|  | \$ 2,510,659           | \$ 2,412,076          |

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

|             | For the Three<br>Months Ended<br>June 30, |          | For the Nine Months<br>Ended<br>June 30, |           |
|-------------|---|----------|--|-----------|
|             | 2012                                      | 2011     | 2012                                     | 2011      |
|             | (Dollars in thousands)                    |          |  |           |
| Taxable     | \$ 3,390                                  | \$ 4,639 | \$ 11,274                                | \$ 13,176 |
| Non-taxable | 393                                       | 464      | 1,261                                    | 1,445     |
|             | \$ 3,783                                  | \$ 5,103 | \$ 12,535                                | \$ 14,621 |

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

|                       | June 30, 2012          |            | September 30, 2011 |            |
|-----------------------|------------------------|------------|--------------------|------------|
|                       | Amortized              | Estimated  | Amortized          | Estimated  |
|                       | Cost                   | Fair Value | Cost               | Fair Value |
|                       | (Dollars in thousands) |            |                    |            |
| Repurchase agreements | \$ 403,286             | \$ 426,636 | \$ 571,016         | \$ 597,286 |
| Retail deposits       | --                     | --         | 44,429             | 44,991     |
| Public unit deposits  | 198,497                | 208,704    | 116,472            | 124,785    |
| Federal Reserve Bank  | 53,679                 | 56,165     | 26,666             | 27,939     |
|                       | \$ 655,462             | \$ 691,505 | \$ 758,583         | \$ 795,001 |

#### 4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at June 30, 2012 and September 30, 2011 is summarized as follows:

|                     | June<br>30, 2012       | September<br>30, 2011 |
|---------------------|------------------------|-----------------------|
|                     | (Dollars in thousands) |                       |
| Real estate loans:  |                        |                       |
| One- to four-family | \$ 4,995,840           | \$ 4,918,778          |

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|                              |              |              |
|------------------------------|--------------|--------------|
| Multi-family and commercial  | 49,755       | 57,965       |
| Construction                 | 52,163       | 47,368       |
| Total real estate loans      | 5,097,758    | 5,024,111    |
| Consumer loans:              |              |              |
| Home equity                  | 152,301      | 164,541      |
| Other                        | 6,744        | 7,224        |
| Total consumer loans         | 159,045      | 171,765      |
| Total loans receivable       | 5,256,803    | 5,195,876    |
| Less:                        |              |              |
| Undisbursed loan funds       | 25,451       | 22,531       |
| ACL                          | 11,777       | 15,465       |
| Discounts/unearned loan fees | 21,246       | 19,093       |
| Premiums/deferred costs      | (11,661)     | (10,947)     |
|                              | \$ 5,209,990 | \$ 5,149,734 |

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary business, resulting in a loan concentration in residential first mortgage loans. The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders located throughout the central United States. As a result of originating loans in our branches, along with the correspondent lenders in our local markets, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. Additionally, the Bank periodically purchases whole one- to four-family loans in bulk packages from nationwide and correspondent lenders. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings.

One- to four-family loans - One- to four-family loans are underwritten manually or by an automated underwriting system developed by a third party. The system's components closely resemble the Bank's manual underwriting standards which are generally in accordance with FHLMC and FNMA manual underwriting guidelines. The automated underwriting system analyzes the applicant's data, with emphasis on credit history, employment and income history, qualifying ratios reflecting the applicant's ability to repay, asset reserves, and LTV ratio. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing is required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function.

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

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

Multi-family and commercial loans - The Bank's multi-family and commercial real estate loans are secured primarily by properties generally located in the Bank's market areas or surrounding areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. At the time of origination, LTV ratios on multi-family and commercial real estate loans cannot exceed 80% of the appraised value of the property securing the loans. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt at the time of origination. The Bank generally requires personal guarantees of the borrowers covering a portion of the debt in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers. Bank policy permits a limited amount of construction-to-permanent loans secured by multi-family dwellings and commercial real estate.

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

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

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

The Bank's primary credit quality indicators for the one- to four-family loan and consumer - home equity loan portfolios are delinquency status, asset classifications in accordance with applicable regulations, LTV ratios and borrower credit scores. The Bank's



primary credit quality indicators for the multi-family and commercial loan and consumer – other loan portfolios are delinquency status and asset classifications in accordance with applicable regulations.

The following table presents the recorded investment of loans, defined as the unpaid loan principal balance (net of unadvanced funds related to loans in process and charge-offs) inclusive of unearned loan fees and deferred costs, of the Company's loans 30 to 89 days delinquent, loans 90 or more days delinquent, total delinquent loans, total current loans, and the total loans receivable balance at June 30, 2012 and September 30, 2011 by class. In the formula analysis model, delinquent loans not individually evaluated for impairment are assigned a higher loss factor than corresponding performing loans. At June 30, 2012 and September 30, 2011, all loans in the 90 or more days delinquent category were on nonaccrual status. In addition to loans 90 or more days delinquent, the Bank also had \$4.2 million of originated one- to four-family TDRs classified as nonaccrual at June 30, 2012, as the borrowers had not yet made six consecutive payments per the restructured loan terms. At June 30, 2012 and September 30, 2011, there were no loans 90 or more days delinquent that were still accruing interest.

|  | June 30, 2012                  |                                  | Total               |                  | Total                  |
|--|--------------------------------|----------------------------------|---------------------|------------------|------------------------|
|  | 30 to 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent | Delinquent<br>Loans | Current<br>Loans | Recorded<br>Investment |
|  | (Dollars in thousands)         |                                  |                     |                  |                        |
| One- to four-family loans - originated | \$ 14,624                      | \$ 9,313                         | \$ 23,937           | \$ 4,502,515     | \$ 4,526,452           |
| One- to four-family loans - purchased  | 8,530                          | 11,895                           | 20,425              | 459,457          | 479,882                |
| Multi-family and commercial loans      | --                             | --                               | --                  | 56,388           | 56,388                 |
| Consumer - home equity                 | 526                            | 505                              | 1,031               | 151,270          | 152,301                |
| Consumer - other                       | 128                            | 20                               | 148                 | 6,596            | 6,744                  |
|  | \$ 23,808                      | \$ 21,733                        | \$ 45,541           | \$ 5,176,226     | \$ 5,221,767           |
|  | September 30, 2011             |                                  | Total               |                  | Total                  |
|  | 30 to 89<br>Days<br>Delinquent | 90 or More<br>Days<br>Delinquent | Delinquent<br>Loans | Current<br>Loans | Recorded<br>Investment |
|  | (Dollars in thousands)         |                                  |                     |                  |                        |
| One- to four-family loans - originated | \$ 19,682                      | \$ 12,363                        | \$ 32,045           | \$ 4,362,498     | \$ 4,394,543           |
| One- to four-family loans - purchased  | 6,243                          | 13,836                           | 20,079              | 520,876          | 540,955                |
| Multi-family and commercial loans      | --                             | --                               | --                  | 57,936           | 57,936                 |
| Consumer - home equity                 | 759                            | 380                              | 1,139               | 163,402          | 164,541                |
| Consumer - other                       | 92                             | 3                                | 95                  | 7,129            | 7,224                  |
|  | \$ 26,776                      | \$ 26,582                        | \$ 53,358           | \$ 5,111,841     | \$ 5,165,199           |



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

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

Special mention and substandard loans are included in the formula analysis model, if the loan is not individually evaluated for impairment. Loans classified as doubtful or loss are individually evaluated for impairment.

The following tables set forth the recorded investment in loans, less charge-offs and specific valuation allowances ("SVAs"), classified as special mention or substandard at June 30, 2012 and September 30, 2011, by class. At June 30, 2012 and September 30, 2011, there were no loans classified as doubtful or loss that were not fully charged-off or reserved.

|                                  | June 30, 2012          |             | September 30, 2011 |             |
|----------------------------------|------------------------|-------------|--------------------|-------------|
|                                  | Special<br>Mention     | Substandard | Special<br>Mention | Substandard |
|                                  | (Dollars in thousands) |             |                    |             |
| One- to four-family - originated | \$ 36,159              | \$ 23,066   | \$ 32,673          | \$ 18,419   |
| One- to four-family - purchased  | 905                    | 16,387      | 447                | 15,987      |
| Multi-family and commercial      | 2,253                  | --          | 7,683              | --          |
| Consumer - home equity           | 42                     | 712         | 50                 | 592         |
| Consumer - other                 | --                     | 20          | --                 | 5           |
|                                  | \$ 39,359              | \$ 40,185   | \$ 40,853          | \$ 35,003   |

The following table shows the weighted average LTV and credit score information for originated and purchased one-to four-family loans and originated consumer home equity loans at June 30, 2012 and September 30, 2011. Borrower

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credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are typically updated in the last month of the quarter and are obtained from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, or BPO, if available. In most cases, the most recent appraisal was obtained at the time of origination.

|                                  | June 30, 2012                          |                            | September 30, 2011                     |                            |
|----------------------------------|--|----------------------------|--|----------------------------|
|                                  | Weighted<br>Average<br>Credit<br>Score | Weighted<br>Average<br>LTV | Weighted<br>Average<br>Credit<br>Score | Weighted<br>Average<br>LTV |
| One- to four-family - originated | 763                                    | 65 %                       | 762                                    | 66 %                       |
| One- to four-family - purchased  | 739                                    | 58                         | 740                                    | 60                         |
| Consumer - home equity           | 745                                    | 19                         | 742                                    | 20                         |
|                                  | 760                                    | 63 %                       | 759                                    | 64 %                       |

Troubled Debt Restructurings - The following table presents the recorded investment prior to restructuring and immediately after restructuring for all loans restructured during the three and nine months ending June 30, 2012. This table does not reflect the recorded investment at June 30, 2012. The increase in the recorded investment at the time of the restructuring was generally due to the capitalization of delinquent amounts due.

|   | For the Three Months Ended<br>June 30, 2012         |                                     |                                      | For the Nine Months Ended<br>June 30, 2012 |                                     |                                      |
|---|---|-------------------------------------|--------------------------------------|--|-------------------------------------|--------------------------------------|
|   | Number<br>of<br>Contracts<br>(Dollars in thousands) | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding | Number<br>of<br>Contracts                  | Pre-<br>Restructured<br>Outstanding | Post-<br>Restructured<br>Outstanding |
| One- to four-family loans -<br>originated | 30  | \$ 4,930                            | \$ 4,945                             | 155  | \$ 24,655                           | \$ 24,761                            |
| One- to four-family loans -<br>purchased  | --  | --                                  | --                                   | --   | --                                  | --                                   |
| Multi-family and commercial loans         | --  | --                                  | --                                   | --   | --                                  | --                                   |
| Consumer - home equity                    | --  | --                                  | --                                   | 1  | --                                  | 10                                   |
| Consumer - other                          | --  | --                                  | --                                   | --   | --                                  | --                                   |
|   | 30  | \$ 4,930                            | \$ 4,945                             | 156  | \$ 24,655                           | \$ 24,771                            |

As of June 30, 2012, the recorded investment of TDRs 30 to 89 days delinquent and over 90 days delinquent was \$2.7 million and \$2.3 million, respectively. The following table provides information on TDRs restructured within the last 12 months that subsequently became delinquent during the three and nine months ended June 30, 2012.

| For the Three Months<br>Ended<br>June 30, 2012 |                        | For the Nine Months<br>Ended<br>June 30, 2012 |                        |
|--|------------------------|---|------------------------|
| Number<br>of<br>Contracts                      | Recorded<br>Investment | Number<br>of<br>Contracts                     | Recorded<br>Investment |

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(Dollars in thousands)

|  |    |        |    |          |
|--|----|--------|----|----------|
| One- to four-family loans - originated | 5  | \$ 910 | 12 | \$ 1,748 |
| One- to four-family loans - purchased  | -- | --     | 1  | 401      |
| Multi-family and commercial loans      | -- | --     | -- | --       |
| Consumer - home equity                 | -- | --     | -- | --       |
| Consumer - other                       | -- | --     | -- | --       |
|  | 5  | \$ 910 | 13 | \$ 2,149 |

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Impaired loans - Substantially all of the impaired loans at June 30, 2012 and September 30, 2011 included in the impaired loan tables below were secured by residential real estate. Impaired loans related to residential real estate are individually evaluated to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair values of residential real estate are estimated through such methods as current appraisals, BPOs, or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions. If the outstanding loan balance is in excess of the estimated fair value determined by management, less estimated costs to sell, then a charge-off is recorded for the difference. In January 2012, management implemented a loan charge-off policy change as Office of the Comptroller of the Currency (“OCC”) Call Report requirements do not permit the use of SVAs, which the Bank was previously utilizing for potential loan losses, as permitted by the Bank’s previous regulator. As a result of implementing the loan charge-off policy, the balance of loans with no related allowance increased during the year as losses are now charged-off instead of establishing SVAs, as was permitted at September 30, 2011.

|                                    | June 30, 2012          |           |         | Current    | Fiscal       | Current    | Fiscal       |
|------------------------------------|------------------------|-----------|---------|------------|--------------|------------|--------------|
|                                    | Unpaid                 |           |         | Quarter    | Year-to-Date | Quarter    | Year-to-Date |
|                                    | Recorded               | Principal | Related | Average    | Average      | Interest   | Interest     |
|                                    | Investment             | Balance   | ACL     | Recorded   | Recorded     | Income     | Income       |
|                                    | (Dollars in thousands) |           |         | Investment | Investment   | Recognized | Recognized   |
| With no related allowance recorded |                        |           |         |            |              |            |              |
| One- to four-family - originated   | \$ 49,177              | \$ 49,367 | \$ --   | \$ 50,075  | \$ 49,063    | \$ 487     | \$ 1,273     |
| One- to four-family - purchased    | 16,312                 | 16,174    | --      | 16,258     | 11,535       | 44         | 162          |
| Multi-family and commercial        | --                     | --        | --      | --         | 279          | --         | --           |
| Consumer - home equity             | 432                    | 432       | --      | 390        | 458          | 3          | 9            |
| Consumer - other                   | 3                      | 3         | --      | 7          | 7            | --         | --           |
|                                    | 65,924                 | 65,976    | --      | 66,730     | 61,342       | 534        | 1,444        |
| With an allowance recorded         |                        |           |         |            |              |            |              |
| One- to four-family - originated   | 3,561                  | 3,564     | 144     | 3,652      | 3,327        | 22         | 67           |
| One- to four-family - purchased    | 979                    | 977       | 153     | 1,234      | 7,166        | 5          | 11           |
| Multi-family and commercial        | --                     | --        | --      | --         | --           | --         | --           |
| Consumer - home equity             | 280                    | 280       | 53      | 223        | 205          | 1          | 4            |
| Consumer - other                   | 17                     | 17        | 1       | 9          | 4            | --         | --           |
|                                    | 4,837                  | 4,838     | 351     | 5,118      | 10,702       | 28         | 82           |
| Total                              |                        |           |         |            |              |            |              |
| One- to four-family - originated   | 52,738                 | 52,931    | 144     | 53,727     | 52,390       | 509        | 1,340        |
| One- to four-family - purchased    | 17,291                 | 17,151    | 153     | 17,492     | 18,701       | 49         | 173          |
| Multi-family and commercial        | --                     | --        | --      | --         | 279          | --         | --           |
| Consumer - home equity             | 712                    | 712       | 53      | 613        | 663          | 4          | 13           |
| Consumer - other                   | 20                     | 20        | 1       | 16         | 11           | --         | --           |

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\$ 70,761 \$ 70,814 \$ 351 \$ 71,848 \$ 72,044 \$ 562 \$ 1,526

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September 30, 2011

Unpaid  
Recorded Principal Related  
Investment Balance ACL  
(Dollars in thousands)

With no related allowance  
recorded

|                                  |           |           |       |
|----------------------------------|-----------|-----------|-------|
| One- to four-family - originated | \$ 47,710 | \$ 47,845 | \$ -- |
| One- to four-family - purchased  | 6,075     | 6,056     | --    |
| Multi-family and commercial      | 563       | 565       | --    |
| Consumer - home equity           | 468       | 468       | --    |
| Consumer - other                 | 5         | 5         | --    |
|                                  | 54,821    | 54,939    | --    |

With an allowance recorded

|                                  |        |        |       |
|----------------------------------|--------|--------|-------|
| One- to four-family - originated | 3,297  | 3,299  | 335   |
| One- to four-family - purchased  | 13,640 | 13,546 | 3,280 |
| Multi-family and commercial      | --     | --     | --    |
| Consumer - home equity           | 264    | 264    | 140   |
| Consumer - other                 | --     | --     | --    |
|                                  | 17,201 | 17,109 | 3,755 |

Total

|                                  |           |           |          |
|----------------------------------|-----------|-----------|----------|
| One- to four-family - originated | 51,007    | 51,144    | 335      |
| One- to four-family - purchased  | 19,715    | 19,602    | 3,280    |
| Multi-family and commercial      | 563       | 565       | --       |
| Consumer - home equity           | 732       | 732       | 140      |
| Consumer - other                 | 5         | 5         | --       |
|                                  | \$ 72,022 | \$ 72,048 | \$ 3,755 |

Allowance for credit losses - The following is a summary of the activity in the ACL by segment and the ending balance of the ACL based on the Company's impairment methodology for and at the periods presented. As a result of the implementation of the charge-off policy change in January 2012, \$3.5 million of SVAs were charged-off during the second fiscal quarter of 2012, and are reflected in the activity for the nine months ended June 30, 2012. These charge-offs did not impact the provision for credit losses, and therefore had no additional income statement impact, as the amounts were expensed in previous periods. There was no ACL for loans individually evaluated for impairment at June 30, 2012, as all potential losses were charged-off.

| Quarter                     | For the Three Months Ended June 30, 2012   |   |                                       |                                   |          |           |
|-----------------------------|--|---|---------------------------------------|-----------------------------------|----------|-----------|
|                             | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total     |
|                             | (Dollars in thousands)                     |   |                                       |                                   |          |           |
| Beginning balance           | \$ 4,792                                   | \$ 7,492                                  | \$ 12,284                             | \$ 82                             | \$ 193   | \$ 12,559 |
| Charge-offs                 | (227)                                      | (498)                                     | (725)                                 | --                                | (65)     | (790)     |
| Recoveries                  | --   | 6   | 6                                     | --                                | 2        | 8         |
| Provision for credit losses | 1,495                                      | (1,810)                                   | (315)                                 | 106                               | 209      | --        |
| Ending balance              | \$ 6,060                                   | \$ 5,190                                  | \$ 11,250                             | \$ 188                            | \$ 339   | \$ 11,777 |

Ratio of net charge-offs to average loans  
outstanding during the period 0.01 %

Ratio of net charge-offs during the period to  
average non-performing assets 2.01 %

ACL for loans collectively  
evaluated for impairment \$ 6,060 \$ 5,190 \$ 11,250 \$ 188 \$ 339 \$ 11,777

For the Nine Months Ended June 30, 2012

|  | One- to<br>Four-<br>Family -<br>Originated | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer | Total     |
|--|--|---|---------------------------------------|-----------------------------------|----------|-----------|
| (Dollars in thousands)   |  |   |                                       |                                   |          |           |
| Year-to-Date   |  |   |                                       |                                   |          |           |
| Beginning balance  | \$ 4,915                                   | \$ 9,901                                  | \$ 14,816                             | \$ 254                            | \$ 395   | \$ 15,465 |
| Charge-offs  | (814)                                      | (4,652)                                   | (5,466)                               | --                                | (270)    | (5,736)   |
| Recoveries   | --   | 6   | 6                                     | --                                | 2        | 8         |
| Provision for credit losses  | 1,959                                      | (65)                                      | 1,894                                 | (66)                              | 212      | 2,040     |
| Ending balance   | \$ 6,060                                   | \$ 5,190                                  | \$ 11,250                             | \$ 188                            | \$ 339   | \$ 11,777 |
| Ratio of net charge-offs to average loans<br>outstanding during the period     |  |   |                                       |                                   |          | 0.11 %    |
| Ratio of net charge-offs during the period to<br>average non-performing assets |  |   |                                       |                                   |          | 15.57 %   |

The following is a summary of the loan portfolio at June 30, 2012 and September 30, 2011 by loan portfolio segment disaggregated by the Company's impairment method.

|  | June 30, 2012  |   |                                       |                                   |                     |                        |
|--|--|---|---------------------------------------|-----------------------------------|---------------------|------------------------|
|  | One- to<br>Four-<br>Family -<br>Originated<br>(Dollars in thousands) | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer            | Total                  |
| Recorded investment of loans collectively evaluated for impairment | \$ 4,460,187   | \$ 463,570                                | \$ 4,923,757                          | \$ 55,854                         | \$ 157,606          | \$ 5,137,217           |
| Recorded investment of loans individually evaluated for impairment | 66,265<br>\$ 4,526,452   | 16,312<br>\$ 479,882                      | 82,577<br>\$ 5,006,334                | 534<br>\$ 56,388                  | 1,439<br>\$ 159,045 | 84,550<br>\$ 5,221,767 |

|  | September 30, 2011   |   |                                       |                                   |                   |                        |
|--|--|---|---------------------------------------|-----------------------------------|-------------------|------------------------|
|  | One- to<br>Four-<br>Family -<br>Originated<br>(Dollars in thousands) | One- to<br>Four-<br>Family -<br>Purchased | One- to<br>Four-<br>Family -<br>Total | Multi-family<br>and<br>Commercial | Consumer          | Total                  |
| Recorded investment of loans collectively evaluated for impairment | \$ 4,343,536   | \$ 521,240                                | \$ 4,864,776                          | \$ 57,373                         | \$ 171,028        | \$ 5,093,177           |
| Recorded investment of loans individually evaluated for impairment | 51,007<br>\$ 4,394,543   | 19,715<br>\$ 540,955                      | 70,722<br>\$ 4,935,498                | 563<br>\$ 57,936                  | 737<br>\$ 171,765 | 72,022<br>\$ 5,165,199 |

As noted above, the Bank has a loan concentration in residential first mortgage loans. Continued declines in residential real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in the economic conditions and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies would decrease interest income on loans receivable and would likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ACL and provision for credit losses. Although management believes the ACL was at an adequate level to absorb known and inherent losses in the loan portfolio at June 30, 2012, the level of the ACL remains an estimate that is subject to significant judgment and short-term changes. Additions to the ACL may be necessary if future economic and other conditions worsen substantially from the current environment.

## 5. Stock-Based Compensation

The Company has Stock Option and Restricted Stock Plans, both of which are considered share-based plans. Compensation expense is recognized over the service period of the share-based payment award. The Company utilizes a fair-value-based measurement method in accounting for the share-based payment transactions with employees, except for equity instruments held by the ESOP.

**Stock Option Plans** – The Company currently has two plans outstanding which provide for the granting of stock option awards, the 2000 Stock Option Plan and the 2012 Equity Incentive Plan. The objective of both plans is to provide additional incentive to certain officers, directors and key employees by facilitating their purchase of a stock interest in the Company. The total number of shares originally eligible to be granted as stock options under the 2000 Stock Option Plan was 8,558,411. Prior to stockholder approval of the 2012 Equity Incentive Plan, the 2000 Stock Option Plan still had 2,867,859 shares available for future grants. The Company intends to award all future stock option grants from the 2012 Equity Incentive Plan, which had 5,907,500 shares originally eligible to be granted as stock options. The Company may issue incentive and nonqualified stock options under the 2012 Equity Incentive Plan. The Company may also award stock appreciation rights, although to date no stock appreciation rights have been awarded. The incentive stock options expire no later than 10 years and the nonqualified stock options expire no later than 15 years from the date of grant. The date on which the options are first exercisable is determined by the Stock Benefits Committee (“sub-committee”), a sub-committee of the Compensation Committee (“committee”) of the Board of Directors. The vesting period of the options generally ranges from three-to-five years. The option price is equal to the market value at the date of the grant as defined by each plan.

At June 30, 2012, the Company had 4,810,500 shares still available for future grants of stock options under the 2012 Equity Incentive Plan. This plan will expire in January 2027 and no additional grants may be made after expiration, but outstanding grants continue until they are individually vested, forfeited, or expire. The following provisions generally apply: 1) if a holder of such stock options terminates service for reasons other than death, disability or termination for cause, the holder forfeits all rights to the non-vested stock options and all outstanding vested options granted to the holder will remain exercisable for three months following the termination date, but not beyond the expiration date of the options; 2) if the participant’s service terminates as a result of death or disability, all outstanding stock options vest and all outstanding stock options will remain exercisable for one year following such event, but not beyond the expiration date of the options; 3) if the participant’s service is terminated for cause, all outstanding stock options expire immediately; and 4) if a change in control of the Company occurs, all outstanding unvested stock options vest in full.

The Stock Option Plans are administered by the sub-committee, which selects the employees and non-employee directors to whom options are to be granted and the number of shares to be granted. The exercise price may be paid in cash, shares of the common stock, or a combination of both. The option price may not be less than 100% of the fair market value of the shares on the date of the grant. In the case of any employee who is granted an incentive stock option who owns more than 10% of the outstanding common stock at the time the option is granted, the option price may not be less than 110% of the fair market value of the shares on the date of the grant, and the option shall not be exercisable after the expiration of five years from the grant date. Prior to the corporate reorganization in December 2010, the Company issued shares held in treasury upon the exercise of stock options. After the corporate reorganization, new shares are issued by the Company upon the exercise of stock options.

The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model. The weighted average grant-date fair value of stock options granted during the year-to-date ended June 30, 2012 was \$1.62. Compensation expense attributable to stock option awards during the nine months ended June 30,

2012 was \$178 thousand (\$154 thousand, net of tax). The following weighted average assumptions were used for valuing stock option grants for the nine months ended June 30, 2012:

|                         |      |   |
|-------------------------|------|---|
| Risk-free interest rate | 0.5  | % |
| Expected life (years)   | 4    |   |
| Expected volatility     | 23.7 | % |
| Dividend yield          | 2.5  | % |
| Estimated forfeitures   | 0.0  | % |

The risk-free interest rate was determined using the yield available on the option grant date for a zero-coupon U.S. Treasury security with a term nearest to the equivalent of the expected life of the option. The expected life for options granted was based upon historical experience. The expected volatility was determined using historical volatilities based on historical stock prices. The dividend yield was determined based upon historical quarterly dividends and the Company's stock price on the option grant date. Estimated forfeitures were determined based upon voluntary termination behavior and actual option forfeitures.

A summary of option activity for the nine months ended June 30, 2012 follows:

|  | Number<br>of Options | Weighted<br>Average<br>Exercise<br>Price |
|--|----------------------|--|
| Options outstanding at beginning of year | 906,964              | \$ 15.09                                 |
| Granted                                  | 1,097,000            | 11.91                                    |
| Forfeited                                | (13,346)             | 16.03                                    |
| Expired                                  | (3,390)              | 11.33                                    |
| Exercised                                | --                   | --                                       |
| Options outstanding at end of period     | 1,987,228            | \$ 13.34                                 |

The fair value of stock options vested during the nine months ended June 30, 2012 was \$139 thousand.



The following summarizes information about the stock options outstanding and exercisable as of June 30, 2012:

| Exercise Price | Options Outstanding           |  |   |                           |
|----------------|-------------------------------|--|---|---------------------------|
|                | Number of Options Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value |
| \$ 4.07        | 8,783                         | 2.8  | \$ 4.07                                   | \$ 69                     |
| 10.86 - 12.71  | 1,100,160                     | 11.5   | 11.91                                     | 2                         |
| 13.33 - 17.59  | 827,160                       | 6.8  | 14.97                                     | --                        |
| 19.19          | 51,125                        | 5.9  | 19.19                                     | --                        |
|                | 1,987,228                     | 9.3  | \$ 13.34                                  | \$ 71                     |

| Exercise Price | Options Exercisable           |  |   |                           |
|----------------|-------------------------------|--|---|---------------------------|
|                | Number of Options Exercisable | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price per Share | Aggregate Intrinsic Value |
| \$ 4.07        | 8,783                         | 2.8  | \$ 4.07                                   | \$ 69                     |
| 10.86 - 12.71  | 32,342                        | 11.7   | 11.91                                     | --                        |
| 13.33 - 17.59  | 771,601                       | 6.6  | 15.00                                     | --                        |
| 19.19          | 41,624                        | 5.8  | 19.19                                     | --                        |
|                | 854,350                       | 6.7  | \$ 14.97                                  | \$ 69                     |

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on the Company's closing stock price of \$11.88 as of June 30, 2012, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2012 was 9,595.

As of June 30, 2012, the total future compensation cost related to non-vested stock options not yet recognized in the consolidated statements of income was \$1.7 million and the weighted average period over which these awards are expected to be recognized was 3.4 years.

Restricted Stock Plans – The Company currently has two plans outstanding which provide for the granting of restricted stock awards, the 2000 Recognition and Retention Plan and the 2012 Equity Incentive Plan. The objective of both plans is to enable the Bank to retain personnel of experience and ability in key positions of responsibility. Employees and directors are eligible to receive benefits under these plans at the sole discretion of the sub-committee. The total

number of shares originally eligible to be granted as restricted stock under the 2000 Recognition and Retirement Plan was 3,423,364. Prior to stockholder approval of the 2012 Equity Incentive Plan, the 2000 Recognition and Retention Plan still had 358,767 shares available for future restricted stock grants. The Company intends to award all future grants of restricted stock from the 2012 Equity Incentive Plan, which had 2,363,000 shares originally eligible to be granted as restricted stock. At June 30, 2012, the Company had 1,999,175 shares available for future grants of restricted stock under the 2012 Equity Incentive Plan. This plan will expire in January 2027 and no additional grants may be made after expiration, but outstanding grants continue until they are individually vested, forfeited, or expire. The vesting period of the restricted stock awards generally ranges from three-to-five years.

Compensation expense in the amount of the fair market value of the common stock at the date of the grant, as defined by the plans, to the employee is recognized over the period during which the shares vest. Compensation expense attributable to restricted stock awards during the nine months ended June 30, 2012 totaled \$391 thousand (\$251 thousand, net of tax). The following provisions generally apply: 1) a recipient of such restricted stock will be entitled to all voting and other stockholder rights (including the right to

receive dividends on vested and non-vested shares), except that the shares, while restricted, may not be sold, pledged or otherwise disposed of and are required to be held in escrow by the Company; 2) if a holder of such restricted stock terminates service for reasons other than death or disability, the holder forfeits all rights to the non-vested shares under restriction; and 3) if a participant's service terminates as a result of death or disability, or if a change in control of the Company occurs, all restrictions expire and all non-vested shares become unrestricted. A summary of restricted stock activity for the nine months ended June 30, 2012 follows:

|  | Number<br>of Shares | Weighted<br>Average<br>Grant<br>Date<br>Fair Value |
|--|---------------------|--|
| Unvested restricted stock at beginning of year | 13,582              | \$ 14.90   |
| Granted  | 363,825             | 11.91  |
| Vested   | (18,046)            | 13.17  |
| Forfeited                                      | --                  | --   |
| Unvested restricted stock at end of period     | 359,361             | \$ 11.96   |

The estimated forfeiture rate for the restricted stock granted during the year-to-date ended June 30, 2012 was 0% based upon voluntary termination behavior and actual forfeitures. The fair value of restricted stock that vested during the nine months ended June 30, 2012 totaled \$212 thousand. As of June 30, 2012, there was \$4.1 million of unrecognized compensation cost related to non-vested restricted stock to be recognized over a weighted average period of 3.5 years.

## 6. Fair Value of Financial Instruments

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

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at June 30, 2012 and September 30, 2011. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as OREO, LHFS, and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate liquidation.

The Company bases its fair values on the price that would be received to sell an asset in an orderly transaction between market participants. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. The Company's major security types based on the nature and risks of the securities

are included in the table below. The majority of the securities within the AFS portfolio are issued by U.S. GSEs. The fair values for all AFS securities are based on quoted prices for similar securities. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow estimates. The inputs to these models may include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, benchmark securities, bids, offers and reference data. There are securities in the AFS portfolio that have significant unobservable inputs requiring the independent pricing services to use some judgment in pricing them. These AFS securities are classified as Level 3. All other AFS securities are classified as Level 2.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets m which consists of AFS securities, at June 30, 2012 and September 30, 2011.

|                            | June 30, 2012  |                                    |                             |                                    |
|----------------------------|--|------------------------------------|-----------------------------|------------------------------------|
|                            | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable |                                    |
|                            | Carrying<br>Value<br>(Dollars in thousands)                  | Assets<br>(Level 1)                | Inputs<br>(Level 2)         | Inputs<br>(Level 3) <sup>(1)</sup> |
| AFS Securities:            |  |                                    |                             |                                    |
| GSE debentures             | \$ 1,040,102   | \$ --                              | \$ 1,040,102                | \$ --                              |
| Municipal bonds            | 2,533  | --                                 | 2,533                       | --                                 |
| Trust preferred securities | 2,085  | --                                 | --                          | 2,085                              |
| MBS                        | 587,577  | --                                 | 587,577                     | --                                 |
|                            | \$ 1,632,297   | \$ --                              | \$ 1,630,212                | \$ 2,085                           |

|                            | September 30, 2011   |                                    |                             |                                    |
|----------------------------|--|------------------------------------|-----------------------------|------------------------------------|
|                            | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical | Significant<br>Other<br>Observable | Significant<br>Unobservable |                                    |
|                            | Carrying<br>Value<br>(Dollars in thousands)                  | Assets<br>(Level 1)                | Inputs<br>(Level 2)         | Inputs<br>(Level 3) <sup>(2)</sup> |
| AFS Securities:            |  |                                    |                             |                                    |
| GSE debentures             | \$ 748,308   | \$ --                              | \$ 748,308                  | \$ --                              |
| Municipal bonds            | 2,754  | --                                 | 2,754                       | --                                 |
| Trust preferred securities | 2,941  | --                                 | --                          | 2,941                              |

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|     |              |       |              |          |
|-----|--------------|-------|--------------|----------|
| MBS | 732,436      | --    | 732,436      | --       |
|     | \$ 1,486,439 | \$ -- | \$ 1,483,498 | \$ 2,941 |

- (1) The Company's Level 3 AFS securities had no activity from September 30, 2011 to June 30, 2012, except for principal repayments of \$964 thousand and increases in net unrealized losses recognized in other comprehensive income. Increases in net unrealized losses included in other comprehensive income for the nine months ended June 30, 2012 were \$67 thousand.
- (2) The Company's Level 3 AFS securities had no activity from September 30, 2010 to September 30, 2011, except for principal repayments of \$87 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the year ended September 30, 2011 were \$115 thousand.

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

Loans Receivable - The unpaid principal balance of loans individually evaluated for impairment at June 30, 2012 and September 30, 2011 was \$84.7 million and \$72.0 million, respectively. Substantially all of these loans were secured by residential real estate and were individually evaluated to ensure that the carrying value of the loan was not in excess of the fair value of the collateral, less estimated selling costs. Fair values were estimated through current appraisals, BPOs, or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Company charged-off any loss amounts at June 30, 2012; therefore there was no ACL related to these loans at June 30, 2012. The ACL related to these loans at September 30, 2011 was \$3.8 million. In January 2012, the Company implemented a loan charge-off policy change whereby the Company no longer records SVAs for impairments; rather, loss amounts are charged-off.

OREO - OREO primarily represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower-of-cost or fair value. Fair value is estimated through current appraisals, BPOs, or listing prices.

As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of OREO at June 30, 2012 and September 30, 2011 was \$9.9 million and \$11.3 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets as of June 30, 2012 and September 30, 2011.

|                | June 30, 2012   |   |  |           |
|----------------|---|---|--|-----------|
|                | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |           |
|                | Carrying<br>Value<br>(Dollars in thousands)   |   |  |           |
| Impaired loans | \$ 84,690   | \$ --   | \$ --  | \$ 84,690 |
| OREO           | 9,913   | --  | --   | 9,913     |
|                | \$ 94,603   | \$ --   | \$ --  | \$ 94,603 |
|                | September 30, 2011  |   |  |           |
|                |   | Significant   | Significant  |           |

|                | Carrying<br>Value<br>(Dollars in thousands) | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Other<br>Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|----------------|---|---|--|-------------------------------------|
| Impaired loans | \$ 72,048                                   | \$ --   | \$ --                                      | \$ 72,048                           |
| OREO           | 11,321                                      | --  | --   | 11,321                              |
|                | \$ 83,369                                   | \$ --   | \$ --                                      | \$ 83,369                           |

Fair Value Disclosures -

The Company determined estimated fair value amounts using available market information and a selection from a variety of valuation techniques.

However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the fair value of the assets.

The use of different market assumptions and estimation methodologies may have a material impact on the estimated fair value amounts.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2012 and September 30, 2011. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such as changes in market conditions, as of the reporting dates.



The estimated fair values of the Company's financial instruments as of June 30, 2012 and September 30, 2011 were as follows.

|                           | June 30, 2012   |                      | September 30, 2011 |                      |
|---------------------------|-----------------|----------------------|--------------------|----------------------|
|                           | Carrying Amount | Estimated Fair Value | Carrying Amount    | Estimated Fair Value |
| (Dollars in thousands)    |                 |                      |                    |                      |
| Assets:                   |                 |                      |                    |                      |
| Cash and cash equivalents | \$ 172,948      | \$ 172,948           | \$ 121,070         | \$ 121,070           |
| AFS securities            | 1,632,297       | 1,632,297            | 1,486,439          | 1,486,439            |
| HTM securities            | 2,073,951       | 2,143,961            | 2,370,117          | 2,434,392            |
| Loans receivable          | 5,209,990       | 5,543,120            | 5,149,734          | 5,475,150            |
| BOLI                      | 57,667          | 57,667               | 56,534             | 56,534               |
| Capital stock of FHLB     | 131,437         | 131,437              | 126,877            | 126,877              |
| Liabilities:              |                 |                      |                    |                      |
| Deposits                  | 4,592,437       | 4,646,677            | 4,495,173          | 4,553,516            |
| Advances from FHLB        | 2,527,903       | 2,699,983            | 2,379,462          | 2,569,958            |
| Other borrowings          | 365,000         | 389,500              | 515,000            | 545,096              |

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

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

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

**Loans Receivable** - Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as one- to four-family residential mortgages, multi-family residential mortgages, nonresidential, and consumer loans. Each loan category is further segmented into fixed- and adjustable interest rate categories. Market pricing sources are used to approximate the estimated fair value of fixed- and adjustable-rate one- to four-family

residential mortgages. For all other loan categories, future cash flows are discounted using the LIBOR curve plus a margin at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

BOLI - The carrying value of BOLI is considered to approximate its fair value due to the nature of the financial asset.

Capital Stock of FHLB - The carrying value of FHLB stock equals cost. The fair value is based on redemption at par value.

Deposits - The estimated fair value of demand deposits, savings and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using a margin to the LIBOR curve.

Advances from FHLB - The estimated fair value of advances from FHLB is determined by discounting the future cash flows of each advance using a margin to the LIBOR curve.

Other Borrowings - Other borrowings consist of repurchase agreements.

The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement using a margin to the LIBOR curve.

## 7. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to June 30, 2012, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at June 30, 2012.

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

The Company and its wholly-owned subsidiary may from time to time make written or oral "forward-looking statements," including statements contained in documents filed or furnished by the Company with the SEC.

These forward-looking statements may be included in this Quarterly Report on Form 10-Q and the exhibits attached to it, in the Company's 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.

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 ability to continue to maintain overhead costs at reasonable levels;
- our ability to continue to originate a significant volume of one- to four-family mortgage loans in our market areas or to purchase loans through correspondents;
- our ability to acquire funds from or invest funds in wholesale or secondary markets;
- 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 policies;
- fluctuations in deposit flows, loan demand, and/or real estate values, as well as unemployment levels, which may adversely affect our business;
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- the credit risks of lending and investing activities, including changes in the level and direction of loan delinquencies and write-offs, changes in property values, and changes in estimates of the adequacy of the ACL;
- results of examinations of the Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our ACL;
  - the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations;
  - the effects of, and changes in, trade, monetary and fiscal policies and laws, including 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;
  - our ability to access cost-effective funding;
  - 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 and insurance and the impact of other governmental initiatives affecting the financial services industry;
  - implementing business initiatives may be more difficult or expensive than anticipated;
  - technological changes;
  - acquisitions and dispositions;
  - changes in consumer spending and saving habits; and
  - our success at managing the risks involved in our business.

This list of important factors is not all inclusive.

We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by

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

The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity and capital resources of the Company.

It should be read in conjunction with the consolidated financial statements and notes presented in this report.

The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of the Company's assets.

This discussion and analysis should be read in conjunction with management's discussion and analysis included in the Company's 2011 Annual Report on Form 10-K filed with the SEC.

## Executive Summary

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

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

The Company's results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, MBS, investment securities, and cash, and the interest paid on deposits and borrowings. On a weekly basis, management reviews deposit flows, loan demand, cash levels, and changes in several market rates to assess all pricing strategies. We generally price our loan and deposit products based upon an analysis of our competition and changes in market rates. The Bank generally prices its first mortgage loan products based on

secondary market and competitor pricing. Generally, deposit pricing is based upon a survey of competitors in the Bank's market areas, and the need to attract funding and retain maturing deposits. The majority of our loans are fixed-rate products with maturities up to 30 years, while the majority of our deposits have maturity or repricing dates of less than two years.

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their August 2012 statement that the economy continues to expand at a moderate pace. Growth in employment has slowed, and the level of unemployment remains elevated. The June 2012 unemployment data indicated an unemployment rate of 8.2%, compared to recent levels as high as 9.1%. The FOMC noted that household spending was off from levels seen earlier in the year; however, business fixed investment continued to advance. Despite some signs of improvement, the housing sector continues to be depressed. As a result, the FOMC decided to continue its program to extend the average maturity of its holdings of securities as announced in September 2011 by purchasing Treasury securities with remaining maturities of six to 30 years. The FOMC also indicated in the August 2012 statement that the overnight lending rate would remain at zero to 0.25% through at least late 2014.

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. Our local market areas have not experienced the large fluctuations in property values as experienced by many segments of the United States. As of June 2012, the unemployment rate was 6.1% for Kansas and 7.1% for Missouri, compared to the national average of 8.2%. The unemployment rate remains relatively low, compared to the national average, due to diversified industries within our market areas, primarily in the Kansas City metropolitan statistical area, but it is higher than the historical average. The Federal Housing Finance Agency price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, which indicates relative stability in property values. Our Kansas City market area comprises the largest segment of our loan portfolio and deposit base, and the average household income for our Kansas City market area is approximately \$79 thousand per annum, based on 2011 estimates from the U.S. Bureau of Economic Analysis. The average

household income in our combined market areas is approximately \$68 thousand per annum, with 92% of the population at or above poverty level, also based on the 2011 estimates from the U.S. Bureau of Economic Analysis.

Total assets decreased \$30.2 million, from \$9.45 billion at September 30, 2011 to \$9.42 billion at June 30, 2012, due primarily to a \$150.3 million decrease in securities, partially offset by an increase of \$60.3 million in loans receivable and an increase in cash and cash equivalents of \$51.9 million. The decrease in securities was due primarily to investment securities being called and maturing during the period and not being fully replaced. The increase in loans receivable was due primarily to an increase in the one- to four-family portfolio as a result of originations and purchases exceeding principal repayments.

Loans 30 to 89 days delinquent decreased \$3.0 million from \$26.8 million at September 30, 2011 to \$23.8 million at June 30, 2012. The decrease was primarily in our originated one- to four-family loan portfolio. Loans more than 90 days delinquent decreased \$4.9 million from \$26.5 million at September 30, 2011 to \$21.6 million at June 30, 2012. The decrease was in both our originated one- to four-family loan portfolio and our bulk purchased loan portfolio.

Total liabilities increased \$76.5 million, from \$7.51 billion at September 30, 2011 to \$7.59 billion at June 30, 2012. The increase in total liabilities was due primarily to a \$97.3 million increase in the deposit portfolio. The increase in the deposit portfolio was led by a \$55.8 million increase in the checking portfolio and a \$32.9 million increase in the money market portfolio.

Stockholders' equity decreased \$106.7 million, from \$1.94 billion at September 30, 2011 to \$1.83 billion at June 30, 2012. The decrease was due primarily to the repurchase of 9,658,309 shares of common stock for \$113.7 million and to dividends paid of \$52.4 million, partially offset by net income of \$56.8 million.

Net income for the quarter ended June 30, 2012 was \$18.7 million, compared to \$17.3 million for the quarter ended June 30, 2011. The \$1.4 million, or 8.2%, increase for the current quarter was due primarily to a \$1.9 million, or 4.2%, increase in net interest income, from \$44.3 million for the quarter ended June 30, 2011 to \$46.2 million for the current quarter. The increase in net interest income was due primarily to a decrease in interest expense of \$9.3 million, or 21.3%, partially offset by a decrease in interest income of \$7.4 million, or 8.4%. The net interest margin increased 12 basis points, from 1.88% for the quarter ended June 30, 2011 to 2.00% for the quarter ended June 30, 2012. The increase was largely due to a decrease in the cost of funds.

Net income for the nine months ended June 30, 2012 was \$56.8 million, compared to \$21.6 million for the nine months ended June 30, 2011. The \$35.2 million increase for the current year was due primarily to the \$40.0 million (\$26.0 million, net of income tax benefit) contribution to the Foundation in connection with the corporate reorganization. Additionally, net interest income increased \$14.1 million, or 11.3%, from \$124.9 million for the prior

year nine month period to \$139.0 million for the current year nine month period. The increase in net interest income was due primarily to a decrease in interest expense of \$25.7 million, or 19.0%, partially offset by a decrease in interest income of \$11.5 million, or 4.4%. The net interest margin increased 19 basis points, from 1.82% for the prior year nine month period to 2.01% for the current nine month period. The increase was largely due to a decrease in the cost of funds; specifically, to a decrease in interest expense on the certificate of deposit portfolio, other borrowings and FHLB advances.

The Bank currently expects to open one branch in calendar year 2012, and one in calendar year 2013. Both branches will be located in our Kansas City market area. Management continues to consider expansion opportunities in all of our market areas.



## Available Information

### Financial and other Company

information, including press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form

SEC filings are available on our website immediately after they are electronically filed with or furnished to the SEC, and are a

## 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 charged 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 the economic environment 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 banks, to increase the ACL or recognize additional charge-offs based upon their judgments, which may differ from management's judgments. Although management believes that the Bank has established and maintained the ACL at appropriate levels, additions may be necessary if economic and other conditions continue or 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 mortgage loans on residential properties, and, to a lesser extent, home equity and second mortgages on one- to four-family residential properties, resulting in a loan concentration in residential first mortgage loans. As a result of our lending practices, we also have a concentration of loans secured by real property located in Kansas and Missouri. At June 30, 2012, approximately 75% and 15% of the Bank's loans were secured by real property located in Kansas and Missouri, respectively. We believe the primary risks inherent in our one- to four-family and consumer portfolios are the continued weakened economic conditions, continued high levels of unemployment or underemployment, and a continuing decline in home real estate values. Any one or a combination of these events may adversely affect borrowers' ability or desire 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 also shares the risk of continued weakened economic

conditions, the primary risks for the portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, or the ability to utilize personal and/or business resources to pay their contractual debt payments if the cash flows are not sufficient.

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, adjustable-rate), loan source (originated or 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. All loans that are not individually evaluated for impairment are included in the formula analysis. 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. 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. Such qualitative factors include changes in collateral values, unemployment rates, credit scores and delinquent loan trends. Loss factors increase as loans are classified or go delinquent.

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 segments.

Management utilizes the formula analysis, along with several other factors, when evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the real estate and housing markets, and loan portfolio growth and concentrations. Since our loan portfolio is primarily concentrated in one- to four-family real estate, we monitor one- to four-family real estate market value trends in our local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and our 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 our ACL. We seek to apply ACL methodology in a consistent manner; however, the methodology can be modified in response to changing conditions. In addition, the adequacy of the Company's ACL is reviewed during bank regulatory examinations. We consider any comments from our regulator when assessing the appropriateness of our ACL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall reasonableness of the ACL and whether changes need to be made to our assumptions.

Generally, when a one- to four-family secured loan is 180 days delinquent, new collateral values are obtained through appraisals or BPOs. 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 fair value is requested, at a minimum, every 12 months thereafter. If the Bank holds the first and second mortgage, both loans are combined when evaluating whether there is a potential loss on the loan. However, charge-offs for real estate-secured loans may also occur at any time if we have knowledge of the existence of a potential loss. For all other real estate loans that are not secured by one- to four-family property, losses are charged-off when we believe the collection of such amounts is unlikely. When a non-real estate secured loan is 120 days delinquent, any identified losses are charged-off.

**Fair Value Measurements.** The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures, per the provisions of ASC 820, Fair Value Measurements and Disclosures. In accordance with ASC 820, the Company groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the underlying 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 to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The Company did not have any liabilities that were measured at fair value at June 30, 2012.

The Company's AFS securities are our most significant assets measured at fair value on a recurring basis. Changes in the fair value of AFS securities are recorded, net of tax, in AOCI, which is a component of stockholders' equity. As part of determining fair value, the Company obtains fair values for all AFS securities from independent nationally recognized pricing services. Various modeling techniques are used to determine pricing for the Company's securities, including option pricing and discounted cash flow models. 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 a security 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 receivable 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 value for these assets is estimated using current appraisals, BPOs, 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.

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## Financial Condition

Total assets decreased \$30.2 million, from \$9.45 billion at September 30, 2011 to \$9.42 billion at June 30, 2012, due primarily to a \$150.3 million decrease in securities, partially offset by an increase of \$60.3 million in loans receivable and an increase in cash and cash equivalents of \$51.9 million. Total liabilities increased \$76.5 million, from \$7.51 billion at September 30, 2011 to \$7.59 billion at June 30, 2012. The increase in total liabilities was due primarily to a \$97.3 million increase in the deposit portfolio, specifically the checking and money market portfolios. Stockholders' equity decreased \$106.7 million, from \$1.94 billion at September 30, 2011 to \$1.83 billion at June 30, 2012. The decrease was due primarily to the repurchase of 9,658,309 shares of common stock for \$113.7 million and to dividends paid of \$52.4 million, partially offset by net income of \$56.8 million.

|   | Balance at             |           |           |           |              |           |               |           |          |           |   |
|---|------------------------|-----------|-----------|-----------|--------------|-----------|---------------|-----------|----------|-----------|---|
|   | June 30,               |           | March 31, |           | December 31, |           | September 30, |           | June 30, |           |   |
|   | 2012                   |           | 2012      |           | 2011         |           | 2011          |           | 2011     |           |   |
|   | (Dollars in thousands) |           |           |           |              |           |               |           |          |           |   |
| Total assets                            | \$                     | 9,420,614 | \$        | 9,573,144 | \$           | 9,421,040 | \$            | 9,450,799 | \$       | 9,602,457 |   |
| Cash and cash equivalents               |                        | 172,948   |           | 143,707   |              | 170,175   |               | 121,070   |          | 161,872   |   |
| AFS securities                          |                        | 1,632,297 |           | 1,715,445 |              | 1,570,730 |               | 1,486,439 |          | 1,269,987 |   |
| HTM securities                          |                        | 2,073,951 |           | 2,165,036 |              | 2,129,417 |               | 2,370,117 |          | 2,693,719 |   |
| Loans receivable, net                   |                        | 5,209,990 |           | 5,224,178 |              | 5,224,942 |               | 5,149,734 |          | 5,162,846 |   |
| Capital stock of FHLB                   |                        | 131,437   |           | 130,614   |              | 129,503   |               | 126,877   |          | 125,797   |   |
| Deposits                                |                        | 4,592,437 |           | 4,657,010 |              | 4,501,144 |               | 4,495,173 |          | 4,558,574 |   |
| Advances from FHLB                      |                        | 2,527,903 |           | 2,525,535 |              | 2,531,304 |               | 2,379,462 |          | 2,453,642 |   |
| Other borrowings                        |                        | 365,000   |           | 365,000   |              | 365,000   |               | 515,000   |          | 565,000   |   |
| Stockholders' equity                    |                        | 1,832,858 |           | 1,912,472 |              | 1,931,309 |               | 1,939,529 |          | 1,934,011 |   |
| Equity to total assets at end of period |                        | 19.5      | %         | 20.0      | %            | 20.5      | %             | 20.5      | %        | 20.1      | % |

**Loans Receivable.** The loans receivable portfolio increased \$60.3 million, or at an annualized rate of 1.6%, to \$5.21 billion at June 30, 2012, from \$5.15 billion at September 30, 2011. The increase in loans receivable was due primarily to an increase in the one- to four-family portfolio as a result of originations and purchases. Management continues its efforts to expand our lending relationships related to our nationwide bulk purchase program which is designed to provide mortgage loans that adhere to the Bank's underwriting standards. It is expected that purchases of loans from nationwide lenders will be funded primarily by the runoff of the investment and MBS portfolios. During the first nine months of fiscal year 2012, the Bank originated \$334.5 million one- to four-family loans and purchased \$158.5 million one- to four-family loans from correspondent lenders. Additionally, the Bank endorsed \$707.5 million one- to four-family loans and refinanced \$220.1 million of Bank customer one- to four-family loans during the first nine months of fiscal year 2012.

Included in the loan portfolio at June 30, 2012 were \$143.8 million, or 2.8% of the total loan portfolio, of adjustable-rate mortgage (“ARM”) loans that were originated as interest-only. Of these interest-only loans, \$118.6 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 five or 10 years. The \$118.6 million of purchased interest-only ARM loans held as of June 30, 2012, had a weighted average credit score of 724 and a weighted average LTV ratio of 71% at June 30, 2012. In order to reduce future credit risk, the Bank has not purchased any interest-only ARM loans since 2006 and discontinued offering the product in its local markets during 2008. At June 30, 2012, \$70.5 million, or 49%, of the interest-only loans were still in their interest-only payment term. At June 30, 2012, \$5.8 million, or 22% of non-performing loans, were interest-only ARMs.

The following table presents characteristics of our loan portfolio as of June 30, 2012 and September 30, 2011. The weighted average rate of the loan portfolio decreased 32 basis points from 4.69% at September 30, 2011 to 4.37% at June 30, 2012. The decrease in the weighted average portfolio rate was due to loan endorsements and refinances, along with originations and purchases at rates that were lower than the existing portfolio. During the nine months ended June 30, 2012, the Bank endorsed \$707.5 million of one- to four-family loans, with a weighted average rate decrease of 113 basis points. Within the one- to four-family loan portfolio at June 30, 2012, 74% of the loans had a balance at origination of less than \$417 thousand.

|                              | June 30, 2012          |              | September 30, 2011 |              |
|------------------------------|------------------------|--------------|--------------------|--------------|
|                              | Amount                 | Average Rate | Amount             | Average Rate |
|                              | (Dollars in thousands) |              |                    |              |
| <b>Real Estate Loans:</b>    |                        |              |                    |              |
| One-to four-family           | \$ 4,995,840           | 4.32 %       | \$ 4,918,778       | 4.65 %       |
| Multi-family and commercial  | 49,755                 | 6.11         | 57,965             | 6.13         |
| Construction                 | 52,163                 | 4.14         | 47,368             | 4.27         |
| Total real estate loans      | 5,097,758              | 4.34         | 5,024,111          | 4.66         |
| <b>Consumer Loans:</b>       |                        |              |                    |              |
| Home equity                  | 152,301                | 5.43         | 164,541            | 5.48         |
| Other                        | 6,744                  | 4.76         | 7,224              | 5.10         |
| Total consumer loans         | 159,045                | 5.40         | 171,765            | 5.46         |
| Total loans receivable       | 5,256,803              | 4.37 %       | 5,195,876          | 4.69 %       |
| <b>Less:</b>                 |                        |              |                    |              |
| Undisbursed loan funds       | 25,451                 |              | 22,531             |              |
| ACL                          | 11,777                 |              | 15,465             |              |
| Discounts/unearned loan fees | 21,246                 |              | 19,093             |              |
| Premiums/deferred costs      | (11,661)               |              | (10,947)           |              |
| Total loans receivable, net  | \$ 5,209,990           |              | \$ 5,149,734       |              |

The following tables present the weighted average credit score, LTV ratio, and average unpaid principal balance for our one- to four-family loans as of the dates presented. Credit scores are typically updated in the last month of the quarter and are obtained from a nationally recognized consumer rating agency. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal or BPO. In most cases, the most recent appraisal was obtained at the time of origination.

June 30, 2012

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|                         | Balance                | Credit Score | LTV  | Average<br>Balance |
|-------------------------|------------------------|--------------|------|--------------------|
|                         | (Dollars in thousands) |              |      |                    |
| Originated              | \$ 4,027,991           | 764          | 65 % | \$ 124             |
| Correspondent purchases | 492,401                | 761          | 64   | 317                |
| Bulk purchases          | 475,448                | 739          | 58   | 245                |
|                         | \$ 4,995,840           | 761          | 64 % | \$ 139             |

September 30, 2011

|                         | Balance                | Credit Score | LTV  | Average<br>Balance |
|-------------------------|------------------------|--------------|------|--------------------|
|                         | (Dollars in thousands) |              |      |                    |
| Originated              | \$ 3,986,957           | 763          | 66 % | \$ 123             |
| Correspondent purchases | 396,063                | 759          | 64   | 290                |
| Bulk purchases          | 535,758                | 740          | 60   | 252                |
|                         | \$ 4,918,778           | 760          | 65 % | \$ 137             |



The following table presents the rates and weighted average lives (“WAL”) in years, which reflects prepayment assumptions, of our loan portfolio as of June 30, 2012. The terms listed under fixed-rate one- to four-family loans represent original terms-to-maturity. The terms listed under adjustable-rate one- to four-family loans represent initial terms-to-repricing. Yields include the amortization of fees, costs, and premiums and discounts, all of which are considered adjustments to the yield.

|                                      | June 30, 2012          |        |     |
|--------------------------------------|------------------------|--------|-----|
|                                      | Amount                 | Rate   | WAL |
|                                      | (Dollars in thousands) |        |     |
| Fixed-rate one- to four-family:      |                        |        |     |
| <= 15 years                          | \$ 1,037,746           | 4.15 % | 2.4 |
| > 15 years                           | 3,122,790              | 4.64   | 3.4 |
| Adjustable-rate one- to four-family: |                        |        |     |
| <= 36 months                         | 121,113                | 3.45   | 3.0 |
| > 36 months                          | 714,191                | 3.33   | 2.8 |
| All other loans                      | 260,963                | 5.28   | 1.5 |
| Total loans receivable               | \$ 5,256,803           | 4.37 % | 3.0 |

The following table presents our fixed-rate one- to four-family loan portfolio, including our fixed-rate one- to four-family construction loans, and the annualized prepayment speeds for the quarter ended June 30, 2012, by interest rate tier. Loan endorsements and refinances are considered prepayments and therefore are included in the prepayment speeds below.

| Rate Range   | Original Term<br>15 years or less |                               | More than 15 years |                               |                        |  |
|--------------|-----------------------------------|-------------------------------|--------------------|-------------------------------|------------------------|--|
|              | Principal Balance                 | Prepayment Speed (annualized) | Principal Balance  | Prepayment Speed (annualized) |                        |  |
|              | (Dollars in thousands)            |                               |                    | Including Endorsements        | Excluding Endorsements |  |
| <=3.50%      | \$ 287,339                        | 4.05 %                        | \$ 234,238         | 3.03 %                        | 3.03 %                 |  |
| 3.51 - 3.99% | 275,596                           | 14.88                         | 326,263            | 9.79                          | 7.84                   |  |
| 4.00 - 4.50% | 158,056                           | 35.04                         | 1,161,842          | 16.31                         | 7.75                   |  |

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|              |              |         |         |  |              |         |         |
|--------------|--------------|---------|---------|--|--------------|---------|---------|
| 4.51 - 4.99% | 129,260      | 41.41   | 28.59   |  | 311,393      | 36.73   | 14.19   |
| 5.00 - 5.50% | 137,709      | 27.53   | 23.38   |  | 706,191      | 46.23   | 20.44   |
| 5.51 - 5.99% | 28,684       | 33.93   | 23.35   |  | 195,660      | 41.69   | 20.76   |
| >=6.00%      | 21,109       | 16.26   | 12.34   |  | 215,281      | 29.30   | 20.54   |
|              | \$ 1,037,753 | 21.46 % | 15.46 % |  | \$ 3,150,868 | 27.00 % | 13.05 % |

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The following table summarizes the activity in the loan portfolio for the periods shown, excluding changes in loans in process, deferred fees, and ACL. Loans that were paid-off as a result of refinances are included in repayments. 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, however, included in the ending loan portfolio balance and rate.

|   | For the Three Months Ended |        |                |        |                   |        |                    |        |
|---|----------------------------|--------|----------------|--------|-------------------|--------|--------------------|--------|
|   | June 30, 2012              |        | March 31, 2012 |        | December 31, 2011 |        | September 30, 2011 |        |
|   | Amount                     | Rate   | Amount         | Rate   | Amount            | Rate   | Amount             | Rate   |
|   | (Dollars in thousands)     |        |                |        |                   |        |                    |        |
| Beginning balance                         | \$ 5,275,296               | 4.45 % | \$ 5,282,485   | 4.53 % | \$ 5,195,876      | 4.69 % | \$ 5,211,991       | 4.79 % |
| Originations and refinances:              |                            |        |                |        |                   |        |                    |        |
| Fixed                                     | 151,724                    | 3.78   | 139,295        | 3.79   | 180,198           | 3.77   | 141,123            | 4.11   |
| Adjustable                                | 42,802                     | 3.74   | 41,139         | 3.67   | 57,321            | 3.52   | 47,009             | 3.77   |
| Purchases and Participations:             |                            |        |                |        |                   |        |                    |        |
| Fixed                                     | 34,567                     | 3.94   | 31,165         | 4.29   | 44,800            | 4.03   | 29,585             | 4.47   |
| Adjustable                                | 12,722                     | 3.00   | 16,426         | 3.07   | 53,206            | 3.79   | 13,864             | 3.49   |
| Repayments                                | (256,221)                  |        | (228,203)      |        | (247,928)         |        | (244,512)          |        |
| Principal charge-offs, net <sup>(1)</sup> | (782)                      |        | (4,546)        |        | (7)               |        | (95)               |        |
| Other <sup>(2)</sup>                      | (3,305)                    |        | (2,465)        |        | (981)             |        | (3,089)            |        |
| Ending balance                            | \$ 5,256,803               | 4.37 % | \$ 5,275,296   | 4.45 % | \$ 5,282,485      | 4.53 % | \$ 5,195,876       | 4.69 % |

|   | For the Nine Months Ended |        |               |        |
|---|---------------------------|--------|---------------|--------|
|   | June 30, 2012             |        | June 30, 2011 |        |
|   | Amount                    | Rate   | Amount        | Rate   |
|   | (Dollars in thousands)    |        |               |        |
| Beginning balance                         | \$ 5,195,876              | 4.69 % | \$ 5,209,313  | 5.07 % |
| Originations and refinances:              |                           |        |               |        |
| Fixed                                     | 471,217                   | 3.78   | 516,961       | 4.26   |
| Adjustable                                | 141,262                   | 3.63   | 132,152       | 3.98   |
| Purchases and Participations:             |                           |        |               |        |
| Fixed                                     | 110,532                   | 4.07   | 123,475       | 5.31   |
| Adjustable                                | 82,354                    | 3.52   | 15,047        | 3.70   |
| Repayments                                | (732,352)                 |        | (774,700)     |        |
| Principal charge-offs, net <sup>(1)</sup> | (5,335)                   |        | --            |        |
| Other <sup>(2)</sup>                      | (6,751)                   |        | (10,257)      |        |
| Ending balance                            | \$ 5,256,803              | 4.37 % | \$ 5,211,991  | 4.79 % |

<sup>(1)</sup>Principal charge-offs, net represent potential loss amounts that reduce the unpaid principal balance of a loan.

<sup>(2)</sup>“Other” consists of transfers to OREO, endorsement fees advanced and reductions in commitments.



The following table presents loan origination, refinance and purchase activity for the periods indicated, excluding endorsement activity. Loan originations, purchases and refinances are reported together. During the quarter and nine months ended June 30, 2012, the Bank endorsed \$136.4 million and \$707.5 million, respectively, of one-to four-family loans, which reduced the average rate on those loans by 110 basis points and 113 basis points, respectively. Effective during the June 30, 2012 quarter, the Bank no longer offers the option to advance the fee to endorse loans. It is likely that the Bank's requirement to have the borrower pay the endorsement fee reduced the volume of endorsements during the quarter. The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing. During the nine months ended June 30, 2012, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 210 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 130 basis points above the average 10-year Treasury rate. The fixed-rate one- to four-family loans less than or equal to 15 years have a maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have a maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination. Of the \$173.3 million of one- to four-family loan originations and refinances for the three months ended June 30, 2012, 83% had loan values of \$417 thousand or less. Of the \$47.3 million of one- to four-family correspondent and bulk loan purchases for the three months ended June 30, 2012, 22% had loan values of \$417 thousand or less.

|  | For the Three Months Ended |               |                |                   |               |                |
|--|----------------------------|---------------|----------------|-------------------|---------------|----------------|
|  | June 30, 2012              |               |                | June 30, 2011     |               |                |
|  | Amount                     | Rate          | % of Total     | Amount            | Rate          | % of Total     |
|  | (Dollars in thousands)     |               |                |                   |               |                |
| <b>Fixed-Rate:</b>                                       |                            |               |                |                   |               |                |
| <b>One- to four-family:</b>                              |                            |               |                |                   |               |                |
| <= 15 years  | \$ 49,624                  | 3.36 %        | 20.5 %         | \$ 47,006         | 4.39 %        | 17.9 %         |
| > 15 years   | 135,642                    | 3.95          | 56.1           | 172,093           | 5.13          | 65.4           |
| Home equity  | 570                        | 6.52          | 0.2            | 938               | 6.83          | 0.4            |
| Other  | 455                        | 6.57          | 0.2            | 431               | 7.79          | 0.2            |
| <b>Total fixed-rate</b>                                  | <b>186,291</b>             | <b>3.81</b>   | <b>77.0</b>    | <b>220,468</b>    | <b>4.98</b>   | <b>83.9</b>    |
| <b>Adjustable-Rate:</b>                                  |                            |               |                |                   |               |                |
| <b>One- to four-family:</b>                              |                            |               |                |                   |               |                |
| <= 36 months   | 1,255                      | 2.44          | 0.5            | 2,245             | 3.17          | 0.8            |
| > 36 months  | 34,091                     | 2.87          | 14.1           | 21,965            | 3.55          | 8.3            |
| Home equity  | 19,751                     | 4.86          | 8.2            | 17,738            | 4.82          | 6.7            |
| Other  | 427                        | 3.21          | 0.2            | 887               | 3.79          | 0.3            |
| <b>Total adjustable-rate</b>                             | <b>55,524</b>              | <b>3.57</b>   | <b>23.0</b>    | <b>42,835</b>     | <b>4.06</b>   | <b>16.1</b>    |
| <b>Total originations, refinances and purchases</b>      | <b>\$ 241,815</b>          | <b>3.75 %</b> | <b>100.0 %</b> | <b>\$ 263,303</b> | <b>4.83 %</b> | <b>100.0 %</b> |
| <b>Purchased and participation loans included above:</b> |                            |               |                |                   |               |                |
| <b>Fixed-Rate:</b>                                       |                            |               |                |                   |               |                |
| Correspondent - one- to four-family                      | \$ 34,567                  | 3.94 %        |                | \$ 12,840         | 4.69 %        |                |
| Bulk - one- to four-family                               | --                         | --            |                | 89,190            | 5.60          |                |

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|   |           |        |            |        |
|---|-----------|--------|------------|--------|
| Total fixed-rate purchases/participations | 34,567    | 3.94   | 102,030    | 5.49   |
| Adjustable-Rate:                          |           |        |            |        |
| Correspondent - one- to four-family       | 12,722    | 3.00   | 5,114      | 3.65   |
| Total purchased/participation loans       | \$ 47,289 | 3.69 % | \$ 107,144 | 5.40 % |

|  | For the Nine Months Ended<br>June 30, 2012 |        |               | June 30, 2011 |        |               |
|--|--|--------|---------------|---------------|--------|---------------|
|  | Amount                                     | Rate   | % of<br>Total | Amount        | Rate   | % of<br>Total |
| <b>Fixed-Rate:</b>                                       |  |        |               |               |        |               |
| <b>One- to four-family:</b>                              |  |        |               |               |        |               |
| <= 15 years  | \$ 221,730                                 | 3.41 % | 27.5 %        | \$ 215,329    | 3.95 % | 27.4 %        |
| > 15 years   | 357,258                                    | 4.07   | 44.4          | 420,869       | 4.70   | 53.4          |
| Multi-family and commercial real estate                  | --   | --     | --            | 892           | 6.00   | 0.1           |
| Home equity  | 1,577                                      | 6.94   | 0.2           | 2,389         | 6.84   | 0.3           |
| Other  | 1,184                                      | 7.11   | 0.1           | 957           | 8.08   | 0.1           |
| Total fixed-rate   | 581,749                                    | 3.84   | 72.2          | 640,436       | 4.46   | 81.3          |
| <b>Adjustable-Rate:</b>                                  |  |        |               |               |        |               |
| <b>One- to four-family:</b>                              |  |        |               |               |        |               |
| <= 36 months   | 6,369                                      | 2.53   | 0.8           | 6,364         | 3.15   | 0.8           |
| > 36 months  | 148,055                                    | 3.05   | 18.4          | 88,753        | 3.52   | 11.3          |
| Multi-family and commercial real estate                  | 13,975                                     | 5.00   | 1.7           | --            | --     | --            |
| Home equity  | 53,214                                     | 4.86   | 6.6           | 50,346        | 4.80   | 6.4           |
| Other  | 2,003                                      | 3.31   | 0.3           | 1,736         | 3.93   | 0.2           |
| Total adjustable-rate                                    | 223,616                                    | 3.59   | 27.8          | 147,199       | 3.95   | 18.7          |
| Total originations, refinances and purchases             | \$ 805,365                                 | 3.77 % | 100.0 %       | \$ 787,635    | 4.37 % | 100.0 %       |
| <b>Purchased and participation loans included above:</b> |  |        |               |               |        |               |
| <b>Fixed-Rate:</b>                                       |  |        |               |               |        |               |
| Correspondent - one- to four-family                      | \$ 110,007                                 | 4.08 % |               | \$ 34,285     | 4.54 % |               |
| Bulk - one- to four-family                               | 392  | 3.25   |               | 89,190        | 5.60   |               |
| Participations - other                                   | 133  | 2.57   |               | --            | --     |               |
| Total fixed-rate purchases/participations                | 110,532                                    | 4.07   |               | 123,475       | 5.31   |               |
| <b>Adjustable-Rate:</b>                                  |  |        |               |               |        |               |
| Correspondent - one- to four-family                      | 48,511                                     | 3.08   |               | 15,047        | 3.70   |               |
| Bulk - one- to four-family                               | 19,868                                     | 3.55   |               | --            | --     |               |
| Participations - commercial real estate                  | 13,975                                     | 5.00   |               | --            | --     |               |
| Total adjustable-rate purchases/participations           | 82,354                                     | 3.52   |               | 15,047        | 3.70   |               |
| Total purchased/participation loans                      | \$ 192,886                                 | 3.84 % |               | \$ 138,522    | 5.13 % |               |

The following table presents the origination and purchase activity in our one- to four-family loan portfolio for the three and nine months ended June 30, 2012, excluding endorsement activity, and the LTV and credit score at the time of origination.

|                              | For the Three Months<br>Ended<br>June 30, 2012 |      |                 | For the Nine Months Ended<br>June 30, 2012 |      |                 |
|------------------------------|--|------|-----------------|--|------|-----------------|
|                              | Amount   | LTV  | Credit<br>Score | Amount                                     | LTV  | Credit<br>Score |
|                              | (Dollars in thousands)                         |      |                 |  |      |                 |
| Originations                 | \$ 119,526                                     | 77 % | 767             | \$ 334,540                                 | 75 % | 766             |
| Refinances by Bank customers | 53,797   | 69   | 768             | 220,094                                    | 68   | 773             |
| Correspondent purchases      | 47,289   | 69   | 770             | 158,518                                    | 68   | 769             |
| Bulk purchases               | --   | --   | --              | 20,260                                     | 60   | 763             |
|                              | \$ 220,612                                     | 73 % | 768             | \$ 733,412                                 | 71 % | 769             |

The following table summarizes our one- to four-family loan commitments for originations, refinances, and purchases at the dates noted. Commitments to originate and refinance one- to four-family loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. Some of the commitments are expected to expire without being fully drawn upon; therefore, the amount of total commitments disclosed below does not necessarily represent future cash requirements. The increase in commitments between March 31, 2012 and June 30, 2012 was due primarily to the Bank offering more competitive rates to its correspondent lenders.

|  | June 30,<br>2012       | March 31,<br>2012 | June 30,<br>2011 |
|--|------------------------|-------------------|------------------|
|  | (Dollars in thousands) |                   |                  |
| Originate/refinance fixed-rate         | \$ 100,954             | \$ 79,604         | \$ 65,457        |
| Originate/refinance adjustable-rate    | 15,580                 | 12,904            | 11,302           |
| Purchase correspondent fixed-rate      | 83,159                 | 30,327            | 21,661           |
| Purchase correspondent adjustable-rate | 28,241                 | 13,331            | 15,817           |
|  | \$ 227,934             | \$ 136,166        | \$ 114,237       |





Asset Quality – Loans and OREO

The Bank’s traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates and purchases. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower’s ability to repay the loan compared to underwriting methodologies that do not require full documentation. See additional discussion regarding underwriting standards in “Lending Practices and Underwriting Standards” in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2011. In the following asset quality discussion, correspondent purchased loans are included with originated loans and bulk purchased loans are reported as purchased loans.

Delinquent and non-performing loans and OREO

The following tables present the Company’s 30 to 89 day delinquent loans, non-performing loans, and OREO at the dates indicated. Non-performing loans are nonaccrual loans that are 90 or more days delinquent, are in the process of foreclosure, or TDRs that were either nonaccrual or did not receive a credit evaluation prior to the restructuring and have not made six consecutive monthly payments per the restructured loan terms. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. OREO primarily includes assets acquired in settlement of loans. Non-performing assets include non-performing loans and OREO.

|                                    | Loans Delinquent for 30 to 89 Days at: |           |                   |           |                       |           |                  |           |
|------------------------------------|--|-----------|-------------------|-----------|-----------------------|-----------|------------------|-----------|
|                                    | June 30,<br>2012                       |           | March 31,<br>2012 |           | September 30,<br>2011 |           | June 30,<br>2011 |           |
|                                    | Number                                 | Amount    | Number            | Amount    | Number                | Amount    | Number           | Amount    |
| Loans 30 to 89 Days<br>Delinquent: | (Dollars in thousands)                 |           |                   |           |                       |           |                  |           |
| One- to four-family:               |  |           |                   |           |                       |           |                  |           |
| Originated                         | 138                                    | \$ 14,658 | 122               | \$ 13,434 | 178                   | \$ 19,710 | 158              | \$ 17,669 |
| Purchased                          | 37                                     | 8,463     | 38                | 7,343     | 34                    | 6,199     | 38               | 6,150     |
| Multi-family and<br>commercial     | --                                     | --        | --                | --        | --                    | --        | --               | --        |
| Construction                       | --                                     | --        | --                | --        | --                    | --        | --               | --        |
| Consumer Loans:                    |  |           |                   |           |                       |           |                  |           |
| Home equity                        | 31                                     | 526       | 33                | 616       | 43                    | 759       | 36               | 837       |
| Other                              | 13                                     | 128       | 20                | 342       | 14                    | 92        | 16               | 77        |
|                                    | 219                                    | \$ 23,775 | 213               | \$ 21,735 | 269                   | \$ 26,760 | 248              | \$ 24,733 |
| 30 to 89 days<br>delinquent loans  |  |           |                   |           |                       |           |                  |           |
|                                    |  | 0.46 %    |                   | 0.42 %    |                       | 0.52 %    |                  | 0.48 %    |

to total loans  
receivable, net

45

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| Non-Performing Loans and OREO at:                            |        |                   |        |                       |        |                  |        |           |
|--|--------|-------------------|--------|-----------------------|--------|------------------|--------|-----------|
| June 30,<br>2012   |        | March 31,<br>2012 |        | September 30,<br>2011 |        | June 30,<br>2011 |        |           |
| Number   | Amount | Number            | Amount | Number                | Amount | Number           | Amount |           |
| (Dollars in thousands)                                       |        |                   |        |                       |        |                  |        |           |
| Loans 90 or More Days Delinquent:                            |        |                   |        |                       |        |                  |        |           |
| One- to four-family:   |        |                   |        |                       |        |                  |        |           |
| Originated   | 94     | \$ 9,326          | 103    | \$ 12,442             | 106    | \$ 12,375        | 111    | \$ 12,023 |
| Purchased  | 47     | 11,792            | 49     | 12,485                | 46     | 13,749           | 49     | 15,637    |
| Consumer Loans:  |        |                   |        |                       |        |                  |        |           |
| Home equity  | 21     | 505               | 14     | 327                   | 21     | 380              | 24     | 322       |
| Other  | 5      | 20                | 4      | 10                    | 3      | 3                | 5      | 52        |
|  | 167    | 21,643            | 170    | 25,264                | 176    | 26,507           | 189    | 28,034    |
| Nonaccrual TDRs less than 90 Days Delinquent: <sup>(1)</sup> |        |                   |        |                       |        |                  |        |           |
| One- to four-family:   |        |                   |        |                       |        |                  |        |           |
| Originated   | 28     | 4,201             | 31     | 4,771                 | --     | --               | --     | --        |
| Purchased  | --     | --                | 1      | 324                   | --     | --               | --     | --        |
| Consumer Loans   | --     | --                | 1      | 10                    | --     | --               | --     | --        |
|  | 28     | 4,201             | 33     | 5,105                 | --     | --               | --     | --        |
| Total non-performing loans                                   |        |                   |        |                       |        |                  |        |           |
|  | 195    | 25,844            | 203    | 30,369                | 176    | 26,507           | 189    | 28,034    |
| Non-performing loans as a percentage of total loans          |        |                   |        |                       |        |                  |        |           |
|  |        | 0.50 %            |        | 0.58 %                |        | 0.51 %           |        | 0.54 %    |
| OREO:  |        |                   |        |                       |        |                  |        |           |
| One- to four-family:   |        |                   |        |                       |        |                  |        |           |
| Originated <sup>(2)</sup>                                    | 74     | 7,497             | 76     | 7,425                 | 74     | 6,942            | 73     | 6,627     |
| Purchased  | 5      | 1,007             | 11     | 2,851                 | 12     | 2,877            | 16     | 3,437     |
| Consumer Loans:  |        |                   |        |                       |        |                  |        |           |
| Home equity  | 1      | 9                 | 2      | 21                    | --     | --               | --     | --        |
| Other  | --     | --                | --     | --                    | --     | --               | --     | --        |
| Other <sup>(3)</sup>   | 1      | 1,400             | 1      | 1,502                 | 1      | 1,502            | --     | --        |
|  | 81     | 9,913             | 90     | 11,799                | 87     | 11,321           | 89     | 10,064    |
| Total non-performing assets                                  |        |                   |        |                       |        |                  |        |           |
|  | 276    | \$ 35,757         | 293    | \$ 42,168             | 263    | \$ 37,828        | 278    | \$ 38,098 |

|   |        |        |        |        |
|---|--------|--------|--------|--------|
| Non-performing assets as a percentage of total assets | 0.38 % | 0.44 % | 0.40 % | 0.40 % |
|---|--------|--------|--------|--------|

<sup>(1)</sup>Included in the nonaccrual amount at June 30, 2012 are \$604 thousand of TDRs that are also reported in the 30 to 89 days delinquent category and \$3.6 million that are currently performing in accordance with the restructured terms but have not made six consecutive monthly payments per the restructured loan terms.

<sup>(2)</sup>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.

<sup>(3)</sup>Other OREO represents a single property the Bank purchased for a potential branch site but now intends to sell.

Of the \$11.8 million of purchased one- to four-family loans 90 or more days delinquent, \$10.4 million, or 88%, were originated in calendar year 2004 or 2005. Of the \$9.3 million of originated one- to four-family loans 90 or more days delinquent, \$7.8 million, or 84%, were originated in calendar year 2007 or earlier.

The following table presents the top 12 states where the properties securing our one- to four-family loans are located and their corresponding balance of 30 to 89 day delinquent loans, 90 or more day delinquent loans and their corresponding weighted average LTV ratios at June 30, 2012. The LTV ratios were based on the unpaid principal balance, less charge-offs, and either the lesser of the purchase price or original appraisal or the most recent bank appraisal or BPO, if available. At June 30, 2012, losses expected to be realized, after taking into consideration potential PMI proceeds and the costs to sell the property, have been charged-off.

| State        | One- to Four-Family    |            | Loans 30 to 89  |            | Loans 90 or More Days |            |             |
|--------------|------------------------|------------|-----------------|------------|-----------------------|------------|-------------|
|              | Balance                | % of Total | Days Delinquent |            | Delinquent            |            | Average LTV |
|              |                        |            | Balance         | % of Total | Balance               | % of Total |             |
|              | (Dollars in thousands) |            |                 |            |                       |            |             |
| Kansas       | \$ 3,699,150           | 74.0 %     | \$ 11,411       | 49.4 %     | \$ 7,762              | 36.7 %     | 77 %        |
| Missouri     | 790,177                | 15.8       | 3,783           | 16.4       | 1,850                 | 8.8        | 75          |
| Nebraska     | 49,887                 | 1.0        | 423             | 1.8        | 45                    | 0.2        | 62          |
| Illinois     | 44,956                 | 0.9        | 337             | 1.5        | 1,448                 | 6.9        | 80          |
| Texas        | 31,847                 | 0.7        | 1,353           | 5.8        | --                    | --         | n/a         |
| Florida      | 30,477                 | 0.6        | --              | --         | 2,796                 | 13.2       | 75          |
| New York     | 27,027                 | 0.6        | 193             | 0.8        | 943                   | 4.5        | 89          |
| Minnesota    | 25,243                 | 0.5        | 365             | 1.6        | 743                   | 3.5        | 79          |
| Colorado     | 23,040                 | 0.5        | 307             | 1.3        | 319                   | 1.5        | 92          |
| Oklahoma     | 22,113                 | 0.4        | 31              | 0.1        | 76                    | 0.4        | 48          |
| Connecticut  | 20,651                 | 0.4        | 623             | 2.7        | --                    | --         | n/a         |
| Alabama      | 20,431                 | 0.4        | --              | --         | --                    | --         | n/a         |
| Other states | 210,841                | 4.2        | 4,295           | 18.6       | 5,136                 | 24.3       | 74          |
|              | \$ 4,995,840           | 100.0 %    | \$ 23,121       | 100.0 %    | \$ 21,118             | 100.0 %    | 77 %        |

#### Troubled Debt Restructurings

A TDR is a situation in which the Bank may grant a concession to a borrower experiencing financial difficulties. Generally, the Bank grants a short-term payment accommodation to borrowers who are experiencing a temporary cash flow problem. The most frequently used accommodation is to reduce the monthly payment amount for a period of six

to 12 months, often by only requiring payments of interest and escrow during this period. These restructurings result 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 more lengthy extensions of the maturity date. The Bank does not forgive principal or interest nor does it commit to lend additional funds, except for the capitalization of delinquent principal, interest and/or escrow balances not to exceed the original loan balance, to debtors whose terms have been modified in TDRs.

At June 30, 2012 and September 30, 2011, the Bank had TDRs with principal balances of \$49.1 million and \$50.5 million, respectively. The endorsed loans classified as TDRs represent loans when certain guidelines for soft credit scores and/or estimated LTV ratios are not met. As a result of these changes, the borrowers could be experiencing financial difficulties even though they have not been delinquent in the previous 12 months on their existing loan payments. For additional information regarding our TDRs, see “Note 4 – Loans Receivable and Allowance for Credit Losses.” Of the \$49.1 million of TDRs at June 30, 2012, \$44.0 million were one- to four-family originated loans and \$5.0 million were one- to four-family purchased loans. At June 30, 2012, \$2.7 million of TDRs were 30 to 89 days delinquent and \$2.3 million were more than 90 days delinquent.

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 our delinquent and non-performing loans, results of foreclosed property and short sale transactions, the status and trends of the local and national economies, the trends and current conditions of the residential real estate markets, and loan portfolio growth and concentrations. Our local market areas did not experience the significant fluctuations in home values over the past 10 years as did other areas of the U.S., which is reflected in our charge-off experience for originated loans as compared to purchased loans.

The ACL is maintained through provisions for credit losses which are charged to income. The provision for credit losses is established after considering the results of management's quarterly assessment of the ACL. For the nine months ended June 30, 2012, the Company recorded a provision for credit losses of \$2.0 million, which was a result of charge-offs, primarily on bulk purchased loans, the increase in and/or establishment of ACL on new delinquent and classified loans and adjustments to the formula analysis model in the first quarter of the current fiscal year.

At June 30, 2012, our ACL was \$11.8 million, or 0.23% of the total loan portfolio and 45.6% of total non-performing loans. This compares with an ACL of \$15.5 million, or 0.30% of the total loan portfolio and 58.3% of total non-performing loans as of September 30, 2011. Our ACL balance decreased from September 30, 2011 due primarily to the implementation of a loan charge-off policy change during the second quarter of fiscal year 2012 as OCC Call Report requirements (to which the Bank became subject beginning with the second fiscal quarter of 2012) do not permit the use of SVAs, which the Bank was previously utilizing for potential loan losses, as permitted by our previous regulator. As a result of the implementation of the charge-off policy change, \$3.5 million of SVAs were charged-off during the second fiscal quarter of 2012. These charge-offs did not impact the provision for credit losses, and therefore had no additional income statement impact, as the amounts were expensed in previous periods.

See Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" and "Note 1 - Summary of Significant Accounting Policies" for a full discussion of our ACL methodology. For additional information regarding our ACL activity, see "Note 4 - Loans Receivable and Allowance for Credit Losses." The following table presents the Company's allocation of the ACL to each respective loan category at June 30, 2012 and September 30, 2011.

| At<br>June 30, 2012    |                      |                | At<br>September 30, 2011  |              |                      |                |                           |
|------------------------|----------------------|----------------|---------------------------|--------------|----------------------|----------------|---------------------------|
| Amount<br>of           | % of ACL<br>to Total | Total<br>Loans | % of<br>Loans to<br>Total | Amount<br>of | % of ACL<br>to Total | Total<br>Loans | % of<br>Loans to<br>Total |
| ACL                    | ACL                  | Loans          | Loans                     | ACL          | ACL                  | Loans          | Loans                     |
| (Dollars in thousands) |                      |                |                           |              |                      |                |                           |



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|                                |           |         |              |         |           |         |              |         |  |
|--------------------------------|-----------|---------|--------------|---------|-----------|---------|--------------|---------|--|
| One- to<br>four-family:        |           |         |              |         |           |         |              |         |  |
| Originated                     | \$ 6,041  | 51.2 %  | \$ 4,520,392 | 86.0 %  | \$ 4,898  | 31.7 %  | \$ 4,383,020 | 84.4 %  |  |
| Purchased                      | 5,190     | 44.1    | 475,448      | 9.0     | 9,899     | 64.0    | 535,758      | 10.3    |  |
| Multi-family and<br>commercial | 175       | 1.5     | 49,755       | 1.0     | 254       | 1.6     | 57,965       | 1.1     |  |
| Construction                   | 32        | 0.3     | 52,163       | 1.0     | 19        | 0.1     | 47,368       | 0.9     |  |
| Consumer:                      |           |         |              |         |           |         |              |         |  |
| Home equity                    | 286       | 2.4     | 152,301      | 2.9     | 354       | 2.3     | 164,541      | 3.2     |  |
| Other consumer                 | 53        | 0.5     | 6,744        | 0.1     | 41        | 0.3     | 7,224        | 0.1     |  |
|                                | \$ 11,777 | 100.0 % | \$ 5,256,803 | 100.0 % | \$ 15,465 | 100.0 % | \$ 5,195,876 | 100.0 % |  |

Securities. The following table presents the distribution of our MBS and investment securities portfolios, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 77% of these portfolios at June 30, 2012. The WAL is the estimated remaining maturity (in years) after projected prepayment speeds and projected call option assumptions have been applied. The decrease in the WAL between September 30, 2011 and June 30, 2012 was due primarily to a decrease in market interest rates between the two periods as well as to the general aging of the existing investment securities portfolio, partially offset by called and matured securities with WALs less than the existing portfolio. The decrease in the yield between September 30, 2011 and June 30, 2012 was primarily a result of the purchase of securities at market rates which resulted in average yields lower than that of the existing portfolios and repayments of MBS with yields higher than that of the existing portfolio, including adjustable-rate MBS whose rates repriced downward due to a decline in related indices, partially offset by called and matured investment securities with yields less than the existing portfolio. Yields on tax-exempt securities are not calculated on a taxable equivalent basis.

|   | June 30, 2012          |        |      | March 31, 2012 |        |      | September 30, 2011 |        |      |
|---|------------------------|--------|------|----------------|--------|------|--------------------|--------|------|
|   | Balance                | Yield  | WAL  | Balance        | Yield  | WAL  | Balance            | Yield  | WAL  |
|   | (Dollars in thousands) |        |      |                |        |      |                    |        |      |
| Fixed-rate securities:                        |                        |        |      |                |        |      |                    |        |      |
| MBS   | \$ 1,630,197           | 2.93 % | 3.7  | \$ 1,696,435   | 2.97 % | 3.8  | \$ 1,476,660       | 3.51 % | 4.2  |
| GSE debentures                                | 1,135,943              | 1.15   | 0.8  | 1,196,408      | 1.14   | 1.4  | 1,380,028          | 1.09   | 0.9  |
| Municipal bonds                               | 53,346                 | 2.95   | 2.0  | 53,421         | 3.02   | 2.1  | 59,622             | 3.02   | 2.3  |
| Total fixed-rate securities                   | 2,819,486              | 2.21   | 2.5  | 2,946,264      | 2.23   | 2.8  | 2,916,310          | 2.36   | 2.6  |
| Adjustable-rate securities:                   |                        |        |      |                |        |      |                    |        |      |
| MBS   | 845,258                | 2.72   | 6.3  | 891,297        | 2.79   | 7.7  | 893,655            | 2.85   | 7.1  |
| Trust preferred securities                    | 2,932                  | 1.72   | 25.0 | 2,954          | 1.73   | 25.2 | 3,681              | 1.60   | 25.7 |
| Total adjustable-rate securities              | 848,190                | 2.72   | 6.4  | 894,251        | 2.79   | 7.7  | 897,336            | 2.85   | 7.2  |
| Total securities portfolio, at amortized cost | \$ 3,667,676           | 2.33 % | 3.4  | \$ 3,840,515   | 2.36 % | 3.9  | \$ 3,813,646       | 2.47 % | 3.7  |

At June 30, 2012, Capitol Federal Financial, Inc., at the holding company level, had \$120.4 million in investment securities with a yield of 0.66% and a WAL of 0.3 years. All of the securities are classified as AFS. The yields on these securities are less than the yields on the Bank's current investment portfolio due to the short-term nature of the securities.



Mortgage-Backed Securities. The balance of MBS, which primarily consists of securities of U.S. GSEs, increased \$98.6 million from \$2.41 billion at September 30, 2011 to \$2.51 billion at June 30, 2012. The following table provides a summary of the activity in our portfolio of MBS for the periods presented. The yields and WALs for purchases are presented as recorded at the time of purchase. The yields for the beginning balances are as of the last day of the period previous to the period presented and the yield for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The yield of the MBS portfolio decreased from September 30, 2011 to June 30, 2012 as a result of purchases of securities with yields lower than the existing portfolio, and repayments of MBS with yields higher than that of the existing portfolio, including adjustable-rate MBS whose rates repriced downward due to a decline in related indices. The beginning and ending WAL is the estimated remaining maturity (in years) after projected prepayment speeds have been applied. The decrease in the WAL at June 30, 2012 compared to September 30, 2011 was due primarily to a decrease in market interest rates between the two periods.

| For the Three Months Ended |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
|----------------------------|----|-----------|--------|---|-----|--------|-----------|------|----------------|-----|----|-----------|------|---|-----|----|-----------|------|
| June 30, 2012              |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| Amount                     |    |           | Yield  |   |     | WAL    |           |      | March 31, 2012 |     |    |           |      |   |     |    |           |      |
| Amount                     |    |           | Yield  |   |     | WAL    |           |      | Amount         |     |    |           |      |   |     |    |           |      |
| Yield                      |    |           | WAL    |   |     | Amount |           |      | Yield          |     |    |           |      |   |     |    |           |      |
| WAL                        |    |           | Amount |   |     | Yield  |           |      | WAL            |     |    |           |      |   |     |    |           |      |
| December 31, 2011          |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| September 30, 2011         |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| (Dollars in thousands)     |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| Balance -                  | \$ | 2,626,544 | 2.91   | % | 5.1 | \$     | 2,405,685 | 3.10 | %              | 5.0 | \$ | 2,412,076 | 3.26 | % | 5.3 | \$ | 2,342,545 | 3.41 |
| Change -                   |    | (152,162) |        |   |     |        | (142,937) |      |                |     |    | (152,322) |      |   |     |    | (130,137) |      |
| Amortization of discounts) |    | (1,625)   |        |   |     |        | (1,550)   |      |                |     |    | (1,507)   |      |   |     |    | (1,168)   |      |
|                            |    | 41,510    | 1.91   |   | 4.4 |        | 313,481   | 1.86 |                | 4.5 |    | 126,498   | 2.12 |   | 4.2 |    | 157,720   | 2.65 |
|                            |    | --        | --     |   | --  |        | 52,867    | 1.69 |                | 6.3 |    | 22,887    | 2.20 |   | 4.5 |    | 45,564    | 2.12 |
| Valuation securities       |    | (3,608)   |        |   |     |        | (1,002)   |      |                |     |    | (1,947)   |      |   |     |    | (2,448)   |      |
| Balance -                  | \$ | 2,510,659 | 2.86   | % | 4.6 | \$     | 2,626,544 | 2.91 | %              | 5.1 | \$ | 2,405,685 | 3.10 | % | 5.0 | \$ | 2,412,076 | 3.26 |
| For the Nine Months Ended  |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| June 30, 2012              |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| Amount                     |    |           | Yield  |   |     | WAL    |           |      | June 30, 2011  |     |    |           |      |   |     |    |           |      |
| Amount                     |    |           | Yield  |   |     | WAL    |           |      | Amount         |     |    |           |      |   |     |    |           |      |
| Yield                      |    |           | WAL    |   |     | Amount |           |      | Yield          |     |    |           |      |   |     |    |           |      |
| WAL                        |    |           | Amount |   |     | Yield  |           |      | WAL            |     |    |           |      |   |     |    |           |      |
| (Dollars in thousands)     |    |           |        |   |     |        |           |      |                |     |    |           |      |   |     |    |           |      |
| Balance -                  | \$ | 2,412,076 | 3.26   | % | 5.3 | \$     | 1,607,864 | 4.00 | %              | 3.6 |    |           |      |   |     |    |           |      |
| Change -                   |    | (447,421) |        |   |     |        | (350,002) |      |                |     |    |           |      |   |     |    |           |      |
| Amortization of discounts) |    | (4,682)   |        |   |     |        | (2,102)   |      |                |     |    |           |      |   |     |    |           |      |
|                            |    | 481,489   | 1.93   |   | 4.4 |        | 762,058   | 2.91 |                | 4.4 |    |           |      |   |     |    |           |      |
|                            |    | 75,754    | 1.84   |   | 5.7 |        | 332,393   | 2.54 |                | 5.0 |    |           |      |   |     |    |           |      |
| Valuation securities       |    | (6,557)   |        |   |     |        | (7,666)   |      |                |     |    |           |      |   |     |    |           |      |
| Balance -                  | \$ | 2,510,659 | 2.86   | % | 4.6 | \$     | 2,342,545 | 3.41 | %              | 5.1 |    |           |      |   |     |    |           |      |

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The following table presents our fixed-rate MBS portfolio, at amortized cost, based on the underlying weighted average loan rate, the annualized prepayment speeds for the quarter ended June 30, 2012, and the net premium/discount by interest rate tier. Our fixed-rate MBS portfolio is somewhat less sensitive than our fixed-rate one- to four-family loan portfolio to repricing risk due to external refinancing barriers such as unemployment, income changes, and decreases in property values, which are generally more pronounced outside of our local market areas. However, we are unable to control the interest rates and/or governmental programs that could impact the loans in our fixed-rate MBS portfolio, and are therefore more likely to experience reinvestment risk due to principal prepayments. Additionally, prepayments impact the amortization/accretion of premiums/discounts on our MBS portfolio. As prepayments increase, the related premiums/discounts are amortized/accreted at a faster rate. The amortization of premiums decreases interest income while the accretion of discounts increases interest income. As noted in the table below, the fixed-rate MBS portfolio had a net premium of \$15.6 million as of June 30, 2012. Given that the weighted average coupon on the underlying loans in this portfolio are above current market rates, the Bank could experience an increase in the premium amortization should prepayment speeds increase significantly, potentially reducing future interest income.

| Rate Range                                    | Original Term<br>15 years or less           |                                     | More than 15 years |                                     |              | Total     | Net<br>Premium/<br>(Discount) |
|---|---|-------------------------------------|--------------------|-------------------------------------|--------------|-----------|-------------------------------|
|   | Amortized<br>Cost<br>(Dollars in thousands) | Prepayment<br>Speed<br>(annualized) | Amortized<br>Cost  | Prepayment<br>Speed<br>(annualized) |              |           |                               |
| < =3.50%                                      | \$ 381,395                                  | 5.44 %                              | \$ --              | -- %                                | \$ 381,395   | \$ 6,941  |                               |
| 3.51 - 3.99%                                  | 605,035                                     | 14.92                               | 46,605             | 10.54                               | 651,640      | 5,429     |                               |
| 4.00 - 4.50%                                  | 163,400                                     | 20.67                               | 46,106             | 7.74                                | 209,506      | 3,375     |                               |
| 4.51 - 4.99%                                  | 161,122                                     | 21.15                               | 5,178              | 19.40                               | 166,300      | (276)     |                               |
| 5.00 - 5.50%                                  | 87,186                                      | 24.56                               | 6,374              | 28.49                               | 93,560       | (32)      |                               |
| 5.51 - 5.99%                                  | 57,414                                      | 22.73                               | 31,850             | 34.06                               | 89,264       | 18        |                               |
| >=6.00%                                       | 10,964                                      | 33.13                               | 27,568             | 22.52                               | 38,532       | 166       |                               |
|   | \$ 1,466,516                                | 14.79 %                             | \$ 163,681         | 17.32 %                             | \$ 1,630,197 | \$ 15,621 |                               |
| Average rate                                  | 3.97 %                                      |                                     | 4.88 %             |                                     | 4.06 %       |           |                               |
| Average remaining<br>contractual term (years) | 11.3  |                                     | 18.0               |                                     | 11.9         |           |                               |

Investment Securities. Investment securities, which consist of U.S. GSE debentures (primarily issued by FNMA, FHLMC, or FHLB) and municipal investments, decreased \$248.9 million, from \$1.44 billion at September 30, 2011 to \$1.20 billion at June 30, 2012. The decrease in the portfolio was due primarily to the maturity of \$240.0 million of securities at the holding company. The cash flow from the maturities of this portfolio was used to repurchase Company stock or were retained in a deposit account at the Bank. The following tables provide a summary of the activity of investment securities for the periods presented. The yields for the beginning balances are as of the last day of the period previous to the period presented and the yield for the ending balances are as of the last day of the period presented. The increase in the yield at June 30, 2012 compared to September 30, 2011 was primarily due to the maturity of securities held at the holding company level, which had yields lower than the overall portfolio yield.

The beginning and ending WALs represent the estimated remaining maturity (in years) of the securities after projected call dates have been considered, based upon market rates at each date presented. The WAL at June 30, 2012 decreased slightly from September 30, 2011, due primarily to a decrease in market interest rates between the two periods as well as to the general aging of the portfolio, partially offset by called and matured securities with WALs less than the existing portfolio.

|            | For the Three Months Ended |        |     |                |        |     |                   |        |     |                    |       |     |
|------------|----------------------------|--------|-----|----------------|--------|-----|-------------------|--------|-----|--------------------|-------|-----|
|            | June 30, 2012              |        |     | March 31, 2012 |        |     | December 31, 2011 |        |     | September 30, 2011 |       |     |
|            | Amount                     | Yield  | WAL | Amount         | Yield  | WAL | Amount            | Yield  | WAL | Amount             | Yield | WAL |
|            | (Dollars in thousands)     |        |     |                |        |     |                   |        |     |                    |       |     |
| Balance -  | \$ 1,253,937               | 1.22 % | 1.5 | \$ 1,294,462   | 1.25 % | 1.0 | \$ 1,444,480      | 1.17 % | 1.0 | \$ 1,621,161       | 1.16  |     |
| and calls  | (112,150)                  |        |     | (328,306)      |        |     | (424,991)         |        |     | (486,853)          |       |     |
| tion of    | (553)                      |        |     | (663)          |        |     | (558)             |        |     | (1,385)            |       |     |
| discounts) |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            | 52,141                     | 0.98   | 3.0 | 290,015        | 1.00   | 3.4 | 273,955           | 1.29   | 2.2 | 310,338            | 1.21  |     |
| valuation  |                            |        |     | (1,571)        |        |     | 1,576             |        |     | 1,219              |       |     |
| securities | 2,214                      |        |     |                |        |     |                   |        |     |                    |       |     |
| Balance -  | \$ 1,195,589               | 1.23 % | 0.9 | \$ 1,253,937   | 1.22 % | 1.5 | \$ 1,294,462      | 1.25 % | 1.0 | \$ 1,444,480       | 1.17  |     |
| and calls  |                            |        |     |                |        |     |                   |        |     |                    |       |     |
| tion of    |                            |        |     |                |        |     |                   |        |     |                    |       |     |
| discounts) |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
| valuation  |                            |        |     |                |        |     |                   |        |     |                    |       |     |
| securities |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |
|            |                            |        |     |                |        |     |                   |        |     |                    |       |     |

|            | For the Nine Months Ended |        |     |               |        |     |
|------------|---------------------------|--------|-----|---------------|--------|-----|
|            | June 30, 2012             |        |     | June 30, 2011 |        |     |
|            | Amount                    | Yield  | WAL | Amount        | Yield  | WAL |
|            | (Dollars in thousands)    |        |     |               |        |     |
| Balance -  | \$ 1,444,480              | 1.17 % | 1.0 | \$ 1,332,656  | 1.47 % | 0.8 |
| and calls  | (865,447)                 |        |     | (870,430)     |        |     |
| tion of    | (1,774)                   |        |     | (3,445)       |        |     |
| discounts) |                           |        |     |               |        |     |
|            | 616,111                   | 1.13   | 2.8 | 1,161,799     | 1.09   | 1.5 |
| valuation  |                           |        |     |               |        |     |
| securities | 2,219                     |        |     | 581           |        |     |

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\$ 1,195,589 1.23 % 0.9      \$ 1,621,161 1.16 % 1.1

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Liabilities. Total liabilities increased \$76.5 million, from \$7.51 billion at September 30, 2011 to \$7.59 billion at June 30, 2012. The increase in total liabilities was due primarily to a \$97.3 million increase in the deposit portfolio, led by a \$55.8 million increase in the checking portfolio and a \$32.9 million increase in the money market portfolio. During the first quarter of fiscal year 2012, a \$150.0 million repurchase agreement matured and was replaced with a \$150.0 million fixed-rate FHLB advance, which accounts for the majority of the balance changes in both portfolios during the fiscal year. Subsequent to June 30, 2012, a \$100.0 million FHLB advance matured and was renewed for a term of four years at a fixed-rate of 0.83%.

Deposits – Deposits increased \$97.3 million between September 30, 2011 and June 30, 2012, due to growth primarily in the checking and money market portfolios. The checking portfolio increased \$55.8 million from \$551.6 million at September 30, 2011 to \$607.4 million at June 30, 2012. The increase in our checking portfolio was due to customers keeping more cash readily available, as reflected by a 10.1% increase in the average customer checking account balance between period ends. The money market portfolio increased \$32.9 million from \$1.07 billion at September 30, 2011 to \$1.10 billion at June 30, 2012. If interest rates were to rise, it is possible that our money market and checking account customers may move those funds to higher-yielding deposit products within the Bank or withdraw their funds to invest in higher yielding investments outside of the Bank.

The following table presents the amount, average rate and percentage of total deposits for checking, savings, money market and certificates (including public units and brokered deposits) at the dates presented.

|                                | June 30, 2012          |              |            | March 31, 2012 |              |            | September 30, 2011 |              |            | June 30, 2011 |              |            |
|--------------------------------|------------------------|--------------|------------|----------------|--------------|------------|--------------------|--------------|------------|---------------|--------------|------------|
|                                | Amount                 | Average Rate | % of Total | Amount         | Average Rate | % of Total | Amount             | Average Rate | % of Total | Amount        | Average Rate | % of Total |
|                                | (Dollars in thousands) |              |            |                |              |            |                    |              |            |               |              |            |
| Checking                       | \$ 607,391             | 0.08         | 13.2       | \$ 622,216     | 0.08         | 13.4       | \$ 551,632         | 0.08         | 12.3       | \$ 42,855     | 0.08         | 11.9       |
| Savings                        | 263,247                | 0.14         | 5.7        | 264,586        | 0.15         | 5.7        | 253,184            | 0.41         | 5.6        | 254,921       | 0.48         | 5.6        |
| Money market                   | 1,098,930              | 3.30         | 24.0       | 1,111,890      | 3.30         | 23.9       | 1,066,060          | 3.35         | 23.7       | 1,054,530     | 3.49         | 23.1       |
| Retail certificates of deposit | 2,347,195              | 5.56         | 51.1       | 2,390,347      | 7.66         | 51.3       | 2,434,187          | 7.91         | 54.2       | 2,505,458     | 8.07         | 55.0       |
| Public units/brokered deposits | 275,673                | 0.97         | 6.0        | 267,963        | 0.98         | 5.7        | 190,105            | 1.31         | 4.2        | 200,805       | 1.26         | 4.4        |
|                                | \$ 4,592,430           | 7.95         | 100.0      | \$ 4,657,010   | 1.00         | 100.0      | \$ 4,495,173       | 3.21         | 100.0      | \$ 4,558,574  | 4.35         | 100.0      |

At June 30, 2012, \$83.7 million of certificates were brokered deposits, unchanged from September 30, 2011. The \$83.7 million of brokered deposits at June 30, 2012 had a weighted average rate of 2.58% and a remaining term to maturity of 2.1 years. The Bank monitors the cost of brokered deposits and considers them as a potential source of funding, provided that investment opportunities are balanced with the funding cost. As of June 30, 2012, \$192.0

million of certificates were public unit deposits, compared to \$106.4 million in public unit deposits at September 30, 2011. The \$192.0 million of public unit deposits at June 30, 2012 had a weighted average rate of 0.27% and an average remaining term to maturity of six months. Management will continue to monitor the wholesale deposit market for attractive opportunities relative to the use of proceeds for investments.

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The following tables set forth scheduled maturity information for our certificate of deposit portfolio (including public units and brokered deposits) at June 30, 2012.

|  | Amount Due                               |                             |                              |                   |              | Total |
|--|--|-----------------------------|------------------------------|-------------------|--------------|-------|
|  | 1 year or less<br>(Dollars in thousands) | More than 1 year to 2 years | More than 2 years to 3 years | More than 3 years |              |       |
| 0.00 – 0.99%   | \$ 684,708                               | \$ 190,148                  | \$ 17,165                    | \$ 5,000          | \$ 897,021   |       |
| 1.00 – 1.99%   | 350,212                                  | 97,979                      | 215,087                      | 234,584           | 897,862      |       |
| 2.00 – 2.99%   | 124,493                                  | 209,881                     | 265,516                      | 108,028           | 707,918      |       |
| 3.00 – 3.99%   | 75,869                                   | 12,110                      | 18,767                       | 520               | 107,266      |       |
| 4.00 – 4.99%   | 11,932                                   | 460                         | 238                          | 171               | 12,801       |       |
|  | \$ 1,247,214                             | \$ 510,578                  | \$ 516,773                   | \$ 348,303        | \$ 2,622,868 |       |
| Weighted average rate  | 1.10                                     | % 1.68                      | % 2.01                       | % 1.91            | % 1.50       | %     |
| Weighted average maturity (in years)   | 0.5                                      | 1.4                         | 2.5                          | 3.8               | 1.5          |       |
| Weighted average maturity for the retail certificate of deposit portfolio (in years) |  |                             |                              |                   | 1.5          |       |

|   | Maturity                                   |                    |                     |                | Total        |
|---|--|--------------------|---------------------|----------------|--------------|
|   | 3 months or less<br>(Dollars in thousands) | Over 3 to 6 months | Over 6 to 12 months | Over 12 months |              |
| Retail certificates of deposit less than \$100,000  | \$ 216,782                                 | \$ 196,584         | \$ 368,481          | \$ 882,515     | \$ 1,664,362 |
| Retail certificates of deposit of \$100,000 or more | 91,110                                     | 68,444             | 124,900             | 398,379        | 682,833      |
| Public units/brokered deposits less than \$100,000  | --   | --                 | 20,058              | 63,647         | 83,705       |
| Public units of \$100,000 or more                   | 100,771                                    | 38,042             | 22,042              | 31,113         | 191,968      |
| Total certificates of deposit                       | \$ 408,663                                 | \$ 303,070         | \$ 535,481          | \$ 1,375,654   | \$ 2,622,868 |



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

|                             | For the Three Months Ended |                  |        |                | March 31, 2012 |                  |        |                | December 31, 2011 |                  |      |                |
|-----------------------------|----------------------------|------------------|--------|----------------|----------------|------------------|--------|----------------|-------------------|------------------|------|----------------|
|                             | June 30, 2012              |                  | WAM    | Effective Rate | March 31, 2012 |                  | WAM    | Effective Rate | December 31, 2011 |                  | WAM  | Effective Rate |
|                             | Amount                     | Contractual Rate |        |                | Amount         | Contractual Rate |        |                | Amount            | Contractual Rate |      |                |
| Beginning principal balance | \$ 2,915,000               | 2.89 %           | 3.25 % | 3.1            | \$ 2,915,000   | 3.19 %           | 3.47 % | 3.0            | \$ 2,915,000      | 3.48 %           | 3.0  |                |
| Maturities and prepayments: |                            |                  |        |                |                |                  |        |                |                   |                  |      |                |
| FHLB advances               | --                         | --               | --     | --             | (350,000)      | 3.22             | 3.22   | --             | (100,000)         | 3.94             | 3.94 |                |
| Repurchase agreements       | --                         | --               | --     | --             | --             | --               | --     | --             | (150,000)         | 4.41             | 4.41 |                |
| New borrowings:             |                            |                  |        |                |                |                  |        |                |                   |                  |      |                |
| FHLB advances               | --                         | --               | --     | --             | 350,000        | 0.76             | 1.37   | 3.3            | 250,000           | 0.84             | 0.84 |                |
| Ending principal balance    | \$ 2,915,000               | 2.89 %           | 3.25 % | 2.8            | \$ 2,915,000   | 2.89 %           | 3.25 % | 3.1            | \$ 2,915,000      | 3.19 %           | 3.1  |                |

|                             | For the Nine Months Ended |                  |        |                | June 30, 2011 |                  |        |                |
|-----------------------------|---------------------------|------------------|--------|----------------|---------------|------------------|--------|----------------|
|                             | June 30, 2012             |                  | WAM    | Effective Rate | June 30, 2011 |                  | WAM    | Effective Rate |
|                             | Amount                    | Contractual Rate |        |                | Amount        | Contractual Rate |        |                |
| Beginning principal balance | \$ 2,915,000              | 3.48 %           | 3.76 % | 3.0            | \$ 2,991,000  | 3.70 %           | 3.98 % | 3.0            |
| Maturities and prepayments: |                           |                  |        |                |               |                  |        |                |
| FHLB advances               | (450,000)                 | 3.38             | 3.38   | --             | (200,000)     | 4.71             | 4.71   | --             |
| Repurchase agreements       | (150,000)                 | 4.41             | 4.41   | --             | (150,000)     | 3.78             | 3.78   | --             |

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|                          |              |        |        |     |              |        |        |     |
|--------------------------|--------------|--------|--------|-----|--------------|--------|--------|-----|
| New borrowings:          |              |        |        |     |              |        |        |     |
| FHLB advances            | 600,000      | 0.79   | 1.15   | 3.2 | 300,000      | 2.82   | 2.82   | 6.9 |
| Repurchase agreements    | --           | --     | --     | --  | 100,000      | 3.35   | 3.35   | 7.0 |
| Ending principal balance | \$ 2,915,000 | 2.89 % | 3.25 % | 2.8 | \$ 3,041,000 | 3.53 % | 3.80 % | 3.1 |

The following table presents the maturity of FHLB advances, at par, and repurchase agreements as of June 30, 2012. The balance of FHLB advances excludes the deferred gain on the terminated interest rate swaps and the deferred prepayment penalty. Management will continue to monitor the Bank's investment opportunities and balance those opportunities with the cost of FHLB advances and other funding sources.

| Maturity by Fiscal year | FHLB Advances Amount | Repurchase Agreements Amount | Weighted Average Contractual Rate | Weighted Average Effective Rate <sup>(1)</sup> |
|-------------------------|----------------------|------------------------------|-----------------------------------|--|
| (Dollars in thousands)  |                      |                              |                                   |  |
| 2012                    | \$ 100,000           | \$ --                        | 4.27 %                            | 4.27 %   |
| 2013                    | 325,000              | 145,000                      | 3.68                              | 4.06   |
| 2014                    | 450,000              | 100,000                      | 3.33                              | 3.96   |
| 2015                    | 600,000              | 20,000                       | 1.73                              | 1.97   |
| 2016                    | 475,000              | --                           | 2.60                              | 3.35   |
| 2017                    | 400,000              | --                           | 3.17                              | 3.21   |
| 2018                    | 200,000              | 100,000                      | 2.90                              | 2.90   |
|                         | \$ 2,550,000         | \$ 365,000                   | 2.89 %                            | 3.25 %   |

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

The following table presents the maturity of FHLB advances and repurchase agreements for the next four quarters as of June 30, 2012.

| Maturity by Quarter End | Amount (Dollars in thousands) | Weighted Average Contractual Rate |
|-------------------------|-------------------------------|-----------------------------------|
| September 30, 2012      | \$ 100,000                    | 4.27 %                            |
| December 31, 2012       | 100,000                       | 3.06                              |
| March 31, 2013          | 50,000                        | 3.48                              |
| June 30, 2013           | 250,000                       | 3.81                              |

\$ 500,000 3.72 %

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Stockholders' Equity. Stockholders' equity decreased \$106.7 million, from \$1.94 billion at September 30, 2011 to \$1.83 billion at June 30, 2012. The decrease was due primarily to the repurchase of 9,658,309 shares of common stock for \$113.7 million and to dividends paid of \$52.4 million, partially offset by net income of \$56.8 million.

The \$52.4 million of dividend payments consisted of three quarterly dividends totaling \$36.2 million and a special dividend of \$16.2 million related to fiscal year 2011 earnings, per the Company's dividend policy. Dividend payments depend upon a number of factors including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company. On July 20, 2012, the Company declared a quarterly cash dividend of \$0.075 per share, which will equate to approximately \$11.4 million, payable on August 17, 2012.

In December 2011, the Company announced that the Board of Directors authorized the repurchase of up to \$193.0 million of the Company's common stock. The Company began repurchasing common stock during the prior quarter and had repurchased 2,199,100 shares at an average price of \$11.85 per share through March 31, 2012. During the quarter ended June 30, 2012, the Company repurchased 7,459,209 shares at an average price of \$11.75 per share. Subsequent to June 30, 2012, the Company repurchased 610,712 shares at an average price of \$11.91 per share, bringing the total number of shares repurchased during fiscal year 2012 to 10,269,021 with an average price paid of \$11.78 per share, or \$121.0 million in total.

During the current quarter, there were grants of stock options and restricted stock under the 2012 Equity Incentive Plan. The following table presents the future compensation expense expected to be recognized during each fiscal year presented as a result of grants during the current quarter.

| Fiscal Year | Stock<br>Options       | Restricted<br>Stock | Total    |
|-------------|------------------------|---------------------|----------|
|             | (Dollars in thousands) |                     |          |
| 2012        | \$ 290                 | \$ 744              | \$ 1,034 |
| 2013        | 505                    | 1,223               | 1,728    |
| 2014        | 431                    | 1,038               | 1,469    |
| 2015        | 431                    | 1,038               | 1,469    |
| 2016        | 121                    | 290                 | 411      |
|             | \$ 1,778               | \$ 4,333            | \$ 6,111 |

The following table presents quarterly dividends paid in calendar years 2012, 2011, and 2010. For the quarter ended September 30, 2012, the table below does not present the actual dividend payout, but rather management's estimate of the dividend payout as of July 31, 2012.

|                                      | Calendar Year          |            |           |
|--------------------------------------|------------------------|------------|-----------|
|                                      | 2012                   | 2011       | 2010      |
|                                      | (Dollars in thousands) |            |           |
| Quarter ended March 31               |                        |            |           |
| Total dividends paid                 | \$ 12,145              | \$ 12,105  | \$ 10,739 |
| Quarter ended June 30                |                        |            |           |
| Total dividends paid                 | 11,883                 | 12,105     | 10,496    |
| Quarter ended September 30           |                        |            |           |
| Total dividends paid                 | 11,402                 | 12,106     | 10,496    |
| Quarter ended December 31            |                        |            |           |
| Total dividends paid                 |                        | 12,145     | 10,597    |
| Welcome dividend                     |                        |            |           |
| Total dividends paid                 |                        | 96,838     | --        |
| Special year-end dividend            |                        |            |           |
| Total dividends paid                 |                        | 16,193     | 6,359     |
| Calendar year-to-date dividends paid | \$ 35,430              | \$ 161,492 | \$ 48,687 |



## Operating Results

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

|  | For the Three Months Ended                    |                      |                         |                          |                  |
|--|---|----------------------|-------------------------|--------------------------|------------------|
|  | June 30,<br>2012                              | March<br>31,<br>2012 | December<br>31,<br>2011 | September<br>30,<br>2011 | June 30,<br>2011 |
|  | (Dollars in thousands, except per share data) |                      |                         |                          |                  |
| Interest and dividend income:                              |   |                      |                         |                          |                  |
| Loans receivable   | \$ 57,547                                     | \$ 59,785            | \$ 60,675               | \$ 62,019                | \$ 62,393        |
| MBS  | 18,144  | 18,169               | 18,373                  | 18,953                   | 19,619           |
| Investment securities                                      | 3,783   | 4,115                | 4,637                   | 4,456                    | 5,103            |
| Other interest and dividend income                         | 1,171   | 1,205                | 1,142                   | 1,166                    | 968              |
| Total interest and dividend income                         | 80,645  | 83,274               | 84,827                  | 86,594                   | 88,083           |
| Interest expense:  |   |                      |                         |                          |                  |
| FHLB advances  | 19,859  | 20,443               | 22,339                  | 22,660                   | 22,539           |
| Deposits   | 11,068  | 11,835               | 12,787                  | 14,602                   | 15,516           |
| Other borrowings   | 3,530   | 3,530                | 4,327                   | 5,467                    | 5,720            |
| Total interest expense                                     | 34,457  | 35,808               | 39,453                  | 42,729                   | 43,775           |
| Provision for credit losses                                | --  | 1,500                | 540                     | 1,650                    | 1,240            |
| Net interest income<br>(after provision for credit losses) | 46,188  | 45,966               | 44,834                  | 42,215                   | 43,068           |
| Other income   | 6,080   | 6,172                | 6,152                   | 6,434                    | 6,100            |
| Other expenses   | 22,905  | 21,969               | 22,067                  | 23,022                   | 23,102           |
| Income tax expense   | 10,690  | 10,854               | 10,130                  | 8,861                    | 8,807            |
| Net income   | \$ 18,673                                     | \$ 19,315            | \$ 18,789               | \$ 16,766                | \$ 17,259        |
| Efficiency ratio   | 43.82 %                                       | 40.96 %              | 42.83 %                 | 45.77 %                  | 45.83 %          |
| Basic earnings per share                                   | \$ 0.12                                       | \$ 0.12              | \$ 0.12                 | \$ 0.10                  | \$ 0.10          |
| Diluted earnings per share                                 | 0.12  | 0.12                 | 0.12                    | 0.10                     | 0.10             |

Comparison of Operating Results for the Nine Months Ended June 30, 2012 and 2011

Net income for the nine months ended June 30, 2012 was \$56.8 million, compared to \$21.6 million for the nine months ended June 30, 2011. The \$35.2 million increase for the current year was due primarily to the \$40.0 million (\$26.0 million, net of income tax benefit) contribution to the Foundation in connection with the corporate reorganization. Additionally, net interest income increased \$14.1 million, or 11.3%, from \$124.9 million for the prior year nine month period to \$139.0 million for the current year nine month period. The increase in net interest income was due primarily to a decrease in interest expense of \$25.7 million, or 19.0%, partially offset by a decrease in interest income of \$11.6 million, or 4.4%.

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## Non-GAAP Presentation

The following table presents selected financial results and performance ratios for the Company for the nine months ended June 30, 2012 and 2011. Because of the magnitude and non-recurring nature of the \$40.0 million contribution to the Foundation in connection with the corporate reorganization, management believes it is important for comparability purposes to present selected financial results and performance ratios excluding the contribution to the Foundation. The adjusted financial results and ratios for the nine months ended June 30, 2011 are not presented in accordance with GAAP.

|                                       | For the Nine Months Ended |   |                               |                                       |
|---------------------------------------|---------------------------|---|-------------------------------|---------------------------------------|
|                                       | June 30,<br>2012          | June 30, 2011                                 |                               | Adjusted <sup>(1)</sup><br>(Non-GAAP) |
|                                       |                           | Actual<br>(GAAP)                              | Contribution<br>to Foundation |                                       |
|                                       |                           | (Dollars in thousands, except per share data) |                               |                                       |
| Net income (loss)                     | \$ 56,777                 | \$ 21,637                                     | \$ (26,000)                   | \$ 47,637                             |
| Operating expenses                    | 66,941                    | 109,295                                       | 40,000                        | 69,295                                |
| Basic earnings (loss) per share       | 0.35                      | 0.13  | (0.16)                        | 0.29                                  |
| Diluted earnings (loss) per share     | 0.35                      | 0.13  | (0.16)                        | 0.29                                  |
| Return on average assets (annualized) | 0.80 %                    | 0.31 %  | (0.37) %                      | 0.68 %                                |
| Return on average equity (annualized) | 3.94                      | 1.72  | (2.07)                        | 3.79                                  |
| Operating expense ratio               | 0.95                      | 1.55  | 0.57                          | 0.98                                  |
| Efficiency ratio                      | 42.52 %                   | 76.20 %                                       | 27.89 %                       | 48.31 %                               |

<sup>(1)</sup>The adjusted financial results and ratios are not presented in accordance with GAAP as the amounts and ratios exclude the effect of the contribution to the Foundation, net of income tax benefit. The contribution to the Foundation of \$26.0 million takes into account the \$14.0 million of income tax benefit associated with the \$40.0 million contribution.

## Interest and Dividend Income

Total interest and dividend income for the current nine month period was \$248.7 million compared to \$260.3 million for the prior year nine month period. The \$11.6 million, or 4.4%, decrease was primarily a result of a decrease in interest income on loans receivable of \$11.9 million.

Interest income on loans receivable was \$178.0 million for the current nine month period, compared to \$189.9 for the prior year nine month period. The \$11.9 million, or 6.3%, decrease in interest income on loans receivable was the result of a 38 basis point decrease in the average yield to 4.55% for the current nine month period, slightly offset by an

increase of \$76.8 million in the average balance of the portfolio. The decrease in the weighted average yield was due to a significant amount of loan endorsements and refinances at current market rates, along with originations and purchases at current market rates, which were lower than the average yield of the existing loan portfolio. The increase in the average balance of the portfolio was due to originations and purchases exceeding principal repayments.

Interest income on MBS was \$54.7 million for the current nine month period, compared to \$52.4 million for the prior year nine month period. The \$2.3 million increase in interest income on MBS was a result of a \$510.8 million increase in the average balance of the portfolio, partially offset by a decrease of 62 basis points in the weighted average yield to 2.96% for the current nine month period. The increase in the average balance was a result of purchases funded primarily by the proceeds from the corporate reorganization and partially from cash flows from the investment securities portfolio. The weighted average yield decreased between the two periods due to the purchase of MBS at market rates which were at a lower average yield than the existing portfolio between the two periods.

Interest income on investment securities was \$12.5 million for the current nine month period, compared to \$14.6 million for the prior year nine month period. The \$2.1 million decrease was due to a decrease in the average balance of \$285.3 million, partially offset by an increase in the weighted average yield of five basis points to 1.29% for the current nine month period. The decrease in the average balance was due to maturities and calls not being replaced in their entirety; the cash flows were instead used to fund MBS purchases and repurchase common stock. Since June 30, 2011, \$280.0 million of investment securities at the holding company with a weighted average yield of 0.32% matured and were not replaced. Instead, proceeds from the matured investment securities at the holding company level were used to repurchase common stock or were retained in a deposit account at the Bank. The increase in the weighted average yield between the two periods was due primarily to securities that matured having yields less than the existing portfolio.

## Interest Expense

Interest expense decreased \$25.7 million, or 19.0%, to \$109.7 million for the current nine month period, from \$135.4 million for the prior year period. The decrease in interest expense was due to a decrease in interest expense on deposits of \$13.3 million, or 27.1%, other borrowings of \$7.4 million, or 39.4%, and FHLB advances of \$5.0 million, or 7.4%.

Interest expense on deposits decreased \$13.3 million to \$35.7 million for the current nine month period, from \$49.0 million for the prior year nine month period due primarily to a 42 basis point decrease in the average rate paid on the certificate of deposit portfolio to 1.65% as the portfolio continued to reprice to lower market rates, as well as a \$195.8 million decrease in the average balance of the portfolio. The decrease in the average balance was due primarily to a decrease in certificates with original term-to-maturity of 18 to 35 months, as well as the maturity and payout of one retail certificate of deposit related to a legal settlement to which the Bank was not a party. The decreases were partially offset by an increase in certificates with original term-to-maturity of 36 months or greater. Additionally, the average rate paid on all of our other categories of deposits decreased as well. The average rate paid on our money market portfolio decreased 22 basis points to an average rate of 0.33% for the current nine month period, and the savings portfolio decreased 35 basis points to an average rate of 0.17% for the current nine month period.

Interest expense on FHLB advances decreased \$5.0 million to \$62.6 million for the current nine month period, from \$67.6 million for the prior year nine month period due to a decrease of 45 basis points in the average rate paid, from 3.80% for the prior year nine month period to 3.35% for the current nine month period. The decrease in the average rate paid was due primarily to advances that were renewed/prepaid between the two period ends. The decrease in interest expense was partially offset by an increase of \$122.9 million in the average balance of FHLB advances as some maturing repurchase agreements were replaced with advances as the rates on the advances were more favorable than comparable repurchase agreements. Additionally, \$76.0 million of advances with a weighted average contractual rate of 5.31% matured and were not renewed.

Interest expense on other borrowings decreased \$7.4 million to \$11.4 million for the current nine month period, from \$18.8 million for the prior year nine month period due primarily to a \$245.4 million decrease in the average balance. The decrease in the average balance was due primarily to \$200.0 million of repurchase agreements maturing between periods, some of which were replaced with FHLB advances, and \$50.0 million of which was not replaced.

## Net Interest Margin

The net interest margin, which is calculated as the difference between interest income and interest expense divided by average interest-earning assets, increased 19 basis points, to 2.01% for the current nine month period. The increase was largely due to the decrease in interest expense on the certificate of deposit portfolio, FHLB advances, and other borrowings, partially offset by a decrease in interest income on loans receivable.



### Provision for Credit Losses

The Bank recorded a provision for credit losses of \$2.4 million in the prior year nine month period, compared to a provision for credit losses of \$2.0 million in the current nine month period. The provision for credit loss amount in the current nine month period was composed of the replenishment of ACL for \$1.0 million of charge-offs, primarily on bulk purchased loans, while the remaining \$1.0 million was primarily related to the increase in and/or establishment of ACL on new delinquent and classified loans and adjustments to the formula analysis model in the first quarter of the current fiscal year.

### Other Expense

Total other expenses for the current nine month period were \$66.9 million, compared to \$109.3 million in the prior year nine month period. The \$42.4 million, or 38.8%, decrease was due primarily to a \$40.0 million cash contribution to the Foundation in connection with the corporate reorganization in December 2010. Other expenses, net decreased \$1.4 million, or 13.6%, primarily due to an impairment and valuation allowance taken on the mortgage-servicing rights asset in the prior year nine month period and a decrease in expenses related to OREO operations, net. Expenses related to OREO operations, net in the current nine month period was \$2.3 million compared to \$2.6 million in the prior year nine month period. Over the past 12 months, OREO properties were owned by the Bank, on average, for approximately six months before they were sold.

In February 2011, the Federal Deposit Insurance Corporation adopted a new assessment structure for insured institutions effective April 2011. One of the significant changes includes using average total Bank consolidated assets minus average tangible equity for the assessment base instead of average deposits and secured liabilities for the period. As a result of the change, the deposit insurance assessment is anticipated to decrease by approximately \$800 thousand for fiscal year 2012, as compared to fiscal year 2011.

### Income Tax Expense

Income tax expense for the current nine month period was \$31.7 million compared to \$10.1 million in the prior year nine month period. The increase in income tax expense between the periods was primarily a result of the \$40.0 million contribution to the Foundation in the prior year nine month period, which resulted in \$14.0 million of income tax benefit, along with overall higher pretax

income in the current period. The effective tax rate for the current nine month period was 35.8% compared to 31.8% in the prior year nine month period. The difference in the effective tax rate between periods was due primarily to a \$686 thousand tax return to tax provision adjustment in the prior year nine month period. Excluding that adjustment, the effective income tax rate would have been 34.0% for the prior year nine month period. Additionally, the effective tax rate in the prior year nine month period included higher deductible expenses that were associated with the ESOP, due to the new ESOP loan and the \$0.60 per share welcome dividend paid in March 2011.

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## Average Balance Sheet

The following table presents the average balances of our assets, liabilities and stockholders' equity and the related annualized yields and rates on our interest-earning assets and interest-bearing liabilities for the periods indicated and the weighted average yield/rate on our interest-earning assets and interest-bearing liabilities at June 30, 2012. Average yields are derived by dividing annualized income by the average balance of the related assets and average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The yields and rates include amortization of fees, costs, premiums and discounts which are considered adjustments to yields/rates. Yields on tax-exempt securities were not calculated on a tax-equivalent basis.

|   | At               | For the Nine Months Ended         |                             |                |                                   |                             |                |
|---|------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|   | June 30,<br>2012 | June 30, 2012                     |                             |                | June 30, 2011                     |                             |                |
|   | Yield/<br>Rate   | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
| (Dollars in thousands)                          |                  |                                   |                             |                |                                   |                             |                |
| <b>Assets:</b>                                  |                  |                                   |                             |                |                                   |                             |                |
| <b>Interest-earning assets:</b>                 |                  |                                   |                             |                |                                   |                             |                |
| Loans receivable <sup>(1)</sup>                 | 4.38%            | \$ 5,215,165                      | \$ 178,007                  | 4.55 %         | \$ 5,138,334                      | \$ 189,890                  | 4.93 %         |
| MBS <sup>(2)</sup>                              | 2.86             | 2,460,912                         | 54,686                      | 2.96           | 1,950,105                         | 52,379                      | 3.58           |
| Investment securities <sup>(2)(3)</sup>         | 1.23             | 1,292,582                         | 12,535                      | 1.29           | 1,577,914                         | 14,621                      | 1.24           |
| Capital stock of FHLB                           | 3.43             | 128,859                           | 3,313                       | 3.43           | 123,146                           | 2,710                       | 2.94           |
| Cash and cash equivalents                       | 0.25             | 110,519                           | 205                         | 0.25           | 364,195                           | 671                         | 0.25           |
| Total interest-earning assets <sup>(1)(2)</sup> | 3.48             | 9,208,037                         | 248,746                     | 3.60           | 9,153,694                         | 260,271                     | 3.79           |
| Other noninterest-earning assets                |                  | 234,735                           |                             |                | 234,079                           |                             |                |
| Total assets                                    |                  | \$ 9,442,772                      |                             |                | \$ 9,387,773                      |                             |                |
| <b>Liabilities and stockholders' equity:</b>    |                  |                                   |                             |                |                                   |                             |                |
| <b>Interest-bearing liabilities:</b>            |                  |                                   |                             |                |                                   |                             |                |
| Checking  | 0.08%            | \$ 562,619                        | \$ 331                      | 0.08 %         | \$ 514,396                        | \$ 330                      | 0.09 %         |
| Savings   | 0.14             | 257,462                           | 331                         | 0.17           | 243,122                           | 943                         | 0.52           |
| Money market                                    | 0.30             | 1,091,602                         | 2,675                       | 0.33           | 1,011,416                         | 4,196                       | 0.55           |
| Certificates                                    | 1.50             | 2,615,323                         | 32,353                      | 1.65           | 2,811,165                         | 43,497                      | 2.07           |
| Total deposits                                  | 0.95             | 4,527,006                         | 35,690                      | 1.05           | 4,580,099                         | 48,966                      | 1.43           |
| FHLB advances <sup>(4)</sup>                    | 3.17             | 2,499,915                         | 62,641                      | 3.35           | 2,377,063                         | 67,638                      | 3.80           |
| Repurchase agreements                           | 3.83             | 388,175                           | 11,387                      | 3.85           | 596,685                           | 17,943                      | 3.97           |
| Other borrowings                                | --               | --                                | --                          | --             | 36,917                            | 855                         | 3.05           |
| Total borrowings                                | 3.25             | 2,888,090                         | 74,028                      | 3.42           | 3,010,665                         | 86,436                      | 3.83           |
| Total interest-bearing liabilities              | 1.83             | 7,415,096                         | 109,718                     | 1.97           | 7,590,764                         | 135,402                     | 2.38           |
| Other noninterest-bearing liabilities           |                  | 107,572                           |                             |                | 120,361                           |                             |                |

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|   |              |              |
|---|--------------|--------------|
| Stockholders' equity                          | 1,920,104    | 1,676,648    |
| Total liabilities<br>and stockholders' equity | \$ 9,442,772 | \$ 9,387,773 |

(Continued)

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|  | At<br>June 30,<br>2012 | For the Nine Months Ended         |                             |                |                                   |                             |                |
|--|------------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|  |                        | June 30, 2012                     |                             |                | June 30, 2011                     |                             |                |
|  | Yield/<br>Rate         | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
|  |                        | (Dollars in thousands)            |                             |                |                                   |                             |                |
| Net interest income <sup>(5)</sup>                                     |                        |                                   | \$ 139,028                  |                |                                   | \$ 124,869                  |                |
| Net interest rate spread <sup>(6)</sup>                                | 1.65%                  |                                   |                             | 1.63 %         |                                   |                             | 1.41 %         |
| Net interest-earning assets  |                        | \$ 1,792,941                      |                             |                | \$ 1,562,930                      |                             |                |
| Net interest margin <sup>(7)</sup>                                     |                        |                                   |                             | 2.01           |                                   |                             | 1.82           |
| Ratio of interest-earning<br>assets<br>to interest-bearing liabilities |                        |                                   |                             | 1.24           |                                   |                             | 1.21           |
| Selected performance ratios:   |                        |                                   |                             |                |                                   |                             |                |
| Return on average assets<br>(annualized)                               |                        |                                   |                             | 0.80 %         |                                   |                             | 0.31 %         |
| Return on average equity<br>(annualized)                               |                        |                                   |                             | 3.94           |                                   |                             | 1.72           |
| Average equity to average<br>assets                                    |                        |                                   |                             | 20.33          |                                   |                             | 17.86          |
| Operating expense ratio  |                        |                                   |                             | 0.95           |                                   |                             | 1.55           |
| Efficiency ratio   |                        |                                   |                             | 42.52          |                                   |                             | 76.20          |

(Concluded)

<sup>(1)</sup>Calculated net of unearned loan fees and deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.

<sup>(2)</sup>MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.

<sup>(3)</sup>The average balance of investment securities includes an average balance of nontaxable securities of \$55.8 million and \$65.2 million for the nine month periods ended June 30, 2012 and 2011, respectively.

<sup>(4)</sup>FHLB advances are stated net of deferred gains and deferred prepayment penalties.

<sup>(5)</sup>Net interest income represents the difference between interest income earned on interest-earning assets, such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities, such as deposits, FHLB advances, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

<sup>(6)</sup>Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

<sup>(7)</sup>Net interest margin represents net interest income as a percentage of average interest-earning assets.

## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest income and interest expense for the nine months ended June 30, 2012 to the nine months ended June 30, 2011.

For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume and (2) changes in rate.

The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the change in volume and rate.

|                                    | For the Nine Months Ended<br>June 30, 2012 vs. June 30, 2011<br>Increase (Decrease) Due to |             |             |
|------------------------------------|--|-------------|-------------|
|                                    | Volume   | Rate        | Total       |
|                                    | (Dollars in thousands)   |             |             |
| Interest-earning assets:           |  |             |             |
| Loans receivable                   | \$ 2,709   | \$ (14,592) | \$ (11,883) |
| MBS                                | 12,292   | (9,985)     | 2,307       |
| Investment securities              | (2,742)  | 656         | (2,086)     |
| Capital stock of FHLB              | 132  | 471         | 603         |
| Cash and cash equivalents          | (469)  | 3           | (466)       |
| Total interest-earning assets      | 11,922   | (23,447)    | (11,525)    |
| Interest-bearing liabilities:      |  |             |             |
| Checking                           | 30   | (30)        | --          |
| Savings                            | 53   | (665)       | (612)       |
| Money market                       | 312  | (1,832)     | (1,520)     |
| Certificates                       | (2,865)  | (8,279)     | (11,144)    |
| FHLB advances                      | 3,304  | (8,301)     | (4,997)     |
| Other borrowings                   | (6,923)  | (488)       | (7,411)     |
| Total interest-bearing liabilities | (6,089)  | (19,595)    | (25,684)    |
| Net change in net interest income  | \$ 18,011  | \$ (3,852)  | \$ 14,159   |





Comparison of Operating Results for the Quarter Ended June 30, 2012 and 2011

Net income for the quarter ended June 30, 2012 was \$18.7 million, compared to \$17.3 million for the quarter ended June 30, 2011. The \$1.4 million, or 8.2%, increase for the current quarter was due primarily to a \$1.9 million, or 4.2%, increase in net interest income, from \$44.3 million for the prior year quarter to \$46.2 million for the current quarter. The increase in net interest income was due to a decrease in interest expense of \$9.3 million, or 21.3%, partially offset by a decrease in interest income of \$7.4 million, or 8.4%.

Interest and Dividend Income

Total interest and dividend income for the current quarter was \$80.6 million compared to \$88.1 million for the prior year quarter. The \$7.4 million, or 8.4%, decrease was primarily a result of a decrease in interest income on loans receivable of \$4.8 million, or 7.8%, interest income on MBS of \$1.5 million, or 7.5%, and investments securities of \$1.3 million, or 25.9%.

Interest income on loans receivable for the current quarter was \$57.5 million compared to \$62.4 million for the prior year quarter. The \$4.9 million decrease in interest income on loans receivable was the result of a 44 basis point decrease in the average yield to 4.41% for the current year quarter, partially offset by an increase of \$70.8 million in the average balance of the portfolio. The decrease in the weighted average yield was due to a significant amount of loan endorsements and refinances, along with originations and purchases at rates which were lower than the existing loan portfolio. The increase in the average balance of the portfolio was due to originations and purchases exceeding principal repayments.

Interest income on MBS for the current quarter was \$18.1 million compared to \$19.6 million for the prior year quarter. The \$1.5 million decrease in interest income on MBS was a result of a 56 basis point decrease in the average yield to 2.84% for the current quarter, partially offset by an increase of \$244.0 million in the average balance of the portfolio. The weighted average yield decreased between the two periods due to purchases of MBS at market rates with lower average yields than the existing portfolio between the two periods, repayments of MBS with yields higher than the average yield of the remaining portfolio, and adjustable-rate securities repricing to lower market rates. The increase in the average balance was a result of purchases funded by proceeds from calls and maturities from the investment securities portfolio and growth in deposits.

Interest income on investment securities for the current quarter was \$3.8 million compared to \$5.1 million for the prior year quarter. The \$1.3 million decrease in interest income on investment securities was due to a \$519.2 million decrease in the average balance of the portfolio, partially offset by an increase of six basis points in the weighted average yield to 1.23% for the current quarter. The decrease in the average balance was due to calls and maturities of securities, including \$280.0 million at the holding company with a weighted average yield of 0.32%, that were not replaced. Investment securities that matured at the holding company level were not reinvested in this portfolio, but rather were used to repurchase common stock and retained in a deposit account at the Bank. The increase in the

weighted average yield between periods was due primarily to securities that matured having yields less than the existing portfolio.

#### Interest Expense

Interest expense decreased \$9.3 million, or 21.3%, to \$34.5 million for the current quarter, from \$43.8 million for the prior year quarter. The decrease in interest expense was due to a decrease in interest expense on deposits of \$4.4 million, or 28.7%, FHLB advances of \$2.6 million, or 11.9%, and other borrowings of \$2.2 million, or 38.3%.

Interest expense on deposits for the current quarter was \$11.1 million compared to \$15.5 million for the prior year quarter. The \$4.4 million decrease was due primarily to a decrease of 47 basis points in the average rate paid on the certificate of deposit portfolio, from 2.00% for the prior year quarter to 1.53% for the current quarter, as the portfolio continued to reprice to lower market rates, and to a \$137.0 million decrease in the average balance of the certificate of deposit portfolio. The decrease in the average balance was primarily in certificates with an original term-to-maturity less than 35 months, partially offset by an increase in certificates with an original term-to-maturity of 36 months or more. Additionally, the decrease in the average balance was due in part to the maturity and payout of one retail certificate of deposit related to a legal settlement to which the Bank was not a party.

Interest expense on FHLB advances was \$19.9 million for the current quarter compared to \$22.5 million in the prior year quarter. The \$2.6 million decrease was due to a decrease of 55 basis points in the average rate paid, from 3.71% for the prior year quarter to 3.16% for the current quarter, partially offset by an increase of \$94.8 million in the average balance. The decrease in the weighted average rate was due to the renewal/prepayment between the two periods of \$450.0 million of advances with a weighted average effective rate of 3.38%. The new advances have a weighted average effective rate of 1.25%. The increase in the average balance was due to replacing certain maturing repurchase agreements as the rates on the advances were more favorable than comparable repurchase agreements.

Interest expense on other borrowings was \$3.5 million for the current quarter compared to \$5.7 million in the prior year quarter. The \$2.2 million decrease in interest expense on other borrowings was due primarily to a \$204.4 million decrease in the average balance. Between periods, \$200.0 million of repurchase agreements matured, \$150.0 million of which were repaid with FHLB advances and \$50.0 million of which were not replaced.

#### Net Interest Margin

The net interest margin increased 12 basis points, from 1.88% for the prior year quarter to 2.00% for the current quarter, largely due to the decrease in our cost of funds.

#### Provision for Credit Losses

The Bank did not record a provision for credit losses during the current quarter, compared to a provision of \$1.2 million for the prior year quarter, due to the continued improvement in the performance of our loan portfolio and a continued decline in the level of charge-offs. Loans 90 or more days delinquent decreased \$6.4 million, or 22.8%, from \$28.0 million at June 30, 2011 to \$21.6 million at June 30, 2012.

#### Other Expense

Total other expenses for the current year quarter were \$22.9 million, compared to \$23.1 million in the prior year quarter. The \$197 thousand, or 0.9%, decrease was due primarily to decreases in salaries and employee benefits of \$529 thousand, partially offset by an increase in other expenses, net of \$390 thousand. The \$529 thousand decrease in salaries and employee benefits was due primarily to a decrease in expenses related to the ESOP, partially offset by an increase in stock-based compensation as a result of equity grants during the current quarter. The \$390 thousand increase in other expenses, net was due primarily to an increase in OREO operations expense as well as an increase in expenses related to our low-income housing partnerships. OREO operations expense, net was \$780 thousand for the current quarter compared to \$569 thousand in the prior year quarter.

#### Income Tax Expense

Income tax expense was \$10.7 million for the current quarter, compared to \$8.8 million for the prior year quarter. The increase in the current quarter was due primarily to an increase in pretax income. The effective tax rate for the current quarter was 36.4% compared to 33.8% for the prior year quarter. The effective tax rate in the prior year quarter included higher deductible expenses that were associated with the ESOP due to the new ESOP loan and the \$0.60 per share welcome dividend paid in March 2011.

## Average Balance Sheet

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

|   | For the Three Months Ended |           |        | June 30, 2011 |           |        |
|---|----------------------------|-----------|--------|---------------|-----------|--------|
|   | June 30, 2012              |           |        | June 30, 2011 |           |        |
|   | Average                    | Interest  | Yield/ | Average       | Interest  | Yield/ |
|   | Outstanding                | Earned/   | Rate   | Outstanding   | Earned/   | Rate   |
|   | Balance                    | Paid      |        | Balance       | Paid      |        |
| (Dollars in thousands)                          |                            |           |        |               |           |        |
| Assets:   |                            |           |        |               |           |        |
| Interest-earning assets:                        |                            |           |        |               |           |        |
| Loans receivable <sup>(1)</sup>                 | \$ 5,217,454               | \$ 57,547 | 4.41 % | \$ 5,146,617  | \$ 62,393 | 4.85 % |
| MBS <sup>(2)</sup>                              | 2,551,531                  | 18,144    | 2.84   | 2,307,565     | 19,619    | 3.40   |
| Investment securities <sup>(2)(3)</sup>         | 1,229,605                  | 3,783     | 1.23   | 1,748,804     | 5,103     | 1.17   |
| Capital stock of FHLB                           | 130,597                    | 1,111     | 3.42   | 126,793       | 925       | 2.93   |
| Cash and cash equivalents                       | 95,974                     | 60        | 0.25   | 73,772        | 43        | 0.24   |
| Total interest-earning assets <sup>(1)(2)</sup> | 9,225,161                  | 80,645    | 3.50   | 9,403,551     | 88,083    | 3.75   |
| Other noninterest-earning assets                | 235,564                    |           |        | 227,261       |           |        |
| Total assets                                    | \$ 9,460,725               |           |        | \$ 9,630,812  |           |        |
| Liabilities and stockholders' equity:           |                            |           |        |               |           |        |
| Interest-bearing liabilities:                   |                            |           |        |               |           |        |
| Checking  | \$ 591,302                 | \$ 115    | 0.08 % | \$ 539,570    | \$ 111    | 0.08 % |
| Savings   | 262,841                    | 95        | 0.15   | 253,254       | 312       | 0.49   |
| Money market                                    | 1,103,249                  | 824       | 0.30   | 1,047,485     | 1,338     | 0.51   |
| Certificates                                    | 2,628,067                  | 10,034    | 1.53   | 2,765,045     | 13,755    | 2.00   |
| Total deposits                                  | 4,585,459                  | 11,068    | 0.97   | 4,605,354     | 15,516    | 1.35   |
| FHLB advances <sup>(4)</sup>                    | 2,526,349                  | 19,859    | 3.16   | 2,431,511     | 22,539    | 3.71   |
| Repurchase agreements                           | 365,000                    | 3,530     | 3.83   | 565,824       | 5,693     | 3.98   |
| Other borrowings                                | --                         | --        | --     | 3,535         | 27        | 3.05   |
| Total borrowings                                | 2,891,349                  | 23,389    | 3.25   | 3,000,870     | 28,259    | 3.76   |
| Total interest-bearing liabilities              | 7,476,808                  | 34,457    | 1.85   | 7,606,224     | 43,775    | 2.30   |
| Other noninterest-bearing liabilities           | 99,825                     |           |        | 90,001        |           |        |
| Stockholders' equity                            | 1,884,092                  |           |        | 1,934,587     |           |        |
| Total liabilities and stockholders' equity      | \$ 9,460,725               |           |        | \$ 9,630,812  |           |        |

(Continued)



|   | For the Three Months Ended |           |        | June 30, 2011 |           |        |
|---|----------------------------|-----------|--------|---------------|-----------|--------|
|   | June 30, 2012              |           |        | June 30, 2011 |           |        |
|   | Average                    | Interest  | Yield/ | Average       | Interest  | Yield/ |
|   | Outstanding                | Earned/   | Rate   | Outstanding   | Earned/   | Rate   |
|   | Balance                    | Paid      |        | Balance       | Paid      |        |
|   | (Dollars in thousands)     |           |        |               |           |        |
| Net interest income <sup>(5)</sup>                                  |                            | \$ 46,188 |        |               | \$ 44,308 |        |
| Net interest rate spread <sup>(6)</sup>                             |                            |           | 1.65 % |               |           | 1.45 % |
| Net interest-earning assets   | \$ 1,748,353               |           |        | \$ 1,797,327  |           |        |
| Net interest margin <sup>(7)</sup>                                  |                            |           | 2.00   |               |           | 1.88   |
| Ratio of interest-earning assets<br>to interest-bearing liabilities |                            |           | 1.23   |               |           | 1.24   |
| Selected performance ratios:  |                            |           |        |               |           |        |
| Return on average assets (annualized)                               |                            |           | 0.79 % |               |           | 0.72 % |
| Return on average equity (annualized)                               |                            |           | 3.96   |               |           | 3.57   |
| Average equity to average assets                                    |                            |           | 19.91  |               |           | 20.09  |
| Operating expense ratio   |                            |           | 0.97   |               |           | 0.96   |
| Efficiency ratio  |                            |           | 43.82  |               |           | 45.83  |

(Concluded)

<sup>(1)</sup>Calculated net of unearned loan fees and deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.

<sup>(2)</sup>MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.

<sup>(3)</sup>The average balance of investment securities includes an average balance of nontaxable securities of \$52.5 million and \$62.6 million for the quarters ended June 30, 2012 and 2011, respectively.

<sup>(4)</sup>FHLB advances are stated net of deferred gains and deferred prepayment penalties.

<sup>(5)</sup>Net interest income represents the difference between interest income earned on interest-earning assets, such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities, such as deposits, FHLB advances, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

<sup>(6)</sup>Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

(7)Net interest margin represents net interest income as a percentage of average interest-earning assets.

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## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest June 30, 2012 to the quarter ended June 30, 2011. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

|                                    | Quarter Ended June 30,<br>2012 vs. 2011 |            |            |
|------------------------------------|---|------------|------------|
|                                    | Increase (Decrease) Due to              |            |            |
|                                    | Volume                                  | Rate       | Total      |
|                                    | (Dollars in thousands)                  |            |            |
| Interest-earning assets:           |   |            |            |
| Loans receivable                   | \$ 818                                  | \$ (5,664) | \$ (4,846) |
| MBS                                | 1,941                                   | (3,416)    | (1,475)    |
| Investment securities              | (1,585)                                 | 265        | (1,320)    |
| Capital stock of FHLB              | 28                                      | 158        | 186        |
| Cash equivalents                   | 14                                      | 3          | 17         |
| Total interest-earning assets      | 1,216                                   | (8,654)    | (7,438)    |
| Interest-bearing liabilities:      |   |            |            |
| Checking                           | 10                                      | (7)        | 3          |
| Savings                            | 12                                      | (228)      | (216)      |
| Money market                       | 68                                      | (582)      | (514)      |
| Certificates                       | (654)                                   | (3,067)    | (3,721)    |
| FHLB advances                      | 1,060                                   | (3,740)    | (2,680)    |
| Other borrowings                   | (1,977)                                 | (213)      | (2,190)    |
| Total interest-bearing liabilities | (1,481)                                 | (7,837)    | (9,318)    |
| Net change in net interest income  | \$ 2,697                                | \$ (817)   | \$ 1,880   |



Comparison of Operating Results for the Quarters Ended June 30, 2012 and March 31, 2012

For the current quarter, the Company recognized net income of \$18.7 million, compared to net income of \$19.3 million for the quarter ended March 31, 2012. The \$642 thousand, or 3.3%, decrease in net income was due primarily to a decrease in net interest income of \$1.3 million, or 2.7%, and an increase in other expenses of \$936 thousand, or 4.3%, partially offset by a decrease in the provision for credit losses of \$1.5 million.

Interest and Dividend Income

Total interest and dividend income for the current quarter was \$80.6 million compared to \$83.3 million for the prior quarter. The \$2.7 million, or 3.2%, decrease was primarily a result of decreases in interest income on loans receivable and investment securities.

Interest income on loans receivable was \$57.5 million for the current quarter, compared to \$59.8 million for the prior quarter. The \$2.3 million, or 3.7%, decrease was due primarily to a 16 basis point decrease in the weighted average yield to 4.41% for the current quarter. The decrease in the weighted average yield was due to loan endorsements and refinances, along with originations and purchases at rates that were lower than the average rate of the existing loan portfolio.

Interest income on investment securities decreased \$332 thousand, or 8.1%, primarily due to an eight basis point decrease in the average yield to 1.23% for the current quarter. The decrease in the average yield was due primarily to a decrease in discount accretion on trust preferred securities as compared to the prior quarter, as well as to the maturity of securities late during the prior quarter with yields greater than the average yield on the existing portfolio.

Interest income on MBS for the current quarter was \$18.1 million compared to \$18.2 million for the prior quarter. The \$25 thousand, or 0.1%, decrease was due to a decrease of 13 basis points in the average yield to 2.84%, partially offset by an increase of \$101.0 million in the average balance of the portfolio. The decrease in the weighted average yield between the two periods was due primarily to repayments on MBS with yields higher than the remaining portfolio, and to purchases of MBS at market rates which resulted in a lower average yield than the existing portfolio between the two periods. The increase in the average balance was primarily a result of MBS purchased late in the prior quarter.

#### Interest Expense

Total interest expense decreased \$1.3 million, or 3.8%, to \$34.5 million for the current quarter from \$35.8 million for the prior quarter. The decrease in interest expense was due to a \$767 thousand, or 6.5%, decrease in interest expense on deposits, and to a \$584 thousand, or 2.9%, decrease in interest expense on FHLB advances.

Interest expense on deposits was \$11.1 million for the current quarter, compared to \$11.8 million for the prior quarter. The \$767 thousand decrease in interest expense on deposits was due primarily to a decrease of 11 basis points in the average rate paid on the certificate of deposit portfolio, from 1.64% for the prior quarter to 1.53% for the current quarter, as the portfolio continued to reprice to lower market rates. The average rate paid on deposits decreased eight basis points, to 0.97%, during the quarter.

Interest expense on FHLB advances was \$19.9 million for the current quarter, compared to \$20.4 million for the prior quarter. The \$584 thousand decrease in interest expense was due to a decrease of nine basis points in the average rate paid to 3.16% for the current quarter. The decrease in the average rate paid for the current quarter was due to a full quarter impact of \$200.0 million of FHLB advances that were refinanced and \$150.0 million that were renewed to lower current market rates, both in the prior quarter.

#### Net Interest Margin

The net interest margin decreased six basis points, from 2.06% for the prior quarter to 2.00% for the current quarter, due primarily to a decrease in the weighted average yield on loans, partially offset by a decrease in the cost of funds, specifically the certificate of deposit portfolio and FHLB advances.

#### Provision for Credit Losses

The Bank did not record a provision for credit losses during the current quarter, compared to a provision of \$1.5 million for the prior quarter, due to the continued improvement in the performance of our loan portfolio and a continued decline in the level of charge-offs. Loans 90 or more days delinquent decreased \$3.6 million, or 14.3%, from \$25.3 million at March 31, 2012 to \$21.6 million at June 30, 2012. Net charge-offs during the current quarter were \$782 thousand compared to \$1.0 million in the prior quarter, excluding the \$3.5 million of SVAs charged-off

during the prior quarter as a result of implementing a loan charge-off policy change as the requirements for OCC Call Reports, which the Bank began filing in the prior quarter, do not permit the use of SVAs.

#### Other Expense

Total other expense was \$22.9 million for the current quarter compared to \$22.0 million for the prior quarter. The \$936 thousand, or 4.3%, increase between periods was due primarily to a \$931 thousand increase in salaries and employee benefits expense, partially offset by a \$441 thousand decrease in other expenses, net. The increase in salaries and employee benefits expense during the current quarter was due primarily to an increase in payroll expense, officer bonus expense, and stock based compensation expense related to 2012 Equity Incentive Plan grants issued during the current quarter. The decrease in other expenses, net was due primarily to the prior quarter including expenses incurred for the Company's annual meeting of stockholders, as well as to a decrease in the impairment and valuation allowance related to the mortgage-servicing rights asset and a decrease in OREO operations, net. OREO operations expense, net was \$780 thousand for the current quarter, compared to \$865 thousand for the prior quarter.

#### Income Tax Expense

Income tax expense was \$10.7 million for the current quarter, compared to \$10.9 million for the prior quarter. The effective income tax rate for the current quarter was 36.4% compared to 36.0% for the prior quarter.

## Average Balance Sheet

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

|   | For the Three Months Ended  |                       |             |                             |                       |             |
|---|-----------------------------|-----------------------|-------------|-----------------------------|-----------------------|-------------|
|   | June 30, 2012               |                       |             | March 31, 2012              |                       |             |
|   | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/ Rate |
|   | (Dollars in thousands)      |                       |             |                             |                       |             |
| Assets:   |                             |                       |             |                             |                       |             |
| Interest-earning assets:                        |                             |                       |             |                             |                       |             |
| Loans receivable <sup>(1)</sup>                 | \$ 5,217,454                | \$ 57,547             | 4.41 %      | \$ 5,236,465                | \$ 59,785             | 4.57 %      |
| MBS <sup>(2)</sup>                              | 2,551,531                   | 18,144                | 2.84        | 2,450,532                   | 18,169                | 2.97        |
| Investment securities <sup>(2)(3)</sup>         | 1,229,605                   | 3,783                 | 1.23        | 1,257,852                   | 4,115                 | 1.31        |
| Capital stock of FHLB                           | 130,597                     | 1,111                 | 3.42        | 129,515                     | 1,111                 | 3.45        |
| Cash and cash equivalents                       | 95,974                      | 60                    | 0.25        | 152,735                     | 94                    | 0.25        |
| Total interest-earning assets <sup>(1)(2)</sup> | 9,225,161                   | 80,645                | 3.50        | 9,227,099                   | 83,274                | 3.61        |
| Other noninterest-earning assets                | 235,564                     |                       |             | 238,195                     |                       |             |
| Total assets                                    | \$ 9,460,725                |                       |             | \$ 9,465,294                |                       |             |
| Liabilities and stockholders' equity:           |                             |                       |             |                             |                       |             |
| Interest-bearing liabilities:                   |                             |                       |             |                             |                       |             |
| Checking  | \$ 591,302                  | \$ 115                | 0.08 %      | \$ 561,799                  | \$ 109                | 0.08 %      |
| Savings   | 262,841                     | 95                    | 0.15        | 256,970                     | 86                    | 0.13        |
| Money market                                    | 1,103,249                   | 824                   | 0.30        | 1,096,620                   | 907                   | 0.33        |
| Certificates                                    | 2,628,067                   | 10,034                | 1.53        | 2,624,122                   | 10,733                | 1.64        |
| Total deposits                                  | 4,585,459                   | 11,068                | 0.97        | 4,539,511                   | 11,835                | 1.05        |
| FHLB advances <sup>(4)</sup>                    | 2,526,349                   | 19,859                | 3.16        | 2,526,848                   | 20,443                | 3.25        |
| Repurchase agreements                           | 365,000                     | 3,530                 | 3.83        | 365,000                     | 3,530                 | 3.83        |
| Total borrowings                                | 2,891,349                   | 23,389                | 3.25        | 2,891,848                   | 23,973                | 3.32        |
| Total interest-bearing liabilities              | 7,476,808                   | 34,457                | 1.85        | 7,431,359                   | 35,808                | 1.94        |
| Other noninterest-bearing liabilities           | 99,825                      |                       |             | 98,696                      |                       |             |
| Stockholders' equity                            | 1,884,092                   |                       |             | 1,935,239                   |                       |             |
| Total liabilities and stockholders' equity      | \$ 9,460,725                |                       |             | \$ 9,465,294                |                       |             |

(Continued)

|   | For the Three Months Ended        |                             |                | March 31, 2012                    |                             |                |
|---|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
|   | June 30, 2012                     |                             |                | March 31, 2012                    |                             |                |
|   | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate | Average<br>Outstanding<br>Balance | Interest<br>Earned/<br>Paid | Yield/<br>Rate |
|   | (Dollars in thousands)            |                             |                |                                   |                             |                |
| Net interest income <sup>(5)</sup>                                  |                                   | \$ 46,188                   |                |                                   | \$ 47,466                   |                |
| Net interest rate spread <sup>(6)</sup>                             |                                   |                             | 1.65 %         |                                   |                             | 1.67 %         |
| Net interest-earning assets   | \$ 1,748,353                      |                             |                | \$ 1,795,740                      |                             |                |
| Net interest margin <sup>(7)</sup>                                  |                                   |                             | 2.00           |                                   |                             | 2.06           |
| Ratio of interest-earning assets<br>to interest-bearing liabilities |                                   |                             | 1.23           |                                   |                             | 1.24           |
| Selected performance ratios:  |                                   |                             |                |                                   |                             |                |
| Return on average assets (annualized)                               |                                   |                             | 0.79 %         |                                   |                             | 0.82 %         |
| Return on average equity (annualized)                               |                                   |                             | 3.96           |                                   |                             | 3.99           |
| Average equity to average assets                                    |                                   |                             | 19.91          |                                   |                             | 20.45          |
| Operating expense ratio   |                                   |                             | 0.97           |                                   |                             | 0.93           |
| Efficiency ratio  |                                   |                             | 43.82          |                                   |                             | 40.96          |

(Concluded)

<sup>(1)</sup>Calculated net of unearned loan fees and deferred costs, and undisbursed loan funds. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent. Balances include LHFS.

<sup>(2)</sup>MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.

<sup>(3)</sup>The average balance of investment securities includes an average balance of nontaxable securities of \$52.5 million and \$56.1 million for the quarters ended June 30, 2012 and March 31, 2012, respectively.

<sup>(4)</sup>FHLB advances are stated net of deferred gains and deferred prepayment penalties.

<sup>(5)</sup>Net interest income represents the difference between interest income earned on interest-earning assets, such as mortgage loans, investment securities, and MBS, and interest paid on interest-bearing liabilities, such as deposits, FHLB advances, and other borrowings. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

<sup>(6)</sup>Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

<sup>(7)</sup>Net interest margin represents net interest income as a percentage of average interest-earning assets.



## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest income and interest expense for the quarter ended June 30, 2012 to the quarter ended March 31, 2012.

For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume and (2) changes in rate.

The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the change in volume and rate.

|                                    | Quarter Ended                    |            |            |
|------------------------------------|----------------------------------|------------|------------|
|                                    | June 30, 2012 vs. March 31, 2012 |            |            |
|                                    | Increase (Decrease) Due to       |            |            |
|                                    | Volume                           | Rate       | Total      |
|                                    | (Dollars in thousands)           |            |            |
| Interest-earning assets:           |                                  |            |            |
| Loans receivable                   | \$ (225)                         | \$ (2,013) | \$ (2,238) |
| MBS                                | 734                              | (759)      | (25)       |
| Investment securities              | (91)                             | (241)      | (332)      |
| Capital stock of FHLB              | 9                                | (9)        | --         |
| Cash and cash equivalents          | (34)                             | --         | (34)       |
| Total interest-earning assets      | 393                              | (3,022)    | (2,629)    |
| Interest-bearing liabilities:      |                                  |            |            |
| Checking                           | 6                                | (1)        | 5          |
| Savings                            | 2                                | 7          | 9          |
| Money market                       | 5                                | (88)       | (83)       |
| Certificates                       | 16                               | (714)      | (698)      |
| FHLB advances                      | --                               | (584)      | (584)      |
| Total interest-bearing liabilities | 29                               | (1,380)    | (1,351)    |
| Net change in net interest income  | \$ 364                           | \$ (1,642) | \$ (1,278) |

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## Liquidity and Capital Resources

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

We generally intend to maintain cash reserves sufficient to meet short-term liquidity needs, which are routinely forecasted for 10, 30, and 365 days. Additionally, on a monthly basis, we perform a liquidity stress test in accordance with the Interagency Policy Statement on Funding and Liquidity Risk Management. The liquidity stress test incorporates both short-term and long-term liquidity scenarios in order to identify periods of, and to quantify, liquidity risk. In the event short-term liquidity needs exceed available cash, the Bank has access to lines of credit at the FHLB and the Federal Reserve Bank. The FHLB line of credit, when combined with FHLB advances, may generally not exceed 40% of total assets. Our excess capacity at the FHLB as of June 30, 2012 was \$1.09 billion, which decreased \$169.4 million from \$1.26 billion at September 30, 2011. The Federal Reserve Bank line of credit is based upon the fair values of the securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. At June 30, 2012, the Bank had \$2.15 billion of securities that were eligible but unused as collateral for borrowing or other liquidity needs. This collateral amount is comprised of AFS and HTM securities with individual fair values greater than \$10.0 million, which is then reduced by a collateralization ratio of 10% to account for potential market value fluctuations. Borrowings on the lines of credit are outstanding until replaced by cash flows from long-term sources of liquidity, and are generally outstanding no longer than 30 days.

If management observes a trend in the amount and frequency of lines of credit utilization, the Bank will likely utilize long-term wholesale borrowing sources, such as FHLB advances and/or repurchase agreements, to provide permanent fixed-rate funding. The maturity of these borrowings is generally structured in such a way as to stagger maturities in order to reduce the risk of a highly negative cash flow position at maturity. Additionally, the Bank could utilize the repayment and maturity of outstanding loans, MBS and other investments for liquidity needs rather than reinvesting such funds into the related portfolios.

While scheduled payments from the amortization of loans and MBS and payments on short-term investments are relatively predictable sources of funds, deposit flows, prepayments on loans and MBS, and calls of investment

securities are greatly influenced by general interest rates, economic conditions and competition, and are less predictable sources of funds. To the extent possible, the Bank manages the cash flows of its loan and deposit portfolios by the rates it offers customers.

At June 30, 2012, cash and cash equivalents totaled \$172.9 million, an increase of \$51.9 million from September 30, 2011.

During the first nine months of fiscal year 2012, loan originations and purchases, net of principal repayments and related loan activity, resulted in a cash outflow of \$71.2 million, compared to a cash outflow of \$7.7 million for the same period in the prior year. See additional discussion regarding loan activity in “Financial Condition – Loans Receivable.”

During the nine months ended June 30, 2012, the Company received principal payments on MBS of \$447.4 million and proceeds from called or matured investment securities of \$865.4 million, which were largely reinvested into the investment securities and MBS portfolios. Of the \$865.4 million of called and matured investment securities, \$240.0 million were securities at the holding company level. The cash flows from this portfolio were used to repurchase common stock or were retained in a deposit account at the Bank. During the nine months ended June 30, 2012, the Company purchased \$616.1 million of investment securities and \$557.2 million of MBS.

The following table presents the contractual maturity of our loan, MBS, and investment securities portfolios at June 30, 2012. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

|                          | Loans <sup>(1)</sup>   |                       | MBS          |                       | Investment Securities |                       | Total        |                       |
|--------------------------|------------------------|-----------------------|--------------|-----------------------|-----------------------|-----------------------|--------------|-----------------------|
|                          | Amount                 | Weighted Average Rate | Amount       | Weighted Average Rate | Amount                | Weighted Average Rate | Amount       | Weighted Average Rate |
|                          | (Dollars in thousands) |                       |              |                       |                       |                       |              |                       |
| Amounts due:             |                        |                       |              |                       |                       |                       |              |                       |
| Within one year          | \$ 44,805              | 4.61 %                | \$ --        | -- %                  | \$ 123,569            | 1.53 %                | \$ 168,374   | 2.35 %                |
| After one year:          |                        |                       |              |                       |                       |                       |              |                       |
| Over one to two          | 23,028                 | 4.13                  | --           | --                    | 32,898                | 1.50                  | 55,926       | 2.58                  |
| Over two to three        | 8,179                  | 5.06                  | --           | --                    | 95,705                | 1.37                  | 103,884      | 1.66                  |
| Over three to five       | 53,381                 | 5.38                  | 1,883        | 6.00                  | 897,277               | 1.30                  | 952,541      | 1.54                  |
| Over five to ten         | 347,848                | 4.80                  | 534,044      | 3.82                  | 37,421                | 1.93                  | 919,313      | 4.11                  |
| Over 10 to 15            | 1,369,512              | 4.02                  | 987,658      | 2.94                  | 2,573                 | 5.28                  | 2,359,743    | 3.57                  |
| After 15 years           | 3,410,050              | 4.44                  | 987,074      | 3.03                  | 6,146                 | 3.58                  | 4,403,270    | 4.12                  |
| Total due after one year | 5,211,998              | 4.37                  | 2,510,659    | 3.17                  | 1,072,020             | 1.35                  | 8,794,677    | 3.65                  |
|                          | \$ 5,256,803           | 4.37 %                | \$ 2,510,659 | 3.17 %                | \$ 1,195,589          | 1.37 %                | \$ 8,963,051 | 3.63 %                |

<sup>(1)</sup>Demand loan, loans having no stated maturity, and overdraft loans are included in the amounts due within one year. Construction loans are presented based on the term to complete construction. The maturity date for home equity loans assumes the customer always makes the required minimum payment.

The Bank utilizes FHLB advances to provide funds for lending and investment activities. The Bank's policies allow advances up to 40% of total Bank assets. At June 30, 2012, the Bank's ratio of the face amount of advances to total assets, as reported to the OCC, was 27%. The advances are secured by a blanket pledge of our loan portfolio, as collateral, supported by quarterly reporting to the FHLB. Currently, the blanket pledge is sufficient collateral for the FHLB advances. It is possible that increases in our borrowings or decreases in our loan portfolio or changes in FHLB lending guidelines could require the Bank to pledge securities as collateral on the FHLB advances. The Bank relies on FHLB advances as a primary source of borrowings. The outstanding amount of FHLB advances was \$2.55 billion at June 30, 2012, of which \$425.0 million is scheduled to mature in the next 12 months. Maturing advances will likely be replaced with borrowings with terms between 36 and 60 months.



The Bank has access to and utilizes other sources for liquidity, such as secondary market repurchase agreements, brokered deposits, and public unit deposits. The Bank's internal policy limits total borrowings to 55% of total assets. At June 30, 2012, the Bank had repurchase agreements of \$365.0 million, or approximately 4% of assets, \$75.0 million of which were scheduled to mature in the next 12 months. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets. The Bank has pledged securities with an estimated fair value of \$426.6 million as collateral for repurchase agreements at June 30, 2012. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

As of June 30, 2012, the Bank's policy allows for brokered deposits up to 10% of total deposits and public unit deposits up to 5% of total deposits. At June 30, 2012, the Bank had brokered deposits of \$83.7 million, or approximately 2% of total deposits and public unit deposits of \$192.0 million, or approximately 4% of total deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain brokered and public unit deposits at attractive rates. The Bank has pledged securities with an estimated fair value of \$208.7 million as collateral for public unit deposits. The securities pledged as collateral for public unit deposits are held under joint custody receipt by the FHLB and generally will be released upon deposit maturity.

At June 30, 2012, \$1.25 billion of the Bank's \$2.62 billion of certificates of deposit were scheduled to mature within one year. Included in the \$1.25 billion were \$180.9 million of public unit and brokered deposits scheduled to mature within the same time period. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products at the prevailing rate, although no assurance can be given in this regard.

As of June 30, 2012, the Bank had entered into \$16.1 million of agreements with a third party in connection with the remodeling of the Bank's home office. As of June 30, 2012, obligations under those agreements totaling \$3.7 million were outstanding. The existing home office building was constructed in 1961 and has been fully depreciated since 1997. The project scope includes replacement of all mechanical and electrical systems, interior finishes, and exterior building components. The completed project will result in a more energy efficient building which is expected to lower our utility and maintenance expenses. There will be additional expenses related to the project through fiscal year 2013, which is when the project is expected to be completed. Costs related to the project will be capitalized and depreciated according to the estimated useful life of the assets as they are placed in service.

#### Limitations on Dividends and Other Capital Distributions

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

Generally, savings institutions, such as the Bank, may make capital distributions during any calendar year equal to earnings of the previous two calendar years and current year-to-date earnings. 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 dividend authority restricted. A savings institution, such as the Bank, that is a subsidiary of a savings and loan holding company and that proposes to make a capital distribution must submit written notice to the OCC and FRB 30 days prior to such distribution. The OCC and FRB may object to the distribution during that 30-day period based on safety and soundness or other concerns. Savings institutions that desire to make a larger capital distribution, or are under special restrictions, or are not, or would not be, well-capitalized following a proposed capital distribution, however, must obtain regulatory approval prior to making such distribution.

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

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

The Company paid cash dividends of \$52.4 million during the nine months ended June 30, 2012. The \$52.4 million of dividend payments consisted of three quarterly dividends totaling \$36.2 million and a special dividend of \$16.2 million related to fiscal year

2011 earnings, per the Company's dividend policy. On July 20, 2012, the Company declared a quarterly cash dividend of \$0.075 per share, which will equate to approximately \$11.4 million, payable August 17, 2012. Dividend payments depend upon a number of factors including the Company's financial condition and results of operations, the Bank's regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company.

At June 30, 2012, Capitol Federal Financial, Inc., at the holding company level, had \$274.9 million on deposit with the Bank and \$120.4 million in investment securities with a WAL of 0.3 years. As of June 30, 2012, \$60.1 million of these securities will mature within 90 days.

In December 2011, the Company announced that the Board of Directors approved the repurchase of up to \$193.0 million of the Company's common stock. The Company repurchased 7,459,209 shares of common stock at an average price of \$11.75 per share during the current quarter and, as of June 30, 2012, had repurchased a total of 9,658,309 shares at an average price of \$11.77 per share. This plan has no expiration date. See additional discussion regarding repurchase activity in "Financial Condition – Stockholders' Equity."

## Off Balance Sheet Arrangements, Commitments and Contractual Obligations

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

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

The following table summarizes our contractual obligations and other material commitments as of June 30, 2012.

|   | Maturity Range                  |                     |                 |                 |                      |
|---|---------------------------------|---------------------|-----------------|-----------------|----------------------|
|   | Total<br>(Dollars in thousands) | Less than<br>1 year | 1 to 3<br>years | 3 to 5<br>years | More than<br>5 years |
| Operating leases  | \$ 12,559                       | \$ 1,258            | \$ 2,159        | \$ 1,787        | \$ 7,355             |
| Certificates of deposit   | \$ 2,622,868                    | \$ 1,247,214        | \$ 1,027,351    | \$ 346,187      | \$ 2,116             |
| Weighted average rate   | 1.50 %                          | 1.10 %              | 1.85 %          | 1.90 %          | 2.61 %               |
| FHLB advances   | \$ 2,550,000                    | \$ 425,000          | \$ 1,050,000    | \$ 775,000      | \$ 300,000           |
| Weighted average rate   | 2.76 %                          | 3.77 %              | 2.28 %          | 2.83 %          | 2.82 %               |
| Repurchase agreements   | \$ 365,000                      | \$ 75,000           | \$ 170,000      | \$ 20,000       | \$ 100,000           |
| Weighted average rate   | 3.83 %                          | 3.43 %              | 4.21 %          | 4.45 %          | 3.35 %               |
| Commitments to originate/refinance and purchase/participate in loans              | \$ 229,198                      | \$ 229,198          | \$ --           | \$ --           | \$ --                |
| Weighted average rate   | 3.47 %                          | 3.47 %              | -- %            | -- %            | -- %                 |
| Commitments to fund unused home equity lines of credit and commercial commitments | \$ 263,985                      | \$ 263,985          | \$ --           | \$ --           | \$ --                |
| Weighted average rate   | 4.55 %                          | 4.55 %              | -- %            | -- %            | -- %                 |
| Unadvanced portion of construction loans  | \$ 25,451                       | \$ 25,451           | \$ --           | \$ --           | \$ --                |
| Weighted average rate   | 4.08 %                          | 4.08 %              | -- %            | -- %            | -- %                 |



A percentage of commitments to originate mortgage loans are expected to expire unfunded, so the amounts reflected in the table above are not necessarily indicative of future liquidity requirements. Additionally, the Bank is not obligated to honor commitments to fund unused home equity lines of credit if a customer is delinquent or otherwise in violation of the loan agreement.

We anticipate we will continue to have sufficient funds, through repayments and maturities of loans and securities, deposits and borrowings, to meet our current commitments.

#### Contingencies

In the normal course of business, the Company and its subsidiary are named defendants in various lawsuits and counter claims.

In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a

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## Capital

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a “well-capitalized” status for the Bank in accordance with regulatory standards. As of June 30, 2012, the Bank exceeded all regulatory capital requirements. The following table presents the Bank’s regulatory capital ratios at June 30, 2012 based upon regulatory guidelines.

|                                  | Bank<br>Ratios | Regulatory<br>Requirement For<br>“Well-Capitalized”<br>Status |   |
|----------------------------------|----------------|---|---|
| Tier 1 (core) capital            | 14.6 %         | 5.0   | % |
| Tier 1 (core) risk-based capital | 37.7 %         | 6.0   | % |
| Total risk-based capital         | 38.1 %         | 10.0  | % |

A reconciliation of the Bank’s equity under GAAP to regulatory capital amounts as of June 30, 2012 is as follows (dollars in thousands):

|  |              |
|--|--------------|
| Total Bank equity as reported under GAAP | \$ 1,379,455 |
| Unrealized gains on AFS securities       | (23,891)     |
| Other                                    | (77)         |
| Total tangible and core capital          | 1,355,487    |
| ACL                                      | 11,777       |
| Total risk-based capital                 | \$ 1,367,264 |

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

For a complete discussion of the Bank's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Bank's portfolios, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Asset and Liability Management and Market Risk" in the Company's Annual Report to Stockholders for the year ended September 30, 2011, attached as Exhibit 13 to the Company's Annual Report on Form 10-K for the year ended September 30, 2011. The analyses presented in the tables below reflect the level of market risk at the Bank and does not include the assets of the Company, at the holding company level. Assets held by the Company, at the holding company level, at June 30, 2012 consisted primarily of cash and short-term investment securities. The holding company cash was deposited at the Bank at June 30, 2012; therefore, is it reflected in the Bank's tables below. The Company's securities, at the holding company level, totaled \$120.4 million at June 30, 2012. The securities at the holding company are not managed in accordance with the interest rate risk objectives of the Bank and would not materially impact the Bank's tables below if they were included. The rates of interest the Bank earns on its assets and pays on its liabilities are generally established contractually for a period of time. Fluctuations in interest rates have a significant impact not only upon our net income, but also upon the cash flows and market values of our assets and liabilities. Our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our interest-earning assets and interest-bearing liabilities. Risk associated with changes in interest rates on the earnings of the Bank and the market value of its financial assets and liabilities is known as interest rate risk. Interest rate risk is our most significant market risk and our ability to adapt to changes in interest rates is known as interest rate risk management.

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

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

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

| Change<br>(in Basis Points)      | Percentage Change in Net<br>Interest Income |                   |                       |
|----------------------------------|---|-------------------|-----------------------|
|                                  | At  |                   |                       |
|                                  | June 30,<br>2012                            | March<br>31, 2012 | September<br>30, 2011 |
| in Interest Rates <sup>(1)</sup> |   |                   |                       |
| -100 bp                          | N/A   | N/A               | N/A                   |
| 000 bp                           | --  | --                | --                    |
| +100 bp                          | 3.31 %                                      | 1.64 %            | 4.46 %                |
| +200 bp                          | 2.12 %                                      | 1.06 %            | 3.75 %                |
| +300 bp                          | (0.34)%                                     | (1.01)%           | (0.33) %              |

<sup>(1)</sup>Assumes an instantaneous, permanent and parallel change in interest rates at all maturities.

At June 30, 2012, the percentage change in the net interest income projections were more positive in the +100 and +200 basis point interest rate environments and less negative in the +300 basis point interest rate environment than at March 31, 2012. The change in the sensitivity was a result of a decrease in interest rates during the current quarter. The decrease in interest rates caused the WAL of mortgage-related assets and callable agency debentures to shorten as borrowers have an economic incentive to refinance their mortgages to lower interest rate loans, and agency debt issuers have an economic incentive to exercise their call options and issue lower costing debt. This resulted in an increase in repricing assets over the next 12 months compared to March 31, 2012. As a result, as interest rates rise, the benefit to net interest income is greater at June 30, 2012 than at March 31, 2012. As interest rates increase, the amount of cash flows on mortgage-related assets and callable agency debentures expected to reprice decrease as borrowers have less economic incentive to refinance their mortgages to lower interest rates and agency debt issuers have less economic incentive to exercise their call options and issue lower costing debt. The Bank benefits from rising interest rates in the +100 and +200 interest rate environments at June 30, 2012 due to repricing assets exceeding repricing liabilities. In the +300 basis point interest rate environment, repricing assets slow to a point where repricing liabilities more than offset the benefit of the higher interest rates on repricing assets, resulting in a decrease in the net interest income, as compared to the base case.

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

| Change<br>(in Basis Points)      | Percentage Change in MVPE |                   |                       |
|----------------------------------|---------------------------|-------------------|-----------------------|
|                                  | At                        |                   |                       |
| in Interest Rates <sup>(1)</sup> | June 30,<br>2012          | March 31,<br>2012 | September<br>30, 2011 |
| -100 bp                          | N/A                       | N/A               | N/A                   |
| 000 bp                           | --                        | --                | --                    |
| +100 bp                          | 2.18 %                    | (2.47) %          | 0.61 %                |
| +200 bp                          | (5.30) %                  | (10.97) %         | (5.69) %              |
| +300 bp                          | (14.73) %                 | (20.78) %         | (14.91) %             |

<sup>(1)</sup>Assumes an instantaneous, permanent and parallel change in interest rates at all maturities.

Changes in the estimated market values of our financial assets and liabilities drive changes in estimates of the MVPE. Shorter term-to-maturity financial instruments are less sensitive to changes in interest rates than are longer term-to-maturity financial instruments. Because of this, our certificates of deposit (which have relatively short average lives) tend to display less sensitivity to changes in interest rates than do our mortgage-related assets (which

have relatively long average lives). The average life expected on our mortgage-related assets varies under different interest rate environments because borrowers have the ability to prepay their mortgage loans.

The sensitivity of the MVPE to changes in interest rates at June 30, 2012 decreased from March 31, 2012 due to a decrease in interest rates during the current quarter. As interest rates decrease, prepayment assumptions on loans, fixed-rate loans in particular, increase as borrowers have an economic incentive to refinance their mortgages to lower interest rate loans. The higher prepayment assumptions shorten the expected average lives of these assets, thereby decreasing their sensitivity to changes in interest rates.

The Bank's MVPE declines in the +200 and +300 basis point interest rate environments. As interest rates increase to these levels, the estimated fair values of the liabilities with shorter average lives do not respond to the increase in interest rates in the same manner as the longer maturity assets do. Prepayments on our mortgage-related assets, specifically our fixed-rate loans, are expected to decrease significantly as interest rates rise. Projected prepayments would likely only be realized as a result of normal changes in borrowers' lives, such as divorce, death, job-related relocations, or other life changing events. Lower prepayment expectations extend the expected average lives of these assets, relative to the assumptions in the base case, thereby increasing their sensitivity to changes in interest rates. As the average lives of assets increase, so too does the Bank's sensitivity to rising interest rates.

The ability to maximize net interest income is dependent largely upon the attainment of a positive interest rate spread that can be sustained over time despite fluctuations in prevailing interest rates. The asset and liability repricing gap is a measure of the difference between the amount of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference provides an indication of the extent to which an institution's interest rate spread will be affected by changes in

interest rates. A gap is considered positive when the amount of interest-earning assets exceeds the amount of interest-bearing liabilities maturing or repricing during the same period. A gap is considered negative when the amount of interest-bearing liabilities exceeds the amount of interest-earning assets maturing or repricing during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods adversely affects net interest income, while a positive gap within shorter repricing periods results in an increase in net interest income. During a period of falling interest rates, the opposite would generally be true.

The following gap table summarizes the anticipated maturities or repricing of the Bank's interest-earning assets and interest-bearing liabilities as of June 30, 2012, based on the information and assumptions set forth in the notes below. Cash flow projections for mortgage-related assets are calculated based on current interest rates. Prepayment projections are subjective in nature, involve uncertainties and assumptions and, therefore, cannot be determined with a high degree of accuracy. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react differently to changes in market interest rates. Assumptions may not reflect how actual yields and costs respond to market changes. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table. For additional information regarding the impact of changes in interest rates, see the aforementioned Percentage Change in Net Interest Income and Percentage Change in MVPE discussions and tables.

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|  | Within<br>Three<br>Months<br>(Dollars in thousands) | Three to<br>Twelve<br>Months | More Than<br>One Year<br>to<br>Three<br>Years | More<br>Than<br>Three<br>Years<br>to Five<br>Years | Over<br>Five<br>Years | Total        |
|--|---|------------------------------|---|--|-----------------------|--------------|
| Interest-earning assets:   |   |                              |   |  |                       |              |
| Loans receivable: <sup>(1)</sup>   |   |                              |   |  |                       |              |
| Mortgage loans:  |   |                              |   |  |                       |              |
| Fixed-rate   | \$ 350,381  | \$ 1,159,304                 | \$ 1,404,969                                  | \$ 491,506   | \$ 813,640            | \$ 4,219,800 |
| Adjustable-rate  | 69,383  | 399,252                      | 310,449                                       | 57,345   | 10,940                | 847,369      |
| Other loans  | 120,056   | 14,726                       | 14,413  | 4,657  | 4,554                 | 158,406      |
| Investment securities <sup>(2)</sup>   | 178,753   | 191,398                      | 439,835                                       | 259,871  | 2,088                 | 1,071,945    |
| MBS <sup>(3)</sup>   | 347,862   | 851,946                      | 751,960                                       | 257,372  | 266,315               | 2,475,455    |
| Other interest-earning assets  | 145,233   | --                           | --  | --   | --                    | 145,233      |
| Total interest-earning assets  | 1,211,668   | 2,616,626                    | 2,921,626                                     | 1,070,751  | 1,097,537             | 8,918,208    |
| Interest-bearing liabilities:  |   |                              |   |  |                       |              |
| Deposits:  |   |                              |   |  |                       |              |
| Checking <sup>(4)</sup>  | 93,422  | 44,601                       | 96,143  | 77,205   | 296,020               | 607,391      |
| Savings <sup>(4)</sup>   | 82,564  | 12,041                       | 27,763  | 21,533   | 119,346               | 263,247      |
| Money market <sup>(4)</sup>  | 60,367  | 248,010                      | 326,965                                       | 188,575  | 549,887               | 1,373,804    |
| Certificates   | 431,156   | 823,380                      | 1,020,029                                     | 346,271  | 2,032                 | 2,622,868    |
| Borrowings <sup>(5)</sup>  | 100,000   | 400,000                      | 1,225,499                                     | 795,000  | 447,260               | 2,967,759    |
| Total interest-bearing liabilities   | 767,509   | 1,528,032                    | 2,696,399                                     | 1,428,584  | 1,414,545             | 7,835,069    |
| Excess (deficiency) of interest-earning assets over interest-bearing liabilities | \$ 444,159  | \$ 1,088,594                 | \$ 225,227                                    | \$ (357,833)                                       | \$ (317,008)          | \$ 1,083,139 |
| Cumulative excess (deficiency) of interest-earning assets over interest-bearing  | \$ 444,159  | \$ 1,532,753                 | \$ 1,757,980                                  | \$ 1,400,147                                       | \$ 1,083,139          |              |



liabilities

Cumulative excess  
(deficiency) of  
interest-earning  
assets over  
interest-bearing  
liabilities as a  
percent of total Bank  
assets at

|                    |      |   |       |   |       |   |       |   |       |   |
|--------------------|------|---|-------|---|-------|---|-------|---|-------|---|
| June 30, 2012      | 4.78 | % | 16.48 | % | 18.90 | % | 15.06 | % | 11.65 | % |
| March 31, 2012     | 3.62 |   | 12.10 |   | 6.53  |   | 11.32 |   | 11.79 |   |
| September 30, 2011 | 0.84 |   | 18.60 |   | 18.18 |   | 18.21 |   | 12.51 |   |

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- (1) ARM loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur, or prepayments are expected to be received, prior to their next rate adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances have been reduced for loans 90 or more days delinquent, which totaled \$21.6 million at June 30, 2012.
- (2) Based on contractual maturities, terms to call date or pre-refunding dates as of June 30, 2012, and excludes the unrealized gain adjustment of \$3.2 million on AFS investment securities.
- (3) Reflects estimated prepayments of MBS in our portfolio, and excludes the unrealized gain adjustment of \$35.2 million on AFS MBS.
- (4) Although the Bank's checking, savings and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rate at which the balance of existing accounts would decline) used on these accounts are based on assumptions developed from our actual experience with these accounts. If all of the Bank's checking, savings and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$170.7 million, for a cumulative one-year gap of (1.8)% of total assets.
- (5) Borrowings exclude \$22.4 million of deferred prepayment penalty costs and \$321 thousand of deferred gain on the terminated interest rate swap agreements.

The one-year gap at June 30, 2012 was 16.48%, up from 12.10% at March 31, 2012. The increase from March 31, 2012 was due primarily to a decrease in interest rates during the current quarter, which increased the amount of assets projected to reprice in the next 12 months. As interest rates decrease, the amount of cash flows on mortgage-related assets and callable agency debentures expected to reprice increases as borrowers have an economic incentive to refinance their mortgages to lower interest rates and agency debt issuers have an economic incentive to exercise their call options and issue lower costing debt.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Act") as of June 30, 2012. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of June 30, 2012, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Act is accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Act) identified in connection with the evaluation required by Rule 13a-15(d) of the Act that occurred during the Company's quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### Part II - OTHER INFORMATION

##### Item 1. Legal Proceedings

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business.

We believe that these routine legal proceedings, in the aggregate, are immaterial to our financial condition and results of operations.

##### Item 1A. Risk Factors

There have been no material changes to our risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. For a summary of risk factors relevant to our operations, see Part I, Item 1A in our 2011 Annual Report on Form 10-K.

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

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

The following table summarizes our share repurchase activity during the three months ended June 30, 2012 and additional information regarding our share repurchase program. On December 21, 2011, the Company announced that the Board of Directors approved the repurchase of up to \$193.0 million of the Company’s common stock. This plan has no expiration date.

| Period                               | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Additional Number of Shares Allowed for Repurchase Under New Plan | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan |
|--------------------------------------|----------------------------------|------------------------------|--|---|---|
| April 1, 2012 through April 30, 2012 | 1,298,440                        | \$ 11.77                     | 1,298,440  | --  | \$ 151,660,257  |
| May 1, 2012 through May 31, 2012     | 2,545,024                        | 11.85                        | 2,545,024  | --  | 121,513,164   |
| June 1, 2012 through June 30, 2012   | 3,615,745                        | 11.67                        | 3,615,745  | --  | 79,307,449  |
| Total                                | 7,459,209                        | 11.75                        | 7,459,209  | --  | 79,307,449  |

## Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Index to Exhibits.

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SIGNATURES

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

CAPITOL FEDERAL FINANCIAL, INC.

Date: August 3, 2012 By: /s/ John B. Dicus  
John B. Dicus, Chairman, President and Chief Executive Officer

Date: August 3, 2012 By: /s/ Kent G. Townsend  
Kent G. Townsend, Executive Vice President,  
Chief Financial Officer, and Treasurer

INDEX TO EXHIBITS

| Exhibit<br>Number | Document   |
|-------------------|--|
| 2.0               | Amended Plan of Conversion and Reorganization filed on October 27, 2010 as Exhibit 2 to Capitol Federal Financial, Inc.'s Post Effective Amendment No. 2 Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference               |
| 3(i)              | Charter of Capitol Federal Financial, Inc., as filed on May 6, 2010, as Exhibit 3(i) to Capitol Federal Financial, Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference  |
| 3(ii)             | Bylaws of Capitol Federal Financial, Inc., as filed on May 6, 2010, as Exhibit 3(ii) to Capitol Federal Financial Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference   |
| 10.1(i)           | Capitol Federal Financial's Thrift Plan filed on November 29, 2007 as Exhibit 10.1(i) to the Annual Report on Form 10-K for Capitol Federal Financial and incorporated herein by reference   |
| 10.1(ii)          | Capitol Federal Financial, Inc.'s Stock Ownership Plan, as amended, filed on May 10, 2011 as Exhibit 10.1(ii) to the March 31, 2011 Form 10-Q for Capitol Federal Financial, Inc. and incorporated herein by reference   |
| 10.1(iii)         | Form of Change of Control Agreement with each of John B. Dicus, Kent G. Townsend, R. Joe Aleshire, Larry Brubaker, and Rick C. Jackson filed on January 20, 2011 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference |
| 10.2              | Capitol Federal Financial's 2000 Stock Option and Incentive Plan (the "Stock Option Plan") filed on April 13, 2000 as Appendix A to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference                    |
| 10.3              | Capitol Federal Financial's 2000 Recognition and Retention Plan filed on April 13, 2000 as Appendix B to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference   |
| 10.4              | Capitol Federal Financial Deferred Incentive Bonus Plan, as amended, filed on May 5, 2009 as Exhibit 10.4 to the March 31, 2009 Form 10-Q for Capitol Federal Financial and incorporated herein by reference   |
| 10.5              | Form of Incentive Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.5 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference   |
| 10.6              | Form of Non-Qualified Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.6 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference   |
| 10.7              | Form of Restricted Stock Agreement under the Recognition and Retention Plan filed on February 4, 2005 as Exhibit 10.7 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference  |
| 10.8              | Description of Named Executive Officer Salary and Bonus Arrangements filed on November 29, 2011 as Exhibit 10.8 to the Registrant's Annual Report on Form 10-K and incorporated herein by reference  |
| 10.9              | Description of Director Fee Arrangements filed on February 9, 2011 as Exhibit 10.9 to the December 31, 2010 Form 10-Q and incorporated herein by reference   |
| 10.10             | Short-term Performance Plan filed on August 4, 2011 as Exhibit 10.10 to the June 30, 2011 Form 10-Q and incorporated herein by reference   |
| 10.11             | Capitol Federal Financial, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") filed on December 22, 2011 as Appendix A to Capitol Federal Financial, Inc.'s Proxy Statement (File No. 001-34814) and incorporated herein by reference                     |

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- 10.12 Form of Incentive Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.12 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 10.13 Form of Non-Qualified Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.13 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 10.14 Form of Stock Appreciation Right Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.14 to the December 31, 2011 Form 10-Q and incorporated herein by reference

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- 10.15 Form of Restricted Stock Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.15 to the December 31, 2011 Form 10-Q and incorporated herein by reference
- 11 Statement re: computation of earnings per share\*
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend, Executive Vice Chief Financial Officer and Treasurer
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer
- 101 The following information from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, filed with the SEC on August 3, 2012, has been formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets at June 30, 2012 and September 30, 2011, (ii) Consolidated Statements of Operations for the three and nine months ended June 30, 2012 and 2011, (iii) Consolidated Statement of Stockholders' Equity for the nine months ended June 30, 2012, (iv) Consolidated Statements of Cash Flows for the nine months ended June 30, 2012 and 2011, and (v) Notes to the Unaudited Consolidated Financial Statements \*\*

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

\*\*Pursuant to SEC rules, this exhibit will not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that section.