

Capitol Federal Financial Inc
Form 10-Q
February 09, 2016

UNITED STATES SECURITIES
AND EXCHANGE COMMISSION
Washington, D.C. 20549

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 December 31, 2015

or

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

Commission file number: 001-34814

Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or
organization)

27-2631712

(I.R.S. Employer Identification No.)

700 Kansas Avenue, Topeka, Kansas

(Address of principal executive offices)

66603

(Zip Code)

(785) 235-1341

Registrant's telephone number, including area code

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

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

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

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 February 3, 2016, there were 137,149,688 shares of Capitol Federal Financial, Inc. common stock outstanding.

| | Page Number |
|--|----------------|
| PART I - FINANCIAL INFORMATION | |
| Item 1. <u>Financial Statements (Unaudited)</u> | <u>3</u> |
| <u>Consolidated Balance Sheets at December 31, 2015 and September 30, 2015</u> | <u>3</u> |
| <u>Consolidated Statements of Income for the three months ended December 31, 2015 and 2014</u> | <u>4</u> |
| <u>Consolidated Statements of Comprehensive Income for the three months ended December 31, 2015 and 2014</u> | <u>5</u> |
| <u>Consolidated Statement of Stockholders' Equity for the three months ended December 31, 2015</u> | <u>6</u> |
| <u>Consolidated Statements of Cash Flows for the three months ended December 31, 2015 and 2014</u> | <u>7</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>9</u> |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>28</u> |
| <u>Financial Condition - Loans Receivable</u> | <u>30</u> |
| <u>Financial Condition - Asset Quality</u> | <u>36</u> |
| <u>Financial Condition - Liabilities</u> | <u>43</u> |
| <u>Financial Condition - Stockholders' Equity</u> | <u>47</u> |
| <u>Operating Results</u> | <u>48</u> |
| <u>Comparison of Operating Results for the three months ended December 31, 2015 and 2014</u> | <u>52</u> |
| <u>Comparison of Operating Results for the three months ended December 31, 2015 and September 30, 2015</u> | <u>54</u> |
| Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u> | <u>61</u> |
| Item 4. <u>Controls and Procedures</u> | <u>64</u> |
| | |
| PART II - OTHER INFORMATION | |
| Item 1. <u>Legal Proceedings</u> | <u>65</u> |
| Item 1A. <u>Risk Factors</u> | <u>65</u> |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>65</u> |
| Item 3. <u>Defaults Upon Senior Securities</u> | <u>65</u> |
| Item 4. <u>Mine Safety Disclosures</u> | <u>65</u> |
| Item 5. <u>Other Information</u> | <u>65</u> |
| Item 6. <u>Exhibits</u> | <u>65</u> |
| | |
| <u>SIGNATURES</u> | <u>66</u> |
| | |
| <u>INDEX TO EXHIBITS</u> | <u>67</u> |

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share amounts)

| | December 31, 2015 | September 30, 2015 |
|--|----------------------|-----------------------|
| ASSETS: | | |
| Cash and cash equivalents (includes interest-earning deposits of \$209,647 and \$764,816) | \$ 232,354 | \$ 772,632 |
| Securities: | | |
| Available-for-sale ("AFS"), at estimated fair value (amortized cost of \$628,005 and \$744,708) | 636,970 | 758,171 |
| Held-to-maturity ("HTM"), at amortized cost (estimated fair value of \$1,211,180 and \$1,295,274) | 1,199,978 | 1,271,122 |
| Loans receivable, net (allowance for credit losses ("ACL") of \$9,201 and \$9,443) | 6,665,128 | 6,625,027 |
| Federal Home Loan Bank Topeka ("FHLB") stock, at cost | 119,027 | 150,543 |
| Premises and equipment, net | 79,185 | 75,810 |
| Income taxes receivable, net | — | 1,071 |
| Other assets | 200,780 | 189,785 |
| TOTAL ASSETS | \$ 9,133,422 | \$ 9,844,161 |
| LIABILITIES: | | |
| Deposits | \$ 4,972,480 | \$ 4,832,520 |
| FHLB borrowings | 2,471,272 | 3,270,521 |
| Repurchase agreements | 200,000 | 200,000 |
| Advance payments by borrowers for taxes and insurance | 24,316 | 61,818 |
| Income taxes payable, net | 7,059 | — |
| Deferred income tax liabilities, net | 25,765 | 26,391 |
| Accounts payable and accrued expenses | 41,697 | 36,685 |
| Total liabilities | 7,742,589 | 8,427,935 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$.01 par value; 100,000,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock, \$.01 par value; 1,400,000,000 shares authorized, 137,130,588 and 137,106,822 shares issued and outstanding as of December 31, 2015 and September 30, 2015, respectively | 1,371 | 1,371 |
| Additional paid-in capital | 1,151,867 | 1,151,041 |
| Unearned compensation, Employee Stock Ownership Plan ("ESOP") | (40,887 |) (41,299 |
| Retained earnings | 272,906 | 296,739 |
| Accumulated other comprehensive income ("AOCI"), net of tax | 5,576 | 8,374 |
| Total stockholders' equity | 1,390,833 | 1,416,226 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 9,133,422 | \$ 9,844,161 |

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share amounts)

| | For the Three Months Ended December 31, | |
|--|--|-------------|
| | 2015 | 2014 |
| INTEREST AND DIVIDEND INCOME: | | |
| Loans receivable | \$ 60,223 | \$ 58,619 |
| Mortgage-backed securities ("MBS") | 7,831 | 10,001 |
| FHLB stock | 3,152 | 3,181 |
| Cash and cash equivalents | 1,620 | 1,424 |
| Investment securities | 1,533 | 1,675 |
| Total interest and dividend income | 74,359 | 74,900 |
| INTEREST EXPENSE: | | |
| FHLB borrowings | 16,074 | 16,988 |
| Deposits | 8,799 | 8,145 |
| Repurchase agreements | 1,504 | 1,731 |
| Total interest expense | 26,377 | 26,864 |
| NET INTEREST INCOME | 47,982 | 48,036 |
| PROVISION FOR CREDIT LOSSES | — | 173 |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 47,982 | 47,863 |
| NON-INTEREST INCOME: | | |
| Retail fees and charges | 3,814 | 3,783 |
| Insurance commissions | 516 | 549 |
| Loan fees | 342 | 374 |
| Other non-interest income | 894 | 551 |
| Total non-interest income | 5,566 | 5,257 |
| NON-INTEREST EXPENSE: | | |
| Salaries and employee benefits | 10,487 | 10,477 |
| Occupancy, net | 2,672 | 2,419 |
| Information technology and communications | 2,558 | 2,568 |
| Regulatory and outside services | 1,486 | 1,296 |
| Federal insurance premium | 1,382 | 1,282 |
| Deposit and loan transaction costs | 1,274 | 1,374 |
| Advertising and promotional | 1,154 | 889 |
| Office supplies and related expense | 887 | 473 |
| Low income housing partnerships | 773 | 1,546 |
| Other non-interest expense | 917 | 818 |
| Total non-interest expense | 23,590 | 23,142 |
| INCOME BEFORE INCOME TAX EXPENSE | 29,958 | 29,978 |
| INCOME TAX EXPENSE | 9,240 | 9,506 |
| NET INCOME | \$ 20,718 | \$ 20,472 |
| | | |
| Basic earnings per share ("EPS") | \$ 0.16 | \$ 0.15 |
| Diluted EPS | \$ 0.16 | \$ 0.15 |
| Dividends declared per share | \$ 0.34 | \$ 0.34 |
| | | |
| Basic weighted average common shares | 132,822,283 | 136,087,882 |

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

| | | |
|--|-------------|-------------|
| Diluted weighted average common shares | 132,911,156 | 136,115,684 |
|--|-------------|-------------|

See accompanying notes to consolidated financial statements.

4

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

(Dollars in thousands)

| | For the Three Months Ended December 31, | |
|--|--|-----------|
| | 2015 | 2014 |
| Net income | \$ 20,718 | \$ 20,472 |
| Other comprehensive income (loss), net of tax: | | |
| Changes in unrealized holding gains (losses) on AFS securities, net of deferred income taxes of \$1,700 and \$(471) | (2,798 |) 776 |
| Comprehensive income | \$ 17,920 | \$ 21,248 |

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
 CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except per share amounts)

| | Common Stock | Additional Paid-In Capital | Unearned Compensation ESOP | Retained Earnings | AOCI | Total Stockholders' Equity |
|---|-----------------|----------------------------------|----------------------------------|----------------------|----------|----------------------------------|
| Balance at October 1, 2015 | \$ 1,371 | \$ 1,151,041 | \$(41,299 |) \$296,739 | \$ 8,374 | \$ 1,416,226 |
| Net income | | | | 20,718 | | 20,718 |
| Other comprehensive loss, net of tax | | | | | (2,798) | (2,798) |
| ESOP activity, net | | 113 | 412 | | | 525 |
| Restricted stock activity, net | | 22 | | | | 22 |
| Stock-based compensation | | 533 | | | | 533 |
| Stock options exercised | | 158 | | | | 158 |
| Cash dividends to stockholders (\$0.34 per share) | | | | (44,551) | | (44,551) |
| Balance at December 31, 2015 | \$ 1,371 | \$ 1,151,867 | \$(40,887 |) \$272,906 | \$ 5,576 | \$ 1,390,833 |

See accompanying notes to consolidated financial statements.

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

| | For the Three Months Ended December 31, | |
|---|--|-----------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 20,718 | \$ 20,472 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| FHLB stock dividends | (3,152) | (3,181) |
| Provision for credit losses | — | 173 |
| Amortization and accretion of premiums and discounts on securities | 1,289 | 1,427 |
| Depreciation and amortization of premises and equipment | 1,706 | 1,680 |
| Amortization of deferred amounts related to FHLB advances, net | 751 | 1,269 |
| Common stock committed to be released for allocation - ESOP | 525 | 518 |
| Stock-based compensation | 533 | 516 |
| Changes in: | | |
| Other assets, net | 83 | 833 |
| Income taxes payable/receivable | 9,226 | 9,483 |
| Accounts payable and accrued expenses | (5,514) | (4,291) |
| Net cash provided by operating activities | 26,165 | 28,899 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of HTM securities | (1,432) | (810) |
| Proceeds from calls, maturities and principal reductions of AFS securities | 116,678 | 64,676 |
| Proceeds from calls, maturities and principal reductions of HTM securities | 71,312 | 79,200 |
| Proceeds from the redemption of FHLB stock | 94,500 | 97,179 |
| Purchase of FHLB stock | (59,832) | (2,250) |
| Net increase in loans receivable | (41,994) | (30,075) |
| Purchase of premises and equipment | (4,555) | (2,536) |
| Proceeds from sale of other real estate owned ("OREO") | 815 | 1,040 |
| Net cash provided by investing activities | 175,492 | 206,424 |

(Continued)

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

(Dollars in thousands)

| | For the Three Months Ended December 31, | |
|---|--|-------------------|
| | 2015 | 2014 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (44,551 |) (45,676 |
| Deposits, net of withdrawals | 139,960 | 49,740 |
| Proceeds from borrowings | 1,500,000 | 1,550,000 |
| Repayments on borrowings | (2,300,000 |) (2,350,000 |
| Change in advance payments by borrowers for taxes and insurance | (37,502 |) (34,407 |
| Repurchase of common stock | — | (7,208 |
| Other, net | 158 | 30 |
| Net cash used in financing activities | (741,935 |) (837,521 |
| | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (540,278 |) (602,198 |
| | | |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 772,632 | 810,840 |
| End of period | \$ 232,354 | \$ 208,642 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Income tax payments | \$ 13 | \$ 23 |
| Interest payments | \$ 25,686 | \$ 25,989 |
| | | |
| See accompanying notes to consolidated financial statements. | | (Concluded) |

Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of Capitol Federal® Financial, Inc. (the "Company") and its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. The ASU clarifies principles for recognizing revenue and provides a common revenue standard for GAAP and International Financial Reporting Standards. Additionally, the ASU provides implementation guidance on several topics and requires entities to disclose both quantitative and qualitative information regarding contracts with customers. ASU 2014-09 is effective for fiscal years beginning after December 15, 2016, which is October 1, 2017 for the Company, and can be applied using either a retrospective or cumulative-effect transition method. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers, which deferred the effective date of ASU 2014-09 one year, making the ASU effective for fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period, which is October 1, 2018 for the Company. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016. The Company has not yet completed its evaluation of ASU 2014-09.

2. EARNINGS PER SHARE

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

| | For the Three Months Ended December 31, | |
|---|--|-------------|
| | 2015 | 2014 |
| | (Dollars in thousands, except per share amounts) | |
| Net income | \$20,718 | \$20,472 |
| Income allocated to participating securities | (27 |) (42 |
| Net income available to common stockholders | \$20,691 | \$20,430 |
| Average common shares outstanding | 132,821,834 | 136,087,433 |
| Average committed ESOP shares outstanding | 449 | 449 |
| Total basic average common shares outstanding | 132,822,283 | 136,087,882 |
| Effect of dilutive stock options | 88,873 | 27,802 |
| Total diluted average common shares outstanding | 132,911,156 | 136,115,684 |
| Net EPS: | | |
| Basic | \$0.16 | \$0.15 |
| Diluted | \$0.16 | \$0.15 |
| Antidilutive stock options, excluded from the diluted average common shares outstanding calculation | 872,039 | 1,246,761 |

3. SECURITIES

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at the dates presented. The majority of the MBS and investment securities portfolios are composed of securities issued by United States Government-Sponsored Enterprises ("GSEs").

| | December 31, 2015 | | | |
|----------------------------|---|------------------------------|-------------------------------|----------------------------|
| | Amortized Cost (Dollars in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| AFS: | | | | |
| GSE debentures | \$421,231 | \$130 | \$1,923 | \$419,438 |
| MBS | 204,448 | 11,092 | 5 | 215,535 |
| Trust preferred securities | 2,186 | — | 332 | 1,854 |
| Municipal bonds | 140 | 3 | — | 143 |
| | 628,005 | 11,225 | 2,260 | 636,970 |
| HTM: | | | | |
| MBS | 1,160,584 | 19,329 | 8,493 | 1,171,420 |
| Municipal bonds | 39,394 | 374 | 8 | 39,760 |
| | 1,199,978 | 19,703 | 8,501 | 1,211,180 |
| | \$1,827,983 | \$30,928 | \$10,761 | \$1,848,150 |
| | September 30, 2015 | | | |
| | Amortized Cost (Dollars in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| AFS: | | | | |
| GSE debentures | \$525,376 | \$1,304 | \$60 | \$526,620 |
| MBS | 217,006 | 12,489 | 4 | 229,491 |
| Trust preferred securities | 2,186 | — | 270 | 1,916 |
| Municipal bonds | 140 | 4 | — | 144 |
| | 744,708 | 13,797 | 334 | 758,171 |
| HTM: | | | | |
| MBS | 1,233,048 | 27,325 | 3,590 | 1,256,783 |
| Municipal bonds | 38,074 | 437 | 20 | 38,491 |
| | 1,271,122 | 27,762 | 3,610 | 1,295,274 |
| | \$2,015,830 | \$41,559 | \$3,944 | \$2,053,445 |

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

| | December 31, 2015 | | | |
|----------------------------|-------------------------|----------------------|------------------------------------|----------------------|
| | Less Than 12 Months | | Equal to or Greater Than 12 Months | |
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (Dollars in thousands) | | | |
| AFS: | | | | |
| GSE debentures | \$ 348,259 | \$ 1,677 | \$ 24,754 | \$ 246 |
| MBS | — | — | 711 | 5 |
| Trust preferred securities | — | — | 1,854 | 332 |
| | \$ 348,259 | \$ 1,677 | \$ 27,319 | \$ 583 |
| HTM: | | | | |
| MBS | \$ 275,457 | \$ 1,568 | \$ 284,008 | \$ 6,925 |
| Municipal bonds | 5,175 | 6 | 395 | 2 |
| | \$ 280,632 | \$ 1,574 | \$ 284,403 | \$ 6,927 |
| | | | | |
| | September 30, 2015 | | | |
| | Less Than 12 Months | | Equal to or Greater Than 12 Months | |
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (Dollars in thousands) | | | |
| AFS: | | | | |
| GSE debentures | \$ 39,135 | \$ 15 | \$ 49,955 | \$ 45 |
| MBS | — | — | 687 | 4 |
| Trust preferred securities | — | — | 1,916 | 270 |
| | \$ 39,135 | \$ 15 | \$ 52,558 | \$ 319 |
| HTM: | | | | |
| MBS | \$ 38,604 | \$ 134 | \$ 302,158 | \$ 3,456 |
| Municipal bonds | 3,292 | 12 | 1,128 | 8 |
| | \$ 41,896 | \$ 146 | \$ 303,286 | \$ 3,464 |

The unrealized losses at December 31, 2015 and September 30, 2015 were primarily a result of an increase in market yields from the time the securities were purchased. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. The impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity. As a result of the analysis, management has concluded that no other-than-temporary impairments existed at December 31, 2015 or September 30, 2015.

The amortized cost and estimated fair value of debt securities as of December 31, 2015, by contractual maturity, are shown below. Actual principal repayments may differ from contractual maturities due to prepayment or early call privileges by the issuer. In the case of MBS, borrowers on the underlying loans generally have the right to prepay their loans without prepayment penalty. For this reason, MBS are not included in the maturity categories.

| | AFS | | HTM | |
|------------------------------|------------------------|----------------------|----------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| One year or less | \$ 25,117 | \$ 25,214 | \$ 4,884 | \$ 4,917 |
| One year through five years | 396,254 | 394,367 | 24,604 | 24,838 |
| Five years through ten years | — | — | 9,906 | 10,005 |
| Ten years and thereafter | 2,186 | 1,854 | — | — |
| | 423,557 | 421,435 | 39,394 | 39,760 |
| MBS | 204,448 | 215,535 | 1,160,584 | 1,171,420 |
| | \$ 628,005 | \$ 636,970 | \$ 1,199,978 | \$ 1,211,180 |

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

| | For the Three Months Ended | |
|-------------|----------------------------|----------|
| | December 31, 2015 | 2014 |
| | (Dollars in thousands) | |
| Taxable | \$ 1,354 | \$ 1,473 |
| Non-taxable | 179 | 202 |
| | \$ 1,533 | \$ 1,675 |

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

| | December 31, 2015 | | September 30, 2015 | |
|-----------------------|------------------------|----------------------|--------------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Public unit deposits | \$ 383,107 | \$ 384,158 | \$ 342,620 | \$ 347,505 |
| Repurchase agreements | 216,857 | 224,300 | 217,073 | 225,806 |
| FHLB borrowings | 203,395 | 202,385 | 216,607 | 218,199 |
| Federal Reserve Bank | 18,792 | 19,426 | 20,134 | 20,989 |
| | \$ 822,151 | \$ 830,269 | \$ 796,434 | \$ 812,499 |

4. LOANS RECEIVABLE and ALLOWANCE FOR CREDIT LOSSES

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

| | December 31, 2015 | September 30, 2015 |
|------------------------------|------------------------|--------------------|
| | (Dollars in thousands) | |
| Real estate loans: | | |
| One- to four-family | \$6,371,418 | \$6,342,412 |
| Multi-family and commercial | 113,852 | 110,938 |
| Construction | 137,501 | 129,920 |
| Total real estate loans | 6,622,771 | 6,583,270 |
| Consumer loans: | | |
| Home equity | 126,259 | 125,844 |
| Other | 4,219 | 4,179 |
| Total consumer loans | 130,478 | 130,023 |
| Total loans receivable | 6,753,249 | 6,713,293 |
| Less: | | |
| Undisbursed loan funds | 91,601 | 90,565 |
| ACL | 9,201 | 9,443 |
| Discounts/unearned loan fees | 24,172 | 24,213 |
| Premiums/deferred costs | (36,853 |) (35,955 |
| | \$6,665,128 | \$6,625,027 |

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

One- to four-family loans - Full documentation to support an applicant's credit and income, and sufficient funds to cover all applicable fees and reserves at closing, are required on all loans. Loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the Consumer Financial Protection Bureau ("CFPB"). Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function and approved by our Board of Directors.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of loans purchased from correspondent lenders on a loan-by-loan basis is performed by the Bank's underwriters. For the tables within this Note, correspondent loans purchased on a loan-by-loan basis are included with originated loans and loans purchased in loan packages ("bulk loans") are reported as purchased loans. The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. Construction loans are obtained by homeowners who will occupy the property when construction is complete. Construction loans to builders for speculative purposes are not permitted. All construction loans are manually underwritten using the Bank's internal underwriting standards. Construction draw requests and the supporting documentation are reviewed and approved by management. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

Multi-family and commercial loans - The Bank's multi-family, commercial real estate, and related construction loans are originated by the Bank or are in participation with a lead bank. These loans are granted based on the income producing potential of the property and the financial strength of the borrower and/or guarantor. At the time of origination, loan-to-value ("LTV") ratios on multi-family, commercial real estate, and related construction loans generally cannot exceed 80% of the appraised value of the property securing the loans and the minimum debt service coverage ratio is generally 1.25. The Bank generally requires personal guarantees from the

borrowers or the individuals that own the borrowing entity, which cover the entire outstanding debt, in addition to the security property as collateral for these loans. Appraisals on properties securing these loans are performed by independent state certified fee appraisers.

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

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

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

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

The following tables present the recorded investment, by class, in loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, current loans, and total recorded investment at the dates presented. The recorded investment in loans is defined as the unpaid principal balance of a loan (net of unadvanced funds related to loans in process), less charge-offs and inclusive of unearned loan fees and deferred costs. At December 31, 2015 and September 30, 2015, all loans 90 or more days delinquent were on nonaccrual status.

| | December 31, 2015 | | | | |
|--|---|--|------------------------------|------------------|---------------------------------|
| | 30 to 89 Days Delinquent (Dollars in thousands) | 90 or More Days Delinquent or in Foreclosure | Total Delinquent Loans | Current Loans | Total Recorded Investment |
| One- to four-family loans - originated | \$ 17,304 | \$ 9,864 | \$ 27,168 | \$ 5,916,786 | \$ 5,943,954 |
| One- to four-family loans - purchased | 7,859 | 7,251 | 15,110 | 456,862 | 471,972 |
| Multi-family and commercial loans | — | — | — | 127,925 | 127,925 |
| Consumer - home equity | 730 | 574 | 1,304 | 124,955 | 126,259 |
| Consumer - other | 88 | 25 | 113 | 4,106 | 4,219 |
| | \$ 25,981 | \$ 17,714 | \$ 43,695 | \$ 6,630,634 | \$ 6,674,329 |
| | September 30, 2015 | | | | |
| | 30 to 89 Days Delinquent (Dollars in thousands) | 90 or More Days Delinquent or in Foreclosure | Total Delinquent Loans | Current Loans | Total Recorded Investment |
| One- to four-family loans - originated | \$ 19,285 | \$ 7,093 | \$ 26,378 | \$ 5,869,289 | \$ 5,895,667 |

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

| | | | | | |
|---------------------------------------|-----------|-----------|-----------|--------------|--------------|
| One- to four-family loans - purchased | 7,305 | 8,956 | 16,261 | 472,114 | 488,375 |
| Multi-family and commercial loans | — | — | — | 120,405 | 120,405 |
| Consumer - home equity | 703 | 497 | 1,200 | 124,644 | 125,844 |
| Consumer - other | 17 | 12 | 29 | 4,150 | 4,179 |
| | \$ 27,310 | \$ 16,558 | \$ 43,868 | \$ 6,590,602 | \$ 6,634,470 |

15

The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure was \$4.2 million at December 31, 2015. The recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process as of December 31, 2015 was \$5.0 million.

The following table presents the recorded investment, by class, in loans classified as nonaccrual at the dates presented.

| | December 31, 2015 | September 30, 2015 |
|--|------------------------|--------------------|
| | (Dollars in thousands) | |
| One- to four-family loans - originated | \$ 17,525 | \$ 16,093 |
| One- to four-family loans - purchased | 7,333 | 9,038 |
| Multi-family and commercial loans | — | — |
| Consumer - home equity | 833 | 792 |
| Consumer - other | 26 | 12 |
| | \$ 25,717 | \$ 25,935 |

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

Special mention - These loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrower(s) have caused management to have doubts as to the ability of the borrower(s) to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.

Substandard - A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

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

| | December 31, 2015 | | September 30, 2015 | |
|----------------------------------|------------------------|-------------|--------------------|-------------|
| | Special Mention | Substandard | Special Mention | Substandard |
| | (Dollars in thousands) | | | |
| One- to four-family - originated | \$ 14,535 | \$ 30,308 | \$ 16,149 | \$ 29,282 |
| One- to four-family - purchased | 1,683 | 11,426 | 1,376 | 13,237 |
| Multi-family and commercial | — | — | — | — |
| Consumer - home equity | 127 | 1,415 | 151 | 1,301 |
| Consumer - other | — | 31 | — | 17 |
| | \$ 16,345 | \$ 43,180 | \$ 17,676 | \$ 43,837 |

The following table shows the weighted average credit score and weighted average LTV for originated and purchased one- to four-family loans and originated consumer home equity loans at the dates presented. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are updated at least semiannually, with the last update in September 2015, from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

| | December 31, 2015 | | | September 30, 2015 | |
|----------------------------------|-------------------|-----|---|--------------------|-----|
| | Credit Score | LTV | | Credit Score | LTV |
| One- to four-family - originated | 765 | 65 | % | 765 | 65 |
| One- to four-family - purchased | 752 | 65 | | 752 | 65 |
| Consumer - home equity | 753 | 19 | | 753 | 18 |
| | 764 | 64 | | 764 | 64 |

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

| | For the Three Months Ended | | |
|--|----------------------------|------------------------------|-------------------------------|
| | December 31, 2015 | | |
| | Number of Contracts | Pre-Restructured Outstanding | Post-Restructured Outstanding |
| | (Dollars in thousands) | | |
| One- to four-family loans - originated | 30 | \$ 3,106 | \$ 3,165 |
| One- to four-family loans - purchased | 1 | 123 | 122 |
| Multi-family and commercial loans | — | — | — |
| Consumer - home equity | 4 | 61 | 61 |
| Consumer - other | — | — | — |
| | 35 | \$ 3,290 | \$ 3,348 |
| | For the Three Months Ended | | |
| | December 31, 2014 | | |
| | Number of Contracts | Pre-Restructured Outstanding | Post-Restructured Outstanding |
| | (Dollars in thousands) | | |
| One- to four-family loans - originated | 43 | \$ 5,324 | \$ 5,372 |
| One- to four-family loans - purchased | 2 | 266 | 268 |
| Multi-family and commercial loans | — | — | — |
| Consumer - home equity | 4 | 64 | 65 |
| Consumer - other | 3 | 12 | 12 |
| | 52 | \$ 5,666 | \$ 5,717 |

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

| | For the Three Months Ended | | | |
|--|----------------------------|------------|-------------------|------------|
| | December 31, 2015 | | December 31, 2014 | |
| | Number of | Recorded | Number of | Recorded |
| | Contracts | Investment | Contracts | Investment |
| | (Dollars in thousands) | | | |
| One- to four-family loans - originated | 11 | \$ 800 | 19 | \$ 1,757 |
| One- to four-family loans - purchased | — | — | 2 | 268 |
| Multi-family and commercial loans | — | — | — | — |
| Consumer - home equity | 2 | 78 | 1 | 15 |
| Consumer - other | — | — | 1 | 5 |
| | 13 | \$ 878 | 23 | \$ 2,045 |

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

| | December 31, 2015 | | | September 30, 2015 | | |
|------------------------------------|------------------------|--------------------------------|----------------|------------------------|--------------------------------|----------------|
| | Recorded Investment | Unpaid Principal Balance | Related ACL | Recorded Investment | Unpaid Principal Balance | Related ACL |
| (Dollars in thousands) | | | | | | |
| With no related allowance recorded | | | | | | |
| One- to four-family - originated | \$ 11,658 | \$ 12,298 | \$— | \$ 11,169 | \$ 11,857 | \$— |
| One- to four-family - purchased | 12,379 | 14,470 | — | 11,035 | 13,315 | — |
| Multi-family and commercial | — | — | — | — | — | — |
| Consumer - home equity | 672 | 873 | — | 591 | 837 | — |
| Consumer - other | 11 | 38 | — | 13 | 40 | — |
| | 24,720 | 27,679 | — | 22,808 | 26,049 | — |
| With an allowance recorded | | | | | | |
| One- to four-family - originated | 27,961 | 28,050 | 488 | 26,453 | 26,547 | 294 |
| One- to four-family - purchased | 844 | 824 | 12 | 3,764 | 3,731 | 110 |
| Multi-family and commercial | — | — | — | — | — | — |
| Consumer - home equity | 898 | 898 | 56 | 869 | 870 | 62 |
| Consumer - other | 20 | 20 | 1 | 10 | 10 | 1 |
| | 29,723 | 29,792 | 557 | 31,096 | 31,158 | 467 |
| Total | | | | | | |
| One- to four-family - originated | 39,619 | 40,348 | 488 | 37,622 | 38,404 | 294 |
| One- to four-family - purchased | 13,223 | 15,294 | 12 | 14,799 | 17,046 | 110 |
| Multi-family and commercial | — | — | — | — | — | — |
| Consumer - home equity | 1,570 | 1,771 | 56 | 1,460 | 1,707 | 62 |
| Consumer - other | 31 | 58 | 1 | 23 | 50 | 1 |
| | \$54,443 | \$57,471 | \$557 | \$53,904 | \$57,207 | \$467 |

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

| | For the Three Months Ended | | | |
|------------------------------------|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | December 31, 2015 | | December 31, 2014 | |
| | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| | (Dollars in thousands) | | | |
| With no related allowance recorded | | | | |
| One- to four-family - originated | \$ 10,972 | \$ 113 | \$ 13,256 | \$ 113 |
| One- to four-family - purchased | 11,090 | 51 | 11,749 | 51 |
| Multi-family and commercial | — | — | — | — |
| Consumer - home equity | 574 | 8 | 515 | 8 |
| Consumer - other | 9 | — | 16 | — |
| | 22,645 | 172 | 25,536 | 172 |
| With an allowance recorded | | | | |
| One- to four-family - originated | 28,114 | 265 | 26,074 | 272 |
| One- to four-family - purchased | 3,246 | 7 | 2,122 | 12 |
| Multi-family and commercial | — | — | — | — |
| Consumer - home equity | 954 | 11 | 586 | 6 |
| Consumer - other | 13 | — | 15 | — |
| | 32,327 | 283 | 28,797 | 290 |
| Total | | | | |
| One- to four-family - originated | 39,086 | 378 | 39,330 | 385 |
| One- to four-family - purchased | 14,336 | 58 | 13,871 | 63 |
| Multi-family and commercial | — | — | — | — |
| Consumer - home equity | 1,528 | 19 | 1,101 | 14 |
| Consumer - other | 22 | — | 31 | — |
| | \$ 54,972 | \$ 455 | \$ 54,333 | \$ 462 |

Allowance for Credit Losses - The following is a summary of ACL activity, by loan portfolio segment, for the periods presented, and the ending balance of ACL based on the Company's impairment methodology.

For the Three Months Ended December 31, 2015

| | One- to Four- Family - Originated | One- to Four- Family - Purchased | One- to Four- Family - Total | Multi-family and Commercial | Consumer | Total |
|-----------------------------|---|--|------------------------------------|-----------------------------------|----------|---------|
| | (Dollars in thousands) | | | | | |
| Beginning balance | \$6,980 | \$1,434 | \$8,414 | \$742 | \$287 | \$9,443 |
| Charge-offs | (57 |) (175 |) (232 |) — | (18 |) (250 |
| Recoveries | 3 | — | 3 | — | 5 | 8 |
| Provision for credit losses | (94 |) 31 | (63 |) 59 | 4 | — |
| Ending balance | \$6,832 | \$1,290 | \$8,122 | \$801 | \$278 | \$9,201 |

For the Three Months Ended December 31, 2014

| | One- to Four- Family - Originated | One- to Four- Family - Purchased | One- to Four- Family - Total | Multi-family and Commercial | Consumer | Total |
|-----------------------------|---|--|------------------------------------|-----------------------------------|----------|---------|
| | (Dollars in thousands) | | | | | |
| Beginning balance | \$6,263 | \$2,323 | \$8,586 | \$400 | \$241 | \$9,227 |
| Charge-offs | (58 |) (113 |) (171 |) — | (35 |) (206 |
| Recoveries | 21 | 54 | 75 | — | 28 | 103 |
| Provision for credit losses | 258 | (270 |) (12 |) 105 | 80 | 173 |
| Ending balance | \$6,484 | \$1,994 | \$8,478 | \$505 | \$314 | \$9,297 |

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

| | December 31, 2015 | | | | | |
|--|---|--|------------------------------------|-----------------------------------|-----------|-------------|
| | One- to Four- Family - Originated (Dollars in thousands) | One- to Four- Family - Purchased | One- to Four- Family - Total | Multi-family and Commercial | Consumer | Total |
| Recorded investment in loans collectively evaluated for impairment | \$5,932,297 | \$459,593 | \$6,391,890 | \$127,925 | \$129,769 | \$6,649,584 |
| Recorded investment in loans individually evaluated for impairment | 11,657 | 12,379 | 24,036 | — | 709 | 24,745 |
| | \$5,943,954 | \$471,972 | \$6,415,926 | \$127,925 | \$130,478 | \$6,674,329 |
| ACL for loans collectively evaluated for impairment | \$6,832 | \$1,290 | \$8,122 | \$801 | \$278 | \$9,201 |
| | September 30, 2015 | | | | | |
| | One- to Four- Family - Originated (Dollars in thousands) | One- to Four- Family - Purchased | One- to Four- Family - Total | Multi-family and Commercial | Consumer | Total |
| Recorded investment in loans collectively evaluated for impairment | \$5,884,498 | \$477,340 | \$6,361,838 | \$120,405 | \$129,419 | \$6,611,662 |
| Recorded investment in loans individually evaluated for impairment | 11,169 | 11,035 | 22,204 | — | 604 | 22,808 |
| | \$5,895,667 | \$488,375 | \$6,384,042 | \$120,405 | \$130,023 | \$6,634,470 |
| ACL for loans collectively evaluated for impairment | \$6,980 | \$1,434 | \$8,414 | \$742 | \$287 | \$9,443 |

5. LOW INCOME HOUSING PARTNERSHIPS

The Bank's investment in low income housing partnerships, which is included in other assets in the consolidated balance sheets, was \$51.1 million and \$41.8 million at December 31, 2015 and September 30, 2015, respectively. The Bank's obligations related to unfunded commitments, which are included in accounts payable and accrued expenses in the consolidated balance sheets, were \$21.8 million and \$14.6 million at December 31, 2015 and September 30, 2015, respectively. The majority of the commitments are projected to be funded through the end of calendar year 2018.

Expenses associated with the Bank's investment in the low income housing partnerships are included in low income housing partnerships in the consolidated statements of income. The low income housing partnership expenses resulted in other tax benefits of \$292 thousand for the three months ended December 31, 2015 which are a component of income tax expense in the consolidated statements of income. Affordable housing tax credits are recognized as a component of income tax expense in the consolidated statements of income and totaled \$1.2 million for the three months ended December 31, 2015. There were no impairment losses during the three months ended December 31, 2015 resulting from the forfeiture or ineligibility of tax credits or other circumstances.

6. REPURCHASE AGREEMENTS

At both December 31, 2015 and September 30, 2015, the Company had repurchase agreements outstanding in the amount of \$200.0 million with a weighted average contractual rate of 2.94%. All of the Company's repurchase agreements at December 31, 2015 and September 30, 2015 were fixed-rate. See Note 3 for information regarding the amount of securities pledged as collateral in conjunction with repurchase agreements. Securities are delivered to the party with whom each transaction is executed and the party agrees to resell the same securities to the Bank at the maturity of the agreement. The Bank retains the right to substitute similar or like securities throughout the terms of the agreements. The repurchase agreements and collateral are subject to valuation at current market levels and the Bank may ask for the return of excess collateral or be required to post additional collateral due to changes in the market values of these items. The Bank may also be required to post additional collateral as a result of principal payments received on the securities pledged.

The following table presents the scheduled maturity of repurchase agreements by fiscal year as of December 31, 2015:

| | Amount (Dollars in thousands) |
|------------|-------------------------------------|
| 2016 | \$— |
| 2017 | — |
| 2018 | 100,000 |
| 2019 | — |
| 2020 | 100,000 |
| Thereafter | — |
| | \$ 200,000 |

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements - The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures in accordance with Accounting Standards Codification ("ASC") 820 and ASC 825. The Company did not have any liabilities that were measured at fair value at December 31, 2015 or September 30, 2015. The Company's AFS securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets or liabilities on a non-recurring basis, such as OREO and loans individually evaluated for impairment. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability.

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

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

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. The majority of the securities within the AFS portfolio were issued by GSEs. The Company primarily uses prices obtained from third party pricing services to determine the fair value of its securities. On a quarterly basis, management corroborates a sample of prices obtained from the third party pricing service for Level 2 securities by comparing them to an independent source. If the price provided by the independent source varies by more than a predetermined percentage from the price received from the third party pricing service, then the variance is researched by management. The Company did not have to adjust prices obtained from the third party pricing service when determining the fair value of its securities during the three months ended December 31, 2015 or during fiscal year 2015. The Company's major security types, based on the nature and risks of the securities, are:

GSE Debentures - Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for similar securities. (Level 2)

MBS - Estimated fair values are based on a discounted cash flow method. Cash flows are determined based on prepayment projections of the underlying mortgages and are discounted using current market yields for benchmark securities. (Level 2)

Municipal Bonds - Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking any embedded options into consideration and are discounted using current market yields for securities with similar credit profiles. (Level 2)

Trust Preferred Securities - Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking prepayment and underlying credit considerations into account. The discount rates are derived

from secondary trades and bid/offer prices. (Level 3)

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

| December 31, 2015 | | | | |
|----------------------------|----------------|--|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (Dollars in thousands) | | | | |
| AFS Securities: | | | | |
| GSE debentures | \$419,438 | \$— | \$419,438 | \$— |
| MBS | 215,535 | — | 215,535 | — |
| Municipal bonds | 143 | — | 143 | — |
| Trust preferred securities | 1,854 | — | — | 1,854 |
| | \$636,970 | \$— | \$635,116 | \$1,854 |
| September 30, 2015 | | | | |
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (Dollars in thousands) | | | | |
| AFS Securities: | | | | |
| GSE debentures | \$526,620 | \$— | \$526,620 | \$— |
| MBS | 229,491 | — | 229,491 | — |
| Municipal bonds | 144 | — | 144 | — |
| Trust preferred securities | 1,916 | — | — | 1,916 |
| | \$758,171 | \$— | \$756,255 | \$1,916 |

The Company's Level 3 AFS securities had no activity during the three months ended December 31, 2015 and 2014, except for principal repayments of \$5 thousand and \$26 thousand, respectively, and increases in net unrealized losses included in other comprehensive income of \$39 thousand and \$51 thousand, respectively.

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

Loans Receivable - The balance of loans individually evaluated for impairment at December 31, 2015 and September 30, 2015 was \$24.7 million and \$22.8 million, respectively. Substantially all of these loans were secured by residential real estate and were individually evaluated to determine if the carrying value of the loan was in excess of the fair value of the collateral, less estimated selling costs of 10%. When no impairment is indicated, the carrying amount is considered to approximate fair value. Fair values were estimated through current appraisals or current Federal Housing Finance Agency ("FHFA") housing price indices, which is a broad based measure of the movement of single-family house prices and is a weighted, repeat-sales index. Management does not adjust or apply a discount to the appraised value or FHFA housing price indices, except for the estimated sales costs noted above. The primary significant unobservable input for impaired loans with fair values estimated using appraisals was the appraisal. Fair values of impaired loans cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the loan, and, as such are classified as Level 3. Based on this evaluation, the Bank charged-off any loss amounts as of December 31, 2015 and September 30, 2015; therefore, there was no ACL related to these loans.

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

estimated selling costs of 10%. Management does not adjust or apply a discount to the appraised value or listing prices, except for the estimated sales costs noted above. The primary significant unobservable input for OREO was the appraisal or listing price. Fair values of foreclosed property cannot be determined with precision and may not be realized in an actual sale of the property, and, as such are classified as Level 3. The fair value of OREO at December 31, 2015 and September 30, 2015 was \$5.5 million and \$4.3 million, respectively.

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

| | December 31, 2015 | | | |
|---|------------------------|--|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (Dollars in thousands) | | | |
| Loans individually evaluated for impairment | \$ 24,698 | \$— | \$— | \$ 24,698 |
| OREO | 5,460 | — | — | 5,460 |
| | \$ 30,158 | \$— | \$— | \$ 30,158 |
| | September 30, 2015 | | | |
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | (Dollars in thousands) | | | |
| Loans individually evaluated for impairment | \$ 22,762 | \$— | \$— | \$ 22,762 |
| OREO | 4,333 | — | — | 4,333 |
| | \$ 27,095 | \$— | \$— | \$ 27,095 |

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

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

| | December 31, 2015 | | September 30, 2015 | |
|---------------------------|------------------------|----------------------|--------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 232,354 | \$ 232,354 | \$ 772,632 | \$ 772,632 |
| AFS securities | 636,970 | 636,970 | 758,171 | 758,171 |
| HTM securities | 1,199,978 | 1,211,180 | 1,271,122 | 1,295,274 |
| Loans receivable | 6,665,128 | 6,842,530 | 6,625,027 | 6,870,176 |
| FHLB stock | 119,027 | 119,027 | 150,543 | 150,543 |
| Liabilities: | | | | |
| Deposits | 4,972,480 | 4,992,708 | 4,832,520 | 4,869,312 |
| FHLB borrowings | 2,471,272 | 2,507,344 | 3,270,521 | 3,339,650 |
| Repurchase agreements | 200,000 | 207,154 | 200,000 | 209,807 |

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 assets. (Level 1)

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

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

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

Deposits - The estimated fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of these deposits at December 31, 2015 and September 30, 2015 was \$2.32 billion and \$2.20 billion, respectively. (Level 1) The fair value of certificates of deposit is estimated by discounting future cash flows using current London Interbank Offered Rates ("LIBOR"). The estimated fair value of certificates of deposit was \$2.67 billion at both December 31, 2015 and September 30, 2015. (Level 2)

FHLB borrowings and Repurchase Agreements - The fair value of fixed-maturity borrowed funds is estimated by discounting estimated future cash flows using current offer rates. (Level 2) The carrying value of FHLB line of credit is considered to approximate its fair value due to the nature of the financial liability. (Level 1)

8. SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events occurring subsequent to December 31, 2015 for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at December 31, 2015.

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

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

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

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

our success at managing the risks involved in our business.

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

As used in this Form 10-Q, unless the context indicates otherwise, "the Company," "we," "us," and "our" refer to Capitol Federal Financial, Inc. a Maryland corporation, and its consolidated subsidiaries. "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. The Bank comprises almost all of the consolidated assets and liabilities of the Company and the Company is dependent primarily upon the performance of the Bank for the results of its operations. Because of this relationship, references to management actions, strategies and results of actions apply to both the Bank and the Company. This discussion and

analysis should be read in conjunction with Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, filed with the SEC.

Executive Summary

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

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

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

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

Economic conditions in the Bank's local market areas have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. The industries in our market areas are diversified, especially in the Kansas City metropolitan statistical area, which comprises the largest segment of our loan portfolio and deposit base. As of December 2015, the unemployment rate was 3.9% for Kansas and 4.4% for Missouri, compared to the national average of 5.0%, based on information from the Bureau of Labor Statistics. The Kansas City market area has an average household income of approximately \$75 thousand per annum, based on 2015 estimates from the American Community Survey, which is a statistical survey by the U.S. Census Bureau. The average household income in our combined market areas is approximately \$70 thousand per annum, with 90% of the population at or above the poverty level, also based on the 2015 estimates from the American Community Survey. The FHFA price index for Kansas and Missouri has not experienced significant fluctuations during the past 10 years, unlike other market areas of the United States, which indicates relative stability in property values in our local market areas.

For the quarter ended December 31, 2015, the Company recognized net income of \$20.7 million, or \$0.16 per share, compared to net income of \$20.5 million, or \$0.15 per share, for the quarter ended December 31, 2014. The \$246 thousand, or 1.2%, increase in net income was due primarily to a \$309 thousand increase in non-interest income and a

\$266 thousand decrease in income tax expense, partially offset by a \$448 thousand increase in non-interest expense. Net income attributable to the daily leverage strategy was \$583 thousand during the current quarter, compared to \$795 thousand for the prior year quarter. The net interest margin decreased one basis point, from 1.76% for the prior year quarter to 1.75% for the current year quarter. Excluding the effects of the daily leverage strategy, the net interest margin would have been 2.11% for the current year quarter, unchanged from the prior year quarter.

Total assets were \$9.13 billion at December 31, 2015 compared to \$9.84 billion at September 30, 2015. The \$710.7 million decrease was due primarily to a \$540.3 million decrease in cash and cash equivalents and a \$31.5 million decrease in FHLB stock, both due to the removal of the daily leverage strategy at December 31, 2015, as well as to a \$192.3 million decrease in the securities portfolio.

The loan receivable portfolio, net, increased \$40.1 million, to \$6.67 billion at December 31, 2015, from \$6.63 billion at September 30, 2015. During the current quarter, the Bank originated and refinanced \$195.6 million of loans with a weighted average rate of 3.68%, purchased \$118.6 million of loans from correspondent lenders with a weighted average rate of 3.54%, and purchased participations of \$8.9 million of multi-family and commercial real estate loans with a weighted average rate of 4.25%.

Total liabilities were \$7.74 billion at December 31, 2015 compared to \$8.43 billion at September 30, 2015. The \$685.3 million decrease was due primarily to a \$799.2 million decrease in FHLB borrowings largely as a result of the removal of the daily leverage strategy at December 31, 2015, along with a \$100.0 million decrease in term advances, partially offset by a \$140.0 million increase in the deposit portfolio. Management intends to remove the entire daily leverage strategy at each quarter end, and reinstate the strategy at the beginning of the next quarter, during fiscal year 2016. The growth in deposits was primarily in the checking, wholesale certificate of deposit, and money market portfolios, which increased \$79.3 million, \$36.8 million, and \$34.1 million, respectively.

Stockholders' equity was \$1.39 billion at December 31, 2015 compared to \$1.42 billion at September 30, 2015. The \$25.4 million decrease between periods was due primarily to the payment of \$44.5 million in cash dividends, partially offset by net income of \$20.7 million.

Available Information

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

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by the audit committee of our Board of Directors. For a full discussion of our critical accounting policies, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Financial Condition

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

| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | |
|---|------------------------|-----------------------|------------------|-------------------|----------------------|---|
| | (Dollars in thousands) | | | | | |
| Total assets | \$9,133,422 | \$9,844,161 | \$9,131,181 | \$10,023,099 | \$9,056,356 | |
| Cash and cash equivalents | 232,354 | 772,632 | 46,668 | 1,021,150 | 208,642 | |
| AFS securities | 636,970 | 758,171 | 847,059 | 842,856 | 777,329 | |
| HTM securities | 1,199,978 | 1,271,122 | 1,359,657 | 1,425,383 | 1,472,914 | |
| Loans receivable, net | 6,665,128 | 6,625,027 | 6,496,468 | 6,365,320 | 6,261,619 | |
| FHLB stock | 119,027 | 150,543 | 166,257 | 154,951 | 121,306 | |
| Deposits | 4,972,480 | 4,832,520 | 4,813,188 | 4,837,274 | 4,705,012 | |
| FHLB borrowings | 2,471,272 | 3,270,521 | 2,572,898 | 3,371,970 | 2,570,946 | |
| Repurchase agreements | 200,000 | 200,000 | 220,000 | 220,000 | 220,000 | |
| Stockholders' equity | 1,390,833 | 1,416,226 | 1,426,723 | 1,476,656 | 1,465,929 | |
| Equity to total assets at end of period | 15.2 | % 14.4 | % 15.6 | % 14.7 | % 16.2 | % |

Assets. Total assets were \$9.13 billion at December 31, 2015 compared to \$9.84 billion at September 30, 2015. The \$710.7 million decrease was due primarily to a \$540.3 million decrease in cash and cash equivalents and \$31.5 million decrease in FHLB stock, both due to the removal of the daily leverage strategy at December 31, 2015, as well as to a

\$192.3 million decrease in the securities portfolio. Cash flows from the securities portfolio were primarily held as operating cash as well as used to fund loan growth during the quarter. The entire \$2.10 billion daily leverage strategy was reinstated on January 4, 2016.

Loans Receivable. Loans receivable, net, increased \$40.1 million, to \$6.67 billion at December 31, 2015, from \$6.63 billion at September 30, 2015. The growth in the loan portfolio was primarily in the correspondent one- to four-family purchased loan portfolio.

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

The following table presents the balance and weighted average rate of our loan portfolio as of the dates indicated. Within the one- to four-family loan portfolio at December 31, 2015, 63% of the loans had a balance at origination of less than \$417 thousand.

| | December 31, 2015 | | September 30, 2015 | | |
|----------------------------------|------------------------|------|--------------------|------|---|
| | Amount | Rate | Amount | Rate | |
| | (Dollars in thousands) | | | | |
| Real estate loans: | | | | | |
| One- to four-family | | | | | |
| Originated | \$4,005,625 | 3.82 | % \$4,010,517 | 3.84 | % |
| Correspondent purchased | 1,896,393 | 3.52 | 1,846,213 | 3.52 | |
| Bulk purchased | 469,400 | 2.23 | 485,682 | 2.25 | |
| Construction | 77,124 | 3.52 | 75,152 | 3.57 | |
| Total | 6,448,542 | 3.61 | 6,417,564 | 3.62 | |
| Multi-family and commercial | | | | | |
| Permanent | 113,852 | 4.14 | 110,938 | 4.14 | |
| Construction or land development | 60,377 | 4.15 | 54,768 | 4.13 | |
| Total | 174,229 | 4.14 | 165,706 | 4.14 | |
| Total real estate loans | 6,622,771 | 3.63 | 6,583,270 | 3.64 | |
| Consumer loans: | | | | | |
| Home equity | 126,259 | 4.96 | 125,844 | 5.00 | |
| Other | 4,219 | 4.12 | 4,179 | 4.03 | |
| Total consumer loans | 130,478 | 4.94 | 130,023 | 4.97 | |
| Total loans receivable | 6,753,249 | 3.65 | 6,713,293 | 3.66 | |
| Less: | | | | | |
| Undisbursed loan funds | 91,601 | | 90,565 | | |
| ACL | 9,201 | | 9,443 | | |
| Discounts/unearned loan fees | 24,172 | | 24,213 | | |
| Premiums/deferred costs | (36,853 |) | (35,955 |) | |
| Total loans receivable, net | \$6,665,128 | | \$6,625,027 | | |

The following table presents, for our portfolio of one- to four-family loans, the balance, percentage of total, weighted average credit score, weighted average LTV ratio, and the average balance per loan at the dates presented. Credit scores are updated at least semiannually, with the latest update in September 2015, from a nationally recognized consumer rating agency. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

| | December 31, 2015 | | | | | September 30, 2015 | | | | |
|-------------------------|------------------------|------------|--------------|-----|-----------------|--------------------|------------|--------------|-----|-----------------|
| | Amount | % of Total | Credit Score | LTV | Average Balance | Amount | % of Total | Credit Score | LTV | Average Balance |
| | (Dollars in thousands) | | | | | | | | | |
| Originated | \$4,005,625 | 62.9 | % 765 | 64 | % \$129 | \$4,010,517 | 63.2 | % 765 | 64 | % \$129 |
| Correspondent purchased | 1,896,393 | 29.7 | 764 | 68 | 344 | 1,846,213 | 29.1 | 764 | 68 | 344 |
| Bulk purchased | 469,400 | 7.4 | 753 | 65 | 308 | 485,682 | 7.7 | 752 | 65 | 310 |
| Total | \$6,371,418 | 100.0 | % 764 | 65 | 168 | \$6,342,412 | 100.0 | % 764 | 65 | 167 |

The following table summarizes activity in the loan portfolio, along with weighted average rates where applicable, for the periods indicated, excluding changes in undisbursed loan funds, ACL, discounts/unearned loan fees, and premiums/deferred costs. Loans that were paid-off as a result of refinances are included in repayments. Loan endorsements are not included in the activity in the following table because a new loan is not generated at the time of the endorsement. The endorsed balance and rate are included in the ending loan portfolio balance and rate. During the three months ended December 31, 2015, the Bank endorsed \$23.6 million of one- to four-family loans, reducing the average rate on those loans by 90 basis points.

| | For the Three Months Ended | | | | | | | |
|-------------------------------|----------------------------|--------|--------------------|--------|---------------|--------|----------------|--------|
| | December 31, 2015 | | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | |
| | Amount | Rate | Amount | Rate | Amount | Rate | Amount | Rate |
| | (Dollars in thousands) | | | | | | | |
| Beginning balance | \$6,713,293 | 3.66 % | \$6,547,702 | 3.67 % | \$6,418,780 | 3.71 % | \$6,317,251 | 3.74 % |
| Originated and refinanced: | | | | | | | | |
| Fixed | 157,447 | 3.67 | 165,646 | 3.73 | 207,895 | 3.50 | 131,532 | 3.49 |
| Adjustable | 38,117 | 3.74 | 51,634 | 3.59 | 47,609 | 3.55 | 36,053 | 3.63 |
| Purchased and participations: | | | | | | | | |
| Fixed | 101,644 | 3.69 | 164,397 | 3.64 | 147,887 | 3.51 | 144,370 | 3.56 |
| Adjustable | 25,861 | 3.17 | 65,722 | 3.69 | 29,046 | 2.92 | 41,858 | 2.94 |
| Repayments | (280,978) | | (280,671) | | (301,835) | | (250,422) | |
| Principal charge-offs, net | (242) | | (158) | | (128) | | (166) | |
| Other | (1,893) | | (979) | | (1,552) | | (1,696) | |
| Ending balance | \$6,753,249 | 3.65 | \$6,713,293 | 3.66 | \$6,547,702 | 3.67 | \$6,418,780 | 3.71 |

The following tables present loan origination, refinance, and purchase activity for the periods indicated, excluding endorsement activity, along with associated weighted average rates and percent of total. Loan originations, purchases and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination. Of the \$150.2 million of one- to four-family loans originated and refinanced during the current year three month period, 80% had loan values of \$417 thousand or less. Of the \$118.6 million of one- to four-family correspondent loans purchased during the current year three month period, 27% had loan values of \$417 thousand or less.

| | For the Three Months Ended | | | | | |
|--|----------------------------|------|------------|-------------------|------|------------|
| | December 31, 2015 | | | December 31, 2014 | | |
| | Amount | Rate | % of Total | Amount | Rate | % of Total |
| | (Dollars in thousands) | | | | | |
| Fixed-rate: | | | | | | |
| One- to four-family: | | | | | | |
| <= 15 years | \$60,427 | 3.01 | % 18.7 | % \$59,885 | 3.13 | % 23.2 |
| > 15 years | 166,383 | 3.79 | 51.5 | 117,319 | 4.02 | 45.4 |
| Multi-family and commercial real estate | 31,164 | 4.25 | 9.6 | 17,350 | 3.77 | 6.7 |
| Home equity | 893 | 5.65 | 0.3 | 888 | 6.21 | 0.3 |
| Other | 224 | 8.41 | 0.1 | 202 | 8.08 | 0.1 |
| Total fixed-rate | 259,091 | 3.68 | 80.2 | 195,644 | 3.74 | 75.7 |
| Adjustable-rate: | | | | | | |
| One- to four-family: | | | | | | |
| <= 36 months | 904 | 2.66 | 0.3 | 1,367 | 2.63 | 0.5 |
| > 36 months | 41,097 | 3.02 | 12.7 | 43,530 | 3.01 | 16.9 |
| Multi-family and commercial real estate | 3,376 | 4.25 | 1.0 | — | — | — |
| Home equity | 18,059 | 4.52 | 5.6 | 17,261 | 4.63 | 6.7 |
| Other | 542 | 3.44 | 0.2 | 425 | 3.33 | 0.2 |
| Total adjustable-rate | 63,978 | 3.51 | 19.8 | 62,583 | 3.45 | 24.3 |
| Total originated, refinanced and purchased | \$323,069 | 3.64 | 100.0 | % \$258,227 | 3.67 | 100.0 |
| Purchased and participation loans included above: | | | | | | |
| Fixed-rate: | | | | | | |
| Correspondent - one- to four-family | \$96,111 | 3.66 | | \$78,704 | 3.73 | |
| Participations - multi-family and commercial real estate | 5,533 | 4.25 | | 15,670 | 3.79 | |
| Total fixed-rate purchased/participations | 101,644 | 3.69 | | 94,374 | 3.74 | |
| Adjustable-rate: | | | | | | |
| Correspondent - one- to four-family | 22,485 | 3.01 | | 23,705 | 2.96 | |
| Participations - multi-family and commercial real estate | 3,376 | 4.25 | | — | — | |
| Total adjustable-rate purchased/participations | 25,861 | 3.17 | | 23,705 | 2.96 | |
| Total purchased/participation loans | \$127,505 | 3.59 | | \$118,079 | 3.58 | |

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

| | For the Three Months Ended | | | December 31, 2014 | | |
|------------------------------|----------------------------|-----|--------------|-------------------|-----|--------------|
| | December 31, 2015 | | | December 31, 2014 | | |
| | Amount | LTV | Credit Score | Amount | LTV | Credit Score |
| | (Dollars in thousands) | | | | | |
| Originated | \$ 113,655 | 76 | % 766 | \$ 97,008 | 76 | % 769 |
| Refinanced by Bank customers | 36,560 | 68 | 769 | 22,684 | 67 | 765 |
| Correspondent purchased | 118,596 | 74 | 763 | 102,409 | 75 | 766 |
| | \$ 268,811 | 74 | 765 | \$ 222,101 | 74 | 767 |

The following table presents the amount, percent of total, and weighted average rate, by state, for one- to four-family loan originations and correspondent purchases where originations and purchases in the state exceeded five percent of the total amount originated and purchased during the three months ended December 31, 2015.

| State | For the Three Months Ended | | |
|--------------|----------------------------|------------|--------|
| | December 31, 2015 | | |
| | Amount | % of Total | Rate |
| | (Dollars in thousands) | | |
| Kansas | \$ 132,636 | 49.4 | % 3.48 |
| Missouri | 57,692 | 21.5 | 3.53 |
| Texas | 30,705 | 11.4 | 3.49 |
| Tennessee | 15,162 | 5.6 | 3.50 |
| Other states | 32,616 | 12.1 | 3.53 |
| | \$ 268,811 | 100.0 | % 3.50 |

One- to Four-Family Loan Commitments - The following table summarizes our one- to four-family loan origination and refinance commitments and one- to four-family correspondent purchase commitments as of December 31, 2015, along with associated weighted average rates. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. A percentage of the commitments are expected to expire unfunded, so the amounts reflected in the table below are not necessarily indicative of future cash requirements.

| | Fixed-Rate | | | Total Amount | Rate |
|---------------------|------------------------|--------------------|-----------------|--------------|--------|
| | 15 years or less | More than 15 years | Adjustable-Rate | | |
| | (Dollars in thousands) | | | | |
| Originate/refinance | \$ 14,045 | \$ 60,214 | \$ 16,188 | \$ 90,447 | 3.57 % |
| Correspondent | 15,600 | 98,488 | 18,124 | 132,212 | 3.71 |
| | \$ 29,645 | \$ 158,702 | \$ 34,312 | \$ 222,659 | 3.65 |
| Rate | 3.09 | % 3.88 | % 3.11 | % | |

Multi-Family and Commercial Real Estate Loans - The Bank generally requires a minimum debt service coverage ratio of 1.25 and limits LTV ratios to 80% for multi-family and commercial real estate loans, depending on the property type. Multi-family and commercial real estate permanent and construction loans are originated or participated in based on the income producing potential of the property and the financial strength of the borrower and/or guarantors. The Bank intends to continue participating in commercial construction-to-permanent and permanent loans through its correspondent lending channel and other lead banks.

The following table presents multi-family and commercial real estate and construction loans and commitments by industry classification, as defined by the North American Industry Classification System, as of December 31, 2015.

| | Unpaid Principal (Dollars in thousands) | Undisbursed Amount | Gross Loan Amount | Outstanding Commitments | Total | % of Total | |
|-------------------------------------|---|-----------------------|----------------------|----------------------------|-----------|---------------|---|
| Accommodation and food services | \$51,357 | \$41,886 | \$93,243 | \$1,506 | \$94,749 | 39.4 | % |
| Health care and social assistance | 11,200 | 800 | 12,000 | 29,920 | 41,920 | 17.4 | |
| Arts, entertainment, and recreation | — | — | — | 34,480 | 34,480 | 14.4 | |
| Real estate rental and leasing | 21,467 | 740 | 22,207 | — | 22,207 | 9.2 | |
| Retail trade | 14,909 | — | 14,909 | 500 | 15,409 | 6.4 | |
| Multi-family | 17,114 | 2,437 | 19,551 | — | 19,551 | 8.1 | |
| Other | 12,319 | — | 12,319 | — | 12,319 | 5.1 | |
| | \$128,366 | \$45,863 | \$174,229 | \$66,406 | \$240,635 | 100.0 | % |

The following table summarizes multi-family and commercial real estate and construction loans and commitments by state as of December 31, 2015.

| | Unpaid Principal (Dollars in thousands) | Undisbursed Amount | Gross Loan Amount | Outstanding Commitments | Total | % of Total | |
|------------|---|-----------------------|----------------------|----------------------------|-----------|---------------|---|
| Kansas | \$45,594 | \$— | \$45,594 | \$34,480 | \$80,074 | 33.3 | % |
| Texas | 24,997 | 44,408 | 69,405 | — | 69,405 | 28.8 | |
| Missouri | 34,122 | 800 | 34,922 | 29,920 | 64,842 | 26.9 | |
| Colorado | 14,397 | 655 | 15,052 | 500 | 15,552 | 6.5 | |
| Arkansas | 6,800 | — | 6,800 | 1,506 | 8,306 | 3.5 | |
| California | 2,456 | — | 2,456 | — | 2,456 | 1.0 | |
| | \$128,366 | \$45,863 | \$174,229 | \$66,406 | \$240,635 | 100.0 | % |

The following table presents the Bank's multi-family and commercial real estate and construction loan portfolio and outstanding commitments, categorized by gross loan amount (unpaid principal plus undisbursed amounts) or outstanding commitment amount, as of December 31, 2015.

| | Count | Amount (Dollars in thousands) |
|---------------------------|-------|----------------------------------|
| Greater than \$15 million | 4 | \$124,524 |
| >\$10 to \$15 million | 2 | 23,750 |
| >\$5 to \$10 million | 3 | 23,752 |
| \$1 to \$5 million | 23 | 63,759 |
| Less than \$1 million | 14 | 4,850 |
| | 46 | \$240,635 |

Asset Quality. The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates or purchases. One- to four-family owner occupied loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the CFPB, with total debt-to-income ratios not exceeding 43% of the borrower's verified income. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan. See additional discussion regarding underwriting standards in "Part I, Item 1. Business - Lending Practices and Underwriting Standards" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015. In the following asset quality discussion, unless otherwise noted, correspondent purchased loans are included with originated loans and bulk purchased loans are reported as purchased loans.

Delinquent and non-performing loans and OREO - The following table presents the Company's 30 to 89 day delinquent loans at the dates indicated. Of the loans 30 to 89 days delinquent at December 31, 2015, approximately 74% were 59 days or less delinquent.

| | Loans Delinquent for 30 to 89 Days at: | | | | | | | | | |
|---|--|----------|-----------------------|----------|------------------|----------|-------------------|----------|----------------------|----------|
| | December 31, 2015 | | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | |
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | 159 | \$14,277 | 158 | \$16,955 | 150 | \$16,320 | 128 | \$13,097 | 164 | \$16,638 |
| Correspondent purchased | 10 | 3,033 | 8 | 2,344 | 15 | 4,741 | 7 | 2,206 | 6 | 1,280 |
| Bulk purchased | 35 | 7,805 | 32 | 7,259 | 30 | 6,249 | 35 | 8,137 | 46 | 10,047 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 36 | 730 | 32 | 703 | 34 | 646 | 30 | 681 | 41 | 916 |
| Other | 13 | 88 | 11 | 17 | 18 | 80 | 9 | 36 | 14 | 29 |
| | 253 | \$25,933 | 241 | \$27,278 | 247 | \$28,036 | 209 | \$24,157 | 271 | \$28,910 |
| 30 to 89 days delinquent loans to total loans receivable, net | | 0.39 % | | 0.41 % | | 0.43 % | | 0.38 % | | 0.46 % |

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

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

Non-Performing Loans and OREO at:

| | December 31, 2015 | | September 30, 2015 | | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | |
|--|------------------------|----------|-----------------------|----------|------------------|----------|-------------------|----------|----------------------|----------|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | | | | | | | |
| Loans 90 or More Days Delinquent or in Foreclosure: | | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | 75 | \$9,900 | 66 | \$6,728 | 70 | \$6,180 | 79 | \$8,047 | 75 | \$7,762 |
| Correspondent purchased | — | — | 1 | 394 | 1 | 67 | 1 | 490 | 3 | 1,039 |
| Bulk purchased | 32 | 7,199 | 36 | 8,898 | 29 | 7,577 | 27 | 8,040 | 24 | 7,191 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 28 | 574 | 24 | 497 | 19 | 443 | 23 | 366 | 20 | 354 |
| Other | 9 | 25 | 4 | 12 | 5 | 16 | 6 | 19 | 5 | 28 |
| | 144 | 17,698 | 131 | 16,529 | 124 | 14,283 | 136 | 16,962 | 127 | 16,374 |
| Nonaccrual loans less than 90 Days Delinquent: ⁽¹⁾ | | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | 75 | 7,661 | 77 | 9,004 | 71 | 9,224 | 80 | 9,709 | 89 | 9,636 |
| Correspondent purchased | 1 | 24 | 1 | 25 | 2 | 398 | 2 | 401 | 3 | 492 |
| Bulk purchased | 1 | 81 | 1 | 82 | 5 | 959 | 5 | 732 | 6 | 872 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 14 | 259 | 12 | 295 | 10 | 219 | 6 | 108 | 5 | 91 |
| Other | — | — | — | — | — | — | 3 | 11 | 3 | 12 |
| | 91 | 8,025 | 91 | 9,406 | 88 | 10,800 | 96 | 10,961 | 106 | 11,103 |
| Total non-performing loans | 235 | 25,723 | 222 | 25,935 | 212 | 25,083 | 232 | 27,923 | 233 | 27,477 |
| Non-performing loans as a percentage of total loans ⁽²⁾ | 0.39 | % | 0.39 | % | 0.39 | % | 0.44 | % | 0.44 | % |
| OREO: | | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated ⁽³⁾ | 25 | \$1,410 | 29 | \$1,752 | 28 | \$1,920 | 36 | \$1,989 | 26 | \$2,551 |
| Correspondent purchased | 1 | 499 | 1 | 499 | 2 | 714 | 1 | 216 | — | — |
| Bulk purchased | 6 | 2,247 | 2 | 796 | 4 | 1,019 | 5 | 1,162 | 5 | 685 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 1 | 26 | 1 | 8 | 2 | 17 | — | — | — | — |
| Other ⁽⁴⁾ | 1 | 1,278 | 1 | 1,278 | 1 | 1,278 | 1 | 1,278 | 1 | 1,300 |
| | 34 | 5,460 | 34 | 4,333 | 37 | 4,948 | 43 | 4,645 | 32 | 4,536 |
| Total non-performing assets | 269 | \$31,183 | 256 | \$30,268 | 249 | \$30,031 | 275 | \$32,568 | 265 | \$32,013 |
| Non-performing assets as a percentage of total assets | 0.34 | % | 0.31 | % | 0.33 | % | 0.32 | % | 0.35 | % |

Represents loans required to be reported as nonaccrual pursuant to regulatory reporting requirements even if the loans are current. At December 31, 2015, September 30, 2015, June 30, 2015, March 31, 2015, and December 31, 2014, this amount was comprised of \$2.2 million, \$2.2 million, \$3.4 million, \$1.2 million, and \$2.7 million, respectively, of loans that were 30 to 89 days delinquent and are reported as such, and \$5.8 million, \$7.2 million, \$7.4 million, \$9.8 million, and \$8.4 million, respectively, of loans that were current.

Excluding loans required to be reported as nonaccrual pursuant to regulatory reporting requirements even if the loans are current, non-performing loans as a percentage of total loans were 0.27%, 0.25%, 0.22%, 0.27%, and 0.26%, at December 31, 2015, September 30, 2015, June 30, 2015, March 31, 2015, and December 31, 2014, respectively.

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.

Represents a single property the Bank purchased for a potential branch site but now intends to sell.

Once a one- to four-family loan is generally 180 days delinquent, a new collateral value is obtained through an appraisal, less estimated selling costs and anticipated private mortgage insurance ("PMI") receipts. Any loss amounts identified as a result of this review are charged-off. At December 31, 2015, \$10.5 million, or 62%, of the one- to four-family loans 90 or more days delinquent or in foreclosure had been individually evaluated for loss and any related losses have been charged-off.

The following table presents the states where the properties securing at least one percent of the total amount of our one- to four-family loans are located and the corresponding balance of loans 30 to 89 days delinquent, 90 or more days delinquent or in foreclosure, and weighted average LTV ratios for loans 90 or more days delinquent or in foreclosure at December 31, 2015. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. At December 31, 2015, potential losses, after taking into consideration anticipated PMI proceeds and estimated selling costs, have been charged-off.

| State | One- to Four-Family | | Loans 30 to 89 Days Delinquent | | Loans 90 or More Days Delinquent or in Foreclosure | | LTV |
|--------------|------------------------|------------|--------------------------------|------------|--|------------|-----|
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | |
| | (Dollars in thousands) | | | | | | |
| Kansas | \$ 3,731,042 | 58.6 | \$ 12,007 | 47.8 | \$ 9,087 | 53.1 | 73 |
| Missouri | 1,257,843 | 19.7 | 5,214 | 20.8 | 813 | 4.8 | 62 |
| Texas | 378,815 | 6.0 | 1,035 | 4.1 | — | — | n/a |
| California | 259,139 | 4.1 | — | — | — | — | n/a |
| Tennessee | 161,157 | 2.5 | 466 | 1.9 | — | — | n/a |
| Alabama | 95,033 | 1.5 | — | — | — | — | n/a |
| Oklahoma | 71,450 | 1.1 | 454 | 1.8 | — | — | n/a |
| Other states | 416,939 | 6.5 | 5,939 | 23.6 | 7,199 | 42.1 | 68 |
| | \$ 6,371,418 | 100.0 | \$ 25,115 | 100.0 | \$ 17,099 | 100.0 | 70 |

TDRs - The following table presents the Company's TDRs, based on accrual status, at the dates indicated. At December 31, 2015, \$24.1 million of TDRs were included in the ACL formula analysis model and \$140 thousand of the ACL was related to these loans. The remaining \$14.8 million of TDRs at December 31, 2015 were individually evaluated for loss and any potential losses have been charged-off.

| | At | | | | |
|--------------------------------|------------------------|--------------------|---------------|----------------|-------------------|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 |
| | (Dollars in thousands) | | | | |
| Accruing TDRs | \$ 24,956 | \$ 24,331 | \$ 25,444 | \$ 23,861 | \$ 24,365 |
| Nonaccrual TDRs ⁽¹⁾ | 13,983 | 15,511 | 14,653 | 15,337 | 15,912 |
| Total TDRs | \$ 38,939 | \$ 39,842 | \$ 40,097 | \$ 39,198 | \$ 40,277 |

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

38

Allowance for credit losses - Management maintains an ACL to absorb inherent losses in the loan portfolio based on ongoing quarterly assessments of the loan portfolio. The ACL is maintained through provisions for credit losses which are either charged to or credited to income. Our ACL methodology considers a number of factors including the trend and composition of delinquent loans, results of foreclosed property and short sale transactions, charge-off activity and trends, the current status and trends of local and national economies (particularly levels of unemployment), trends and current conditions in the real estate and housing markets, loan portfolio growth and concentrations, and certain ACL ratios such as ACL to loans receivable, net and annualized historical losses to ACL. See "Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

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

| | At December 31, 2015 | | | September 30, 2015 | | | | | |
|--------------------------------|-------------------------|-----------------------------|----------------|------------------------------------|------------------|-----------------------------|----------------|------------------------------------|---|
| | Amount of ACL | % of ACL to Total ACL | Total Loans | % of Loans to Total Loans | Amount of ACL | % of ACL to Total ACL | Total Loans | % of Loans to Total Loans | |
| (Dollars in thousands) | | | | | | | | | |
| One- to four-family: | | | | | | | | | |
| Originated | \$6,799 | 73.9 | % \$5,902,018 | 87.4 | % \$6,948 | 73.6 | % \$5,856,730 | 87.2 | % |
| Purchased | 1,290 | 14.0 | 469,400 | 6.9 | 1,434 | 15.2 | 485,682 | 7.2 | |
| Multi-family and commercial | 629 | 6.8 | 113,852 | 1.7 | 604 | 6.4 | 110,938 | 1.7 | |
| Construction | 205 | 2.2 | 137,501 | 2.0 | 170 | 1.8 | 129,920 | 1.9 | |
| Consumer: | | | | | | | | | |
| Home equity | 219 | 2.4 | 126,259 | 1.9 | 222 | 2.3 | 125,844 | 1.9 | |
| Other consumer | 59 | 0.7 | 4,219 | 0.1 | 65 | 0.7 | 4,179 | 0.1 | |
| | \$9,201 | 100.0 | % \$6,753,249 | 100.0 | % \$9,443 | 100.0 | % \$6,713,293 | 100.0 | % |

The following tables present ACL activity and selected ACL ratios for the periods or at the dates presented. See "Note 4 - Loans Receivable and Allowance for Credit Losses" for additional information related to ACL activity by loan segment.

| | For the Three Months Ended | | | | | |
|--|----------------------------|-----------------------|---------------|-------------------|----------------------|---|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | |
| | (Dollars in thousands) | | | | | |
| ACL beginning balance | \$9,443 | \$9,601 | \$9,406 | \$9,297 | \$9,227 | |
| Charge-offs | (250) | (183) | (157) | (189) | (206) | |
| Recoveries | 8 | 25 | 29 | 23 | 103 | |
| Provision for credit losses | — | — | 323 | 275 | 173 | |
| ACL ending balance | \$9,201 | \$9,443 | \$9,601 | \$9,406 | \$9,297 | |
| ACL to loans receivable, net at end of period | 0.14 | % 0.14 | % 0.15 | % 0.15 | % 0.15 | % |
| ACL to non-performing loans at end of period | 35.77 | 36.41 | 38.28 | 33.69 | 33.84 | |
| Ratio of net charge-offs during the period to average loans outstanding during the period | — | — | — | — | — | |
| Ratio of net charge-offs during the period to average non-performing assets | 0.79 | 0.52 | 0.41 | 0.51 | 0.34 | |
| ACL to net charge-offs (annualized) | 9.5x | 15.0x | 18.7x | 14.2x | 22.6x | |

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 79% of these portfolios at December 31, 2015. The weighted average life ("WAL") is the estimated remaining maturity (in years) after three-month historical prepayment speeds and projected call option assumptions have been applied. The increase in the WAL from September 30, 2015 to December 31, 2015 was due primarily to an increase in market interest rates between periods, which resulted in a decrease in call projections. The increase in the weighted average yield from September 30, 2015 to December 31, 2015 was due primarily to securities with a rate lower than the overall portfolio rate being called during the period. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

| | December 31, 2015 | | | September 30, 2015 | | | December 31, 2014 | | |
|----------------------------------|-------------------|--------|------|--------------------|--------|------|-------------------|--------|------|
| | Amount | Yield | WAL | Amount | Yield | WAL | Amount | Yield | WAL |
| (Dollars in thousands) | | | | | | | | | |
| Fixed-rate securities: | | | | | | | | | |
| MBS | \$985,287 | 2.26 % | 3.2 | \$1,047,637 | 2.24 % | 3.2 | \$1,212,911 | 2.35 % | 3.7 |
| GSE debentures | 421,231 | 1.18 | 2.4 | 525,376 | 1.14 | 1.6 | 504,802 | 1.11 | 2.8 |
| Municipal bonds | 39,534 | 1.85 | 2.7 | 38,214 | 1.87 | 2.9 | 35,534 | 2.11 | 2.8 |
| Total fixed-rate securities | 1,446,052 | 1.93 | 3.0 | 1,611,227 | 1.87 | 2.7 | 1,753,247 | 1.99 | 3.4 |
| Adjustable-rate securities: | | | | | | | | | |
| MBS | 379,745 | 2.26 | 5.6 | 402,417 | 2.22 | 5.3 | 482,040 | 2.26 | 6.6 |
| Trust preferred securities | 2,186 | 1.77 | 21.5 | 2,186 | 1.59 | 21.7 | 2,477 | 1.50 | 22.5 |
| Total adjustable-rate securities | 381,931 | 2.25 | 5.7 | 404,603 | 2.21 | 5.4 | 484,517 | 2.26 | 6.7 |
| Total securities portfolio | \$1,827,983 | 2.00 | 3.6 | \$2,015,830 | 1.94 | 3.2 | \$2,237,764 | 2.04 | 4.1 |

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

| | December 31, 2015 | September 30, 2015 |
|--|-------------------|--------------------|
| (Dollars in thousands) | | |
| Federal National Mortgage Association ("FNMA") | \$831,212 | \$880,810 |
| Federal Home Loan Mortgage Corporation ("FHLMC") | 440,475 | 469,290 |
| Government National Mortgage Association | 104,432 | 112,439 |
| | \$1,376,119 | \$1,462,539 |

Mortgage-Backed Securities - The balance of MBS, which primarily consists of securities of U.S. GSEs, decreased \$86.4 million from \$1.46 billion at September 30, 2015 to \$1.38 billion at December 31, 2015. The following table summarizes the activity in our portfolio of MBS for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yield for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The beginning and ending WAL is the estimated remaining principal repayment term (in years) after three-month historical prepayment speeds have been applied.

| | For the Three Months Ended | | | | | | | | | | | |
|--|----------------------------|-------|-----|--------------------|-------|-----|---------------|-------|-----|----------------|-------|-----|
| | December 31, 2015 | | | September 30, 2015 | | | June 30, 2015 | | | March 31, 2015 | | |
| | Amount | Yield | WAL | Amount | Yield | WAL | Amount | Yield | WAL | Amount | Yield | WAL |
| | (Dollars in thousands) | | | | | | | | | | | |
| Beginning balance - carrying value | \$1,462,539 | 2.24% | 3.8 | \$1,565,184 | 2.25% | 3.9 | \$1,648,046 | 2.30% | 4.3 | \$1,711,231 | 2.32% | 4.5 |
| Maturities and repayments | (83,835) | | | (99,840) | | | (100,538) | | | (86,156) | | |
| Net amortization of (premiums)/discounts | (1,188) | | | (1,362) | | | (1,412) | | | (1,258) | | |
| Purchases: | | | | | | | | | | | | |
| Fixed | — | — | — | — | — | — | 20,532 | 1.74 | 4.5 | 25,137 | 1.53 | 3.8 |
| Change in valuation on AFS securities | (1,397) | | | (1,443) | | | (1,444) | | | (908) | | |
| Ending balance - carrying value | \$1,376,119 | 2.26 | 3.9 | \$1,462,539 | 2.24 | 3.8 | \$1,565,184 | 2.25 | 3.9 | \$1,648,046 | 2.30 | 4.3 |

Investment Securities - Investment securities, which consist of U.S. GSE debentures (primarily issued by FNMA, FHLMC, or Federal Home Loan Banks) and municipal investments, decreased \$106.0 million, from \$566.8 million at September 30, 2015 to \$460.8 million at December 31, 2015. The following table summarizes the activity of investment securities for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented. The increase in the weighted average yield between September 30, 2015 and December 31, 2015 was due primarily to securities with a rate lower than the overall portfolio rate being called during the period.

The beginning and ending WALs represent the estimated remaining principal repayment terms (in years) of the securities after projected call dates have been considered, based upon market rates at each date presented. The increase in the WAL between September 30, 2015 and December 31, 2015 was due primarily to an increase in market interest rates between periods, which resulted in a decrease in call projections.

| | For the Three Months Ended | | | | | | | | | | | |
|--|----------------------------|-------|-----|--------------------|-------|-----|---------------|-------|-----|----------------|-------|-----|
| | December 31, 2015 | | | September 30, 2015 | | | June 30, 2015 | | | March 31, 2015 | | |
| | Amount | Yield | WAL | Amount | Yield | WAL | Amount | Yield | WAL | Amount | Yield | WAL |
| | (Dollars in thousands) | | | | | | | | | | | |
| Beginning balance - carrying value | \$566,754 | 1.19% | 1.8 | \$641,532 | 1.18% | 2.5 | \$620,193 | 1.18% | 2.2 | \$539,012 | 1.18% | 2.9 |
| Maturities and calls | (104,155) | | | (76,387) | | | (30,000) | | | (28,051) | | |
| Net amortization of (premiums)/discounts | (101) | | | (70) | | | (52) | | | (68) | | |
| Purchases: | | | | | | | | | | | | |
| Fixed | 1,432 | 1.35 | 5.6 | — | — | — | 52,379 | 1.31 | 3.1 | 105,212 | 1.16 | 1.7 |
| | (3,101) | | | 1,679 | | | (988) | | | 4,088 | | |

Change in valuation on
AFS securities

| | | | | | | | | | | | | |
|------------------------------------|-----------|------|-----|-----------|------|-----|-----------|------|-----|-----------|------|-----|
| Ending balance - carrying value | \$460,829 | 1.24 | 2.6 | \$566,754 | 1.19 | 1.8 | \$641,532 | 1.18 | 2.5 | \$620,193 | 1.18 | 2.2 |
|------------------------------------|-----------|------|-----|-----------|------|-----|-----------|------|-----|-----------|------|-----|

42

Liabilities. Total liabilities were \$7.74 billion at December 31, 2015 compared to \$8.43 billion at September 30, 2015. The \$685.3 million decrease was due primarily to a \$799.2 million decrease in FHLB borrowings largely as a result of the removal of the daily leverage strategy at December 31, 2015, along with a \$100.0 million decrease in term advances, as well as to a \$37.5 million decrease in advance payments by borrowers for taxes and insurance due to the payment of real estate taxes and insurance on behalf of our borrowers, partially offset by a \$140.0 million increase in the deposit portfolio. Management intends to remove the entire daily leverage strategy at each quarter end, and reinstate the strategy at the beginning of the next quarter, during fiscal year 2016.

Deposits - Deposits were \$4.97 billion at December 31, 2015 compared to \$4.83 billion at September 30, 2015. The \$140.0 million increase was due primarily to a \$79.3 million increase in the checking portfolio, a \$36.8 million increase in the wholesale certificate of deposit portfolio, and a \$34.1 million increase in the money market portfolio. We continue to be competitive on deposit rates and, in some cases, our offer rates for certificates of deposit have been higher than peers. Increasing rates offered on longer-term certificates of deposit has been an on-going balance sheet strategy by management in anticipation of higher interest rates. If short-term interest rates continue to rise, our customers may move funds from their checking, savings and money market accounts to higher yielding deposit products within the Bank or withdraw their funds from these accounts, including certificates of deposit, to invest in higher yielding investments outside of the Bank.

The following table presents the amount, weighted average rate and percentage of total for the components of our deposit portfolio at the dates presented.

| | December 31, 2015 | | | September 30, 2015 | | | December 31, 2014 | | |
|--------------------------------|------------------------|------|------------|--------------------|------|------------|-------------------|------|------------|
| | Amount | Rate | % of Total | Amount | Rate | % of Total | Amount | Rate | % of Total |
| | (Dollars in thousands) | | | | | | | | |
| Noninterest-bearing checking | \$ 205,374 | — | % 4.1 | \$ 188,007 | — | % 3.9 | \$ 174,744 | — | % 3.7 |
| Interest-bearing checking | 612,656 | 0.05 | 12.3 | 550,741 | 0.05 | 11.4 | 557,895 | 0.05 | 11.8 |
| Savings | 317,384 | 0.21 | 6.4 | 311,670 | 0.16 | 6.4 | 299,100 | 0.15 | 6.4 |
| Money market | 1,183,050 | 0.24 | 23.8 | 1,148,935 | 0.23 | 23.8 | 1,151,297 | 0.23 | 24.5 |
| Retail certificates of deposit | 2,304,865 | 1.31 | 46.4 | 2,320,804 | 1.29 | 48.0 | 2,222,391 | 1.24 | 47.2 |
| Public units/brokered deposits | 349,151 | 0.43 | 7.0 | 312,363 | 0.40 | 6.5 | 299,585 | 0.66 | 6.4 |
| | \$ 4,972,480 | 0.71 | 100.0 % | \$ 4,832,520 | 0.72 | 100.0 % | \$ 4,705,012 | 0.70 | 100.0 % |

At December 31, 2015, public unit deposits totaled \$349.2 million, compared to \$312.4 million at September 30, 2015, and had a weighted average rate of 0.43% and an average remaining term to maturity of seven months. There were no brokered deposits at December 31, 2015 or September 30, 2015. Management will continue to monitor the wholesale deposit market for attractive opportunities relative to the use of proceeds.

The following tables set forth scheduled maturity information for our certificates of deposit, along with associated weighted average rates, at December 31, 2015.

| Rate range | Amount Due | | | | Total Amount | Rate |
|--|---|-----------------------------------|------------------------------------|----------------------|-----------------|--------|
| | 1 year or less (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% | \$ 864,973 | \$ 162,034 | \$ 1,930 | \$— | \$ 1,028,937 | 0.58 % |
| 1.00 – 1.99% | 285,670 | 439,912 | 373,033 | 447,724 | 1,546,339 | 1.55 |
| 2.00 – 2.99% | 27,479 | 39 | 1,359 | 49,341 | 78,218 | 2.19 |
| 3.00 – 3.99% | 130 | 314 | — | — | 444 | 3.20 |
| 4.00 – 4.99% | 78 | — | — | — | 78 | 4.40 |
| | \$ 1,178,330 | \$ 602,299 | \$ 376,322 | \$ 497,065 | \$ 2,654,016 | 1.20 |
| Percent of total | 44.4 | % 22.7 | % 14.2 | % 18.7 | % | |
| Weighted average rate | 0.79 | 1.24 | 1.51 | 1.87 | | |
| Weighted average maturity (in years) | 0.5 | 1.5 | 2.5 | 3.8 | 1.6 | |
| Weighted average maturity for the retail certificate of deposit portfolio (in years) | | | | | 1.8 | |

| | Amount Due | | | | |
|---|---|--------------------------|---------------------------|-------------------|--------------|
| | 3 months or less (Dollars in thousands) | Over 3 to 6 months | Over 6 to 12 months | Over 12 months | Total |
| | | | | | |
| Retail certificates of deposit less than \$100,000 | \$ 158,904 | \$ 178,896 | \$ 276,116 | \$ 876,690 | \$ 1,490,606 |
| Retail certificates of deposit of \$100,000 or more | 62,130 | 87,306 | 126,052 | 538,771 | 814,259 |
| Public unit deposits of \$100,000 or more | 127,467 | 85,907 | 75,552 | 60,225 | 349,151 |
| | \$ 348,501 | \$ 352,109 | \$ 477,720 | \$ 1,475,686 | \$ 2,654,016 |

Borrowings - The following table presents term borrowing activity for the periods shown, which includes FHLB advances, at par, and repurchase agreements. Line of credit activity is excluded from the following tables. The weighted average effective rate includes the impact of the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid. Rates on new borrowings are fixed-rate. The weighted average maturity ("WAM") is the remaining weighted average contractual term in years. The beginning and ending WAMs represent the remaining maturity at each date presented. For new borrowings, the WAMs presented are as of the date of issue.

| | For the Three Months Ended | | | | | | | | | | | |
|-----------------------------|----------------------------|----------------|-----|--------------------|----------------|-----|---------------|----------------|-----|----------------|----------------|-----|
| | December 31, 2015 | | | September 30, 2015 | | | June 30, 2015 | | | March 31, 2015 | | |
| | Amount | Effective Rate | WAM | Amount | Effective Rate | WAM | Amount | Effective Rate | WAM | Amount | Effective Rate | WAM |
| Beginning balance | \$2,775,000 | 2.29 % | 3.3 | \$2,795,000 | 2.49 % | 3.3 | \$2,795,000 | 2.51 % | 3.3 | \$2,795,000 | 2.55 % | 3.0 |
| Maturities and prepayments: | | | | | | | | | | | | |
| FHLB advances | (200,000) | 1.94 | | (175,000) | 5.08 | | (100,000) | 3.01 | | (250,000) | 2.48 | |
| Repurchase agreements | — | — | | (20,000) | 4.45 | | — | — | | — | — | |
| New borrowings: | | | | | | | | | | | | |
| FHLB advances | 100,000 | 1.45 | 3.0 | 175,000 | 2.18 | 3.0 | 100,000 | 2.25 | 7.0 | 250,000 | 2.06 | 6.4 |
| Ending balance | \$2,675,000 | 2.29 | 3.2 | \$2,775,000 | 2.29 | 3.3 | \$2,795,000 | 2.49 | 3.3 | \$2,795,000 | 2.51 | 3.3 |

Maturities - The following table presents the maturity of FHLB advances, at par, and repurchase agreements, along with associated weighted average contractual and effective rates as of December 31, 2015.

| Maturity by Fiscal year | FHLB Advances Amount | Repurchase Agreements Amount | Total Amount | Contractual Rate | Effective Rate ⁽¹⁾ | |
|-------------------------|----------------------|------------------------------|--------------|------------------|-------------------------------|---|
| (Dollars in thousands) | | | | | | |
| 2016 | \$ 200,000 | \$ — | \$ 200,000 | 1.94 | % 2.00 | % |
| 2017 | 500,000 | — | 500,000 | 2.69 | 2.72 | |
| 2018 | 375,000 | 100,000 | 475,000 | 2.35 | 2.64 | |
| 2019 | 400,000 | — | 400,000 | 1.62 | 1.62 | |
| 2020 | 250,000 | 100,000 | 350,000 | 2.18 | 2.18 | |
| 2021 | 550,000 | — | 550,000 | 2.27 | 2.27 | |
| 2022 | 200,000 | — | 200,000 | 2.23 | 2.23 | |
| | \$ 2,475,000 | \$ 200,000 | \$ 2,675,000 | 2.23 | 2.29 | |

(1) The effective rate includes the impact of the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid.

The following table presents the maturity and weighted average repricing rate, which is also the weighted average effective rate, of certificates of deposit, split between retail and public unit amounts, and term borrowings for the next four quarters as of December 31, 2015.

| Maturity by Quarter End | Retail Certificate Amount | Repricing Rate | Public Unit Deposit Amount | Repricing Rate | Term Borrowings Amount | Repricing Rate | Total | Repricing Rate |
|-------------------------|---------------------------|----------------|----------------------------|----------------|------------------------|----------------|--------------|----------------|
| (Dollars in thousands) | | | | | | | | |
| March 31, 2016 | \$ 221,034 | 0.83 % | \$ 127,467 | 0.21 % | \$ — | — | % \$ 348,501 | 0.60 % |
| June 30, 2016 | 266,202 | 0.96 | 85,907 | 0.37 | 100,000 | 3.17 | 452,109 | 1.34 |
| September 30, 2016 | 185,207 | 0.97 | 42,052 | 0.41 | 100,000 | 0.83 | 327,259 | 0.85 |
| December 31, 2016 | 216,961 | 1.02 | 33,500 | 0.51 | 100,000 | 0.78 | 350,461 | 0.90 |
| | \$ 889,404 | 0.94 | \$ 288,926 | 0.32 | \$ 300,000 | 1.59 | \$ 1,478,330 | 0.95 |

Stockholders' Equity. Stockholders' equity was \$1.39 billion at December 31, 2015 compared to \$1.42 billion at September 30, 2015. The \$25.4 million decrease between periods was due primarily to the payment of \$44.5 million in cash dividends, partially offset by net income of \$20.7 million. The \$44.5 million in cash dividends paid during the current quarter consisted of a \$0.25 per share, or \$33.2 million, cash true-up dividend related to fiscal year 2015 earnings per the Company's dividend policy, and a regular quarterly cash dividend of \$0.085 per share, or \$11.3 million. On January 26, 2016, the Company declared a regular quarterly cash dividend of \$0.085 per share, or approximately \$11.3 million, payable on February 19, 2016 to stockholders of record as of the close of business on February 5, 2016.

In October 2015, the Company announced a stock repurchase plan for up to \$70.0 million of common stock. It is anticipated that shares will be purchased from time to time in the open-market based upon market conditions and available liquidity. There is no expiration for this repurchase plan. The Company did not repurchase any shares during the three months ended December 31, 2015.

At December 31, 2015, Capitol Federal Financial, Inc., at the holding company level, had \$70.3 million on deposit at the Bank. For fiscal year 2016, it is the intent of the Board of Directors and management to continue with the payout of 100% of the Company's earnings to its stockholders. 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.

The following table presents regular quarterly dividends and special dividends paid in calendar years 2016, 2015, and 2014. The amounts represent cash dividends paid during each period. For the quarter ending March 31, 2016, the amount presented represents the dividend payable on February 19, 2016 to stockholders of record as of February 5, 2016.

| | Calendar Year | | | | | |
|--------------------------------------|--|-----------|------------|-----------|------------|-----------|
| | 2016 | | 2015 | | 2014 | |
| | Amount | Per Share | Amount | Per Share | Amount | Per Share |
| | (Dollars in thousands, except per share amounts) | | | | | |
| Regular quarterly dividends paid | | | | | | |
| Quarter ended March 31 | \$ 11,307 | \$0.085 | \$ 11,592 | \$0.085 | \$ 10,513 | \$0.075 |
| Quarter ended June 30 | | | 11,585 | 0.085 | 10,399 | 0.075 |
| Quarter ended September 30 | | | 11,385 | 0.085 | 10,318 | 0.075 |
| Quarter ended December 31 | | | 11,303 | 0.085 | 10,226 | 0.075 |
| True-up dividends paid | | | 33,248 | 0.250 | 35,450 | 0.260 |
| True Blue dividends paid | | | 33,924 | 0.250 | 34,663 | 0.250 |
| Calendar year-to-date dividends paid | \$ 11,307 | \$0.085 | \$ 113,037 | \$0.840 | \$ 111,569 | \$0.810 |

Operating Results

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

| | For the Three Months Ended | | | | | |
|--|---|-----------------------|------------------|-------------------|----------------------|---|
| | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | |
| | (Dollars in thousands, except per share data) | | | | | |
| Interest and dividend income: | | | | | | |
| Loans receivable | \$ 60,223 | \$ 59,761 | \$ 58,922 | \$ 58,198 | \$ 58,619 | |
| MBS | 7,831 | 8,260 | 8,849 | 9,537 | 10,001 | |
| FHLB stock | 3,152 | 3,167 | 3,132 | 3,076 | 3,181 | |
| Cash and cash equivalents | 1,620 | 1,303 | 1,357 | 1,393 | 1,424 | |
| Investment securities | 1,533 | 1,920 | 1,914 | 1,673 | 1,675 | |
| Total interest and dividend income | 74,359 | 74,411 | 74,174 | 73,877 | 74,900 | |
| Interest expense: | | | | | | |
| FHLB borrowings | 16,074 | 16,539 | 17,072 | 17,198 | 16,988 | |
| Deposits | 8,799 | 8,390 | 8,377 | 8,207 | 8,145 | |
| Repurchase agreements | 1,504 | 1,542 | 1,712 | 1,693 | 1,731 | |
| Total interest expense | 26,377 | 26,471 | 27,161 | 27,098 | 26,864 | |
| Net interest income | 47,982 | 47,940 | 47,013 | 46,779 | 48,036 | |
| Provision for credit losses | — | — | 323 | 275 | 173 | |
| Net interest income (after provision for credit losses) | 47,982 | 47,940 | 46,690 | 46,504 | 47,863 | |
| Non-interest income | 5,566 | 5,461 | 5,145 | 5,277 | 5,257 | |
| Non-interest expense | 23,590 | 25,262 | 23,106 | 22,859 | 23,142 | |
| Income tax expense | 9,240 | 9,354 | 9,127 | 9,688 | 9,506 | |
| Net income | \$ 20,718 | \$ 18,785 | \$ 19,602 | \$ 19,234 | \$ 20,472 | |
| Efficiency ratio | 44.05 | % 47.31 | % 44.30 | % 43.91 | % 43.42 | % |
| Basic EPS | \$ 0.16 | \$ 0.14 | \$ 0.14 | \$ 0.14 | \$ 0.15 | |
| Diluted EPS | 0.16 | 0.14 | 0.14 | 0.14 | 0.15 | |

Average Balance Sheet

The following tables present the average balances of our assets, liabilities, and stockholders' equity, and the related annualized weighted average 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 December 31, 2015. As previously discussed, the daily leverage strategy was not in place at December 31, 2015, so the end of period yields/rates presented at December 31, 2015 in the table below do not reflect the effects of this strategy. Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted 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 weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yields/rates. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

| | At December 31, 2015 | For the Three Months Ended | | | | | | | | |
|---|-------------------------------|----------------------------------|-----------------------------|----------------|----------------------------------|-----------------------------|----------------|----------------------------------|-----------------------------|----------------|
| | | December 31, 2015 | | | September 30, 2015 | | | December 31, 2014 | | |
| | Yield/ Rate | Average Outstanding Amount | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Amount | Interest Earned/ Paid | Yield/ Rate | Average Outstanding Amount | Interest Earned/ Paid | Yield/ Rate |
| Assets: | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | |
| Loans receivable ⁽¹⁾ | 3.63% | \$6,651,531 | \$60,223 | 3.62% | \$6,566,534 | \$59,761 | 3.64% | \$6,256,458 | \$58,619 | 3.75% |
| MBS ⁽²⁾ | 2.26 | 1,412,702 | 7,831 | 2.22 | 1,507,104 | 8,260 | 2.19 | 1,744,936 | 10,001 | 2.29 |
| Investment securities ⁽²⁾⁽³⁾ | 1.24 | 503,075 | 1,533 | 1.22 | 639,809 | 1,920 | 1.20 | 582,755 | 1,675 | 1.15 |
| FHLB stock | 5.79 | 209,382 | 3,152 | 5.97 | 209,725 | 3,167 | 5.99 | 210,569 | 3,181 | 5.99 |
| Cash and cash equivalents | 0.49 | 2,200,345 | 1,620 | 0.29 | 2,034,079 | 1,303 | 0.25 | 2,126,380 | 1,424 | 0.26 |
| Total interest-earning assets ⁽¹⁾⁽²⁾ | 3.25 | 10,977,035 | 74,359 | 2.71 | 10,957,251 | 74,411 | 2.71 | 10,921,098 | 74,900 | 2.74 |
| Other noninterest-earning assets | | 286,920 | | | 235,435 | | | 230,598 | | |
| Total assets | | \$11,263,955 | | | \$11,192,686 | | | \$11,151,696 | | |
| Liabilities and stockholders' equity: | | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | | |
| Checking | 0.04 | \$757,857 | 72 | 0.04 | \$738,912 | 69 | 0.04 | \$695,699 | 67 | 0.04 |
| Savings | 0.21 | 313,372 | 140 | 0.18 | 311,620 | 128 | 0.16 | 297,546 | 105 | 0.14 |
| Money market | 0.24 | 1,159,201 | 685 | 0.23 | 1,155,701 | 680 | 0.23 | 1,141,099 | 670 | 0.23 |
| Retail certificates | 1.31 | 2,311,424 | 7,536 | 1.29 | 2,283,492 | 7,245 | 1.26 | 2,225,759 | 6,820 | 1.22 |
| Wholesale certificates | 0.43 | 360,156 | 366 | 0.40 | 306,667 | 268 | 0.35 | 306,399 | 483 | 0.63 |
| Total deposits | 0.71 | 4,902,010 | 8,799 | 0.71 | 4,796,392 | 8,390 | 0.69 | 4,666,502 | 8,145 | 0.69 |
| FHLB advances ⁽⁴⁾ | 2.23 | 2,538,230 | 14,325 | 2.24 | 2,571,503 | 15,137 | 2.34 | 2,570,657 | 15,682 | 2.42 |
| FHLB line of credit — | | 2,077,174 | 1,749 | 0.33 | 2,084,783 | 1,402 | 0.26 | 2,077,174 | 1,306 | 0.25 |

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

| | | | | | | | | | | |
|--|------|--------------|--------|------|--------------|--------|------|--------------|--------|------|
| FHLB borrowings | 2.23 | 4,615,404 | 16,074 | 1.38 | 4,656,286 | 16,539 | 1.41 | 4,647,831 | 16,988 | 1.45 |
| Repurchase agreements | 2.94 | 200,000 | 1,504 | 2.94 | 203,478 | 1,542 | 2.97 | 220,000 | 1,731 | 3.08 |
| Total borrowings | 2.29 | 4,815,404 | 17,578 | 1.44 | 4,859,764 | 18,081 | 1.47 | 4,867,831 | 18,719 | 1.52 |
| Total interest-bearing liabilities | 1.26 | 9,717,414 | 26,377 | 1.08 | 9,656,156 | 26,471 | 1.09 | 9,534,333 | 26,864 | 1.11 |
| Other noninterest-bearing liabilities | | 132,368 | | | 111,678 | | | 127,458 | | |
| Stockholders' equity | | 1,414,173 | | | 1,424,852 | | | 1,489,905 | | |
| Total liabilities and stockholders' equity | | \$11,263,955 | | | \$11,192,686 | | | \$11,151,696 | | |

(Continued)

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

| | At | For the Three Months Ended | | | | | | | | |
|--|-------------------|-----------------------------|-----------------------|------------|-----------------------------|-----------------------|------------|-----------------------------|-----------------------|------------|
| | December 31, 2015 | December 31, 2015 | | | September 30, 2015 | | | December 31, 2014 | | |
| | Yield/Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/Rate | Average Outstanding Balance | Interest Earned/ Paid | Yield/Rate |
| (Dollars in thousands) | | | | | | | | | | |
| Net interest income ⁽⁵⁾ | | | \$47,982 | | | \$47,940 | | | \$48,036 | |
| Net interest rate spread ⁽⁶⁾ | 1.99% | | | 1.63 % | | | 1.62 % | | | 1.63 % |
| Net interest-earning assets | | \$1,259,621 | | | \$1,301,095 | | | \$1,386,765 | | |
| Net interest margin ⁽⁷⁾ | | | | 1.75 | | | 1.75 | | | 1.76 |
| Ratio of interest-earning assets to interest-bearing liabilities | | | | 1.13x | | | 1.13x | | | 1.15x |
| Selected performance ratios: | | | | | | | | | | |
| Return on average assets (annualized) | | | | 0.74 % | | | 0.67 % | | | 0.73 % |
| Return on average equity (annualized) | | | | 5.86 | | | 5.27 | | | 5.50 |
| Average equity to average assets | | | | 12.55 | | | 12.73 | | | 13.36 |
| Operating expense ratio ⁽⁸⁾ | | | | 0.84 | | | 0.90 | | | 0.83 |
| Efficiency ratio ⁽⁹⁾ | | | | 44.05 | | | 47.31 | | | 43.42 |
| Pre-tax yield on daily leverage strategy ⁽¹⁰⁾ | | | | 0.16 | | | 0.19 | | | 0.22 |
| Selected performance ratios, excluding the effects of the daily leverage strategy: | | | | | | | | | | |
| Net interest margin | | | | 2.11 | | | 2.10 | | | 2.11 |
| | | | | 0.88 | | | 0.80 | | | 0.87 |

Return on
average assets
(annualized)

Return on
average equity
(annualized)

5.70

5.09

5.28

(Concluded)

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

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

The average balance of investment securities includes an average balance of nontaxable securities of \$38.2 million, \$39.0 million, and \$36.9 million for the quarters ended December 31, 2015, September 30, 2015, and December 31, 2014, respectively.

(4) The balance and rate of FHLB advances are stated net of deferred gains and deferred prepayment penalties.

Net interest income represents the difference between interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

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

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

(8) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.

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

(10) The pre-tax yield on the daily leverage strategy represents annualized pre-tax income resulting from the transaction as a percentage of the average interest-earning assets associated with the transaction.

Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended December 31, 2015 to the three months ended December 31, 2014 and September 30, 2015. 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 period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

| | For the Three Months Ended | | | December 31, 2015 vs. September 30, 2015 | | |
|--|---|-----------|-----------|--|---------|---------|
| | December 31, 2015 vs. December 31, 2014 | | | December 31, 2015 vs. September 30, 2015 | | |
| | Increase (Decrease) Due to | | | Increase (Decrease) Due to | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| | (Dollars in thousands) | | | | | |
| Interest-earning assets: | | | | | | |
| Loans receivable | \$3,578 | \$(1,974) |) \$1,604 | \$769 | \$(307) |) \$462 |
| MBS | (1,851) |) (319) |) (2,170) |) (523) |) 94 | (429) |
| Investment securities | (238) |) 96 | (142) |) (416) |) 29 | (387) |
| FHLB stock | (18) |) (11) |) (29) |) (4) |) (11) |) (15) |
| Cash and cash equivalents | 51 | 145 | 196 | 112 | 205 | 317 |
| Total interest-earning assets | 1,522 | (2,063) |) (541) |) (62) |) 10 | (52) |
| Interest-bearing liabilities: | | | | | | |
| Checking | 6 | (1) |) 5 | 2 | — | 2 |
| Savings | 6 | 29 | 35 | 1 | 12 | 13 |
| Money market | 11 | 4 | 15 | 2 | 2 | 4 |
| Certificates of deposit | 409 | 190 | 599 | 239 | 151 | 390 |
| FHLB borrowings | (184) |) (730) |) (914) |) (184) |) (281) |) (465) |
| Repurchase agreements | (153) |) (74) |) (227) |) (26) |) (12) |) (38) |
| Total interest-bearing liabilities | 95 | (582) |) (487) |) 34 | (128) |) (94) |
| Net change in net interest and dividend income | \$1,427 | \$(1,481) |) \$(54) |) \$(96) |) \$138 | \$42 |

Comparison of Operating Results for the Three Months Ended December 31, 2015 and 2014

For the quarter ended December 31, 2015, the Company recognized net income of \$20.7 million, or \$0.16 per share, compared to net income of \$20.5 million, or \$0.15 per share, for the quarter ended December 31, 2014. The \$246 thousand, or 1.2%, increase in net income was due primarily to a \$309 thousand increase in non-interest income and a \$266 thousand decrease in income tax expense, partially offset by a \$448 thousand increase in non-interest expense. Net income attributable to the daily leverage strategy was \$583 thousand during the current quarter, compared to \$795 thousand for the prior year quarter. The decrease in the net income attributable to the daily leverage strategy was due to an increase in the FHLB line of credit borrowings rate, which was larger than the increase in the average yield earned on the cash at the Federal Reserve Bank.

Net interest income decreased \$54 thousand, or 0.1%, from the prior year quarter to \$48.0 million for the current quarter. The net interest margin decreased one basis point, from 1.76% for the prior year quarter to 1.75% for the current year quarter. Excluding the effects of the daily leverage strategy, the net interest margin would have been 2.11% for the current year quarter, unchanged from the prior year quarter.

Interest and Dividend Income

The weighted average yield on total interest-earning assets decreased three basis points, from 2.74% for the prior year quarter to 2.71% for the current quarter, while the average balance of interest-earning assets increased \$55.9 million from the prior year quarter. Absent the impact of the daily leverage strategy, the weighted average yield on total interest-earning assets would have decreased five basis points, from 3.26% for the prior year quarter to 3.21% for the current year quarter. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent.

| | For the Three Months Ended | | Change Expressed in: | | |
|--------------------------------------|----------------------------|-----------|----------------------|---------|---|
| | December 31, 2015 | 2014 | Dollars | Percent | |
| | (Dollars in thousands) | | | | |
| INTEREST AND DIVIDEND INCOME: | | | | | |
| Loans receivable | \$ 60,223 | \$ 58,619 | \$ 1,604 | 2.7 | % |
| MBS | 7,831 | 10,001 | (2,170) | (21.7) |) |
| FHLB stock | 3,152 | 3,181 | (29) | (0.9) |) |
| Cash and cash equivalents | 1,620 | 1,424 | 196 | 13.8 | |
| Investment securities | 1,533 | 1,675 | (142) | (8.5) |) |
| Total interest and dividend income | \$ 74,359 | \$ 74,900 | \$ (541) | (0.7) |) |

The increase in interest income on loans receivable was due to a \$395.1 million increase in the average balance of the portfolio, partially offset by a 13 basis point decrease in the weighted average yield on the portfolio, to 3.62% for the current quarter. The decrease in the weighted average yield was due primarily to adjustable-rate loans, endorsements, and refinances repricing to lower market rates, along with an increase in net deferred premium amortization and the origination and purchase of loans between periods at rates less than the existing portfolio rate.

The decrease in interest income on the MBS portfolio was due primarily to a \$332.2 million decrease in the average balance of the portfolio as cash flows not reinvested were used to fund loan growth. Additionally, the weighted average yield on the MBS portfolio decreased seven basis points, from 2.29% during the prior year quarter to 2.22% for the current year quarter. The decrease in the weighted average yield was due primarily to repayments of MBS with yields greater than the weighted average yield on the existing portfolio, as well as to an increase in the impact of net premium amortization. Net premium amortization of \$1.2 million during the current year quarter decreased the weighted average yield on the portfolio by 33 basis points. During the prior year quarter, \$1.3 million of net premiums were amortized, which decreased the weighted average yield on the portfolio by 31 basis points. As of December 31, 2015, the remaining net balance of premiums on our portfolio of MBS was \$13.1 million.

The increase in interest income on cash and cash equivalents was due primarily to a three basis point increase in the weighted average yield resulting from an increase in yield earned on balances held at the Federal Reserve Bank.

The decrease in interest income on investment securities was due primarily to a \$79.7 million decrease in the average balance.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities decreased three basis points, from 1.11% for the prior year quarter to 1.08% for the current year quarter, while the average balance of interest-bearing liabilities increased \$183.1 million from the prior year quarter as a result of deposit growth. Absent the impact of the daily leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have decreased eight basis points from the prior year quarter, to 1.28%, due primarily to a decrease in the cost of term borrowings. The following table presents the components of interest expense for the periods presented, along with the change measured in dollars and percent.

| | For the Three Months Ended | | Change Expressed in: | |
|--------------------------|----------------------------|-----------|----------------------|---------|
| | December 31, 2015 | 2014 | Dollars | Percent |
| (Dollars in thousands) | | | | |
| INTEREST EXPENSE: | | | | |
| FHLB borrowings | \$ 16,074 | \$ 16,988 | \$(914) | (5.4)% |
| Deposits | 8,799 | 8,145 | 654 | 8.0 |
| Repurchase agreements | 1,504 | 1,731 | (227) | (13.1) |
| Total interest expense | \$ 26,377 | \$ 26,864 | \$(487) | (1.8) |

The decrease in interest expense on FHLB borrowings was due primarily to an 18 basis point decrease in the weighted average rate paid on FHLB advances, to 2.24% for the current year quarter, partially offset by an eight basis point increase in the weighted average rate paid on FHLB line of credit borrowings. The decrease in the weighted average rate paid on the FHLB advance portfolio was primarily a result of renewals of advances to lower market rates and the prepayment of advances between periods.

The increase in interest expense on deposits was primarily a result of deposit growth, which increased the average balance of the deposit portfolio by \$235.5 million. The average balance of retail deposits increased \$181.8 million, mainly in the certificate of deposit and checking portfolios.

The decrease in interest expense on repurchase agreements was due to the maturity between periods of a \$20.0 million repurchase agreement at a rate of 4.45%, which was not replaced.

Non-Interest Income

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

| | For the Three Months Ended | | Change Expressed in: | |
|-----------------------------|----------------------------|----------|----------------------|---------|
| | December 31, 2015 | 2014 | Dollars | Percent |
| (Dollars in thousands) | | | | |
| NON-INTEREST INCOME: | | | | |
| Retail fees and charges | \$ 3,814 | \$ 3,783 | \$ 31 | 0.8% |
| Insurance commissions | 516 | 549 | (33) | (6.0) |
| Loan fees | 342 | 374 | (32) | (8.6) |
| Other non-interest income | 894 | 551 | 343 | 62.3 |
| Total non-interest income | \$ 5,566 | \$ 5,257 | \$ 309 | 5.9 |

The increase in other non-interest income was due mainly to the purchase of a new bank-owned life insurance ("BOLI") investment between periods.

Non-Interest Expense

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

| | For the Three Months Ended | | Change Expressed in: | | |
|---|----------------------------|-----------|----------------------|---------|---|
| | December 31, 2015 | 2014 | Dollars | Percent | |
| | (Dollars in thousands) | | | | |
| NON-INTEREST EXPENSE: | | | | | |
| Salaries and employee benefits | \$ 10,487 | \$ 10,477 | \$ 10 | 0.1 | % |
| Occupancy, net | 2,672 | 2,419 | 253 | 10.5 | |
| Information technology and communications | 2,558 | 2,568 | (10) | (0.4) |) |
| Regulatory and outside services | 1,486 | 1,296 | 190 | 14.7 | |
| Federal insurance premium | 1,382 | 1,282 | 100 | 7.8 | |
| Deposit and loan transaction costs | 1,274 | 1,374 | (100) | (7.3) |) |
| Advertising and promotional | 1,154 | 889 | 265 | 29.8 | |
| Office supplies and related expense | 887 | 473 | 414 | 87.5 | |
| Low income housing partnerships | 773 | 1,546 | (773) | (50.0) |) |
| Other non-interest expense | 917 | 818 | 99 | 12.1 | |
| Total non-interest expense | \$ 23,590 | \$ 23,142 | \$ 448 | 1.9 | |

The increase in occupancy, net expense was due mainly to non-capitalizable costs associated with the remodeling of the Bank's Kansas City market area operations center. The increase in office supplies and related expense was due primarily to the purchase of cards enabled with chip card technology. The decrease in low income housing partnerships expense was due primarily to impairments in the prior year quarter.

The Company's efficiency ratio was 44.05% for the current quarter compared to 43.42% for the prior year quarter. The change in the efficiency ratio was due primarily to an increase in non-interest expense. The efficiency ratio is a measure of a financial institution's total non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income. A lower value indicates that the financial institution is generating revenue with a lower level of expense.

Income Tax Expense

Income tax expense was \$9.2 million for the current quarter compared to \$9.5 million for the prior year quarter. The effective tax rate for the current quarter was 30.8% compared to 31.7% for the prior year quarter. The decrease in the effective tax rate was due primarily to larger, favorable discrete items in the current quarter related to state income tax liabilities, along with an increase in nontaxable income related to BOLI and an increase in low income housing tax credits in the current fiscal year.

Comparison of Operating Results for the Three Months Ended December 31, 2015 and September 30, 2015

Net income increased \$1.9 million, or 10.3%, from the quarter ended September 30, 2015 to \$20.7 million, or \$0.16 per share, for the quarter ended December 31, 2015, due primarily to a decrease in non-interest expense, along with the benefit of a lower effective income tax rate in the current quarter. Net income attributable to the daily leverage strategy was \$583 thousand during the current quarter compared to \$669 thousand in the prior quarter. The decrease in the net income attributable to the daily leverage strategy was due to an increase in the FHLB line of credit borrowings rate, which was larger than the increase in the average yield earned on cash at the Federal Reserve Bank.

Net interest income increased \$42 thousand, or 0.1%, from the prior quarter to \$48.0 million for the current quarter. The net interest margin was 1.75% for the current quarter, unchanged from the prior quarter. Excluding the effects of the daily leverage strategy, the net interest margin would have been 2.11% for the current quarter compared to 2.10%

for the prior quarter.

54

Interest and Dividend Income

The weighted average yield on total interest-earning assets for the current quarter was 2.71%, unchanged from the prior quarter, while the average balance of interest-earning assets increased \$19.8 million between the two periods. Absent the impact of the daily leverage strategy, the weighted average yield on total interest-earning assets would have decreased two basis points from the prior quarter, to 3.21%, while the average balance would have increased \$25.8 million. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent.

| | For the Three Months Ended | | Change Expressed in: | |
|--------------------------------------|----------------------------|-----------------------|----------------------|---------|
| | December 31, 2015 | September 30, 2015 | Dollars | Percent |
| (Dollars in thousands) | | | | |
| INTEREST AND DIVIDEND INCOME: | | | | |
| Loans receivable | \$ 60,223 | \$ 59,761 | \$ 462 | 0.8 % |
| MBS | 7,831 | 8,260 | (429) | (5.2) |
| FHLB stock | 3,152 | 3,167 | (15) | (0.5) |
| Cash and cash equivalents | 1,620 | 1,303 | 317 | 24.3 |
| Investment securities | 1,533 | 1,920 | (387) | (20.2) |
| Total interest and dividend income | \$ 74,359 | \$ 74,411 | \$ (52) | (0.1) |

The increase in interest income on loans receivable was due to an \$85.0 million increase in the average balance of the portfolio, partially offset by a two basis point decrease in the weighted average yield on the portfolio, to 3.62% for the current quarter.

The decrease in interest income on MBS was due to a \$94.4 million decrease in the average balance of the portfolio, partially offset by a three basis point increase in the weighted average yield on the portfolio. Cash flows from the portfolio were primarily used to fund loan growth. During the current quarter, \$1.2 million of net premiums on MBS were amortized, which decreased the weighted average yield on the portfolio by 33 basis points. During the prior quarter, \$1.4 million of net premiums were amortized, which decreased the weighted average yield on the portfolio by 36 basis points.

The increase in interest income on cash and cash equivalents was due primarily to a four basis point increase in the weighted average yield resulting from an increase in yield earned on balances held at the Federal Reserve Bank, as well as to a \$166.3 million increase in the average balance due to an increase in operating cash.

The decrease in interest income on investment securities was due to a \$136.7 million decrease in the average balance of the portfolio, partially offset by a two basis point increase in the weighted average yield on the portfolio. Cash flows from the portfolio during the current quarter were primarily held as operating cash in anticipation of loan growth and other operational cash flow needs.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities decreased one basis point from the prior quarter, to 1.08%, while the average balance of interest-bearing liabilities increased \$61.3 million between the two periods. Absent the impact of the daily leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have decreased three basis points from the prior quarter, to 1.28%, and the average balance would have increased \$68.9 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

| | For the Three Months Ended | | Change Expressed in: | |
|------------------------|----------------------------|-----------------------|----------------------|---------|
| | December 31, 2015 | September 30, 2015 | Dollars | Percent |
| (Dollars in thousands) | | | | |

INTEREST EXPENSE:

| | | | | | |
|------------------------|-----------|-----------|---------|--------|----|
| FHLB borrowings | \$ 16,074 | \$ 16,539 | \$ (465 |) (2.8 |)% |
| Deposits | 8,799 | 8,390 | 409 | 4.9 | |
| Repurchase agreements | 1,504 | 1,542 | (38 |) (2.5 |) |
| Total interest expense | \$ 26,377 | \$ 26,471 | \$ (94 |) (0.4 |) |

The decrease in interest expense on FHLB borrowings was due largely to a 10 basis point decrease in the weighted average rate paid on FHLB advances during the current quarter, to 2.24%, due primarily to a full quarter impact of the prepayment of a \$175.0 million

advance during the prior quarter that had an effective rate of 5.08% and a remaining term-to-maturity of just over six months. The prepaid FHLB advance was replaced with a \$175.0 million fixed-rate advance with an effective rate of 2.18% and a term of three years.

The increase in interest expense on deposits was primarily a result of deposit growth, which increased the average balance of the portfolio by \$105.6 million. The average balance of wholesale certificates of deposit increased \$53.5 million and the average balance of retail deposits increased \$52.1 million, largely in the certificate of deposit and checking portfolios.

Non-Interest Income

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

| | For the Three Months Ended | | Change Expressed in: | |
|-----------------------------|----------------------------|-----------------------|----------------------|---------|
| | December 31, 2015 | September 30, 2015 | Dollars | Percent |
| | (Dollars in thousands) | | | |
| NON-INTEREST INCOME: | | | | |
| Retail fees and charges | \$3,814 | \$3,845 | \$(31) | (0.8)% |
| Insurance commissions | 516 | 724 | (208) | (28.7) |
| Loan fees | 342 | 345 | (3) | (0.9) |
| Other non-interest income | 894 | 547 | 347 | 63.4 |
| Total non-interest income | \$5,566 | \$5,461 | \$105 | 1.9 |

The decrease in insurance commissions was due largely to the receipt of annual commissions from certain insurance providers during the prior quarter. The increase in other non-interest income was due primarily to a full quarter impact from the purchase of a new BOLI investment during the prior quarter.

Non-Interest Expense

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

| | For the Three Months Ended | | Change Expressed in: | |
|---|----------------------------|-----------------------|----------------------|---------|
| | December 31, 2015 | September 30, 2015 | Dollars | Percent |
| | (Dollars in thousands) | | | |
| NON-INTEREST EXPENSE: | | | | |
| Salaries and employee benefits | \$10,487 | \$11,382 | \$(895) | (7.9)% |
| Occupancy, net | 2,672 | 2,507 | 165 | 6.6 |
| Information technology and communications | 2,558 | 2,634 | (76) | (2.9) |
| Regulatory and outside services | 1,486 | 1,480 | 6 | 0.4 |
| Federal insurance premium | 1,382 | 1,403 | (21) | (1.5) |
| Deposit and loan transaction costs | 1,274 | 1,352 | (78) | (5.8) |
| Advertising and promotional | 1,154 | 1,840 | (686) | (37.3) |
| Office supplies and related expense | 887 | 528 | 359 | 68.0 |
| Low income housing partnerships | 773 | 1,168 | (395) | (33.8) |
| Other non-interest expense | 917 | 968 | (51) | (5.3) |
| Total non-interest expense | \$23,590 | \$25,262 | \$(1,672) | (6.6) |

The decrease in salaries and employee benefits expense was due primarily to the prior quarter including compensation expense on unallocated ESOP shares related to the True Blue Capitol dividend paid during the prior fiscal year. The decrease in advertising and promotional expense was due primarily to the timing of media campaigns and

sponsorships. The increase in office supplies and related expense was due primarily to the purchase of cards enabled with chip card technology. The decrease in low income housing partnerships expense was due primarily to impairments in the prior quarter and no such impairments in the current quarter.

The Company's efficiency ratio was 44.05% for the current quarter compared to 47.31% for the prior quarter. The change in the efficiency ratio was due primarily to a decrease in non-interest expense.

Income Tax Expense

Income tax expense was \$9.2 million for the current quarter compared to \$9.4 million for the prior quarter. The decrease between periods was due to a decrease in the effective income tax rate, from 33.2% for the prior quarter, to 30.8% for the current quarter. The decrease in the effective income tax rate between quarters was due primarily to the current quarter including favorable discrete items related to state income tax liabilities, along with an increase in nontaxable income related to BOLI and an increase in low income housing tax credits in the current fiscal year. Management anticipates the effective tax rate for fiscal year 2016 will be approximately 32%, based on fiscal year 2016 estimates as of December 31, 2015.

Liquidity and Capital Resources

Liquidity refers to our ability to generate sufficient cash to fund ongoing operations, to repay 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 securities, and short-term investment securities. The Bank's primary sources of funds are deposits, FHLB borrowings, repurchase agreements, repayments and maturities of outstanding loans and MBS and other short-term investments, and funds provided by operations. The Bank's term borrowings primarily have been used to invest in debentures and MBS in an effort to manage the Bank's interest rate risk with the intent to improve the earnings of the Bank while maintaining capital ratios in excess of regulatory standards for well-capitalized financial institutions. In addition, the Bank's focus on managing risk has provided additional liquidity capacity by maintaining a balance of MBS and investment securities available as collateral for borrowings.

We generally intend to manage cash reserves sufficient to meet short-term liquidity needs, which are routinely forecasted for 10, 30, and 365 days. Additionally, on a monthly basis, we perform a liquidity stress test in accordance with the Interagency Policy Statement on Funding and Liquidity Risk Management. The liquidity stress test incorporates both short-term and long-term liquidity scenarios in order to identify and to quantify liquidity risk. Management also continuously monitors key liquidity statistics related to items such as wholesale funding gaps, borrowings capacity, and available unpledged collateral, as well as various liquidity ratios.

In the event short-term liquidity needs exceed available cash, the Bank has access to a line of credit at FHLB and the Federal Reserve Bank discount window. When the daily leverage strategy is in place, the Bank maintains the resulting excess cash reserves from the borrowings on the FHLB line of credit at the Federal Reserve Bank, which can be used to meet any short-term liquidity needs. Per FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of regulatory total assets without the pre-approval of FHLB senior management. In July 2015, the president of FHLB approved an increase in the Bank's borrowing limit to 55% of Bank Call Report total assets for one year. The amount that can be borrowed from the Federal Reserve Bank discount window is based upon the fair value of securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. Management tests the Bank's access to the Federal Reserve Bank discount window annually with a nominal, overnight borrowing.

If management observes a trend in the amount and frequency of line of credit utilization that is not in conjunction with a planned strategy, such as the daily leverage strategy, 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 maturities of these borrowings are generally staggered in order to mitigate the risk of a highly negative cash flow position at maturity.

The Bank's internal policy limits total borrowings to 55% of total assets. At December 31, 2015, the Bank had term borrowings, at par, of \$2.68 billion or approximately 29% of total assets. Additionally, the Bank could utilize the repayment and maturity of outstanding loans, MBS, and other investments for liquidity needs rather than reinvesting such funds into the related portfolios. At December 31, 2015, the Bank had \$888.8 million of securities that were eligible but unused as collateral for borrowing or other liquidity needs.

The amount of FHLB advances outstanding at December 31, 2015 was \$2.48 billion, of which \$300.0 million was scheduled to mature in the next 12 months. All FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with FHLB along with certain securities. The Bank pledged securities with an estimated fair value of \$202.4 million as collateral for FHLB borrowings at December 31, 2015. At December 31, 2015, the Bank's ratio of the par value of FHLB borrowings to Call Report total assets was 27%. When the full daily leverage strategy is in place, FHLB borrowings are in excess of 40% of the Bank's Call Report total assets, and are expected to be in excess of 40% as long as the Bank continues its daily leverage strategy and FHLB senior management continues to approve the Bank's borrowing limit being in excess of 40% of Call Report total assets. All or a portion of the borrowings against the FHLB line of credit in conjunction with the daily leverage strategy could be repaid at any point in time while the strategy is in effect, if necessary.

At December 31, 2015, the Bank had repurchase agreements of \$200.0 million, or approximately 2% of total assets, none of which was 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, and subject to a total borrowings limit of 55% discussed above. The Bank has pledged securities with an estimated fair value of \$224.3 million as collateral for repurchase agreements as of December 31, 2015. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

The Bank has access to and utilizes other sources of funds for liquidity purposes, such as brokered and public unit deposits. As of December 31, 2015, the Bank's policy allowed for combined brokered and public unit deposits up to 15% of total deposits. At December 31, 2015, the Bank had public unit deposits totaling \$349.2 million, or approximately 7% of total deposits, and no brokered deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain funds at attractive rates. The Bank had pledged securities with an estimated fair value of \$384.2 million as collateral for public unit deposits at December 31, 2015. The securities pledged as collateral for public unit deposits are held under joint custody by FHLB and generally will be released upon deposit maturity.

At December 31, 2015, \$1.18 billion of the Bank's \$2.65 billion of certificates of deposit was scheduled to mature within one year. Included in the \$1.18 billion was \$288.9 million of public unit deposits. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products at the prevailing rate, although no assurance can be given in this regard. We also anticipate the majority of the \$288.9 million of maturing public unit deposits will be replaced with similar wholesale funding products.

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 December 31, 2015, cash and cash equivalents totaled \$232.4 million, compared to \$105.6 million at September 30, 2015, excluding cash related to the daily leverage strategy. The increase in operating cash between periods was due largely to cash flows from the securities portfolio. The operating cash was held for anticipated loan growth and other operational activities.

At December 31, 2015, Capitol Federal Financial, Inc., at the holding company level, had \$70.3 million on deposit at the Bank. During the quarter ended December 31, 2015, the Company paid \$44.5 million in cash dividends. See additional discussion regarding dividends and stock repurchases in "Financial Condition - Stockholders' Equity."

As of December 31, 2015, the Bank had \$3.7 million of agreements outstanding in connection with the remodeling of the Bank's Kansas City market area operations center. 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 may be additional agreements and expenses related to the project through mid-to-late fiscal year 2016, 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.

The following table presents the contractual maturities of our loan, MBS, and investment securities portfolios at December 31, 2015, along with associated weighted average yields. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses. As of December 31, 2015, the amortized cost of investment securities in our portfolio which are callable or have pre-refunding dates within one year was \$226.7 million.

| | Loans ⁽¹⁾ | | MBS | | Investment Securities | | Total | |
|---------------------------|------------------------|--------|-------------|--------|-----------------------|--------|-------------|--------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | (Dollars in thousands) | | | | | | | |
| Amounts due: | | | | | | | | |
| Within one year | \$91,930 | 3.74 % | \$71 | 5.07 % | \$30,098 | 1.52 % | \$122,099 | 3.19 % |
| After one year: | | | | | | | | |
| Over one to two years | 82,439 | 3.97 | 742 | 4.72 | 58,229 | 1.12 | 141,410 | 2.80 |
| Over two to three years | 24,282 | 4.72 | 13,842 | 4.23 | 250,813 | 1.14 | 288,937 | 1.59 |
| Over three to five years | 45,429 | 4.58 | 52,894 | 3.79 | 109,929 | 1.40 | 208,252 | 2.70 |
| Over five to ten years | 452,079 | 3.96 | 438,642 | 2.08 | 9,906 | 1.62 | 900,627 | 3.02 |
| Over ten to fifteen years | 1,416,731 | 3.29 | 479,178 | 2.14 | — | — | 1,895,909 | 2.99 |
| After fifteen years | 4,640,359 | 3.68 | 390,750 | 2.33 | 1,854 | 1.77 | 5,032,963 | 3.58 |
| Total due after one year | 6,661,319 | 3.63 | 1,376,048 | 2.26 | 430,731 | 1.22 | 8,468,098 | 3.28 |
| | \$6,753,249 | 3.63 | \$1,376,119 | 2.26 | \$460,829 | 1.24 | \$8,590,197 | 3.28 |

Demand loans, loans having no stated maturity, and overdraft loans are included in the amounts due within one (1) 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.

Limitations on Dividends and Other Capital Distributions

Office of the Comptroller of the Currency ("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 may make capital distributions during any calendar year equal to earnings of the previous two calendar years and current year-to-date earnings under the FRB and OCC safe harbor regulations. It is generally required that the Bank remain well capitalized after a proposed distribution; however, an institution deemed to be in need of more than normal supervision by the OCC may have its capital distribution authority restricted. A savings institution that is a subsidiary of a savings and loan holding company, such as the Company, that proposes to make a capital distribution must submit written notice to the OCC and FRB 30 days prior to such distribution. The OCC and FRB may object to the distribution during that 30-day period based on safety and soundness or other concerns. Savings institutions that desire to make a larger capital distribution, are under special restrictions, or are not, or would not be, well capitalized following a proposed capital distribution, however, must obtain regulatory non-objection prior to making such a 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 remains "well capitalized" after each capital distribution and operates in a safe and sound manner, it is management's belief that the OCC and FRB will continue to allow the Bank to distribute its earnings to the Company, although no assurance can be given in this regard.

The Company paid cash dividends of \$44.5 million during the three months ended December 31, 2015. 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 level.

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. There have been no material changes in commitments, contractual obligations or off-balance sheet arrangements from September 30, 2015. For additional information, see "Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Off-Balance Sheet Arrangements, Commitments and Contractual Obligations" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015. We anticipate that we will continue to have sufficient funds, through repayments and maturities of loans and securities, deposits and borrowings, to meet our current commitments.

The maximum balance of short-term FHLB borrowings outstanding at any month-end during the three months ended December 31, 2015 was \$2.60 billion, and the average balance of short-term FHLB borrowings outstanding during this period was \$2.48 billion at a weighted average contractual rate of 0.50%. The majority of the short-term FHLB borrowings amount related to borrowings on the FHLB line of credit in conjunction with the daily leverage strategy. This compares to a balance of short-term FHLB borrowings outstanding at December 31, 2015 of \$300.0 million at a weighted average contractual rate of 1.55%.

Contingencies

In the normal course of business, the Company and its subsidiary are named defendants in various lawsuits and counter claims. In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a materially adverse effect on the Company's consolidated financial statements for the quarter ended December 31, 2015, or future periods.

Capital

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a "well-capitalized" status for the Bank and Company in accordance with regulatory standards. As of December 31, 2015, the Company and Bank exceeded all regulatory capital requirements. The following table presents the regulatory capital ratios of the Bank and the Company at December 31, 2015.

| | Bank | | Company | | Minimum | | Regulatory | |
|------------------------------------|--------|---|---------|---|-------------|---|--------------------|---|
| | Ratios | | Ratios | | Regulatory | | Requirement For | |
| | | | | | Requirement | | "Well-Capitalized" | |
| | | | | | | | Status of Bank | |
| Tier 1 leverage ratio | 11.3 | % | 12.3 | % | 4.0 | % | 5.0 | % |
| Common equity tier 1 capital ratio | 30.6 | | 33.4 | | 4.5 | | 6.5 | |
| Tier 1 capital ratio | 30.6 | | 33.4 | | 6.0 | | 8.0 | |
| Total capital ratio | 30.8 | | 33.7 | | 8.0 | | 10.0 | |

The following table presents a reconciliation of equity under GAAP to regulatory capital amounts, as of December 31, 2015, for the Bank and the Company (dollars in thousands):

| | Bank | | Company |
|-------------------------------------|--------------|---|--------------|
| Total equity as reported under GAAP | \$ 1,274,579 | | \$ 1,390,833 |
| Unrealized gains on AFS securities | (5,576 |) | (5,576 |
| Total tier 1 capital | 1,269,003 | | 1,385,257 |
| ACL | 9,201 | | 9,201 |
| Total capital | \$ 1,278,204 | | \$ 1,394,458 |

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Asset and Liability Management and 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 "Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K for the year ended September 30, 2015. The analysis presented in the tables below reflects the level of market risk at the Bank, including the cash the holding company has deposited at the Bank.

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

The general objective of our interest rate risk management program is to determine and manage an appropriate level of interest rate risk while maximizing net interest income in a manner consistent with our policy to manage, to the extent practicable, the exposure of net interest income to changes in market interest rates. The Board of Directors and Asset and Liability Management Committee ("ALCO") regularly review the interest rate risk exposure of the Bank by forecasting the impact of hypothetical, alternative interest rate environments on net interest income and the market value of portfolio equity ("MVPE") at various dates. The MVPE is defined as the net of the present value of cash flows from existing assets, liabilities, and off-balance sheet instruments. The present values are determined based upon market conditions as of the date of the analysis, as well as in alternative interest rate environments providing potential changes in the MVPE under those alternative interest rate environments. Net interest income is projected in

the same alternative interest rate environments with both a static balance sheet and management strategies considered. The MVPE and net interest income analysis are also conducted to estimate our sensitivity to rates for future time horizons based upon market conditions as of the date of the analysis. In addition to the interest rate environments presented below, management also reviews the impact of non-parallel rate shock scenarios on a quarterly basis. These scenarios consist of flattening and steepening the yield curve by changing short-term and long-term interest rates independent of each other, and simulating cash flows and determining valuations as a result of these hypothetical changes in interest rates to identify rate environments that pose the greatest risk to the Bank. This analysis helps management quantify the Bank's exposure to changes in the shape of the yield curve.

For each date presented in the following table, the estimated change in the Bank's net interest income is based on the indicated instantaneous, parallel and permanent change in interest rates presented. The change in each interest rate environment represents the difference between estimated net interest income in the 0 basis point interest rate environment ("base case," assumes the forward market and product interest rates implied by the yield curve are realized) and the estimated net interest income in each alternative interest rate environment (assumes market and product interest rates have a parallel shift in rates across all maturities by the indicated change in rates). At all dates presented, the three-month Treasury bill yield was less than one percent, so the -100 basis points scenario was not applicable. Estimations of net interest income used in preparing the table below were based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities 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 gains or losses related to the sale of loans or securities, or income derived from non-interest income sources, but does include the use of different prepayment assumptions in the alternative interest rate environments. It is important to consider that estimated changes in net interest income are for a cumulative four-quarter period. These do not reflect the earnings expectations of management.

| Change (in Basis Points) in Interest Rates ⁽¹⁾ | Net Interest Income | | | | | |
|---|-------------------------|-------------|------------|--------------------|-------------|------------|
| | At December 31, 2015 | | | September 30, 2015 | | |
| | Amount (\$) | Change (\$) | Change (%) | Amount (\$) | Change (\$) | Change (%) |
| -100 bp | N/A | N/A | N/A | N/A | N/A | N/A |
| 000 bp | \$ 187,384 | \$— | — | \$ 190,776 | \$— | — |
| +100 bp | 187,314 | (70 |) (0.04 | 189,248 | (1,528 |) (0.80 |
| +200 bp | 184,595 | (2,789 |) (1.49 | 186,443 | (4,333 |) (2.27 |
| +300 bp | 180,143 | (7,241 |) (3.86 | 181,652 | (9,124 |) (4.78 |

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

As interest rates rise, cash flows from the Bank's mortgage related assets and callable investment securities decrease to such a level that the Bank's liabilities are projected to reprice to higher interest rates at a faster pace than the Bank's assets, which decreases the net interest income projection. Higher operating cash balances at December 31, 2015 reduced the Bank's exposure to higher interest rates.

The following table sets forth the estimated change in the MVPE for each date presented based on the indicated instantaneous, parallel, and permanent change in interest rates. The change in each interest rate environment represents the difference between the MVPE in the base case (assumes the forward market interest rates implied by the yield curve are realized) and the MVPE in each alternative interest rate environment (assumes market interest rates have a parallel shift in rates). At all dates presented, the three-month Treasury bill yield was less than one percent, so the -100 basis points scenario was not applicable. The estimations of the MVPE used in preparing the table below were based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities does not change, that any repricing of assets or liabilities occurs at current product or market rates for the alternative rate environments as of the dates presented, and that different prepayment rates were used in each alternative interest rate environment. The estimated MVPE results from the valuation of cash flows from financial assets and liabilities over the anticipated lives of each for each interest rate environment. The table below presents the effects of the changes in interest rates on our assets and liabilities as they mature, repay, or reprice, as shown by the change in the MVPE for alternative interest rates.

| Change (in Basis Points) in Interest Rates ⁽¹⁾ | Market Value of Portfolio Equity | | | | | |
|---|----------------------------------|-------------|------------|--------------------|-------------|------------|
| | At December 31, 2015 | | | September 30, 2015 | | |
| | Amount (\$) | Change (\$) | Change (%) | Amount (\$) | Change (\$) | Change (%) |

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

| | | | | | | | | |
|---------|-------------|----------|----------|-----|-------------|----------|----------|---|
| -100 bp | N/A | N/A | N/A | N/A | N/A | N/A | N/A | |
| 000 bp | \$1,447,878 | \$— | — | % | \$1,457,514 | \$— | — | % |
| +100 bp | 1,323,314 | (124,564 |) (8.60 |) | 1,343,864 | (113,650 |) (7.80 |) |
| +200 bp | 1,161,261 | (286,617 |) (19.80 |) | 1,189,194 | (268,320 |) (18.41 |) |
| +300 bp | 989,344 | (458,534 |) (31.67 |) | 1,021,380 | (436,134 |) (29.92 |) |

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

As interest rates rise, the market value of the Bank's assets decreases at a faster pace than the market value of the Bank's liabilities, which results in a decrease to the Bank's MVPE. Higher interest rates at December 31, 2015, as compared to September 30, 2015, increased the Bank's exposure to higher interest rates.

The following gap table summarizes the anticipated maturities or repricing periods of the Bank's interest-earning assets and interest-bearing liabilities 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 interest rate 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 adjustable-rate mortgage ("ARM") loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table below. For additional information regarding the impact of changes in interest rates, see the preceding Percentage Change in Net Interest Income and Percentage Change in MVPE discussions and tables.

| | Within One Year | More Than One Year to Three Years | More Than Three Years to Five Years | Over Five Years | Total |
|---|--------------------|---|---|--------------------|--------------|
| Interest-earning assets (Dollars in thousands) | | | | | |
| Loans receivable ⁽¹⁾ | \$ 1,861,126 | \$ 1,760,071 | \$ 1,023,809 | \$ 2,090,545 | \$ 6,735,551 |
| Securities ⁽²⁾ | 626,422 | 693,274 | 291,437 | 216,850 | 1,827,983 |
| Other interest-earning assets | 207,085 | — | — | — | 207,085 |
| Total interest-earning assets | 2,694,633 | 2,453,345 | 1,315,246 | 2,307,395 | 8,770,619 |
| Interest-bearing liabilities | | | | | |
| Transaction deposits ⁽³⁾ | 680,374 | 424,289 | 283,227 | 1,000,919 | 2,388,809 |
| Certificates of deposit | 1,183,033 | 975,292 | 494,912 | 779 | 2,654,016 |
| Borrowings ⁽⁴⁾ | 300,000 | 1,075,000 | 700,000 | 644,984 | 2,719,984 |
| Total interest-bearing liabilities | 2,163,407 | 2,474,581 | 1,478,139 | 1,646,682 | 7,762,809 |
| Excess (deficiency) of interest-earning assets over interest-bearing liabilities | \$ 531,226 | \$ (21,236) | \$ (162,893) | \$ 660,713 | \$ 1,007,810 |
| Cumulative excess of interest-earning assets over interest-bearing liabilities | \$ 531,226 | \$ 509,990 | \$ 347,097 | \$ 1,007,810 | |
| Cumulative excess of interest-earning assets over interest-bearing liabilities as a percent of total Bank assets at: | | | | | |
| December 31, 2015 | 5.82 | % 5.58 | % 3.80 | % 11.03 | % |
| September 30, 2015 | 7.48 | | | | |
| Cumulative one-year gap - interest rates +200 bps at: | | | | | |
| December 31, 2015 | 1.44 | | | | |
| September 30, 2015 | 0.26 | | | | |

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, (1) rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances are net of deferred fees and exclude loans 90 or more days delinquent or in foreclosure.

(2) MBS reflect projected prepayments at amortized cost. Investment securities are presented based on contractual maturities, term to call dates or pre-refunding dates as of December 31, 2015, at amortized cost.

- Although the Bank's checking, savings, and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rates at which the balances of existing accounts decline) used on these accounts is based on assumptions developed from our actual experiences with these accounts.
- (3) If all of the Bank's checking, savings, and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$1.18 billion, for a cumulative one-year gap of -12.9% of total assets.
- (4) Borrowings exclude deferred prepayment penalty costs.

The decrease in the one-year gap at December 31, 2015 compared to September 30, 2015 was largely driven by higher rates at December 31, 2015 than at September 30, 2015.

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

| December 31, 2015 | | | | | | |
|--------------------------------------|-------------|------------|-------|---------------|------------|---|
| | Amount | Yield/Rate | WAL | % of Category | % of Total | |
| (Dollars in thousands) | | | | | | |
| Investment securities | \$460,829 | 1.24 | % 2.6 | 25.1 | % 5.2 | % |
| MBS - fixed | 989,171 | 2.26 | 3.2 | 53.8 | 11.1 | |
| MBS - adjustable | 386,948 | 2.26 | 5.6 | 21.1 | 4.3 | |
| Total investment securities and MBS | 1,836,948 | 2.00 | 3.6 | 100.0 | % 20.6 | |
| Loans receivable: | | | | | | |
| Fixed-rate one- to four-family: | | | | | | |
| <= 15 years | 1,249,681 | 3.22 | 4.0 | 18.5 | % 14.0 | |
| > 15 years | 3,927,477 | 4.00 | 5.7 | 58.2 | 43.9 | |
| All other fixed-rate loans | 209,913 | 4.25 | 3.3 | 3.1 | 2.3 | |
| Total fixed-rate loans | 5,387,071 | 3.83 | 5.2 | 79.8 | 60.2 | |
| Adjustable-rate one- to four-family: | | | | | | |
| <= 36 months | 317,533 | 1.86 | 3.8 | 4.7 | 3.6 | |
| > 36 months | 876,727 | 2.92 | 2.7 | 13.0 | 9.8 | |
| All other adjustable-rate loans | 171,918 | 4.32 | 1.5 | 2.5 | 1.9 | |
| Total adjustable-rate loans | 1,366,178 | 2.85 | 2.8 | 20.2 | 15.3 | |
| Total loans receivable | 6,753,249 | 3.63 | 4.7 | 100.0 | % 75.5 | |
| FHLB stock | 119,027 | 5.79 | 3.2 | | 1.3 | |
| Cash and cash equivalents | 232,354 | 0.49 | — | | 2.6 | |
| Total interest-earning assets | \$8,941,578 | 3.25 | 4.4 | | 100.0 | % |
| Transaction deposits | \$2,318,464 | 0.16 | 6.5 | 46.6 | % 30.3 | % |
| Certificates of deposit | 2,654,016 | 1.20 | 1.6 | 53.4 | 34.7 | |
| Total deposits | 4,972,480 | 0.71 | 3.9 | 100.0 | % 65.0 | |
| Term borrowings | 2,675,000 | 2.29 | 3.2 | | 35.0 | |
| Total interest-bearing liabilities | \$7,647,480 | 1.26 | 3.7 | | 100.0 | % |

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Act") as of December 31, 2015. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of December 31, 2015, 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) that occurred during the Company's quarter ended December 31, 2015 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

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

Item 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, 2015.

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 OCC restrictions on dividends from the Bank to the Company.

The following table summarizes our share repurchase activity during the three months ended December 31, 2015 and additional information regarding our share repurchase program. In October 2015, the Company announced a stock repurchase plan for up to \$70.0 million of common stock. It is anticipated that shares will be purchased from time to time in the open-market based upon market conditions and available liquidity. There is no expiration for this repurchase plan.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan |
|---|---|------------------------------------|---|---|
| October 1, 2015 through October 31, 2015 | — | \$— | — | \$70,000,000 |
| November 1, 2015 through November 30, 2015 | — | — | — | 70,000,000 |
| December 1, 2015 through December 31, 2015 | — | — | — | 70,000,000 |
| Total | — | — | — | 70,000,000 |

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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITOL FEDERAL FINANCIAL, INC.

Date: February 9, 2016

By: /s/ John B. Dicus
John B. Dicus, Chairman, President and Chief Executive
Officer

Date: February 9, 2016

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

INDEX TO EXHIBITS

| Exhibit Number | Document |
|----------------|---|
| 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, Inc.'s Employee Stock Ownership Plan, as amended, filed on May 10, 2011 as Exhibit 10.1(ii) to the March 31, 2011 Form 10-Q for Capitol Federal Financial, Inc., and incorporated herein by reference |
| 10.1(ii) | Form of Change of Control Agreement with each of John B. Dicus, Kent G. Townsend, and Rick C. Jackson filed on January 20, 2011 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference |
| 10.1(iii) | Form of Change of Control Agreement with each of Natalie G. Haag and Carlton A. Ricketts filed on November 29, 2012 as Exhibit 10.1(iv) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference |
| 10.1(iv) | Form of Change of Control Agreement with Frank H. Wright filed on November 29, 2013 as Exhibit 10.1(v) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference |
| 10.2 | Capitol Federal Financial's 2000 Stock Option and Incentive Plan (the "Stock Option Plan") filed on April 13, 2000 as Appendix A to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference |
| 10.3 | Capitol Federal Financial 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 |
| 10.4 | 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 |
| 10.5 | 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 |
| 10.6 | Description of Named Executive Officer Salary and Bonus Arrangements filed on November 25, 2015 as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K and incorporated herein by reference |
| 10.7 | Description of Director Fee Arrangements filed on August 1, 2014 as Exhibit 10.9 to the Registrant's June 30, 2014 Form 10-Q and incorporated herein by reference |
| 10.8 | Short-term Performance Plan filed on August 4, 2015 as Exhibit 10.10 to the Registrant's June 30, 2015 Form 10-Q and incorporated herein by reference |
| 10.9 | Capitol Federal Financial, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") filed on December 22, 2011 as Appendix A to Capitol Federal Financial, Inc.'s Proxy Statement (File No. 001-34814) and incorporated herein by reference |
| 10.10 | Form of Incentive Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.12 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference |
| 10.11 | Form of Non-Qualified Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.13 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference |
| 10.12 | Form of Stock Appreciation Right Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.14 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference |

Edgar Filing: Capitol Federal Financial Inc - Form 10-Q

- 10.13 Form of Restricted Stock Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.15 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
- 11 Calculations of Basic and Diluted EPS (See "Part I, Item 1. Financial Statements – Notes to Consolidated Financial Statements – Note 2 – Earnings Per Share")
- 31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer
- 31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

67

101 The following information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2015, filed with the Securities and Exchange Commission on February 9, 2016, has been formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets at December 31, 2015 and September 30, 2015, (ii) Consolidated Statements of Income for the three months ended December 31, 2015 and 2014, (iii) Consolidated Statements of Comprehensive Income for the three months ended December 31, 2015 and 2014, (iv) Consolidated Statement of Stockholders' Equity for the three months ended December 31, 2015, (v) Consolidated Statements of Cash Flows for the three months ended December 31, 2015 and 2014, and (vi) Notes to the Unaudited Consolidated Financial Statements

68