Capitol Federal Financial Inc
Form 10-Q
May 10, 2011

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

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)

Registrant's telephone number, including area code:
(785) 235-1341

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

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

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

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

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

As of May 6, 2011, there were 167,493,608 shares of Capitol Federal Financial, Inc. Common Stock outstanding.

PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements
CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

	March 31, 2011	September 30, 2010
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $104,883 and $50,771)	$122,002	$65,217
Securities:		
Available-for-sale ("AFS") at estimated fair value (amortized cost of $1,207,245 and $1,009,142)	1,250,153	1,060,366
Held-to-maturity ("HTM") at amortized cost (estimated fair value of $2,966,745 and $1,913,454)	2,953,661	1,880,154
Loans receivable, net of allowance for credit losses ("ACL") of $13,814 and $14,892	5,096,615	5,168,202
Bank-owned life insurance ("BOLI")	55,546	54,710
Capital stock of Federal Home Loan Bank ("FHLB"), at cost	122,651	120,866
Accrued interest receivable	30,778	30,220
Premises and equipment, net	43,211	41,260
Real estate owned ("REO"), net	11,337	9,920
Income taxes receivable	--	716
Other assets	47,157	55,499
TOTAL ASSETS	$9,733,111	$8,487,130
LIABILITIES:		
Deposits	$4,711,189	$4,386,310
Advances from FHLB	2,351,863	2,348,371
Other borrowings, net	643,609	668,609
Advance payments by borrowers for taxes and insurance	48,095	55,036
Income taxes payable	2,411	--
Deferred income tax liabilities, net	19,520	33,244
Accounts payable and accrued expenses	30,015	33,610
Total liabilities	7,806,702	7,525,180
STOCKHOLDERS' EQUITY:		
Preferred stock ($0.01 par value) 100,000,000 shares authorized; none issued	--	--
Common stock ($0.01 par value) 1,400,000,000 shares authorized, 167,493,608		
shares issued; 167,493,608 and 73,992,678 shares outstanding		
as of March 31, 2011 and September 30, 2010, respectively	1,675	915
Additional paid-in capital	1,390,949	457,795
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(52,033)	(6,050)
Unearned compensation, Recognition and Retention Plan ("RRP")	(184)	(255)
Retained earnings	559,313	801,044
Accumulated other comprehensive income ("AOCI"), net of tax	26,689	31,862
Less shares held in treasury (0 and 17,519,609 shares as of March 31, 2011		

and September 30, 2010, respectively, at cost)	--	(323,361)
Total stockholders' equity	1,926,409	961,950
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,733,111	$8,487,130

See accompanying notes to consolidated financial statements.

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CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except share and per share data)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$61,554	$70,315	$127,497	$144,841
Mortgage-backed securities ("MBS")	17,320	18,627	32,760	39,381
Investment securities	4,743	3,726	9,518	6,285
Capital stock of FHLB	883	985	1,785	1,986
Cash and cash equivalents	441	54	628	101
Total interest and dividend income	84,941	93,707	172,188	192,594
INTEREST EXPENSE:				
FHLB advances	21,968	24,299	45,099	49,118
Deposits	16,069	19,776	33,450	41,881
Other borrowings	6,348	6,949	13,078	14,058
Total interest expense	44,385	51,024	91,627	105,057
NET INTEREST INCOME	40,556	42,683	80,561	87,537
PROVISION FOR CREDIT LOSSES	520	3,200	1,170	6,315
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	40,036	39,483	79,391	81,222
OTHER INCOME:				
Retail fees and charges	3,561	4,213	7,504	8,936
Insurance commissions	888	753	1,706	1,335
Loan fees	621	674	1,276	1,255
Income from BOLI	504	223	836	491
Gain on securities, net	--	--	--	6,454
Other income, net	570	673	1,139	1,196
Total other income	6,144	6,536	12,461	19,667
OTHER EXPENSES:				
Salaries and employee benefits	11,067	10,807	21,058	21,339
Communications, information technology, and occupancy	3,977	3,854	7,853	7,796
Federal insurance premium	1,128	1,845	2,986	3,659
Deposit and loan transaction costs	1,274	1,316	2,626	2,696
Regulatory and outside services	1,139	994	2,328	2,442
Advertising and promotional	693	1,337	1,524	2,981
Contribution to Capitol Federal Foundation (“Foundation”)	--	--	40,000	--

Other expenses, net	3,577	2,947	7,818	4,936
Total other expenses	22,855	23,100	86,193	45,849
INCOME BEFORE INCOME TAX EXPENSE	23,325	22,919	5,659	55,040
INCOME TAX EXPENSE	7,689	8,264	1,281	19,405
NET INCOME	$15,636	$14,655	$4,378	$35,635

(Continued)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
Basic earnings per common share	$0.10	$0.09	$0.03	$0.22
Diluted earnings per common share	$0.10	$0.09	$0.03	$0.22
Dividends declared per public share	$0.68	$0.50	$1.48	$1.29
Basic weighted average common shares	161,499,795	165,734,124	163,542,495	165,794,605
Diluted weighted average common shares	161,507,374	165,798,989	163,550,750	165,847,257

(Concluded)

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Unearned Compensation- ESOP	Unearned Compensation- RRP	Retained Earnings	AOCI	Treasury Stock	Total Stockholders' Equity
Balance at October 1, 2010	$ 915	$ 457,795	$ (6,050)	$ (255)	$ 801,044	$ 31,862	$ (323,361)	$ 961,950
Comprehensive income:								
Net income					4,378			4,378
Other comprehensive (loss) income:								
Changes in unrealized gain/losses on securities AFS, net of deferred income taxes of $3,143						(5,173)		(5,173)
Total comprehensive (loss) income								(795)
ESOP activity, net		1,625	1,277					2,902
RRP activity, net		(4)						(4)
Stock based compensation - stock options and RRP		63		71				134
Stock options exercised		1						1
Dividends on common stock to stockholders $1.48 per share					(125,899)			(125,899)
Corporate reorganization:								
Merger of Capitol Federal Savings Bank MHC	(522)	1,997			(1,223)			252

Retirement of treasury stock	(175)	(204,199)			(118,987)		323,361	--
Exchange of common stock	276	(323)						(47)
Proceeds from stock offering, net of offering expenses	1,181	1,133,994						1,135,175
Purchase of common stock by ESOP			(47,260)					(47,260)
Balance at March 31, 2011	$ 1,675	$ 1,390,949	$ (52,033)	$ (184)	$ 559,313	$ 26,689	$ --	$ 1,926,409

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$4,378	$35,635
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(1,785)	(1,986)
Provision for credit losses	1,170	6,315
Originations of loans receivable held-for-sale ("LHFS")	(8,106)	(5,035)
Proceeds from sales of LHFS	9,597	3,188
Amortization and accretion of premiums and discounts on securities	3,375	3,005
Depreciation and amortization of premises and equipment	2,218	2,410
Amortization of deferred amounts related to FHLB advances, net	3,492	3,272
Common stock committed to be released for allocation - ESOP	2,902	3,263
Stock based compensation - stock options and RRP	134	285
Gain on the sale of trading securities received in the loan swap transaction	--	(6,454)
Changes in:		
Prepaid federal insurance premium	2,743	(24,005)
Accrued interest receivable	(558)	851
Other assets, net	2,478	(629)
Income taxes payable/receivable	(7,458)	(1,321)
Accounts payable and accrued expenses	(8,245)	(6,948)
Net cash provided by operating activities	6,335	11,846
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of trading securities received in the loan swap transaction	--	199,144
Purchase of AFS securities	(405,815)	--
Purchase of HTM securities	(1,658,451)	(616,717)
Proceeds from calls, maturities and principal reductions of AFS securities	206,371	262,088
Proceeds from calls, maturities and principal reductions of HTM securities	582,910	92,063
Loan originations and purchases, net of principal collected and deferred loan fees	62,530	17,695
Purchases of premises and equipment	(4,011)	(5,094)
Proceeds from sales of REO	5,774	5,967
Net cash used in investing activities	(1,210,692)	(44,854)

(Continued)

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	For the Six Months Ended March 31, 2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(125,899)	(27,408)
Deposits, net of withdrawals	342,569	90,457
Proceeds from borrowings	300,000	--
Repayments of borrowings	(325,000)	--
Change in advance payments by borrowers for taxes and insurance	(6,941)	(6,561)
Acquisitions of treasury stock	--	(4,019)
Net proceeds from common stock offering	1,076,412	--
Stock options exercised	--	86
Excess tax benefits from stock options	1	34
Net cash provided by financing activities	1,261,142	52,589
NET INCREASE IN CASH AND CASH EQUIVALENTS	56,785	19,581
CASH AND CASH EQUIVALENTS:		
Beginning of period	65,217	41,154
End of period	$ 122,002	$ 60,735
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Income tax payments	$ 8,738	$ 20,687
Interest payments	$ 88,477	$ 103,181
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note received from ESOP in exchange for common stock	$ 47,260	$ --
Customer deposit holds related to common stock offering	$ 17,690	$ --
Loans transferred to REO	$ 8,355	$ 5,344
Swap of loans for trading securities	$ --	$ 193,889

(Concluded)

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements (Unaudited)

1. Summary of Significant Accounting Policies

Basis of Presentation - In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization ("corporate reorganization"). Capitol Federal Financial, which owned 100% of Capitol Federal Savings Bank (the "Bank"), was succeeded by Capitol Federal Financial, Inc. ("the Company"), a new Maryland corporation. As part of the corporate reorganization, Capitol Federal Savings Bank MHC's ("MHC") ownership interest in Capitol Federal Financial was sold in a public offering. Gross proceeds from the offering were $1.18 billion and related offering expenses were $46.7 million, of which $6.0 million were incurred and deferred in fiscal year 2010. The publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of the Company. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to the reorganization. All share information used to calculate earnings per share in the consolidated financial statements prior to the corporate reorganization has been revised to reflect the 2.2637 exchange ratio. In conjunction with the corporate reorganization, the Company contributed $40.0 million of cash to the Bank's charitable foundation, Capitol Federal Foundation. Additionally, a "liquidation account" has been established for the benefit of certain depositors of the Bank in an amount equal to MHC's ownership interest in the retained earnings of Capitol Federal Financial as of June 30, 2010. Under Office of Thrift Supervision ("OTS") regulations, neither the Company nor the Bank is permitted to pay dividends on its capital stock to its stockholders if stockholders' equity would be reduced below the total of the liquidation account.

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation. The financial information presented is derived from the consolidated financial statements of the Company after the corporate reorganization in December 2010 and from the consolidated financial statements of Capitol Federal Financial prior to the corporate reorganization.

Capitol Federal Financial's treasury shares were retired in connection with the corporate reorganization. As noted above, the Company is a Maryland corporation. Under Maryland law, there is no concept of "treasury shares." Instead, shares purchased by the Company constitute authorized but unissued shares under Maryland law. There were no treasury shares at March 31, 2011.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation 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, 2010, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting periods. Significant estimates include the ACL and fair value measurements. Actual results could differ from those estimates.

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

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

A loan is considered delinquent when payment has not been received within 30 days of its contractual due date. The accrual of income on loans is discontinued when interest or principal payments are 90 days in arrears. Loans on which the accrual of income has been discontinued are designated as non-accrual loans and outstanding interest previously credited beyond 90 days delinquent is reversed. A non-accrual loan is returned to accrual status once the contractual payments have been made to bring the loan less than 90 days past due.

A condition in which the Bank grants a concession that it would not otherwise consider to a borrower due to financial difficulties is a troubled debt restructuring ("TDR"). The majority of the Bank's TDRs involve a modification in loan terms such as a temporary reduction in the payment amount requiring only interest and escrow payments (if required) and extending the maturity date of the loan.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. Management considers the following loans to be impaired loans: all non-accrual loans, loans classified as substandard, loans with specific valuation allowances ("SVA"), and TDRs that have not been performing under the new terms for 12 consecutive months or are required by the accounting literature to be classified as a TDR for the life of the loan.

Allowance for Credit Losses - The ACL represents management's best estimate of the amount of known and inherent losses in the loan portfolio as of the balance sheet date. Management's methodology for assessing the appropriateness of the ACL consists of a formula analysis for general valuation allowances and SVAs for identified problem loans. Management maintains the ACL through provisions for loan losses that are charged to income.

For one-to four-family loans, losses are charged-off when a loan is transferred to REO or if there is a short-sale of the collateral. For consumer home equity loans where the Bank only holds the second mortgage, if the loan balance is in excess of the fair value and the loan is in foreclosure, the difference between the loan balance and the fair value is charged-off. Private mortgage insurance ("PMI") and estimated selling costs are taken into consideration when calculating the amount to charge-off for home equity loans. Other consumer loans that are unsecured are entirely charged-off once the loan is 120 days past due. For multi-family and commercial loans, the Bank records a charge-off when it is determined that the collection of all or a portion of a loan may not be collected and the amount of that loss is reasonably estimated.

The Bank's primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties and, to a lesser extent, second mortgage loans on one- to four-family residential properties, resulting in a loan concentration in residential mortgage loans. The Bank has a concentration of loans secured by residential property located in Kansas and Missouri. Based on the composition of the Bank's loan portfolio, the primary risks inherent in the one- to four-family and consumer loan portfolios are the continued weakened economic conditions, continued high levels of unemployment or underemployment, and a continuing decline in residential real estate values. Any one or a combination of these events may adversely affect borrowers' ability to repay their loans, resulting in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Although the multi-family and commercial loan portfolio also shares the risk of continued weakened economic conditions, the primary risks for the portfolio include the ability of the borrower to sustain sufficient cash flows from leases and to control expenses to satisfy their contractual debt payments, or the ability to utilize personal and/or business resources to pay their contractual debt payments if the cash flows are not sufficient. Additionally, if the Bank were to repossess the secured collateral of a multi-family or commercial loan, the pool of potential buyers is limited more than that for a residential property; therefore, the Bank could hold the property for an extended period of time and potentially be forced to sell at a discounted price, resulting in additional losses.

Management considers several quantitative and qualitative factors quarterly while monitoring the credit quality of the loan portfolio and evaluating the adequacy of the ACL. Such factors include the trend and composition of delinquent and non-performing loans, results of foreclosed property and short-sale transactions (historical losses and net charge-offs), the current status and trends of local and national economies, particularly levels of unemployment, trends and current conditions in the residential real estate markets, and loan portfolio growth and concentrations. Since the Bank's loan portfolio is primarily concentrated in one- to four-family real estate, management monitors residential real estate market value trends in the Bank's local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and management's general and specific knowledge of the real estate markets in which the Bank lends, in order to determine what impact, if any, such trends may have on the level of ACL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall credit quality of the loan portfolio and the reasonableness of the ACL on an ongoing basis, and whether changes need to be made to the Bank's allowance for credit loss methodology. Management seeks to apply the allowance for credit loss methodology in a consistent manner; however, the methodology can be modified in response to changing conditions. There were no significant modifications to the formula analysis methodology during the current quarter. The formula analysis for general valuation allowances is updated each quarter. Within the formula analysis, the loan portfolio is segregated into the following categories: one- to four-family loans, multi-family and commercial loans, consumer home equity loans, and other consumer loans. Home equity loans with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis to calculate a combined loan-to-value ("LTV") ratio. Impaired loans are excluded from the formula analysis as they are individually evaluated for SVAs. The one- to four-family loan portfolio and related home equity loans are segregated into additional categories based on the following risk characteristics: originated or purchased from nationwide lender, interest payments (fixed-rate, adjustable-rate, and interest-only), LTV ratios, borrower's credit scores, and certain states where the Bank has experienced measurable losses on REO and short-sales. The additional categories were derived by management based on reviewing the historical performance of the one- to four-family loan portfolio and taking into consideration current economic conditions, such as trends in the residential real estate values in certain areas of the U.S. and unemployment rates.

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

Qualitative loss factors are applied to each loan category in the formula analysis. The qualitative factors for the one- to four-family and consumer loan portfolios are: unemployment rate trends, collateral value trends, credit score trends, and delinquent loan trends. The qualitative factors for the multi-family and commercial loan portfolio are: unemployment rate trends, collateral value trends, and delinquent loan trends. As loans are classified as special mention or become 30 to 89 days delinquent, the qualitative loss factors increase based upon delinquent loan trends. As with the additional categories in the formula analysis for one- to four-family loans, the qualitative factors were derived by management based on a review of the historical performance of the respective loan portfolios and consideration of current economic conditions and their likely impact to the loan portfolio.

SVAs are established in connection with individual loan reviews of impaired loans. Since the majority of the Bank's loan portfolio is composed of residential real estate, determining the estimated fair value of the underlying collateral is important in evaluating the amount of SVAs required for impaired one-to four-family loans. If the estimated fair value of the collateral, less estimated costs to sell and anticipated PMI proceeds, is less than the current loan balance, an SVA is established for the difference. Once a purchased one-to four-family loan is 90 days delinquent, new collateral values are obtained through automated valuation models ("AVMs") or broker price opinions ("BPOs"). An updated AVM or BPO is then requested approximately every 6 months while the loan is greater than 90 days delinquent. Due to the relatively stable home values in Kansas and Missouri, new appraisals on originated one- to four- family loans are not obtained until a loan enters foreclosure. For originated one- to four-family loans and home equity loans that are impaired and the most recent appraisal is more than one year old, management estimates the fair value of the collateral using the most recently published Federal Housing Finance Agency ("FHFA") index. If the Bank holds the first and second mortgage, both loans are combined when evaluating the need for an SVA.

Loans with an outstanding balance of $1.5 million or more are reviewed annually if secured by property in one of the following categories: multi-family (five or more units) property, unimproved land, other improved commercial property, acquisition and development of land projects, developed building lots, office building, single-use building, or retail building. SVAs are established if necessary, or management may charge-off such losses if deemed appropriate.

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

Recent Accounting Pronouncements - Effective October 1, 2010, the Company adopted new authoritative accounting guidance under Accounting Standards Codification ("ASC") 860, Transfers of Servicing Assets. The objective of this standard is to improve the relevance, representational faithfulness, and comparability of the information provided in the financial statements related to the transfer of financial assets; the effects of a transfer on the company's financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. The adoption of this standard did not have a material impact on the Company's financial condition or results of operations.

Effective October 1, 2010, the Company also adopted new authoritative accounting guidance under ASC 810, Consolidation ("ASC 810"). The new guidance did not change many of the key principles for determining whether an entity is a variable interest entity consistent with the ASC on "Consolidation", but does amend many important provisions of the existing guidance on "Consolidation." The adoption of this standard did not have an impact on the Company's financial condition, results of operations, or financial statement disclosures.

In July 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-20, Disclosures about Credit Quality of Financing Receivables and the Allowance for Credit Losses, which amends ASC 310, Receivables, by requiring more robust and disaggregated disclosures about the credit quality of an entity's financing receivables and its ACL. The objective of enhancing these disclosures is to improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its ACL as well as changes in the allowance and the reasons for those changes. The new and amended disclosures that relate to information as of the end of a reporting period were effective for the Company at December 31, 2010. The disclosures that include information for activity that occurs during a reporting period were effective beginning January 1, 2011 for the Company. Since the provisions of ASU 2010-20 are disclosure-related, the Company's adoption of this guidance did not have an impact to its financial condition or results of operations.

In January 2011, the FASB issued ASU 2011-01, Deferral of the Effective Date of Disclosures About Troubled Debt Restructurings in Update No. 2010-20, which temporarily deferred the effective date in ASU 2010-20 for disclosures about TDRs by creditors until the FASB finalized its project on determining what constitutes a TDR for a creditor. In April 2011, the FASB issued ASU 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends the content in ASC 310 related to identifying TDRs and effectively nullifies ASU 2011-01. ASU 2011-02 removes the deferral of the TDR disclosure requirements of ASU 2010-20 for public entities and thus establishes the effective date for those disclosures. ASU 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011, which is July 1, 2011 for the Company. The pronouncement is to be applied retrospectively to modifications occurring on or after the beginning of the fiscal year of adoption, which is October 1, 2010 for the Company. The Company has not yet completed it assessment of the impact of ASU 2011-02.

2. Earnings Per Share

The Company accounts for the shares acquired by its ESOP and the shares awarded pursuant to its RRP in accordance with ASC 260, which requires that unvested RRP awards that contain nonforfeitable rights to dividends be treated as participating securities in the computation of earnings per share pursuant to the two-class method. The two-class method is an earnings allocation that determines earnings per share for each class of common stock and participating security. Shares acquired by the ESOP are not considered in the basic average shares outstanding until the shares are committed for allocation or vested to an employee's individual account. All share information prior to the corporate reorganization in December 2010 has been revised to reflect the 2.2637 exchange ratio.

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands, except share and per share data)			
Net income (1)	$15,636	$14,655	$4,378	$35,635
Average common shares outstanding	161,381,230	165,618,743	163,483,221	165,736,922
Average committed ESOP shares outstanding	118,565	115,381	59,274	57,683
Total basic average common shares outstanding	161,499,795	165,734,124	163,542,495	165,794,605
Effect of dilutive RRP shares	2,104	5,851	3,250	9,020
Effect of dilutive stock options	5,475	59,014	5,005	43,632
Total diluted average common shares outstanding	161,507,374	165,798,989	163,550,750	165,847,257
Net earnings per share:				
Basic	$0.10	$0.09	$0.03	$0.22
Diluted	$0.10	$0.09	$0.03	$0.22
Antidilutive stock options and RRP shares excluded from the diluted average common shares outstanding calculation	902,945	354,839	902,939	645,946

(1) Net income available to participating securities (unvested RRP shares) was inconsequential for the three and six months ended March 31, 2011 and 2010.

3. Securities

The following tables reflect the amortized cost, estimated fair value, and gross unrealized gains and losses of AFS and HTM securities at March 31, 2011 and September 30, 2010. The majority of the MBS and investment portfolios are composed of securities issued by U.S. government-sponsored enterprises ("GSEs").

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$404,886	$137	$64	$404,959
Municipal bonds	2,639	114	--	2,753
Trust preferred securities	3,708	--	929	2,779
MBS	796,012	43,651	1	839,662
	1,207,245	43,902	994	1,250,153
HTM:				
GSE debentures	1,376,742	1,305	7,682	1,370,365
Municipal bonds	60,682	1,627	65	62,244
MBS	1,516,237	26,175	8,276	1,534,136
	2,953,661	29,107	16,023	2,966,745
	$4,160,906	$73,009	$17,017	$4,216,898

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$50,151	$104	$--	$50,255
Municipal bonds	2,649	170	--	2,819
Trust preferred securities	3,721	--	925	2,796
MBS	952,621	51,881	6	1,004,496
	1,009,142	52,155	931	1,060,366
HTM:				
GSE debentures	1,208,829	4,441	--	1,213,270
Municipal bonds	67,957	2,654	1	70,610
MBS	603,368	26,209	3	629,574
	1,880,154	33,304	4	1,913,454
	$2,889,296	$85,459	$935	$2,973,820

At March 31, 2011 and September 30, 2010, the MBS held within our portfolio were issued by Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), or Government National Mortgage Association ("GNMA"), with the exception of $2.2 million and $2.9 million at those respective dates, which were issued by a private issuer. The following table presents the carrying value of the MBS in our portfolio by issuer at March 31, 2011 and September 30, 2010.

	March 31, 2011	September 30, 2010
	(Dollars in thousands)	
FNMA	$1,309,547	$890,216
FHLMC	836,664	712,253
GNMA	207,448	2,452
Private Issuer	2,240	2,943
	$2,355,899	$1,607,864

The following table presents the taxable and non-taxable components of interest income on investment securities for the three and six months ended March 31, 2011 and 2010:

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2011	2010	2011	2010
	(Dollars in thousands)			
Taxable	$4,266	$3,188	$8,537	$5,213
Non-taxable	477	538	981	1,072
	$4,743	$3,726	$9,518	$6,285

The following tables summarize the estimated fair value and gross unrealized losses of those securities on which an unrealized loss at March 31, 2011 and September 30, 2010 was reported and the continuous unrealized loss position for the 12 months prior to March 31, 2011 and September 30, 2010 or for a shorter period of time, as applicable.

	March 31, 2011					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
GSE debentures	4	$ 81,114	$ 64	--	$ --	$ --
Trust preferred securities	--	--	--	1	2,779	929
MBS	3	521	1	--	--	--
	7	$ 81,635	$ 65	1	$ 2,779	$ 929
HTM:						
GSE debentures	24	$ 700,867	$ 7,682	--	$ --	$ --
Municipal bonds	5	3,549	36	1	848	29
MBS	23	612,510	8,276	--	--	--
	52	$ 1,316,926	$ 15,994	1	$ 848	$ 29

	September 30, 2010					
		Less Than 12 Months			Equal to or Greater Than 12 Months	
	Count	Estimated Fair Value	Unrealized Losses	Count	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)					
AFS:						
GSE debentures	--	$--	$--	--	$--	$--
Trust preferred securities	--	--	--	1	2,796	925
MBS	4	1,678	5	3	359	1
	4	$1,678	$5	4	$3,155	$926
HTM:						
GSE debentures	--	$--	$--	--	$--	$--
Municipal bonds	--	--	--	1	878	1
MBS	1	48,392	3	--	--	--
	1	$48,392	$3	1	$878	$1

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

The unrealized losses at March 31, 2011 and September 30, 2010 are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Additionally, the impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity.

The amortized cost and estimated fair value of securities by remaining contractual maturity without consideration for call features or pre-refunding dates as of March 31, 2011 are shown below. Actual maturities of MBS may differ from contractual maturities because borrowers have the right to prepay obligations, generally without penalty. Maturities of MBS depend on the repayment characteristics and experience of the underlying financial instruments.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$222,192	$222,238	$3,687	$3,712
One year through five years	183,271	183,323	1,378,831	1,373,210
Five years through ten years	178,185	190,828	492,400	502,343
Ten years and thereafter	623,597	653,764	1,078,743	1,087,480
	$1,207,245	$1,250,153	$2,953,661	$2,966,745

Issuers of certain investment securities have the right to call and prepay obligations with or without prepayment penalties. As of March 31, 2011, the amortized cost of the securities in our portfolio which are callable or have pre-refunding dates within one year totaled $1.29 billion.

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

	March 31, 2011		September 30, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
Repurchase agreements	$648,839	$685,856	$671,852	$709,919
Retail deposits	211,466	210,024	--	--

Public unit deposits	119,482	126,880	120,241	128,621
Federal Reserve Bank	29,886	31,225	34,720	36,363
	$1,009,673	$1,053,985	$826,813	$874,903

During fiscal year 2010, the Bank swapped originated fixed-rate mortgage loans with FHLMC for MBS ("loan swap transaction"). The $192.7 million of MBS received, at amortized cost, in the loan swap transaction were classified as trading securities prior to their subsequent sale by the Bank. Proceeds from the sale of these securities were $199.1 million, resulting in a gross realized gain of $6.5 million. The gain is included in gain on securities, net in the consolidated statements of income for the year ended September 30, 2010. All other dispositions of securities during fiscal year 2010 were the result of principal repayments or maturities.

4. Loans Receivable and Allowance for Credit Losses

Loans receivable, net at March 31, 2011 and September 30, 2010 is summarized as follows:

	March 31, 2011	September 30, 2010
	(Dollars in thousands)	
Mortgage loans:		
One- to four-family	$4,867,405	$4,915,651
Multi-family and commercial	60,869	66,476
Construction	39,694	33,168
Total real estate loans	4,967,968	5,015,295
Consumer loans:		
Home equity	169,150	186,347
Other	6,932	7,671
Total consumer loans	176,082	194,018
Total loans receivable	5,144,050	5,209,313
Less:		
Undisbursed loan funds	21,004	15,489
Unearned loan fees and deferred costs	12,617	10,730
ACL	13,814	14,892
	$5,096,615	$5,168,202

Lending Practices and Underwriting Standards - Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary business, resulting in a loan concentration in residential first mortgage loans. One-to four-family loans are purchased from a select group of correspondent lenders in the Bank's primary market areas and selected market areas in Missouri. As a result, the Bank has a concentration of loans secured by real property located in Kansas and Missouri. Additionally, the Bank purchases whole one- to four-family loans from nationwide lenders. The servicing rights for these loans are generally retained by the lender. The Bank also makes consumer loans, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings.

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

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

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

For a conventional mortgage with an LTV ratio in excess of 80% at the time of origination, PMI is required in order to reduce the Bank's loss exposure to less than 80% of either the appraised value or the purchase price of the property, whichever is less. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided PMI is obtained.

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

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. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property at the time of origination, when combined with the first mortgage, require PMI.

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

Credit quality indicators – Based on the Bank's lending emphasis and underwriting standards, management has segmented the loan portfolio into three segments: one- to four-family loans, consumer loans, and multi-family and commercial loans. The one- to four-family and consumer segments are further grouped into classes for purposes of providing disaggregated information about the credit quality of the loan portfolio. The classes are: one- to four-family loans – originated, one- to four-family loans – purchased, consumer loans – home equity, and consumer loans – other. The Bank's primary credit quality indicators for the one- to four-family loan and consumer - home equity loan portfolios are delinquency status, asset classifications in accordance with applicable regulations, LTV ratios and borrower credit scores. The Bank's primary credit quality indicators for the multi-family and commercial loan and consumer – other loan portfolios are delinquency status and asset classifications in accordance with applicable regulations.

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The following table presents the recorded investment of loans, defined as the unpaid loan principal balance (net of unadvanced funds related to loans in process) inclusive of unearned loan fees and deferred costs, of the Company's 30 to 89 day delinquent loans, 90 or more day delinquent loans, total delinquent loans, total current loans, and the total loans receivable balance at March 31, 2011 by class. In the general valuation allowance model, loans in the 30 to 89 day delinquent category are assigned a higher loss factor than corresponding performing loans. Loans 90 or more days delinquent are considered impaired loans and are individually evaluated for impairment. At March 31, 2011, all loans in the 90 or more days delinquent category were on nonaccrual status and represented the entire balance of nonaccrual loans. At March 31, 2011, there were no loans 90 or more days delinquent that were still accruing interest.

	30 to 89 Days Delinquent	90 or More Days Delinquent	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family loans - originated	$16,768	$13,885	$30,653	$4,341,566	$4,372,219
One- to four-family loans - purchased	5,616	15,220	20,836	479,617	500,453
Multi-family and commercial loans	--	--	--	61,675	61,675
Consumer - home equity	456	428	884	168,266	169,150
Consumer - other	180	59	239	6,693	6,932
	$23,020	$29,592	$52,612	$5,057,817	$5,110,429

In connection with the filing of the Bank's periodic reports with the OTS and in accordance with the Bank's asset classification policy, management regularly reviews the problem loans in the Bank's portfolio to determine whether any assets require classification in accordance with applicable regulations. Loan classifications, other than pass loans, are defined as follows:

- Special mention - These loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrowers have caused management to have doubts as to the ability of the borrowers to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.
- Substandard - A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.
    - Doubtful - Loans classified as doubtful have all the weaknesses inherent as those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable.
- Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as loans without the establishment of specific loss allowance is not warranted.

Special mention loans are included with loans 30 to 89 days delinquent in the general valuation allowance model, if the loan is not considered impaired. Loans classified as substandard, doubtful, or loss are considered impaired loans and are individually evaluated for impairment.

The following table sets forth the recorded investment in loans, less SVAs, classified at March 31, 2011 by class. At March 31, 2011, there were no loans classified as doubtful or loss that were not fully reserved. In addition to the classified loans below, the Bank has $10.6 million of other assets also classified per its asset classification policy and applicable regulations.

	Special Mention	Substandard
	(Dollars in thousands)	
One- to four-family - originated	$19,254	$ 19,512
One- to four-family - purchased	565	17,348
Multi-family and commercial	8,223	--
Consumer - home equity	26	654
Consumer - other	--	63
	$28,068	$ 37,577

The following tables show the LTV and credit score information for originated and purchased one- to four-family loans and originated consumer home equity loans at March 31, 2011. Borrower credit scores provide an indication as to the likelihood that a borrower will repay their debts. Credit scores were most recently updated in March 2011 and were obtained from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, BPO or AVM, if available. In most cases, the most recent appraisal was obtained at the time of origination.

Four-Family - Originated	Credit Score								
	Less than 660		661 to 700		701 to 750		751 and above		Total
tio	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment
	(Dollars in thousands)								
an 70%	$95,943	2.2 %	$111,967	2.6%	$310,571	7.1 %	$1,723,087	39.4%	$2,241,568
80%	76,269	1.7	89,475	2.0	287,152	6.6	1,004,609	23.0	1,457,505
an 80%	61,662	1.4	58,905	1.3	173,748	4.0	378,831	8.7	673,146
	$233,874	5.3 %	$260,347	5.9%	$771,471	17.7%	$3,106,527	71.1%	$4,372,219
ed average LTV ratio	66%								
ed average credit score	762								

to Four-Family - Purchased	Credit Score									
	Less than 660		661 to 700		701 to 750		751 and above		Total	
ratio	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of tot
	(Dollars in thousands)									
than 70%	$22,912	4.6 %	$27,550	5.5%	$77,159	15.4%	$223,502	44.7%	$351,123	70.
to 80%	17,489	3.5	17,235	3.4	28,404	5.7	67,351	13.5	130,479	26.
than 80%	16,554	3.3	888	0.2	1,175	0.2	234	0.0	18,851	3.7
	$56,955	11.4 %	$45,673	9.1%	$106,738	21.3%	$291,087	58.2%	$500,453	10(
hted average LTV ratio	59%									
hted average credit score	741									

sumer - Home Equity	Credit Score									
	Less than 660		661 to 700		701 to 750		751 and above		Total	
V ratio	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% of total	Recorded Investment	% o total
	(Dollars in thousands)									
s than 70%	$15,575	9.2 %	$13,549	8.0%	$32,256	19.1%	$105,871	62.6%	$167,251	98.9
to 80%	163	0.1	122	0.1	124	0.1	665	0.4	1,074	0.7
re than 80%	195	0.1	17	0.0	241	0.1	372	0.2	825	0.4
	$15,933	9.4 %	$13,688	8.1%	$32,621	19.3%	$106,908	63.2%	$169,150	100.
ghted average LTV ratio	19%									
ghted average credit score	743									

Impaired loans - Impaired loans are defined as non-accrual loans, loans classified as substandard, loans with SVAs, and TDRs that have not yet performed under the restructured terms for 12 consecutive months or are required by the accounting literature to be classified as such for the life of the loan. Substantially all of the impaired loans at March 31, 2011 were secured by residential real estate. Impaired loans related to residential real estate are individually evaluated to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair values of residential real estate are estimated through such methods as current appraisals, AVMs, BPOs, or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions. If the outstanding loan balance is in excess of the estimated fair value determined by management, less estimated costs to sell, then a specific valuation allowance is recorded for the difference. The following is a summary of information pertaining to impaired loans by class at March 31, 2011.

	Recorded Investment	Unpaid Principal Balance	Related ACL	Current Quarter Average Recorded Investment	Fiscal Year-to-Date Average Recorded Investment	Current Quarter Interest Income Recognized	Fiscal Year-to-Date Interest Income Recognized
	(Dollars in thousands)						
With no related allowance recorded							
One- to four-family - originated	$35,602	$35,674	$--	$35,049	$33,351	$318	$632
One- to four-family - purchased	7,866	7,843	--	8,073	8,041	18	45
Multi-family and commercial	581	583	--	584	585	9	18
Consumer - home equity	654	654	--	728	782	6	11
Consumer - other	63	63	--	63	56	--	1
	44,766	44,817	--	44,497	42,815	351	707
With an allowance recorded							
One- to four-family - originated	2,474	2,474	212	1,991	1,813	11	31
One- to four-family - purchased	12,943	12,853	2,894	14,053	14,778	48	94
Multi-family and commercial	--	--	--	--	--	--	--
Consumer - home equity	71	71	71	42	35	--	1
Consumer - other	--	--	--	--	--	--	--
	15,488	15,398	3,177	16,086	16,626	59	126
Total							
One- to four-family - originated	38,076	38,148	212	37,040	35,164	329	663
One- to four-family - purchased	20,809	20,696	2,894	22,126	22,819	66	139
Multi-family and commercial	581	583	--	584	585	9	18
Consumer - home equity	725	725	71	770	817	6	12
Consumer - other	63	63	--	63	56	--	1
	$60,254	$60,215	$3,177	$60,583	$59,441	$410	$833

Allowance for credit losses - The following is a summary of the activity in the ACL by segment for the three and six months ended March 31, 2011 and the ending balance of the ACL at March 31, 2011, based on the Company's impairment methodology.

	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
			(Dollars in thousands)			
Year-to-Date						
Beginning balance	$3,813	$10,425	$14,238	$ 275	$379	$14,892
Charge-offs	(167)	(1,980)	(2,147)	--	(101)	(2,248)
Recoveries	--	--	--	--	--	--
Provision (recovery) for credit losses	570	592	1,162	(7)	15	1,170
Ending balance	$4,216	$9,037	$13,253	$ 268	$293	$13,814
Ratio of net charge-offs to average loans outstanding year-to-date						0.04 %
Ratio of net charge-offs year-to-date to average non-performing assets						5.44 %

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	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
			(Dollars in thousands)			
Quarter-to-Date						
Beginning balance	$3,610	$10,438	$14,048	$ 269	$406	$14,723
Charge-offs	(94)	(1,322)	(1,416)	--	(13)	(1,429)
Recoveries	--	--	--	--	--	--
Provision (recovery) for credit losses	700	(79)	621	(1)	(100)	520
Ending balance	$4,216	$9,037	$13,253	$ 268	$293	$13,814
Ratio of net charge-offs to average loans outstanding during the quarter						0.03 %
Ratio of net charge-offs during the quarter to average non-performing assets						3.45 %
ACL for loans collectively evaluated for impairment	$4,004	$6,143	$10,147	$ 268	$222	$10,637
ACL for loans individually evaluated for impairment	$212	$2,894	$3,106	$ --	$71	$3,177

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The following is a summary of the loan portfolio at March 31, 2011 by loan portfolio segment disaggregated by the Company's impairment method.

	One- to Four-Family - Originated	One- to Four-Family - Purchased	One- to Four-Family - Total	Multi-family and Commercial	Consumer	Total
	(Dollars in thousands)					
Recorded investment of loans collectively evaluated for impairment	$4,334,143	$479,644	$4,813,787	$ 61,094	$175,294	$5,050,175
Recorded investment of loans individually evaluated for impairment	38,076	20,809	58,885	581	788	60,254
	$4,372,219	$500,453	$4,872,672	$ 61,675	$176,082	$5,110,429

As noted above, the Bank has a loan concentration in residential first mortgage loans. Continued declines in residential real estate values could adversely impact the property used as collateral for the Bank's loans. Adverse changes in the economic conditions and increasing unemployment rates may have a negative effect on the ability of the Bank's borrowers to make timely loan payments, which would likely increase delinquencies and have an adverse impact on the Bank's earnings. Further increases in delinquencies will decrease interest income on loans receivable and will likely adversely impact the Bank's loan loss experience, resulting in an increase in the Bank's ACL and provision for credit losses. Although management believes the ACL was at an adequate level to absorb known and inherent losses in the loan portfolio at March 31, 2011, the level of the ACL remains an estimate that is subject to significant judgment and short-term changes. Additions to the ACL may be necessary if future economic and other conditions differ substantially from the current environment.

5. Fair Value of Financial Instruments

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

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The Company did not have any liabilities that were measured at fair value at March 31, 2011 and September 30, 2010. 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 REO, LHFS, and impaired loans. These non-recurring fair value adjustments involve the application of lower-of-cost-or-fair value accounting or write-downs of individual assets.

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

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

- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in 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 to sell an asset in an orderly transaction between market participants at the measurement date. As required by ASC 820, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a recurring basis, which consists of AFS securities, at March 31, 2011 and September 30, 2010.

	March 31, 2011			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(1)
	(Dollars in thousands)			
GSE debentures	$ 404,959	$ --	$ 404,959	$ --
Municipal bonds	2,753	--	2,753	--
Trust preferred securities	2,779	--	--	2,779
MBS	839,662	--	839,662	--
	$ 1,250,153	$ --	$ 1,247,374	$ 2,779

	September 30, 2010			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)(2)
	(Dollars in thousands)			
GSE debentures	$ 50,255	$ --	$ 50,255	$ --
Municipal bonds	2,819	--	2,819	--
Trust preferred securities	2,796	--	--	2,796
MBS	1,004,496	--	1,004,496	--
	$ 1,060,366	$ --	$ 1,057,570	$ 2,796

(1) The Company's Level 3 AFS security has had no activity since September 30, 2010, except for principal repayments and changes in net unrealized losses recognized in other comprehensive income. Principal repayments and increases in net unrealized losses included in other comprehensive income for the three months ended March 31, 2011 were $18 thousand and $3 thousand, respectively. Principal repayments and decreases in net unrealized losses included in other comprehensive income for the six months ended March 31, 2011 were $35 thousand and $3 thousand, respectively.

(2) The Company's Level 3 AFS security had no activity during fiscal year 2010, except for principal repayments of $93 thousand and reductions in net unrealized losses recognized in other comprehensive income. Reductions of net unrealized losses included in other comprehensive income for the year ended September 30, 2010 were $460 thousand.

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

Loans Receivable - Loans which meet certain criteria are evaluated individually for impairment. A loan is considered impaired when, based upon current information and events, it is probable the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Impaired loans at March 31, 2011 and September 30, 2010 were $60.2 million and $57.1 million, respectively. Substantially all of the Bank's impaired loans at March 31, 2011 and September 30, 2010 were secured by residential real estate. These impaired loans are individually assessed to ensure that the carrying value of the loan is not in excess of the fair value of the collateral, less estimated selling costs. Fair value is estimated through current appraisals, AVMs, BPOs, or listing prices. Fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. Based on this evaluation, the Company maintained an ACL of $3.2 million and $4.3 million at March 31, 2011 and September 30, 2010, respectively, for such impaired loans.

REO, net - REO 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, AVMs, BPOs, or listing prices. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions and, as such, are classified as Level 3. The fair value of REO at March 31, 2011 and September 30, 2010 was $11.3 million and $9.9 million, respectively.

The following table provides the level of valuation assumption used to determine the carrying value of the Company's assets measured at fair value on a non-recurring basis at March 31, 2011 and September 30, 2010.

	March 31, 2011			
	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)			
Impaired loans	$ 60,215	$ --	$ --	$ 60,215
REO, net	11,337	--	--	11,337
	$ 71,552	$ --	$ --	$ 71,552

	September 30, 2010			
	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)			
Impaired loans	$ 57,118	$ --	$ --	$ 57,118
REO, net	9,920	--	--	9,920
	$ 67,038	$ --	$ --	$ 67,038

Fair Value Disclosures - The Company determined estimated fair value amounts using available market information and a selection 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 effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2011 and September 30, 2010. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates.

The estimated fair values of the Company's financial instruments as of March 31, 2011 and September 30, 2010 were as follows.

	March 31, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$122,002	$122,002	$65,217	$65,217
AFS securities	1,250,153	1,250,153	1,060,366	1,060,366
HTM securities	2,953,661	2,966,745	1,880,154	1,913,454
Loans receivable	5,096,615	5,288,079	5,168,202	5,392,550
BOLI	55,546	55,546	54,710	54,710
Capital stock of FHLB	122,651	122,651	120,866	120,866
Liabilities:				
Deposits	4,711,189	4,757,480	4,386,310	4,459,052
Advances from FHLB	2,351,863	2,487,737	2,348,371	2,557,064
Other borrowings	643,609	667,264	668,609	701,099

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

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

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

Loans Receivable - Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as one- to four-family residential mortgages, multi-family residential mortgages, nonresidential, and installment loans. Each loan category is further segmented into fixed- and adjustable interest rate categories. Market pricing sources are used to approximate the estimated fair value of fixed- and adjustable-rate one- to four-family residential mortgages. For all other loan categories, future cash flows are discounted using the LIBOR curve plus a margin at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturity.

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

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

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

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

Other Borrowings - Other borrowings consists of repurchase agreements and Junior Subordinated Deferrable Interest Debentures ("the Debentures"). The estimated fair value of the repurchase agreements is determined by discounting the future cash flows of each agreement using a margin to the LIBOR curve. The Debentures have a variable rate structure, with the ability to redeem at par; therefore, the carrying value of the Debentures approximates their estimated fair value.

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6. Employee Stock Ownership Plan

The ESOP Trust acquired 4,726,000 shares of common stock in the Company's corporate reorganization, with proceeds from a loan from the Company. The Bank has agreed to make contributions to the ESOP on an annual basis sufficient to enable the ESOP to make the required annual loan payments to the Company on September 30 of each year.

The loan referenced above bears interest at a fixed-rate of 3.25% and has a 30 year term. The first three years of the loan are interest-only, with the first interest payment of $1.2 million payable on September 30, 2011 and the next two interest payments of $1.5 million each being payable on September 30, 2012 and 2013. Beginning in fiscal year 2014, principal and interest payments of $2.7 million will be payable annually. The loan is secured by the shares of Company stock purchased during the stock offering in December 2010.

As the annual loan payments are made, shares will be released from collateral annually at September 30 and allocated to qualified employees based on the proportion of their qualifying compensation to total qualifying compensation. 74,574 shares will be released from collateral on September 30, 2011, and 95,540 shares will be released from collateral on September 30, 2012 and 2013. These shares will be allocated to qualified employees based on the proportion of their qualifying compensation to total qualifying compensation. As ESOP shares are committed to be released from collateral, the Company records compensation expense. Dividends on unallocated ESOP shares are applied to the ESOP's current year debt service payment. Dividends on unallocated ESOP shares in excess of the debt service payment are recorded as compensation expense and distributed to participants or participants' ESOP accounts.

The loan for the existing ESOP shares acquired in the initial public offering in 1999 bears interest at a fixed-rate of 5.80%, with future principal and interest payable annually in three remaining fixed installments of $3.0 million, as of March 31, 2011. This loan is also secured by the shares of Company stock originally purchased in the initial public offering. This loan matures on September 30, 2013.

7. Subsequent Events

In preparing these financial statements, management has evaluated events occurring subsequent to March 31, 2011, for potential recognition and disclosure. There have been no material events or transactions which would require adjustments to the consolidated financial statements at March 31, 2011. In April 2011, the Company repaid the outstanding Debentures of $53.6 million using a portion of the offering proceeds from the corporate reorganization.

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

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

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

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

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

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

The following discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company. It should be read in conjunction with the consolidated financial statements and notes presented in this report. The discussion includes comments relating to the Bank, since the Bank is wholly-owned by the Company and comprises the majority of its assets and is the principal source of income for the Company. This discussion and analysis should be read in conjunction with management's discussion and analysis included in the Company's 2010 Annual Report on Form 10-K filed with the SEC.

Executive Summary

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

In December 2010, Capitol Federal Financial completed its conversion from a mutual holding company form of organization to a stock form of organization. Capitol Federal Financial, which owned 100% of the Bank, was succeeded by Capitol Federal Financial, Inc, a new Maryland corporation. As part of the corporate reorganization, MHC's ownership interest of Capitol Federal Financial was sold in a public stock offering. Capitol Federal Financial, Inc. sold 118,150,000 shares of common stock at $10.00 per share in the stock offering. The publicly held shares of Capitol Federal Financial were exchanged for new shares of common stock of Capitol Federal Financial, Inc. The exchange ratio was 2.2637 and ensured that immediately after the corporate reorganization the public stockholders of Capitol Federal Financial owned the same aggregate percentage of Capitol Federal Financial, Inc. common stock that they owned of Capitol Federal Financial common stock immediately prior to that time. In lieu of fractional shares, Capitol Federal Financial stockholders were paid in cash. The net proceeds from the stock offering were $1.13 billion, of which 50%, or $567.4 million, was contributed to the Bank as a capital contribution, as required by OTS regulations. The other 50%, or $567.4 million, remained at Capitol Federal Financial, Inc., of which $40.0 million was contributed to the Bank's charitable foundation, Capitol Federal Foundation, and $47.3 million was loaned to the Bank's ESOP for its purchase of Capitol Federal Financial, Inc. shares in the stock offering.

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

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

The Federal Open Market Committee of the Federal Reserve (the "FOMC") noted in their March 2011 meeting that the economic recovery is on firmer footing and the overall conditions in the labor market appear to be improving. Household spending and business investment continue to expand; however, the housing sector continues to be depressed. The FOMC continued to maintain the target range for federal funds rate at zero and 25 basis points. This has been the range since December 2008. Additionally, to promote a stronger pace of economic recovery and to help ensure that inflation, over time, is at levels consistent with the FOMC's mandate to foster maximum employment and price stability, the FOMC continued to expand its holdings of securities per the quantitative easing plan first announced in November 2010. As of March 31, 2011, the Federal Reserve had purchased $488 billion of the $600 billion of treasury securities committed to in November 2010. By doing this, the Federal Reserve has effectively increased the amount of excess reserves in the banking system, which is intended to reduce long-term interest rates and increase liquidity in an effort to stimulate borrowing and investment.

The historically low interest rate environment during the past two fiscal years and through the first two quarters of fiscal year 2011 has spurred an increased demand for our loan modification program and mortgage refinances. Modification and refinance activity in fiscal year 2011 has already exceeded that of fiscal year 2010, with the majority of the activity occurring in the first quarter of fiscal year 2011 when mortgage rates were lower than current rates. Our loan modification program allows existing loan customers, whose loans have not been sold to third parties and who have been current on their contractual loan payments for the previous 12 months, the opportunity to modify, for a fee, their original loan terms to current loan terms being offered. During the first six months of fiscal year 2011, the Bank modified $584.1 million of originated loans, with a weighted average rate decrease of 98 basis points, compared to $545.1 million for fiscal year 2010 in its entirety, with a weighted average rate decrease of 87 basis points. Additionally, the Bank refinanced $220.0 million of its customers' loans during the first six months of fiscal year 2011, compared to $153.6 million for fiscal year 2010 in its entirety.

Total assets increased $1.24 billion, from $8.49 billion at September 30, 2010 to $9.73 billion at March 31, 2011, due primarily to the proceeds from the corporate reorganization completed in December 2010. The increase in assets was primarily a result of an increase in securities, the majority of which were purchased with proceeds from the stock offering. Capitol Federal Financial, Inc., at the holding company level, used the net stock offering proceeds to purchase short-term securities during the current quarter. The securities have laddered maturities in order to provide cash flows that can be used to repurchase stock, when allowed by federal banking regulations, or that can be reinvested into higher yielding assets if interest rates rise. The yields on these securities are less than the yields on the Bank's current investment portfolio due to the lower interest rate environment and the short-term nature of the securities. The net stock offering proceeds received by the Bank were primarily used to purchase securities according to the Bank's current investment strategy. The intent of the Bank's investment portfolio is to create a steady stream of cash flows that can be redeployed into other assets as the Bank grows the loan portfolio or reinvested into higher yielding assets should interest rates rise. These securities have a lower interest rate risk profile than the Bank's long-term fixed-rate mortgage portfolio and were purchased to help shorten the overall duration of the Bank's total assets.

The balance of loans 30 to 89 days delinquent decreased $1.7 million from $24.7 million at September 30, 2010 to $23.0 million at March 31, 2011. Non-performing loans decreased $2.5 million from $32.0 million at September 30, 2010 to $29.5 million at March 31, 2011. The balance of 30 to 89 days delinquent loans and non-performing loans continues to remain at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate activity and values, particularly in some of the states in which we have purchased loans. Our ratio of non-performing loans to total loans decreased from 0.62% at September 30, 2010 to 0.58% at March 31, 2011. Our ratio of non-performing assets to total assets decreased from 0.49% at September 30, 2010 to 0.42% at March 31, 2011.

Total liabilities increased $281.5 million from $7.53 billion at September 30, 2010 to $7.81 billion at March 31, 2011, due primarily to an increase in deposits of $324.9 million. The increase in deposits was primarily in the certificate of deposit and money market portfolios.

The Company reported net income of $15.6 million for the quarter ended March 31, 2011, compared to net income of $14.7 million for the quarter ended March 31, 2010. The $981 thousand increase in net income was due primarily to a decrease in the provision for credit losses of $2.7 million, partially offset by a $2.1 million decrease in net interest income. The Bank recorded a provision for credit losses of $520 thousand during the current quarter primarily due to the increase/establishment of SVAs on primarily purchased loans, compared to a $3.2 million provision for credit losses for the quarter ended March 31, 2010. Net interest income for the quarter ended March 31, 2011 was $40.6 million compared to $42.7 million in the same quarter of the prior fiscal year. The $2.1 million decrease was primarily a result of an $8.8 million decrease in loans receivable interest income, partially offset by a $3.7 million decrease in deposit interest expense and a $2.3 million decrease in interest expense on FHLB advances.

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Net income for the six months ended March 31, 2011 was $4.4 million, compared to $35.6 million for the same period in the prior fiscal year. The $31.2 million decrease in the current period was due primarily to the $40.0 million ($26.0 million, net of income tax benefit) contribution to the Foundation in connection with the corporate reorganization. Additionally, other income decreased $7.2 million and net interest income decreased $6.9 million between periods. These decreases were partially offset by an $18.1 million decrease in income tax expense and a $5.1 million decrease in provision for credit losses between periods. The decrease in other income was primarily a result of a $6.5 million gain on the sale of trading MBS in conjunction with a loan swap transaction during the prior fiscal year. Net interest income for the six months ended March 31, 2011 was $80.6 million compared to $87.5 million for the six months ended March 31, 2010. The $6.9 million decrease was primarily a result of a $17.3 million decrease in loans receivable interest income and a $6.6 million decrease in MBS interest income, partially offset by an $8.4 million decrease in deposit interest expense and a $4.0 million decrease in FHLB advance interest expense. The $5.1 million decrease in the provision is related primarily to the increase in certain loss factors in the general valuation allowance model in the prior year with no similar adjustments in the current fiscal year.

Currently, the Bank has no plans to open any branches in our market areas during fiscal year 2011. We have a branch scheduled to open in early fiscal year 2012 in our Kansas City market area. Management continues to consider expansion opportunities in all of our market areas.

Available Information

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

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL, other-than-temporary declines in the value of securities, and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could cause reported results to differ materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. For a full discussion of our critical accounting policies, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Financial Condition

Total assets increased $1.24 billion, from $8.49 billion at September 30, 2010 to $9.73 billion at March 31, 2011, due primarily to proceeds received from the Company's stock offering in December 2010, which were used to purchase securities.

Total liabilities increased $281.5 million from $7.53 billion at September 30, 2010 to $7.81 billion at March 31, 2011, due primarily to an increase in deposits of $324.9 million. The increase in deposits was primarily in the certificate of deposit and money market portfolios.

			Balance at		
	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(Dollars in thousands, except per share amounts)				
Total assets	$9,733,111	$9,798,294	$8,487,130	$8,543,357	$8,485,465
Cash and cash equivalents	122,002	1,329,861	65,217	75,886	60,735
AFS securities	1,250,153	923,125	1,060,366	1,163,416	1,354,884
HTM securities	2,953,661	2,119,826	1,880,154	1,660,271	1,372,857
Loans receivable, net	5,096,615	5,121,018	5,168,202	5,316,172	5,380,852
Capital stock of FHLB	122,651	121,768	120,866	136,055	135,050
Deposits	4,711,189	4,682,101	4,386,310	4,373,844	4,319,066
Advances from FHLB	2,351,863	2,350,126	2,348,371	2,396,637	2,395,842
Other borrowings	643,609	668,609	668,609	713,609	713,609
Stockholders' equity	1,926,409	2,018,973	961,950	960,000	946,073
Equity to total assets at end of period	19.8 %	20.6 %	11.3 %	11.2 %	11.1 %
Bank tangible equity ratio(1)	14.7 %	13.9 %	9.8 %	9.7 %	10.0 %
Book value per share(2)	$11.92	$12.50	$13.11	$13.09	$12.91

(1) See tangible equity to GAAP equity reconciliation in "Liquidity and Capital Resources – Regulatory Capital."
(2) Book value per share is calculated using end of period shares outstanding, less unallocated ESOP shares and unvested RRP shares.

Loans Receivable. The loans receivable portfolio decreased $71.6 million from $5.17 billion at September 30, 2010 to $5.10 billion at March 31, 2011. The portfolio decreased $24.4 million from December 31, 2010 to March 31, 2011. The decrease in the loan portfolio reflects the elevated levels of loan repayments as a result of refinancing activity due to low market interest rates, and strong competition for high quality loans, as well as weak loan demand due to the slow economic recovery, and increased REO inventory. The balance of our originated, nationwide purchased, and correspondent one- to four-family loan portfolios at March 31, 2011 was $3.99 billion, $499.5 million and $373.4 million, respectively, compared to $3.95 billion, $564.9 million and $397.2 million, respectively, at September 30, 2010. As of March 31, 2011, the average balance of a one-to four-family originated loan was approximately $120 thousand, the average balance of a one- to four-family purchased nationwide loan was approximately $330 thousand, and the average balance of a one- to four-family correspondent loan was approximately $280 thousand.

Loan origination volume, excluding Bank customer refinances of $220.0 million, was $272.9 million during the first six months of fiscal year 2011, compared to originations of $265.9 million, excluding Bank customer refinances of $75.0 million, during the same period in the prior fiscal year. The Bank purchased $31.4 million of loans from correspondent lenders during the first six months of fiscal year 2011, compared to $47.4 million during the same period in the prior fiscal year. The volume of purchases was less than repayments due to high levels of refinance activity, strong competition for high quality loans, and weak loan demand. The Bank did not purchase any one- to four-family loans from nationwide lenders during the first six months of fiscal year 2011, compared to purchases of $44.1 million during the first six months of fiscal year 2010, as nationwide lenders who previously sold loans to the Bank retained those higher yielding and higher quality assets in their own portfolios. Additionally, the loan packages nationwide lenders presented to the Bank for purchase consideration during the first six months of fiscal year 2011 generally did not meet the Bank's asset quality standards. Management continues efforts to expand our network of lending relationships related to our nationwide purchase program that would provide mortgage loans in selective geographical locations that adhere to the Bank's underwriting standards.

During the current quarter, the Bank entered into a correspondent lending relationship with one lender that would provide mortgage loan volume in our current local market areas. As of March 31, 2011, the Bank had four new correspondent lender agreements pending, and had completed due diligence on an additional three correspondent lenders with the intention of offering those lenders correspondent lending agreements. In April 2011, the Bank expanded the geographic location of an existing correspondent lender and added a new correspondent lender to generate mortgage volume in Midwestern states outside our current local market area. Several prospective correspondent lenders have been impacted by a pending recent regulatory change regarding compensation of loan agents. These lenders are revising their business models before committing to a correspondent lending agreement with the Bank. As a result, we will likely not purchase a substantial volume of correspondent loans until these agreements are executed and overall loan demand increases. The geographic locations for the mortgage lending volume provided by these new correspondent lenders would be in our local market areas and neighboring Midwestern states.

As a result of entering into lending agreements that would generate loan volume outside of the Bank's current local market areas, the Bank executed a subservicing agreement with a reputable subservicer during the second quarter of fiscal year 2011. The subservicer has experience servicing loans in the market areas in which we intend to purchase loans. The subservicer will service the loans according to the Bank's servicing standards, which allows the Bank greater control over servicing and helps maintain a standard of loan performance. It is the Bank's intention to have bulk loan packages purchased from other lenders serviced by the new subservicer.

Included in the loan portfolio at March 31, 2011 were $178.3 million of adjustable-rate mortgage ("ARM") loans that were originated as interest-only. Of these interest-only loans, $141.6 million were purchased from nationwide lenders, primarily during fiscal year 2005. Interest-only ARM loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or ten years. The $141.6 million of purchased interest-only ARM loans had a weighted average credit score of 722 and a weighted average LTV ratio of 75% at March 31, 2011. The credit scores were updated in March 2011. The LTV ratios are based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent bank appraisal, BPO, or AVM, if available. The Bank has not purchased any interest-only ARM loans since 2006 and discontinued offering the product in its local markets during 2008 to reduce future credit risk. At March 31, 2011, $99.1 million, or 56%, of interest-only loans were still in their interest-only payment term. At March 31, 2011, $10.6 million, or 37% of non-performing loans, were interest-only ARMs and $1.8 million was reserved in the ACL for these loans. Of the $10.6 million non-performing interest-only ARM loans, $5.6 million, or 53%, were still in the interest-only payment term. Non-performing interest-only ARM loans represented approximately 6% of the total interest-only ARM loan portfolio at March 31, 2011.

Historically, the Bank's underwriting guidelines have provided the Bank with loans of low delinquencies, and low levels of non-performing assets compared to national levels. Of particular importance is the complete documentation required for each loan the Bank originates and purchases. This allows the Bank to make a well informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan, compared to underwriting methodologies that do not require full documentation.

The following table presents loan origination, refinance and purchase activity for the periods indicated. 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 $456.6 million of one- to four-family loan originations and refinances in the table for the six months ended March 31, 2011, 77% had loan values of $417 thousand or less and 23% had loan values in excess of $417 thousand. Of the $31.4 million of correspondent loan purchases, 12% had loan values of $417 thousand or less and 88% had loan values in excess of $417 thousand.

	For the Three Months Ended					
	March 31, 2011			March 31, 2010		
	Amount	Rate	% of Total	Amount	Rate	% of Total
Fixed-Rate:			(Dollars in thousands)			
One- to four-family						
<= 15 years	$ 62,372	3.96 %	28.5 %	$ 39,482	4.50 %	22.8 %
> 15 years	106,243	4.54	48.5	78,794	5.09	45.6
Home equity	866	6.83	0.4	1,448	7.51	0.8
Other consumer	259	8.39	0.1	387	8.16	0.2
Total fixed-rate	169,740	4.35	77.5	120,111	4.94	69.4
Adjustable-Rate:						
One- to four-family						
<= 36 months	2,816	3.22	1.3	5,819	3.22	3.4
> 36 months	31,985	3.51	14.6	27,629	4.22	16.0
Home equity	14,327	4.80	6.5	18,723	4.84	10.8
Other consumer	285	3.81	0.1	619	4.59	0.4
Total adjustable-rate	49,413	3.87	22.5	52,790	4.33	30.6
Total originations, refinances and purchases	$ 219,153	4.24 %	100.0 %	$ 172,901	4.75 %	100.0 %
Purchased/participation loans included above:						
Fixed-Rate:						
Correspondent	$ 16,468	4.47 %		$ 12,417	5.03 %	
Nationwide	--	--		--	--	
Adjustable-Rate:						
Correspondent	5,979	3.57		7,494	4.42	
Nationwide	--	---		6,517	3.59	
	$ 22,447	4.23 %		$ 26,428	4.50 %	

Total purchased loans

	For the Six Months Ended					
	March 31, 2011			March 31, 2010		
	Amount	Rate	% of Total	Amount	Rate	% of Total
Fixed-Rate:			(Dollars in thousands)			
One- to four-family						
<= 15 years	$168,323	3.83 %	32.1 %	$96,437	4.56 %	22.3 %
> 15 years	248,776	4.41	47.4	196,577	5.09	45.5
Other real estate	892	6.00	0.2	--	--	--
Home equity	1,451	6.85	0.3	2,948	7.48	0.7
Other consumer	526	8.32	0.1	805	8.52	0.1
Total fixed-rate	419,968	4.19	80.1	296,767	4.95	68.6
Adjustable-Rate:						
One- to four-family						
<= 36 months	4,119	3.14	0.8	38,764	3.32	9.0
> 36 months	66,788	3.51	12.7	54,499	4.29	12.6
Home equity	32,608	4.80	6.2	40,533	4.85	9.4
Other consumer	849	4.08	0.2	1,809	4.68	0.4
Total adjustable-rate	104,364	3.90	19.9	135,605	4.18	31.4
Total originations, refinances and purchases	$524,332	4.13 %	100.0 %	$432,372	4.71 %	100.0 %
Purchased/participation loans included above:						
Fixed-Rate:						
Correspondent	$21,445	4.45 %		$30,228	5.07 %	
Nationwide	--	--		2,338	5.05	
Adjustable-Rate:						
Correspondent	9,933	3.72		17,191	4.46	
Nationwide	--	--		41,750	3.49	
Total purchased loans	$31,378	4.22 %		$91,507	4.23 %	

In an effort to offset the impact of repayments and to retain our customers, the Bank offers existing one- to four-family loan customers whose loans have not been sold to third parties who have been current on their contractual loan payments for the previous 12 months the opportunity, for a fee, to modify their original loan terms to current loan terms being offered. During the six months ended March 31, 2011, the Bank modified $584.1 million of loans, with a weighted average rate decrease of 98 basis points. Loan modification activity is not included in the table above because a new loan is not generated at the time of modification.

The Bank generally prices its first mortgage loan products based on secondary market and competitor pricing.   During the six months ended March 31, 2011, the average rate offered on the Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 150 basis points above the average 10-year Treasury rate, while the average rate offered on the Bank's 15-year fixed-rate one- to four-family loans was approximately 90 basis points above the average 10-year Treasury rate.

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

	March 31, 2011	December 31, 2010	March 31, 2010
	(Dollars in thousands)		
Originate/refinance fixed-rate	$61,859	$116,267	$85,858
Originate/refinance adjustable-rate	9,506	24,789	7,942
Purchase fixed-rate	6,201	11,504	10,534
Purchase adjustable-rate	7,791	8,888	4,478
	$85,357	$161,448	$108,812

The following table presents annualized prepayment speeds for the quarter ended March 31, 2011 by interest rate tier of our fixed-rate one- to four-family loan portfolio, including our fixed-rate one- to four-family construction loans. Loan refinances are considered a prepayment and are included in the prepayment speeds presented below. The annualized prepayment speeds are presented with and without modifications. During the three months ended March 31, 2011, $28.1 million of fixed-rate one- to four-family loans were modified.

	Original Term					
	15 years or less			More than 15 years		
		Prepayment Speed (annualized)			Prepayment Speed (annualized)	
Rate Range	Principal Balance	Includes Modifications	Excludes Modifications	Principal Balance	Includes Modifications	Excludes Modifications
	(Dollars in thousands)					
< =4.50%	$434,687	6.18 %	6.18 %	$716,043	2.35 %	2.29 %
4.51 - 4.99 %	265,434	18.61	15.85	312,479	7.55	7.55
5.00 - 5.50 %	230,807	25.22	23.43	1,372,921	15.96	13.09
5.51 - 5.99 %	51,257	23.18	21.65	317,515	21.81	16.36
6.00 - 6.50 %	23,544	27.44	25.20	248,691	28.18	14.28
6.51 - 6.99 %	7,138	6.80	6.80	42,500	17.96	10.33
>=7.00%	3,908	12.18	9.52	33,060	13.92	12.64
Total	$1,016,775	15.56 %	14.24 %	$3,043,209	13.84 %	10.58 %

We attempt to mitigate the repricing risk of our fixed-rate one- to four-family loan portfolio by the interest rates we offer and through the terms of our modification program. Management closely monitors competitors' rates and also considers interest rate risk and net interest income when setting offered rates. Through our modification program a borrower can modify the rate and/or term of their loan in less time than it takes to process a refinance, and for a cost that is less than a refinance, if they have been current on their payments for the previous 12 months and the loan has not been sold to a third party. At March 31, 2011, the fixed rates offered through our modification program were at least 12 basis points higher than a similar new origination or refinance. This allows the Bank to retain the modified loan and achieve a rate slightly above current market rate.

We manage the reinvestment risk of loan prepayments through our interest rate risk and asset management strategies. In recent periods, principal repayments in excess of loan originations and purchases have been reinvested in shorter-term MBS and investment securities at lower market rates than our loan portfolio, which reduces our interest rate spread. If, however, market rates were to rise, the short-term nature of the securities may allow management the opportunity to reinvest the maturing funds at a higher rate.

The following table summarizes the activity in the loan portfolio for the periods indicated, excluding changes in undisbursed loan funds, unearned loan fees and deferred costs, and ACL. Bank customer refinances are included in "repayments." Purchased loans include purchases from correspondent and nationwide lenders. Loan modification activity is not included in the activity in the following table because a new loan is not generated at the time of modification. The modified balance and rate are, however, included in the ending loan portfolio balance and rate.

	For the Three Months Ended							
	March 31, 2011		December 31, 2010		September 30, 2010		June 30, 2010	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$ 5,163,319	4.87 %	$ 5,209,313	5.07 %	$ 5,361,472	5.14 %	$ 5,425,458	5.19 %
Originations and refinances:								
Fixed	153,272	4.33	245,251	4.08	94,048	4.64	137,012	4.96
Adjustable	43,434	3.91	50,997	3.93	39,170	4.33	34,033	4.62
Purchases:								
Fixed	16,468	4.47	4,977	4.38	6,850	5.05	8,590	5.15
Adjustable	5,979	3.57	3,954	3.96	1,417	4.40	10,737	5.58
Repayments	(233,473)		(348,545)		(288,626)		(250,098)	
Other (1)	(4,949)		(2,628)		(5,018)		(4,260)	
Ending balance	$ 5,144,050	4.81 %	$ 5,163,319	4.87 %	$ 5,209,313	5.07 %	$ 5,361,472	5.14 %

	For the Six Months Ended			
	March 31, 2011		March 31, 2010	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Beginning balance	$ 5,209,313	5.07 %	$ 5,646,950	5.29 %
Originations and refinances:				
Fixed	398,523	4.18	264,201	4.94
Adjustable	94,431	3.92	76,664	4.50
Purchases:				
Fixed	21,445	4.45	32,566	5.07
Adjustable	9,933	3.72	58,941	3.77
Repayments	(582,018)		(451,102)	
Transfer of-loans to LHFS, net (2)	--		(194,759)	
Other (1)	(7,577)		(8,003)	
Ending balance	$ 5,144,050	4.81 %	$ 5,425,458	5.19 %

(1) “Other” consists of transfers to REO, modification fees advanced, and reductions in commitments.
(2) “Transfer of loans to LHFS, net” in the six months ended March 31, 2010 includes loans with a principal balance of $194.8 million related to the loan swap transaction.

The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages (before deductions for undisbursed loan funds, unearned loan fees and deferred costs, and the ACL) as of the dates indicated. The weighted average portfolio rate decreased 26 basis points from 5.07% at September 30, 2010 to 4.81% at March 31, 2011, primarily due to modifications, refinances, and ARM loans repricing down. Within the one- to four-family loan portfolio at March 31, 2011, 79% of the loans had a balance of less than $417 thousand.

	March 31, 2011			December 31, 2010			September 30, 2010		
	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total
				(Dollars in thousands)					
Real Estate Loans:									
One- to four-family	$ 4,867,405	4.77 %	94.6 %	$ 4,876,547	4.83 %	94.5 %	$ 4,915,651	5.03 %	94.4 %
Multi-family and commercial	60,869	6.15	1.2	64,280	6.18	1.3	66,476	6.24	1.3
Construction	39,694	4.40	0.8	37,487	4.64	0.7	33,168	4.90	0.6
Total real estate loans	4,967,968	4.78	96.6	4,978,314	4.85	96.5	5,015,295	5.05	96.3
Consumer Loans:									
Home equity	169,150	5.52	3.3	177,577	5.53	3.4	186,347	5.55	3.6
Other	6,932	5.41	0.1	7,428	5.57	0.1	7,671	5.66	0.1
Total consumer loans	176,082	5.52	3.4	185,005	5.53	3.5	194,018	5.55	3.7
Total loans receivable	5,144,050	4.81 %	100.0 %	5,163,319	4.87 %	100.0 %	5,209,313	5.07 %	100.0 %
Less:									
Undisbursed loan funds	21,004			17,258			15,489		
Unearned loan fees and deferred costs	12,617			10,320			10,730		
ACL	13,814			14,723			14,892		
Total loans receivable, net	$ 5,096,615			$ 5,121,018			$ 5,168,202		

Asset Quality – Loans and REO

The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates and purchases. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan compared to underwriting methodologies that do not require full documentation. See additional discussion regarding underwriting standards in "Lending Practices and Underwriting Standards" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010. In the following asset quality discussion, loans purchased from correspondent lenders are included with originated loans, and loans purchased from nationwide lenders are reported as purchased loans.

For one- to four-family loans and home equity loans, when a borrower fails to make a loan payment 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan balances more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank officer. Once a loan becomes 90 days delinquent, a demand letter is issued requiring the loan to be brought current or foreclosure procedures will be implemented. Generally, when a loan becomes 120 days delinquent, and an acceptable repayment plan has not been established, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether mortgagors who filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

We monitor delinquencies on our purchased loan portfolio with reports we receive from the servicers. We monitor these servicer reports to ensure that the servicer is upholding the terms of the servicing agreement. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. Management also utilizes information from the servicers to monitor property valuations and identify the need to record SVAs. The servicers handle collection efforts per the terms of the servicing agreement.

In April 2011, banking regulators reported enforcement actions against 14 banking organizations to address a pattern of misconduct and negligence in mortgage loan servicing and foreclosure processing. The Bank was not one of the 14 banking organizations noted in the enforcement actions; however, management will be reviewing the enforcement actions to determine if any changes to the Bank's foreclosure process need to be made. Although no monetary sanctions were announced, the banking regulators indicated penalties could be assessed in addition to the corrective actions required. As a result of the enforcement actions, significant modifications in residential mortgage loan servicing and foreclosure processes will be required at the 14 banking organizations. Each organization will be required to submit plans that address certain deficiencies. Additionally, to ensure the corrections are completed, the organizations must retain independent consultants to manage the process or conduct confirming look-back reviews for the years 2009 and 2010. Of the 14 banking organizations, there are 3 organizations that service loans we purchased from nationwide lenders. During the time period under review, the Bank had 93 loans go into foreclosure with the servicers noted in the enforcement actions. Management cannot currently estimate the cost, if any, to the Bank if deficiencies are detected in any of those loans.

Delinquent and non-performing loans and REO

The following tables present the Company's 30 to 89 day delinquent loans, non-performing loans, and REO at the dates indicated. Non-performing loans are non-accrual loans that are 90 or more days delinquent or are in the process of foreclosure. At all dates presented, there were no loans 90 or more days delinquent that were still accruing interest. Loans classified as TDRs are not included in delinquent or non-performing loans unless the restructured loans are 30 to 89 days or 90 or more days delinquent. TDR's 30 to 89 days delinquent were $3.9 million and non-performing TDR's were $3.3 million at March 31, 2011. REO includes assets acquired in settlement of loans. Non-performing assets include non-performing loans and REO.

	Loans Delinquent for 30 to 89 Days									
	March 31, 2011		December 31, 2010		September 30, 2010		June 30, 2010		March 31, 2010	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
One- to four-family:										
Originated	141	$16,797	181	$20,009	175	$17,613	154	$15,581	143	$14,574
Purchased	30	5,600	35	7,573	34	6,047	31	6,629	39	9,846
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	35	456	47	767	50	874	44	806	35	670
Other	12	180	24	313	16	183	17	96	13	62
	218	$23,033	287	$28,662	275	$24,717	246	$23,112	230	$25,152
30 to 89 days delinquent loans to total loans receivable, net		0.45 %		0.56 %		0.48 %		0.43 %		0.47 %

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	March 31, 2011 Number	March 31, 2011 Amount	December 31, 2010 Number	December 31, 2010 Amount	September 30, 2010 Number	September 30, 2010 Amount	June 30, 2010 Number	June 30, 2010 Amount	March 31, 2010 Number	March 31, 2010 Amount
					(Dollars in thousands)					
Non-performing loans:										
One- to four-family:										
Originated	126	$13,899	125	$13,248	109	$12,884	105	$10,538	107	$9,892
Purchased	49	15,131	53	17,176	60	18,375	73	22,090	76	23,407
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	22	428	29	530	31	685	31	516	41	720
Other	8	59	8	33	6	12	9	36	6	18
	205	29,517	215	30,987	206	31,956	218	33,180	230	34,037
Non-performing loans as a percentage of total loans receivable, net		0.58 %		0.61 %		0.62 %		0.62 %		0.63 %
REO:										
One- to four-family:										
Originated (1)	73	7,161	71	7,307	73	6,172	59	4,738	59	5,450
Purchased	19	4,176	19	3,672	17	3,748	11	2,412	8	1,411
Multi-family and commercial	--	--	--	--	--	--	--	--	--	--
Construction	--	--	--	--	--	--	--	--	--	--
Consumer Loans:										
Home equity	--	--	--	--	--	--	--	--	--	--
Other	--	--	--	--	--	--	--	--	--	--
	92	11,337	90	10,979	90	9,920	70	7,150	67	6,861
Total non-performing assets	297	$40,854	305	$41,966	296	$41,876	288	$40,330	297	$40,898
Non-performing assets as a percentage of total assets		0.42 %		0.43 %		0.49 %		0.47 %		0.48 %

(1) 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.

The following table presents the weighted average percentage of one- to four-family loans, by principal balance, that entered the 30 to 89 days delinquent category during the 12 months ended March 31, 2011 that paid off, returned to non-delinquent status, stayed 30 to 89 days delinquent, or progressed to the non-performing or REO categories.

30 to 89 Day Delinquent Loan Trend Analysis

	Paid Off	Performing	30 to 89 Days Delinquent	Non-Performing	REO	Total
Originated	3.3 %	40.5 %	35.8 %	16.5 %	3.9 %	100.0 %
Purchased	0.9	37.0	33.2	27.2	1.7	100.0
Total Portfolio Average	2.4 %	39.3 %	35.3 %	19.8 %	3.2 %	100.0 %

Loans 30 to 89 days delinquent decreased $1.7 million from $24.7 million at September 30, 2010 to $23.0 million at March 31, 2011. The $1.7 million decrease was primarily composed of an $816 thousand decrease in originated one- to four-family loans and a $447 thousand decrease in purchased one- to four-family loans.

Non-performing loans decreased $2.5 million from $32.0 million at September 30, 2010 to $29.5 million at March 31, 2011. The $2.5 million decrease was primarily composed of a $3.2 million decrease in purchased one- to four-family loans, partially offset by a $1.0 million increase in originated one- to four-family loans. The decrease in purchased one- to four-family loans was due to the loans moving to REO, short sales and loans paying off, and fewer loans moving into the non-performing loan category. Our local market areas did not feel the impact of the negative economic conditions felt by a large portion of the U.S. until recently, thereby resulting in a lag in delinquencies on our originated loan portfolio compared to our purchased loan portfolio.

For LTV and credit score information for the Bank's one- to four-family loan portfolio, see "Note 4 – Loans Receivable and Allowance for Credit Losses."

The following table presents the calendar year of origination for originated and purchased one- to four-family loans, excluding construction loans, and the origination year for non-performing originated and purchased one- to four-family loans at March 31, 2011. The origination date for modified loans is based on when the loan was originated, not the modification date.

Origination Calendar Year	Originated Loans	Purchased Loans	Total Loans	Originated Non-Performing Loans	Purchased Non-Performing Loans	Total Non-Performing Total
			(Dollars in thousands)			
2002 and prior	$563,351	$12,771	$576,122	$ 3,083	$ 550	$3,633
2003	317,476	20,985	338,461	1,696	363	2,059
2004	243,688	167,054	410,742	1,726	5,699	7,425
2005	317,906	162,758	480,664	1,738	8,036	9,774
2006	334,192	13,458	347,650	2,424	483	2,907
2007	458,792	173	458,965	1,387	--	1,387
2008	508,686	54,565	563,251	1,688	--	1,688
2009	803,565	62,664	866,229	157	--	157
2010	628,235	5,063	633,298	--	--	--
2011	192,023	--	192,023	--	--	--
	$4,367,914	$499,491	$4,867,405	$ 13,899	$ 15,131	$29,030

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The following table presents the top 12 states where the properties securing our one- to four-family loans, excluding construction loans, are located and the corresponding balance of 30 to 89 day delinquent loans, non-performing loans and the weighted average LTV ratios for non-performing loans at March 31, 2011. 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, BPO or AVM, if available. As a result of updated estimated fair values, the LTV of various non-performing loans are now in excess of 100%, as reflected in the table below. We have recorded SVAs on these loans, after taking into consideration potential PMI proceeds.

	One- to Four-Family		Loans 30 to 89 Days Delinquent		Non-Performing Loans		
State	Balance	% of Total	Balance	% of Total	Balance	% of Total	Average LTV
	(Dollars in thousands)						
Kansas	$3,655,676	75.1 %	$12,229	54.6 %	$12,282	42.3 %	79 %
Missouri	727,932	15.0	4,585	20.5	1,934	6.7	92
Illinois	57,565	1.2	--	--	1,712	5.9	93
Florida	38,770	0.8	957	4.3	3,459	11.9	106
New York	34,704	0.7	--	--	1,642	5.7	100
Texas	34,165	0.7	742	3.3	--	--	--
Colorado	26,373	0.5	315	1.4	640	2.2	105
Arizona	24,863	0.5	725	3.2	1,536	5.3	143
Minnesota	24,700	0.5	400	1.8	95	0.3	85
Connecticut	23,777	0.5	--	--	146	0.5	104
Virginia	23,205	0.5	--	--	581	2.0	93
New Jersey	20,637	0.4	--	--	652	2.2	62
Other states	175,038	3.6	2,444	10.9	4,351	15.0	108
	$4,867,405	100.0 %	$22,397	100.0 %	$29,030	100.0 %	94 %

Impaired loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan agreement. Management considers the following loans to be impaired loans: all non-accrual loans, loans classified as substandard or doubtful, loans with SVAs, and TDRs that have not been performing under the new terms for 12 consecutive months or are required by the accounting literature to be classified as a TDR for the life of the loan. Impaired loans totaled $60.2 million at March 31, 2011, of which $33.0 million were classified as TDRs.

Allowance for credit losses and provision for credit losses

Management maintains an ACL to absorb known and inherent losses in the loan portfolio based on ongoing quarterly assessments of the loan portfolio. Our allowance for credit loss methodology considers a number of quantitative and qualitative factors, including the trend and composition of our delinquent and non-performing loans, results of foreclosed property transactions, and the status and trends of the local and national economies and housing markets. Our local market areas did not experience significant fluctuations in home values over the past 10 years as did other areas of the U.S. so the loss per property in our originated portfolio has generally not been as large as the loss per property in our purchased loan portfolio.

The ACL is maintained through provisions for credit losses which are charged to income. The provision for credit losses is established after considering the results of management's quarterly assessment of the ACL. For the first six months of fiscal year 2011, the Company recorded a provision for credit losses of $1.2 million, primarily related to establishing or increasing SVAs on purchased loans. 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, 2010 and "Note 1 – Summary of Significant Accounting Policies" for a full discussion of our ACL methodology. For additional information regarding our ACL activity during fiscal year 2011, see "Note 4 – Loans Receivable and Allowance for Credit Losses."

The following table presents the Company's allocation of the ACL to each respective loan category at March 31, 2011 and September 30, 2010. At March 31, 2011 and September 30, 2010, our ratio of ACL to non-performing loans was 46.8% and 46.6%, respectively, and our ratio of ACL to loans receivable, net was 0.27% and 0.29%, respectively.

	At March 31, 2011				At September 30, 2010			
	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	$ 4,205	30.4 %	$ 4,367,914	84.9 %	$ 3,801	25.5 %	$ 4,350,772	83.5 %
Purchased	9,037	65.4	499,491	9.7	10,425	70.0	564,879	10.8
Multi-family and commercial	268	1.9	60,869	1.2	275	1.9	66,476	1.3
Construction	11	0.1	39,694	0.8	12	0.1	33,168	0.6
Consumer:								
Home equity	244	1.8	169,150	3.3	319	2.1	186,347	3.6
Other consumer	49	0.4	6,932	0.1	60	0.4	7,671	0.2
	$ 13,814	100.0 %	$ 5,144,050	100.0 %	$ 14,892	100.0 %	$ 5,209,313	100.0 %

Securities. The following table presents the distribution of our MBS and investment securities portfolios, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 77% of these portfolios at March 31, 2011. The weighted average life ("WAL") is the estimated remaining maturity after projected prepayment speeds and projected call option assumptions have been applied. The increase in the WAL between September 30, 2010 and March 31, 2011 was due primarily to the increase in interest rates between time periods. This increase in interest rates resulted in a reduction in the prepayment expectations for the MBS and fewer callable bonds expected to be called. The decrease in the yield between September 30, 2010 and March 31, 2011 was primarily a result of the purchase of securities with yields lower than that of the portfolios, and prepayments of MBS and early repayment of callable agency debentures with yields higher than that of the existing portfolio. Yields on tax-exempt securities are not calculated on a taxable equivalent basis.

	March 31, 2011			September 30, 2010			March 31, 2010		
	Balance	WAL	Yield	Balance	WAL	Yield	Balance	WAL	Yield
				(Dollars in thousands)					
Fixed-rate securities:									
MBS	$ 1,370,970	3.95	3.71 %	$ 860,798	3.02	4.47 %	$ 858,308	3.09	4.80 %
GSE debentures	1,781,628	1.45	1.11	1,258,980	0.64	1.39	894,985	0.99	1.67
Municipal bonds	63,321	2.70	2.96	70,605	2.76	2.95	71,807	3.36	2.99
Total fixed-rate securities	3,215,919	2.54	2.25	2,190,383	1.64	2.64	1,825,100	2.07	3.20
Adjustable-rate securities:									
MBS	941,279	5.18	3.05	695,192	4.26	3.43	849,431	5.08	3.61
Trust preferred securities	3,708	26.23	1.57	3,721	26.73	1.96	3,748	27.23	1.92
Total adjustable-rate securities	944,987	5.26	3.04	698,913	4.41	3.42	853,179	5.20	3.60
Total investment portfolio, at amortized cost	$ 4,160,906	3.16	2.43 %	$ 2,889,296	2.31	2.83 %	$ 2,678,279	3.07	3.33 %

During the current quarter Capitol Federal Financial, Inc. at the holding company level, purchased $405.8 million of securities with a WAL of 1.13 years and a yield of 0.42% at the time of purchase. All of the securities were classified as AFS. The securities have laddered maturities in order to provide cash flows that can be used to repurchase stock, when allowed by federal banking regulations, or that can be reinvested into higher yielding assets if interest rates rise. The yields on these securities are less than the yields on the Bank's current investment portfolio due to the lower interest rate environment and the short-term nature of the securities.

Mortgage-Backed Securities. The MBS portfolio, which primarily consists of securities issued by U.S. GSEs, increased $748.0 million from $1.61 billion at September 30, 2010 to $2.36 billion at March 31, 2011. At March 31, 2011, the MBS held within our portfolio were issued by FHLMC, FNMA and GNMA, with the exception of $2.2 million, which were issued by a private issuer. Unlike MBS issued by GSEs, the principal and interest payments of privately issued MBS are not guaranteed, although we generally receive a higher interest rate as compensation for the relative increase in credit risk. Should the underlying mortgages in a privately issued MBS security default on their mortgage payment above the level of credit enhancement, losses could be realized.

The following table provides a summary of the activity in our portfolio of MBS for the periods presented. The yields and WAL for purchases are presented as recorded at the time of purchase. The yields for the beginning balances are as of the last day of the period previous to the period presented and the yield for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The weighted average yield of the MBS portfolio decreased from September 30, 2010 to March 31, 2011 as a result of purchases of securities with yields lower than the existing portfolio, adjustable-rate MBS resetting to lower coupons due to a decline in related indices, which are generally based upon short-term interest rates, and the maturity and repayment of securities with higher yields than the overall portfolio. The beginning and ending WAL is the estimated remaining maturity after projected prepayment speeds have been applied. The increase in the WAL at March 31, 2011 compared to September 30, 2010 was due to the increase in long-term interest rates at the end of the quarter which resulted in a reduction in prepayment expectations, thereby lengthening the WAL of the related securities. The increase in the WAL was also due to purchases during the current quarter with a WAL of 4.8 years.

	For the Three Months Ended											
	March 31, 2011			December 31, 2010			September 30, 2010			June 30, 2010		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WA
	(Dollars in thousands)											
eginning balance - rrying value	$1,695,294	3.73%	4.21	$1,607,864	4.00%	3.58	$1,620,623	4.15%	3.99	$1,757,310	4.21%	4.0
aturities and payments	(121,283)			(123,577)			(131,861)			(145,432)		
et amortization of emiums/(discounts)	(689)			(632)			(457)			(393)		
rchases:												
ixed	501,748	3.17	4.64	168,300	2.16	3.74	126,394	2.54	3.71	--	--	--
djustable	282,957	2.59	4.98	49,436	2.24	5.08	--	--	--	--	--	--
hange in valuation AFS securities	(2,128)			(6,097)			(6,835)			9,138		
nding balance - rrying value	$2,355,899	3.44%	4.45	$1,695,294	3.73%	4.21	$1,607,864	4.00%	3.58	$1,620,623	4.15%	3.9

	For the Six Months Ended					
	March 31, 2011			March 31, 2010		
	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)					
eginning balance - rrying value	$1,607,864	4.00%	3.58	$1,992,467	4.42%	4.67
aturities and payments	(244,860)			(234,015)		
le of securities, net gains	--			(192,690)		
et amortization of emiums/(discounts)	(1,321)			(891)		
rchases:						
ixed	670,048	2.92	4.41	5,032	4.13	7.32
djustable	332,393	2.54	4.99	--	--	--
mortized cost of curities received in						
	--			192,690		

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