

Capitol Federal Financial Inc  
Form S-1  
May 06, 2010

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As filed with the Securities and Exchange Commission on May 6, 2010  
Registration No. 333-\_\_\_\_\_

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

**FORM S-1**

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

**CAPITOL FEDERAL FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

Maryland	6035	Applied For
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

700 S. Kansas Avenue, Topeka, Kansas 66603  
(785) 235-1341  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

John B. Dicus, President and Chief Executive Officer  
700 S. Kansas Avenue, Topeka, Kansas 66603  
(785) 235-1341  
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

James S. Fleischer, P.C.  
Martin L. Meyrowitz, P.C.  
SILVER, FREEDMAN & TAFF, L.L.P.  
(a limited liability partnership including professional corporations)  
3299 K Street, NW, Suite 100  
Washington, DC 20007  
(202) 295-4500

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

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registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier registration statement for the same offering. [ ]

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
 (Do not check if a smaller reporting company)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value \$.01 per share	301,737,230	\$10.00	\$3,017,372,300 (1)	\$215,138

(1) Estimated solely for the purpose of calculating the registration fee.  
 The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBSCRIPTION AND COMMUNITY  
OFFERING PROSPECTUS

Capitol Federal Financial, Inc.  
(Proposed Holding Company for Capitol Federal Savings Bank)

Up to 212,750,000 Shares of Common Stock  
\$10.00 per Share

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Capitol Federal Financial, Inc., a newly formed Maryland corporation is offering up to 212,750,000 shares of common stock for sale at \$10.00 per share in connection with the conversion of Capitol Federal Savings Bank MHC from the mutual holding company to the stock holding company form of organization. The shares being offered represent the 70% ownership interest in Capitol Federal Financial currently owned by Capitol Federal Savings Bank MHC. Capitol Federal Financial's common stock is currently traded on the Nasdaq Global Select Market under the trading symbol CFFN. We expect that Capitol Federal Financial, Inc.'s shares of common stock will trade on the Nasdaq Global Select Market under the trading symbol CFFND for a period of 20 trading days following the completion of this stock offering. Thereafter the trading symbol will revert to CFFN. To avoid confusion, we will refer to Capitol Federal Financial in this document as CFF and Capitol Federal Financial, Inc. as Capitol Federal Financial, Inc.

We are offering the common stock for sale on a best efforts basis. The shares are first being offered in a subscription offering to eligible depositors and tax-qualified employee benefit plans of Capitol Federal Savings Bank as described in this prospectus, who have priority rights to buy all of the shares offered. Shares not purchased in the subscription offering will simultaneously be offered to the general public in a community offering, with a preference given to residents of the communities served by Capitol Federal Savings Bank and existing stockholders of CFF. We may also offer shares of common stock not subscribed for in the subscription and community offerings in a syndicated community offering through a syndicate of selected dealers.

We must sell a minimum of 157,250,000 shares in the offering in order to complete the offering. Sandler O'Neill & Partners, L.P. will assist us in selling the shares on a best efforts basis in the subscription and community offerings and will serve as sole book-running manager for the syndicated community offering. Neither Sandler O'Neill & Partners, L.P. nor any member of the syndicate group is required to purchase any shares of common stock in the offering.

In addition to the shares we are selling in the offering, the remaining 30% interest in CFF common stock currently held by the public will be exchanged for shares of common stock of Capitol Federal Financial, Inc. using an exchange ratio that will result in the existing public stockholders owning approximately the same percentage of Capitol Federal Financial, Inc. common stock as they owned of CFF common stock immediately prior to the completion of the conversion. We will issue up to 88,987,230 shares of common stock in the exchange. Capitol Federal Financial, Inc. also intends to contribute to the Capitol Federal Foundation \$40.0 million in cash.

The minimum order is 25 shares. The subscription offering will expire at 4:00 p.m., Central Time, on [ ], 2010. We expect that the community offering will terminate at the same time, although it may be extended without notice to you until [ ], 2010, unless the Office of Thrift Supervision approves a later date. No single extension may exceed 90 days and the offering must be completed by [ ], 2012. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond [ ], 2010, or the number of shares of common stock to be sold is increased to more than 212,750,000 shares or decreased to less than 157,250,000 shares. Funds received prior to the completion of the offering will be held in a segregated account at Capitol Federal Savings Bank, or, at our discretion,

at another federally insured depository institution, and will earn interest at Capitol Federal Savings Bank's statement savings rate, which is currently 0.25%. If the subscription and community offerings are terminated, purchasers will have their funds returned promptly, with interest. If the offering is extended beyond [ ], 2010, we will resolicit purchasers, and you will have the opportunity to maintain, change or cancel your order. If you do not provide us with a written indication of your intent, your order will be canceled and your funds will be returned to you, with interest. If there is a change in the offering range, we will promptly return all funds with interest, and all subscribers will be provided with updated information and given the opportunity to place a new order.

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OFFERING SUMMARY

Price: \$10.00 per share

	Minimum	Midpoint	Maximum
Number of shares	\$157,250,000	\$185,000,000	\$212,750,000
Gross offering proceeds	1,572,500,000	1,850,000,000	2,127,500,000
Estimated offering expenses excluding selling agent commission and expenses	5,255,000	5,255,000	5,255,000
Estimated selling agent commissions and expenses(1)	52,581,375	61,863,750	71,146,125
Net proceeds	1,514,663,625	1,782,881,250	2,051,098,875
Net proceeds per share	9.63	9.64	9.64

(1) Includes: (i) fees payable by us to Sandler O’Neill & Partners, L.P. in connection with the subscription and community offerings equal to 0.75% of the aggregate amount of common stock sold in the subscription and community offerings (net of insider purchases and shares purchased by our employee stock ownership plan, and (ii) a management fee payable by us of 1.00% of the aggregate dollar amount of the common stock sold in the syndicated community offering, 75% of which will be paid to Sandler O’Neill & Partners, L.P. and 25% of which will be paid to Keefe, Bruyette & Woods, Inc., and a selling concession payable by us of 3.50% of the actual purchase price of each security sold in the syndicated community offering, which will be allocated to dealers (including Sandler O’Neill & Partners, L.P. and Keefe, Bruyette & Woods, Inc.) in accordance with the actual number of shares of common stock sold by such dealers, assuming that 30% of the offering is sold in the subscription and community offerings and the remaining 70% of the offering will be sold in the syndicated community offering. See “Pro Forma Data” on page [ ] and “The Conversion and Offering – Marketing Arrangements” on page [ ].

This investment involves a degree of risk, including the possible loss of principal.

Please read “Risk Factors” beginning on page [ ].

These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. None of the Securities and Exchange Commission, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, or any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

SANDLER O’NEILL + PARTNERS, L.P.

For assistance, please contact the Stock Information Center at 1 (800) [ ] - [ ].

The date of this prospectus is [ ], 2010



[MAP TO COME]

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## SUMMARY

The following summary explains the material aspects of the conversion, the offering and the exchange of existing shares of CFF common stock for shares of Capitol Federal Financial, Inc. common stock. It may not contain all of the information that is important to you. Before making an investment decision you should read the remainder of this prospectus carefully, including the consolidated financial statements, the notes to the consolidated financial statements and the section entitled "Risk Factors."

### The Companies

#### Capitol Federal Financial, Inc.

Capitol Federal Financial, Inc. is a newly formed Maryland corporation that was incorporated in April 2010 to be the successor corporation to CFF upon completion of the conversion. Capitol Federal Financial, Inc. will own all of the outstanding shares of common stock of Capitol Federal Savings Bank upon completion of the conversion. Capitol Federal Financial, Inc.'s executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603. Our telephone number at this address is (785) 235-1341.

#### Capitol Federal Savings Bank MHC

Capitol Federal Savings Bank MHC is the federally chartered mutual holding company of CFF. Capitol Federal Savings Bank MHC's principal business activity is the ownership of 52,192,817 shares of common stock of CFF, or 70% of the issued and outstanding shares as of the date of this prospectus. After the completion of the conversion, Capitol Federal Savings Bank MHC will cease to exist.

#### CFF

CFF is a federally chartered stock holding company that owns all of the outstanding common stock of Capitol Federal Savings Bank. At December 31, 2009, CFF had consolidated assets of \$8.37 billion, deposits of \$4.23 billion and stockholders' equity of \$942.0 million. After the completion of the conversion, CFF will cease to exist, and will be succeeded by Capitol Federal Financial, Inc. As of the date of this prospectus, CFF had 73,217,021 shares of common stock issued and outstanding, of which 52,192,817 shares were owned by Capitol Federal Savings Bank MHC. The remaining 21,024,204 shares of CFF common stock outstanding as of the date of this prospectus were held by the public.

#### Capitol Federal Savings Bank

Capitol Federal Savings Bank is a federally chartered stock savings bank headquartered in Topeka, Kansas and the wholly owned subsidiary of CFF. Capitol Federal Savings Bank was originally founded in 1893 as a mutual savings institution. In 1999, Capitol Federal Savings Bank converted to stock form and became the wholly owned subsidiary of CFF as part of a mutual holding company reorganization and stock issuance. Capitol Federal Savings Bank provides a full range of retail banking services through its 35 traditional and 10 in-store banking offices serving primarily the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City.

### Our Business Strategy

Our strategy is to operate a retail-oriented financial institution dedicated to serving the needs of customers in our market areas. Our commitment is to provide qualified borrowers the broadest possible access to home ownership

through our mortgage lending programs and to offer a complete set of personal banking products and services. We strive to enhance stockholder value while maintaining a strong capital position. To achieve our strategy, we focus on the following:

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**Portfolio Lending.** We are one of the largest originators of one- to four-family loans in the state of Kansas. We have primarily originated these loans for our own portfolio, rather than for sale, and generally we service the loans we originate. We provide retail customers with alternatives for their borrowing needs by offering both fixed- and adjustable-rate products with various terms to maturity and pricing alternatives. We offer special programs to individuals who may be first time home buyers, have low or moderate incomes or may have certain credit risk concerns in order to maximize our ability to deliver home ownership opportunities. Through our marketing efforts which reflect our reputation and pricing and strong relationships with real estate agents, we attract mortgage loan business from walk-in customers, customers that apply online and existing customers. We also purchase one- to four-family loans from correspondent lenders secured by property primarily located within our market areas and select market areas in Missouri and from nationwide lenders. Following completion of this offering, we intend to increase our emphasis on purchased loans that meet our underwriting standards.

**Retail Financial Services.** We offer a wide array of deposit products and retail services for our customers. These products include checking, savings, money market, certificates of deposit and retirement accounts. These products and services are provided through a branch network of 45 locations which includes traditional branch and retail store locations, our call center which operates on extended hours, telephone bill payment services and Internet-based transaction services.

**Cost Control.** We generally are very effective at controlling our costs of operations. By using technology, we are able to centralize our lending and deposit support functions for efficient processing. We have located our branches to serve a broad range of customers through relatively few branch locations. Our average deposit base per traditional branch was \$115.7 million at December 31, 2009. This large average deposit base helps to control costs. Our one- to four-family lending strategy and our effective management of credit risk allows us to service a large portfolio of loans at efficient levels because it costs less to service a portfolio of performing loans. At December 31, 2009, our efficiency ratio was 39.23%.

**Asset Quality.** We utilize underwriting standards for our lending products that are designed to limit our exposure to credit risk, and we have a portfolio of predominately one- to four-family loans. At December 31, 2009, our ratio of non-performing assets to total assets was 0.47%.

**Capital Position.** Our policy has always been to protect the safety and soundness of Capitol Federal Savings Bank through conservative credit and operational risk management, balance sheet strength and sound operations. The end result of these activities is a capital ratio in excess of the well-capitalized standards set by the Office of Thrift Supervision. We believe that maintaining a strong capital position safeguards the long-term interests of Capitol Federal Savings Bank, CFF and our stockholders.

**Stockholder Value.** We strive to enhance stockholder value while maintaining a strong capital position. One way that we continue to provide returns to stockholders is through our dividend payments. Total dividends declared and paid during fiscal year 2009 were \$2.11 per public share. Our cash dividend payout policy is reviewed quarterly by management and the board of directors, and the ability to pay dividends under the policy depends upon a number of factors, including CFF's financial condition and results of operations, Capitol Federal Savings Bank's regulatory capital requirements, regulatory limitations on Capitol Federal Savings Bank's ability to make capital distributions to CFF and the amount of cash at CFF. It is management's and the board of directors' intention to continue to pay regular quarterly dividends upon completion of the conversion, to the extent justified by earnings and the capital needs of Capitol Federal Financial, Inc. See "Our Policy Regarding Dividends."

**Interest Rate Risk Management.** Changes in interest rates are our primary market risk as our balance sheet is almost entirely comprised of interest-earning assets and interest-bearing liabilities. As such, fluctuations in interest rates have a significant impact not only upon our net income but also upon the cash flows related to those assets and liabilities

and the market value of our assets and liabilities. In order to maintain acceptable levels of net interest income in varying interest rate environments, we take on a moderate amount of interest rate risk consistent with board policies.

### Our Current Organizational Structure

In 1999, CFF became the mid-tier stock holding company of Capitol Federal Savings Bank, owning 100% of its stock, and conducted an initial public offering by selling a minority of its common stock to the public. The majority of the outstanding shares of common stock of CFF are owned by Capitol Federal Savings Bank MHC, which is a federally chartered mutual holding company with no stockholders.

Pursuant to the terms of the Plan of conversion and reorganization of Capitol Federal Savings Bank MHC, which is referred to throughout this prospectus as the plan of conversion and reorganization, Capitol Federal Savings Bank will convert from the mutual holding company to the stock holding company corporate structure. As part of the conversion, we are offering for sale in a subscription offering, a community offering and possibly a syndicated community offering, the majority ownership interest of CFF that is currently owned by Capitol Federal Savings Bank MHC. In addition, we intend to make a cash contribution to our existing charitable foundation. Upon completion of the conversion, Capitol Federal Savings Bank MHC will cease to exist, and we will complete the transition from partial to full public stock ownership. In addition, as part of the conversion, existing public stockholders of CFF will receive shares of common stock of Capitol Federal Financial, Inc. in exchange for their shares of CFF common stock pursuant to an exchange ratio that maintains their same percentage ownership in CFF (excluding any new shares purchased by them in the offering, and their receipt of cash in lieu of fractional exchange shares) that existing stockholders had in CFF immediately prior to the completion of the conversion and offering.

The following diagram shows our current organizational structure:

## Our Organizational Structure Following the Conversion

After the conversion and offering are completed, we will be organized as a fully public stock holding company, as follows:

## Reasons for the Conversion and the Offering

Our primary reasons for converting and raising additional capital through the offering are:

to eliminate some of the uncertainties associated with proposed financial regulatory reforms which may result in changes to our primary bank regulator and holding company regulator as well as changes in regulations applicable to us, including, but not limited to, capital requirements, payment of dividends and conversion to full stock form;

the stock holding company structure is a more familiar form of organization, which we believe will make our common stock more appealing to investors, and will give us greater flexibility to access the capital markets through possible future equity and debt offerings, although we have no current plans, agreements or understandings regarding any additional securities offerings;

to improve the liquidity of our shares of common stock and provide more flexible capital management strategies; and

to finance, where opportunities are presented, the acquisition of financial institutions or their branches or other financial service companies primarily in, or adjacent to, our market areas, although we do not currently have any understandings or agreements regarding any specific acquisition transaction.

## Terms of the Offering

We are offering between 157,250,000 and 212,750,000 shares of common stock to eligible depositors and borrowers of Capitol Federal Savings Bank, to our tax-qualified employee benefit plan, consisting of our employee stock ownership plan, and, to the extent shares remain available, to natural persons residing in the counties and metropolitan statistical areas in which we have offices, to our existing public stockholders and to the general public. Unless the number of shares of common stock to be offered is increased to more than 212,750,000 shares or decreased to fewer than 157,250,000 shares, or the offering is extended beyond [ ], 2010, purchasers will not have the opportunity to modify or cancel their stock orders once submitted. If the number of shares of common stock to be sold is increased to more than 212,750,000 shares or decreased to fewer than 157,250,000 shares, or if the offering is extended beyond [ ], 2010, purchasers will have the opportunity to maintain, cancel or change their orders for shares of common stock during a designated resolicitation period or have their funds returned promptly with interest. If, in that event, you do not provide us with written indication of your intent, your stock order will be canceled, your funds will be returned to you with interest calculated at Capitol Federal Savings Bank's statement savings rate and any deposit account withdrawal authorizations will be canceled.

The purchase price of each share of common stock to be offered for sale in the offering is \$10.00. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Sandler O'Neill & Partners, L.P., our marketing agent in the offering, will use its best efforts to assist us in selling shares of our common stock. Sandler O'Neill & Partners, L.P. is not obligated to purchase any shares of common stock in the offering.

We are also offering for sale to the general public in a syndicated offering through a syndicate of selected dealers shares of our common stock not purchased in the subscription offering or the community offering. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Sandler O'Neill & Partners, L.P. is acting as sole book-running manager and Keefe, Bruyette & Woods, Inc. is acting as co-manager for the syndicated community offering, which is also being conducted on a best efforts basis. Neither Sandler O'Neill & Partners, L.P., Keefe, Bruyette & Woods, Inc. nor any other member of the syndicate is required to purchase any shares in the syndicated community offering.

#### How We Determined the Offering Range, the Exchange Ratio and the \$10.00 Per Share Stock Price

The offering range and exchange ratio are based on an independent appraisal of the estimated market value of Capitol Federal Financial, Inc., assuming the conversion, the exchange and the offering are completed and the charitable foundation is funded with a cash contribution. RP Financial, LC., an appraisal firm experienced in appraisals of financial institutions, has estimated that, as of April 16, 2010, this estimated pro forma market value was \$2.62 billion. Based on regulation, the market value is the midpoint of a range with a minimum of \$2.23 billion and a maximum of \$3.02 billion. Based on this valuation, the regulatory established range, the 70% ownership interest of Capitol Federal Savings Bank MHC being sold in the offering and the \$10.00 per share price, the number of shares of common stock being offered for sale by Capitol Federal Financial, Inc. will range from 157,250,000 shares to 212,750,000 shares. The \$10.00 per share price was selected primarily because it is the price most commonly used in mutual-to-stock conversions of financial institutions. The exchange ratio will range from 3.0129 shares at the minimum of the offering range to 4.0762 shares at the maximum of the offering range in order to approximately preserve the existing percentage ownership of public stockholders of Capitol Federal Financial, Inc. (excluding any new shares purchased by them in the offering and their receipt of cash in lieu of fractional exchange shares).

The independent appraisal is based primarily on CFF's financial condition and results of operations, the pro forma impact of the additional capital raised by the sale of shares of common stock in the offering, and an analysis of a peer group of 10 publicly traded savings bank and thrift holding companies that RP Financial, LC. considered comparable to Capitol Federal Financial, Inc.

The appraisal peer group consists of the following companies. Total assets are as of December 31, 2009.



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Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (in millions)
Washington Federal, Inc. (WFSL)	NASDAQ	Seattle, WA	\$ 12,662
NewAlliance Bancshares (NAL)	NYSE	New Haven, CT	\$ 8,434
Flushing Financial Corp. (FFIC)	NASDAQ	Lake Success, NY	\$ 4,143
Dime Community Bancshares (DCOM)	NASDAQ	Brooklyn, NY	\$ 3,952
TrustCo Bank Corp NY (TRST)	NASDAQ	Glenville, NY	\$ 3,680
Bank Mutual Corp. (BKMU)	NASDAQ	Milwaukee, WI	\$ 3,512
First Financial Holding Inc. (FFCH)	NASDAQ	Charleston, SC	\$ 3,476
Provident NY Bancorp, Inc. (PBNY)	NASDAQ	Montebello, NY	\$ 2,918
Brookline Bancorp, Inc. (BRKL)	NASDAQ	Brookline, MA	\$ 2,616
Danvers Bancorp, Inc. (DNBK)	NASDAQ	Danvers, MA	\$ 2,500

The independent appraisal does not indicate actual market value. Do not assume or expect that the estimated pro forma market value as indicated above means that, after the offering, the shares of our common stock will trade at or above the \$10.00 purchase price.

The following table presents a summary of selected pricing ratios for the peer group companies and Capitol Federal Financial, Inc. (on a pro forma basis). The pricing ratios are based on earnings and other information as of and for the twelve months ended December 31, 2009, stock price information as of April 16, 2010, as reflected in RP Financial, LC.'s appraisal report, dated April 16, 2010, and the number of shares outstanding as described in "Pro Forma Data." Compared to the average pricing of the peer group, our pro forma pricing ratios at the maximum of the offering range indicated a discount of 25.8% on a price-to-tangible book value basis and a premium of 51.0% on a price-to-core earnings basis.

	Price-to-core- earnings multiple(1)		Price-to-tangible book value ratio	
Capitol Federal Financial, Inc. (on a pro forma basis, assuming completion of the conversion)				
Minimum	28.24	x	95.42	%
Midpoint	32.25	x	101.32	%
Maximum	36.02	x	106.16	%
Valuation of peer group companies, as of April 16, 2010				
Average	23.86	x	143.10	%
Median	23.80	x	146.60	%

(1) Information is derived from the RP Financial, LC. appraisal report and is based upon estimated core earnings for the twelve months ended December 31, 2009. These ratios are different from the ratios in "Pro Forma Data."

Our Board of Directors, in reviewing and approving the independent appraisal, considered the range of price-to-core earnings multiples and the range of price-to-tangible book value ratios at the different ranges of shares of common stock to be sold in the offering, and did not consider one valuation approach to be more important than the other. Instead, in approving the independent appraisal, the Board of Directors concluded that these ranges represented

the appropriate balance of these approaches to establishing our estimated valuation range, and the number of shares of common stock to be sold, in comparison to the peer group institutions. The estimated appraised value and the resulting discounts and premiums took into consideration the potential financial impact of the offering, the contribution to the charitable foundation and the repayment of trust preferred securities.

The independent appraisal also reflects the cash contribution to the Capitol Federal Foundation. The cash contribution to the charitable foundation will reduce our estimated pro forma market value. See “Comparison of Valuation and Pro Forma Data With and Without the Charitable Foundation.”

RP Financial, LC. will update the independent appraisal prior to the completion of the conversion. If the estimated appraised value changes to either below \$2.23 billion or above \$3.02 billion, then, after consulting with the Office of Thrift Supervision, we may: set a new offering range and resolicit persons who submitted stock orders; terminate the offering and promptly return all funds; or take such other actions as may be permitted by the Office of Thrift Supervision and the Securities and Exchange Commission. See “The Conversion and Offering - Stock Pricing and Number of Shares to be Issued.”

#### The Exchange of Existing Shares of CFF Common Stock

At the conclusion of the conversion, shares held by existing stockholders of CFF will be canceled and exchanged for shares of common stock of Capitol Federal Financial, Inc. The number of shares of common stock received will be based on an exchange ratio determined as of the conclusion of the conversion, which will depend upon the number of shares sold in the offering. The number of shares received will not be based on the market price of our currently outstanding shares. Instead, the exchange ratio will ensure that existing public stockholders of CFF will retain the same percentage ownership of our organization after the offering, exclusive of their purchase of any additional shares of common stock in the offering and their receipt of cash in lieu of fractional exchange shares. In addition, if options to purchase shares of CFF common stock are exercised before consummation of the conversion, there will be an increase in the percentage of shares of CFF held by public stockholders, an increase in the number of shares of common stock issued to public stockholders in the share exchange and a decrease in the exchange ratio.

The following table shows how the exchange ratio will adjust, based on the number of shares of common stock issued in the offering and the shares of common stock issued and outstanding as of December 31, 2009. The table also shows the number of whole shares of Capitol Federal Financial, Inc. common stock a hypothetical owner of CFF common stock would receive in exchange for 100 shares of CFF common stock owned at the completion of the conversion, depending on the number of shares of common stock sold in the offering.

	New Shares to be Sold in This Offering		New Shares to be Exchanged for Existing Shares of CFF		Total Shares of Common Stock to be Outstanding After the Offering	Exchange Ratio	New Shares That Would be Received for 100 Existing Shares
	Amount	Percent	Amount	Percent			
	Minimum	157,250,000	70.5 %	65,773,170			
Midpoint	185,000,000	70.5 %	77,380,200	29.5 %	262,380,200	3.5445	354
Maximum	212,750,000	70.5 %	88,987,230	29.5 %	301,737,230	4.0762	407

No fractional shares of Capitol Federal Financial, Inc. common stock will be issued to any public stockholder of CFF. For each fractional share that would otherwise be issued, Capitol Federal Financial, Inc. will pay in cash an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the \$10.00 per share purchase price of the common stock in the offering.

Outstanding options to purchase shares of CFF common stock also will convert into and become options to purchase shares of Capitol Federal Financial, Inc. common stock. The number of shares of common stock to be received upon exercise of these options will be determined pursuant to the exchange ratio. The aggregate exercise price, duration and vesting schedule of these options will not be affected by the conversion. At December 31, 2009, there were

382,022 outstanding options to purchase shares of CFF common stock, 278,022 of which have vested. Such options will be converted into options to purchase 1,150,994 shares of common stock at the minimum of the offering range and 1,557,198 shares of common stock at the maximum of the offering range. Because Office of Thrift Supervision regulations prohibit us from repurchasing our common stock during the first year following the conversion unless compelling business reasons exist, we may use authorized but unissued shares to fund option exercises that occur during the first year following the conversion. If all existing options were exercised for authorized but unissued shares of common stock following the conversion, stockholders would experience dilution of approximately 0.51% at the minimum and maximum of the offering range.

## How We Intend to Use the Proceeds From the Offering

Assuming we sell 212,750,000 shares of common stock in the stock offering, equal to the maximum of the offering range, and we have net proceeds of \$2.05 billion, we intend to distribute the net proceeds as follows:

\$1.03 billion (50.0% of the net proceeds) will be invested in Capitol Federal Savings Bank;

\$85.1 million (4.1% of the net proceeds) will be loaned by Capitol Federal Financial, Inc. to the employee stock ownership plan to fund its purchase of our shares of common stock;

\$40.0 million (2.0% of the net proceeds) will be contributed by Capitol Federal Financial, Inc. to the Capitol Federal Foundation;

\$53.6 million (2.6% of the net proceeds) will be used by Capitol Federal Financial, Inc. to repay outstanding trust preferred securities; and

\$846.8 million (41.3% of the net proceeds) will be retained by Capitol Federal Financial, Inc.

We may use the funds that we retain for investments, to pay cash dividends, to repurchase shares of common stock and for other general corporate purposes. Capitol Federal Savings Bank may use the proceeds it receives to support increased lending and other products and services. The net proceeds retained also may be used for future business expansion through acquisitions of banks, thrifts and other financial services companies, and opening or acquiring branch offices. We have no current arrangements or agreements with respect to any such acquisitions. Initially, a substantial portion of the net proceeds will be invested in short-term investments and mortgage-backed securities consistent with our investment policy.

Please see “How We Intend to Use the Proceeds from the Offering” for more information on the proposed use of the proceeds from the offering.

## Our Dividend Policy

As of December 31, 2009, CFF paid a quarterly cash dividend of \$.50 per share, which equals \$2.00 per share on an annualized basis. In addition, we generally declare and pay a year end cash dividend if we have sufficient earnings as determined by our board of directors. After the conversion, we intend to continue to pay cash dividends on a quarterly basis, although at a reduced level, the amount of which will be determined following completion of the conversion. The dividend rate and the continued payment of dividends also will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced or eliminated in the future.

See “Selected Consolidated Financial and Other Data of CFF and Subsidiary” and “Market for the Common Stock” for information regarding our historical dividend payments.

## Purchases and Ownership by our Executive Officers and Directors

We expect our directors, executive officers and their associates to purchase approximately 205,000 shares of common stock in the offering. The purchase price paid by them will be the same \$10.00 per share price paid by all other persons who purchase shares of common stock in the offering. After the conversion, as a result of purchases in the offering and the shares they will receive in exchange for shares of CFF common stock that they currently own, our

directors and executive officers, together with their associates, are expected to beneficially own approximately 5,904,179 and 7,899,629 shares of common stock, or 2.65% and 2.62% of our total outstanding shares of common stock, at the minimum and the maximum of the offering range, respectively.

## Benefits to Management and Potential Dilution to Stockholders Resulting from the Conversion

**Employee Stock Ownership Plan.** Our tax-qualified employee stock ownership plan expects to purchase up to 4.0% of the shares of common stock we sell in the offering, or 8,510,000 shares of common stock assuming we sell the maximum number of shares proposed to be sold. When these shares are combined with the existing shares owned by the employee stock ownership plan, the plan will own approximately 6.25% of the shares outstanding following the conversion. If we receive orders for more shares of common stock than the maximum of the offering range, the employee stock ownership plan will have first priority to purchase shares over this maximum, up to a total of 10% of the shares of common stock sold in the offering. We reserve the right to purchase shares of common stock in the open market following the offering in order to fund all or a portion of the employee stock ownership plan. Assuming the employee stock ownership plan purchases 8,510,000 shares in the offering, 4.0% of the maximum of the offering range, we will recognize additional compensation expense, after tax, of approximately \$1.8 million annually over a 30-year period, assuming the loan to the employee stock ownership plan has a 30-year term and an interest rate equal to the prime rate as published in *The Wall Street Journal*, and the shares of common stock have a fair market value of \$10.00 per share for the full 30-year period. If, in the future, the shares of common stock have a fair market value greater or less than \$10.00, the compensation expense will increase or decrease accordingly. We also reserve the right to have the employee stock ownership plan purchase more than 4.0% of the shares of common stock sold in the offering if necessary to complete the offering at the minimum of the offering range.

**Stock-Based Incentive Plan.** We also intend to implement a new stock-based incentive plan no earlier than six months after completion of the conversion. Stockholder approval of this plan will be required. The stock-based incentive plan may reserve a number of shares up to 2.0% of the shares of common stock sold in the offering, or up to 4,255,000 shares of common stock at the maximum of the offering range for awards of restricted stock to key employees and directors, at no cost to the recipients, subject to adjustment as may be required by Office of Thrift Supervision regulations or policy to reflect restricted stock awards previously made by CFF. If the shares of common stock awarded under the stock-based incentive plan come from authorized but unissued shares of common stock, stockholders would experience dilution of up to approximately 1.39% in their ownership interest in Capitol Federal Financial, Inc. The stock-based incentive plan may also reserve a number of shares equal to up to 5.0% of the shares of common stock sold in the offering, or up to 10,637,500 shares of common stock at the maximum of the offering range, for issuance pursuant to grants of stock options to key employees and directors, subject to adjustment as may be required by Office of Thrift Supervision regulations or policy to reflect stock options previously granted by CFF. If the shares of common stock issued upon the exercise of options come from authorized but unissued shares of common stock, stockholders would experience dilution of up to 3.41% in their ownership interest in Capitol Federal Financial, Inc. Restricted stock awards and stock option grants made pursuant to a plan implemented within twelve months following the completion of the conversion and the offering would be subject to Office of Thrift Supervision regulations, including a requirement that stock awards and stock options vest over a period of not less than five years. If the stock-based incentive plan is adopted more than one year after the completion of the conversion, awards of restricted stock or grants of stock options under the plan would not be subject to regulatory vesting requirements. For a description of our current stock-based incentive plans, see “Management - Compensation Discussion and Analysis” and “Note 10 of the Notes to Consolidated Financial Statements.”

The following table summarizes the number of shares of common stock and the aggregate dollar value of grants that are expected under the new stock-based incentive plan as a result of the conversion. The table also shows the dilution to stockholders if all such shares are issued from authorized but unissued shares, instead of shares purchased in the open market. A portion of the stock grants shown in the table below may be made to non-management employees.

	Number of Shares to be Granted or Purchased(1)		As a Percentage of Common Stock to be Sold in the Offering (Dollars in thousands)	Dilution Resulting From Issuance of Shares for Stock- Based Incentive Plans(3)	Value of Grants(2)	
	At Minimum of Offering Range	At Maximum of Offering Range			At Minimum of Offering Range	At Maximum of Offering Range
Employee stock ownership plan	6,290,000	8,510,000	4.00 %	0.00 %	\$ 62,900	\$ 85,100
Restricted stock awards	3,145,000	4,255,000	2.00	1.39	31,450	42,550
Stock options	7,862,500	10,637,500	5.00	3.41	26,968	36,487
Total	17,297,500	23,402,500	11.00 %	4.80 %	\$ 121,318	\$ 164,137

- (1) The table assumes that the stock-based incentive plan awards a number of options and restricted stock equal to 5.0% and 2.0% of the shares of common stock sold in the offering, respectively.
- (2) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value for stock awards is assumed to be the same as the offering price of \$10.00 per share. The fair value of stock options has been estimated at \$3.43 per option using the Black-Scholes option pricing model with the following assumptions: a grant-date share price and option exercise price of \$10.00; an expected option life of 10 years; a dividend yield of 3.0%; an interest rate of 3.85%; and a volatility rate of 36.45%. The actual value of option grants will be determined by the grant-date fair value of the options, which will depend on a number of factors, including the valuation assumptions used in the option pricing model ultimately adopted.
- (3) Represents the dilution of stock ownership interest. No dilution is reflected for the employee stock ownership plan because these shares are assumed to be purchased in the offering.

We may fund our plans through open market purchases, as opposed to new issuances of common stock; however, if any options previously granted under our existing equity incentive plan are exercised during the first year following completion of the offering, they will be funded with newly issued shares since Office of Thrift Supervision regulations do not permit us to repurchase our shares during the first year following the completion of this offering except to fund the grants of restricted stock under the stock-based incentive plan or, with prior regulatory approval, under extraordinary circumstances. The Office of Thrift Supervision has previously advised that the exercise of outstanding options and cancellation of treasury shares in the conversion will not constitute an extraordinary circumstance or a compelling business purpose for satisfying this test.

The following table presents information as of December 31, 2009 regarding our existing employee stock ownership plan, our existing equity incentive plan, our proposed employee stock ownership plan purchases and our proposed stock-based incentive plan. The table below assumes that shares are outstanding after the offering, which includes the sale of 212,750,000 shares in the offering at the maximum of the offering range, and the issuance of shares in exchange for shares of CFF using an exchange ratio of 4.0762. It also assumes that the value of the stock is \$10.00 per share.





Existing and New Stock-Based Incentive Plans	Participants	Shares	Estimated Value of Shares	Percentage of Shares Outstanding After the Conversion
Existing employee stock ownership plan(1)	Employees	10,351,424	\$ 103,514,243	3.43%
New employee stock ownership plan	Employees	8,510,000	85,100,000	2.82
Total employee stock ownership plan	Employees	18,861,424	188,614,243	6.25
Existing shares of restricted stock(2)	Directors, Officers and Employees	666,406	6,664,057	0.22
New shares of restricted stock	Directors, Officers and Employees	4,255,000	42,550,000(3)	1.41
Total shares of restricted stock	Directors, Officers and Employees	4,921,406	49,214,057	1.63
Existing stock options(4)	Directors, Officers and Employees	5,274,256	18,090,699	1.75
New stock options	Directors, Officers and Employees	10,637,500	36,486,625(5)	3.53
Total stock options	Directors, Officers and Employees	15,911,756	54,577,324	5.27
Total of stock-based incentive plans		39,694,586	\$ 292,405,624	13.155%

(1) As of December 31, 2009, CFF's existing employee stock ownership plan held 2,539,479 shares, 1,732,923 shares of which have been allocated.

(2) Represents shares of restricted stock authorized for grant under our existing equity incentive plan.

(3) The actual value of restricted stock awards will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of \$10.00 per share.

(4) Represents shares authorized for grant under our existing equity incentive plan.

(5) The fair value of stock options to be granted under the new stock-based incentive plan has been estimated based on an index of publicly traded thrift institutions at \$3.43 per option using the Black-Scholes option pricing model with the following assumptions; exercise price, \$10.00; trading price on date of grant, \$10.00; dividend yield, 3.0%; expected life, 10 years; expected volatility, 36.45%; and interest rate, 3.85%.

The value of the restricted shares awarded under the stock-based incentive plan will be based on the market value of our common stock at the time the shares are awarded. The stock-based incentive plan is subject to stockholder approval, and cannot be implemented until at least six months after completion of the offering. The following table presents the total value of all restricted stock that would be available for award and issuance under the new stock-based incentive plan, assuming the market price of our common stock ranges from \$8.00 per share to \$14.00 per share.

		Value of Grants		
3,145,000 Shares				
Awarded at		3,700,000 Shares	4,255,000 Shares	
Minimum of		Awarded at Midpoint of	Awarded at Maximum of	
Share				
Price	Range	Range		Range
\$8.00	\$25,160,000	\$	29,600,000	\$ 34,040,000
10.00	31,450,000		37,000,000	42,550,000
12.00	37,740,000		44,400,000	51,060,000
14.00	44,030,000		51,800,000	59,570,000

The grant-date fair value of the options granted under the new stock-based incentive plan will be based in part on the price of shares of common stock of Capitol Federal Financial, Inc. at the time the options are granted. The value will also depend on the various assumptions used in the option pricing model ultimately adopted. The following table presents the total estimated value of the options to be available for grant under the stock-based incentive plan, assuming the market price and exercise price for the stock options are equal and the range of market prices for the shares is \$8.00 per share to \$14.00 per share.

Exercise Price	Option Value	Value of Grants		
		Options at Minimum or Range	Options at Midpoint of Range	Options at Maximum of Range
\$ 8.00	\$ 2.74	7,862,500	9,250,000	10,637,500
10.00	3.43	21,543,250	25,345,000	29,146,750
12.00	4.12	26,968,375	31,727,500	36,486,625
14.00	4.80	32,393,500	37,110,000	43,826,500
		37,740,000	44,400,000	51,060,000

The tables presented above are provided for informational purposes only. Our shares of common stock may trade below \$10.00 per share. Before you make an investment decision, we urge you to read this entire prospectus carefully, including, but not limited to, the section entitled “Risk Factors” beginning on page [ ].

#### Limits on How Much Common Stock You May Purchase

The minimum number of shares of common stock that may be purchased in the offering is 25.

The maximum number of shares of common stock that may be purchased by a person or persons exercising subscription rights through a single qualifying deposit account held jointly is 7,500,000 shares. If any of the following persons purchase shares of common stock, their purchases, in all categories of the offering combined, when aggregated with your purchases, cannot exceed 7,500,000 shares (\$75.0 million) of common stock:

your spouse or relatives of you or your spouse living in your house;

companies, trusts or other entities in which you are a trustee, have a controlling beneficial interest or hold a senior position; or

other persons who may be your associates or persons acting in concert with you.

In addition to the above purchase limitations, there is an ownership limitation for stockholders other than our employee stock ownership plan. Shares of common stock that you purchase in the offering individually and together with persons described above, plus any shares you and they receive in exchange for existing shares of CFF common stock, may not exceed 5% of the total shares of common stock to be issued and outstanding after the completion of the conversion and offering.

Subject to Office of Thrift Supervision approval, we may increase or decrease the purchase and ownership limitations at any time. In the event that the maximum purchase limitation is increased to 5% of the shares sold in the offering, this limitation may be further increased to 9.99%, provided that orders for Capitol Federal Financial, Inc. common stock exceeding 5% of the shares sold in the offering shall not exceed in the aggregate 10% of the total shares sold in the offering.

See the detailed description of purchase limitations and definitions of acting in concert and associate in “The Conversion and Offering — Additional Limitations on Common Stock Purchases.”

#### Steps We May Take if We Do Not Receive Orders for the Minimum Number of Shares

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If we do not receive orders for at least 157,250,000 shares of common stock in the subscription, community and/or syndicated community offering, we may take several steps in order to issue the minimum number of shares of common stock in the offering range. Specifically, we may:

increase the purchase and ownership limitations; and/or

seek regulatory approval to extend the offering beyond [     ], 2010, provided that any such extension will require us to resolicit subscriptions received in the subscription and community offerings.

Alternatively, we may terminate the offering, return funds with interest and cancel deposit account withdrawal authorizations.

#### Conditions to Completion of the Conversion

The Office of Thrift Supervision has conditionally approved the plan of conversion and reorganization; however, this approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

We cannot complete the conversion unless:

The plan of conversion and reorganization is approved by at least a majority of votes eligible to be cast by members of Capitol Federal Savings Bank MHC (depositors of Capitol Federal Savings Bank as of [ ], 2010 and borrowers of Capitol Federal Savings Bank as of January 6, 1993 and the voting record date);

The plan of conversion and reorganization is approved by a vote of at least two-thirds of the outstanding shares of common stock of CFF as of [ ], 2010, including shares held by Capitol Federal Savings Bank MHC. (Because Capitol Federal Savings Bank MHC owns 70% of the outstanding shares of CFF common stock, we expect that Capitol Federal Savings Bank MHC and our directors and executive officers effectively will control the outcome of this vote);

The plan of conversion and reorganization is approved by a vote of at least a majority of the outstanding shares of common stock of CFF as of [ ], 2010, excluding those shares held by Capitol Federal Savings Bank MHC;

We sell at least the minimum number of shares of common stock offered; and

We receive the final approval of the Office of Thrift Supervision to complete the conversion; however, this approval does not constitute a recommendation or endorsement of the plan of conversion and reorganization by that agency.

Subject to member, stockholder and regulatory approvals, we also intend to contribute cash to our existing charitable foundation, the Capitol Federal Foundation, in connection with the conversion. However, member and stockholder approval of the funding of the charitable foundation is not a condition to the completion of the conversion and offering.

Capitol Federal Savings Bank MHC intends to vote its ownership interest in favor of the plan of conversion and reorganization and of funding the charitable foundation. At December 31, 2009, Capitol Federal Savings Bank MHC owned 70% of the outstanding shares of common stock of CFF. The directors and executive officers of CFF and their affiliates owned 1,898,104 shares of CFF, or 2.5% of the outstanding shares of common stock as of December 31, 2009. They have indicated their intention to vote those shares in favor of the plan of conversion and reorganization and the funding of the charitable foundation.

#### Market for the Common Stock

Shares of CFF common stock currently trade on the Nasdaq Global Select Market under the symbol CFFN. Upon completion of the conversion, the shares of common stock of Capitol Federal Financial, Inc. will replace CFF's existing shares. We expect that Capitol Federal Financial, Inc.'s shares of common stock will trade on the Nasdaq Global Select Market under the trading symbol CFFND for a period of 20 trading days following the completion of the offering. Thereafter, the trading symbol will revert to CFFN. In order to list our common stock on the Nasdaq

Global Select Market, we are required to have at least three broker-dealers who will make a market in our common stock. CFF currently has 21 registered market makers. Persons purchasing shares of common stock in the offering may not be able to sell their shares at or above the \$10.00 price per share.

### Our Contribution of Cash to the Capitol Federal Foundation

To further our commitment to the communities we serve and may serve in the future, subject to our members' and stockholders' approval, we intend to contribute funds to the Capitol Federal Foundation as part of the conversion. Capitol Federal Financial, Inc. intends to contribute to the charitable foundation \$40.0 million in cash. As a result of the cash contribution, we expect to record an after-tax expense of approximately \$24.7 million during the quarter in which the conversion is completed.

Under the Internal Revenue Code, a corporate entity is generally permitted to deduct up to 10% of its taxable income (taxable income before the charitable contributions deduction) in any one year for charitable contributions. Any contribution in excess of the 10% limit may generally be deducted for federal income tax purposes over the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by a corporate entity to a charitable foundation could, if necessary, be deducted for federal income tax purposes over a six-year period. Our overall charitable contribution deduction could be limited if our future taxable income is insufficient to allow for the full deduction within the 10% of taxable income limitation, which would result in an increase to income tax expense.

The Capitol Federal Foundation is governed by a board of trustees, which currently consists of John C. Dicus, the former Chairman of the Board of Capitol Federal Savings Bank and CFF, John B. Dicus, the Chairman, President and Chief Executive Officer of Capitol Federal Savings Bank and CFF, and Rick C. Jackson, Executive Vice President and Chief Lending Officer of Capitol Federal Savings Bank and two individuals who are not affiliated with us. None of these individuals will receive compensation for their service as a trustee of the charitable foundation. In addition, some of our employees will serve as executive officers of the charitable foundation. None of these individuals will receive compensation for their service as an executive officer of the charitable foundation.

The Capitol Federal Foundation will continue to support charitable causes and community development activities in the communities in which we operate or may operate. During the three months ended December 31, 2009 and the years ended September 30, 2009 and 2008, the Capitol Federal Foundation made charitable contributions of \$1.6 million, \$3.8 million and \$3.7 million, respectively. The charitable foundation emphasizes grants and donations to four areas of focus: housing initiatives; education; United Way; and traditional community projects.

The contribution of cash to the charitable foundation has been approved by the board of directors of Capitol Federal Savings Bank MHC, and must be approved by the members of Capitol Federal Savings Bank MHC and the stockholders of CFF at their special meetings being held to consider and vote upon the plan of conversion and reorganization. If members or stockholders do not approve the contribution to the charitable foundation, we will proceed with the conversion without contributing to the foundation and subscribers for common stock will not be resolicited (unless required by the Office of Thrift Supervision). Without the contribution to the charitable foundation, RP Financial, LC. estimates that our pro forma valuation would be greater and, as a result, a greater number of shares of common stock would be issued in the offering.

RP Financial, LC. will update its appraisal of our estimated pro forma market value at the conclusion of the offering. The pro forma market value reflected in that updated appraisal will be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions, as well as whether we will make the proposed contribution to the charitable foundation.

See "Risk Factors — The contribution to the charitable foundation will adversely affect net income," "Risk Factors — Our contribution to the charitable foundation may not be tax deductible, which could reduce our profits," "Comparison of Valuation and Pro Forma Data With and Without the Charitable Foundation" and "Capitol Federal Foundation."





## Tax Consequences

As a general matter, the conversion will not be a taxable transaction for federal or state income tax purposes to Capitol Federal Savings Bank MHC, CFF, Capitol Federal Savings Bank, Capitol Federal Financial, Inc., persons eligible to subscribe in the subscription offering or existing stockholders of CFF. The position stated above with respect to no tax consequences arising from the issuance or receipt of subscription rights is based upon a reasoned opinion by counsel that subscription rights do not have any ascertainable value at the time of receipt and is supported by the opinion of RP Financial LC. to the effect that the subscription rights have no value at the time of receipt or exercise. See “The Conversion and Offering – Material Income Tax Consequences.” Existing stockholders of CFF who receive cash in lieu of fractional share interests in shares of Capitol Federal Financial, Inc. common stock will recognize a gain or loss equal to the difference between the cash received and the tax basis of the fractional share.

## Persons Who May Order Shares of Common Stock in the Offering

Subscription rights to purchase shares of common stock in the subscription offering have been granted in the following descending order of priority:

- (i) First, to depositors with accounts at Capitol Federal Savings Bank with aggregate balances of at least \$50.00 at the close of business on March 31, 2009.
- (ii) Second, to our tax-qualified employee benefit plans, including our employee stock ownership plan, which will receive nontransferable subscription rights to purchase in the aggregate up to 10% of the shares of common stock sold in the offering. We expect our employee stock ownership plan to purchase up to 4.0% of the shares of common stock sold in the offering.
- (iii) Third, to depositors with accounts at Capitol Federal Savings Bank with aggregate balances of at least \$50.00 at the close of business on [     ], 2010.
- (iv) Fourth, to depositors of Capitol Federal Savings Bank at the close of business on [     ], 2010 and borrowers of Capitol Federal Savings Bank as of January 6, 1993 and [     ], 2010.

Shares of common stock not purchased in the subscription offering will be offered for sale to the general public in a community offering, with a preference given first to natural persons residing in the counties and metropolitan statistical areas in which we have offices; and then to CFF public stockholders as of [     ], 2010. The community offering will begin concurrently with the subscription offering.

If we receive orders for more shares than we are offering, we may not be able to fully or partially fill your order. Shares will be allocated first to categories in the subscription offering in accordance with the plan of conversion and reorganization. A detailed description of share allocation procedures can be found in the section of this prospectus entitled “The Conversion and Offering.”

In addition, any shares of our common stock not purchased in the subscription offering or community offering are expected to be offered for sale to the general public in a syndicated community offering through a syndicate of selected dealers. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Sandler O’Neill & Partners, L.P. will act as sole book-running manager and Keefe, Bruyette & Woods, Inc. is acting as co-manager for the syndicated community offering, which is also being conducted on a best efforts basis. The syndicated community offering will terminate no later than 45 days after the expiration of the subscription offering, unless extended by us with approval of the Office of Thrift Supervision. Neither Sandler O’Neill & Partners, L.P., Keefe, Bruyette & Woods, Inc. nor any other member of the syndicate is required to purchase any

shares in the syndicated community offering. Alternatively, we may sell any remaining shares in an underwritten public offering, which would be conducted on a firm commitment basis. See “The Conversion and Offering — Syndicated Community Offering.”

#### How You May Purchase Shares of Common Stock

In the subscription and community offerings, you may pay for your shares only by:

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- (i) personal check, bank check or money order made payable directly to Capitol Federal Financial, Inc.; or
- (ii) authorizing us to withdraw funds from the Capitol Federal Savings Bank deposit accounts designated on the stock order form.

Capitol Federal Savings Bank is not permitted to lend funds to anyone for the purpose of purchasing shares of common stock in the offering. Additionally, you may not use a Capitol Federal Savings Bank line of credit check or any type of third party check or wire transfer to pay for shares of common stock. Please do not submit cash.

You may purchase shares of common stock in the offering by delivering a signed and completed original stock order form, together with full payment payable to Capitol Federal Financial, Inc. or authorization to withdraw funds from one or more of your Capitol Federal Savings Bank deposit accounts, provided that we receive the stock order form before 4:00 p.m., Central Time, on [ ], 2010, which is the end of the subscription and community offering period. Checks and money orders will be immediately deposited in a segregated account with Capitol Federal Savings Bank or another insured depository institution upon receipt. We will pay interest calculated at Capitol Federal Savings Bank's statement savings rate from the date funds are processed until completion of the conversion, at which time a subscriber will be issued a check for interest earned. On your stock order form, you may not authorize direct withdrawal from a Capitol Federal Savings Bank retirement account. If you wish to use funds in an individual or other retirement account to purchase shares of our common stock, please see "— Using Retirement Account Funds to Purchase Shares" below. You also may not designate on your stock order form a withdrawal from Capitol Federal Savings Bank accounts with check-writing privileges. Please provide a check instead.

Withdrawals from certificates of deposit to purchase shares of common stock in the offering may be made without incurring an early withdrawal penalty. If a withdrawal results in a certificate of deposit account with a balance less than the applicable minimum balance requirement, the certificate of deposit will be canceled at the time of withdrawal without penalty and the remaining balance will earn interest at the current statement savings rate subsequent to the withdrawal. All funds authorized for withdrawal from deposit accounts at Capitol Federal Savings Bank must be available in the accounts at the time the stock order is received. A hold will be placed on those funds when your stock order is received, making the designated funds unavailable to you during the offering period. Funds will not be withdrawn from an account until the completion of the conversion and offering and will earn interest within the account at the applicable deposit account rate until that time.

We are not required to accept copies or facsimiles of stock order forms. By signing the stock order form, you are acknowledging both the receipt of this prospectus and that the shares of common stock are not federally insured deposits or savings accounts or otherwise guaranteed by Capitol Federal Savings Bank, Capitol Federal Financial, Inc. or the federal or any state governments.

#### Submitting Your Order in the Subscription and Community Offerings

You may submit your stock order form by mail using the stock order reply envelope provided, by overnight courier to the indicated address on the stock order form, or by hand delivery to our Stock Information Center, which is located at [ ], Topeka, Kansas [ ]. Stock order forms may not be delivered to Capitol Federal Savings Bank offices. Once submitted, your order is irrevocable unless the offering is terminated or extended beyond [ ], 2010, or the number of shares of common stock to be sold is increased to more than 212,750,000 shares or decreased to fewer than 157,250,000 shares.

#### Deadline for Orders of Common Stock in the Subscription or Community Offerings

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If you wish to purchase shares of common stock, a properly completed and signed original stock order form, together with full payment for the shares of common stock, must be received (not postmarked) by the Stock Information Center no later than 4:00 p.m., Central Time, on [ ], 2010.

Once submitted, your order is irrevocable unless the offering is terminated or extended or the number of shares to be issued increases to more than 212,750,000 or decreases to less than 157,250,000. We may extend the [ ], 2010 expiration date, without notice to you, until [ ], 2010. If the offering is extended beyond [ ], 2010 or if the offering range is increased or decreased, we will be required to resolicit purchasers before proceeding with the offering. In either of these cases, purchasers will have the right to maintain, change or cancel their orders. If, in the event of resolicitation, we do not receive a written response from a purchaser regarding any resolicitation, the purchaser's order will be canceled and all funds received will be returned promptly with interest, and deposit account withdrawal authorizations will be canceled. No extension may last longer than 90 days. All extensions, in the aggregate, may not last beyond [ ], 2012.

Although we will make reasonable attempts to provide this prospectus and offering materials to holders of subscription rights, the subscription offering and all subscription rights will expire at 4:00 p.m., Central Time, on [ ], 2010, whether or not we have been able to locate each person entitled to subscription rights.

#### Using Retirement Account Funds to Purchase Shares

Persons interested in purchasing common stock using funds currently in an individual retirement account (IRA) or any other retirement account, whether held through Capitol Federal Savings Bank or elsewhere, should contact our Stock Information Center for guidance. Please contact the Stock Information Center as soon as possible, preferably at least two weeks prior to the [ ], 2010 offering deadline, because processing such transactions takes additional time, and whether such funds can be used may depend on limitations imposed by the institution where the funds are currently held. Additionally, if such funds are not currently held in a self-directed retirement account, then before placing your stock order, you will need to establish an account with an independent trustee or custodian, such as a brokerage firm. The new trustee or custodian will hold the shares of common stock in a self-directed account in the same manner as we now hold retirement account funds. An annual administrative fee may be payable to the new trustee or custodian. Assistance on how to transfer such retirement accounts can be obtained from the Stock Information Center.

If you wish to use some or all of your funds that are currently held in a Capitol Federal Savings Bank IRA or other retirement account, you may not designate on the stock order form that you wish funds to be withdrawn from the account(s) for the purchase of common stock. Before you place your stock order, the funds you wish to use must be transferred from those accounts to a self-directed retirement account at an independent trustee or custodian, as described above.

#### Delivery of Stock Certificates

Information regarding shares of common stock sold in the subscription and community offerings will be mailed by regular mail to the persons entitled thereto at the certificate registration address noted on the stock order form, as soon as practicable following completion of the conversion and offering. It is possible that, until this information is delivered, purchasers may not be able to sell the shares of common stock that they ordered, even though the common stock will have begun trading. All shares of Capitol Federal Financial, Inc. common stock being sold will be in book entry form and paper stock certificates will not be issued. If you are currently a stockholder of CFF, see "The Conversion and Offering — Exchange of Existing Stockholders' Stock Certificates."

#### You May Not Sell or Transfer Your Subscription Rights

Office of Thrift Supervision regulations prohibit you from transferring your subscription rights. If you order shares of common stock in the subscription offering, you will be required to state that you are purchasing the common stock for yourself and that you have no agreement or understanding to sell or transfer your subscription rights. We intend to take legal action, including reporting persons to federal agencies, against anyone who we believe has sold or

transferred his or her subscription rights. We will not accept your order if we have reason to believe that you have sold or transferred your subscription rights. When registering your stock purchase on the stock order form, you must register the stock in the same name as appearing on the account. You should not add the name(s) of persons who do not have subscription rights or who qualify only in a lower purchase priority than you do. Doing so may jeopardize your subscription rights. In addition, the stock order form requires that you list all deposit accounts, giving all names on each account and the account number at the applicable eligibility date.

Failure to provide this information, or providing incomplete or incorrect information, may result in a loss of part or all of your share allocation, in the event of an oversubscription.

#### How You Can Obtain Additional Information — Stock Information Center

Our banking office personnel may not, by law, assist with investment-related questions about the offering. If you have any questions regarding the conversion or offering, please call or visit our Stock Information Center, located at [ ], Topeka, Kansas [ ]. The Stock Information Center is open Monday through Friday between 10:00 a.m. and 4:00 p.m., Central Time. The Stock Information Center will be closed weekends and bank holidays. The Stock Information Center's toll-free telephone number is 1-800-[ ]-[ ].



## RISK FACTORS

You should consider carefully the following risk factors in evaluating an investment in the shares of common stock. An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this prospectus. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

### Risks Related to Our Business

The United States economy remains weak and unemployment levels are high. A prolonged economic downturn, especially one affecting our geographic market area, will adversely affect our business and financial results.

We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past two years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks and regional financial institutions such as Capitol Federal Savings Bank. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry, and could result in a material decrease in our interest income and/or a material increase in our loan losses.

The geographic concentration of our loan portfolio and lending activities makes us vulnerable to a downturn in the local economy.

We are currently one of the largest mortgage loan originators in the state of Kansas. 72.1% of our loan portfolio is comprised of loans secured by property located in Kansas, and 14.6% is comprised of loans secured by property located in Missouri. This makes us vulnerable to a downturn in the local economy and real estate markets. Adverse conditions in the local economy such as inflation, unemployment, recession or other factors beyond our control could impact the ability of our borrowers to repay their loans, which could impact our net interest income. Decreases in local real estate values could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure. Currently there is not a single employer or industry in the area on which the majority of our customers are dependent.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our borrowers may not repay their loans according to the terms of the loans, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. We make various assumptions and judgments about the collectibility of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors. If our assumptions prove to be incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities could have a material adverse effect on our results of operations and financial condition. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Allowance for loan losses” and “Business – Asset Quality – Loans and REO.

We intend to increase our purchases of one- to four-family loans following completion of the offering. We may not be able to purchase enough loans meeting our underwriting criteria to effectively leverage our capital. In addition, we will need to maintain a higher allowance for loan losses on purchased loans than for one- to four-family loans we originate.

In order to utilize a portion of the proceeds raised in the conversion, Capitol Federal Savings Bank intends to increase the amount of one- to four-family loans purchased compared to its historical levels. There is no guarantee that additional volumes of one- to four-family loans meeting Capitol Federal Savings Bank's underwriting criteria will be available for purchase at acceptable prices. If they are not available, these funds will be placed in MBS and other investment securities, which may generate a lower yield.

In addition, a portion of the one- to four-family loans purchased by Capitol Federal Savings Bank in past years have not performed as well as loans originated by Capitol Federal Savings Bank. As a result, our policies currently require that we maintain a higher allowance for loan losses on loans we purchase as compared to the allowance maintained on those we originate. Assuming we are able to generate an increased volume of purchased loans, this is expected to result in an increase in the allowance for loan losses, through a provision for loan losses, which will have an adverse effect on net income.

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

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

The impact of changes in interest rates on assets is generally observed on the balance sheet and income statement in later periods than the impact of changes on liabilities due to the duration of assets versus liabilities, and also to the time lag between our commitment to originate or purchase a loan and the time we fund the loan, during which time interest rates may change. Interest-bearing liabilities tend to reflect changes in interest rates closer to the time of market rate changes, so the difference in timing may have an adverse effect on our net interest income.

Changes in interest rates can also have an adverse effect on our financial condition, as our available for sale securities are reported at their estimated fair value, and therefore are impacted by fluctuations in interest rates. We increase or decrease our stockholders' equity by the amount of change in the estimated fair value of the available for sale securities, net of deferred taxes.

Changes in interest rates, as they relate to customers, can also have an adverse impact on our financial condition and results of operations. In times of rising interest rates, default risk may increase among customers with adjustable rate loans. Rising interest rate environments also entice customers with adjustable rate loans to refinance into fixed-rate loans, further exposing Capitol Federal Savings Bank to interest rate risk. If the loan is refinanced externally, we could be unable to reinvest cash received from the resulting prepayments at rates comparable to existing loans, which subjects us to reinvestment risk. In decreasing interest rate environments, payments received will likely be invested at the prevailing (decreased) market rate. An influx of prepayments can result in an excess of liquidity, which could impact our net interest income if profitable reinvestment opportunities are not immediately available. Prepayment rates are based on demographics, local economic factors and seasonality, with the main factors affecting prepayment rates being prevailing interest rates and competition. Fluctuations in interest rates also affect customer demand for deposit products. Local competition for deposit dollars could affect our ability to attract deposits, or could result in us

paying more for deposits.

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For additional information about interest rate risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market Risk.”

Our strategies to modify our interest rate risk profile may be difficult to implement.

Our asset management strategies are designed to decrease our interest rate risk sensitivity. One such strategy is increasing the amount of adjustable-rate and/or short-term assets. We offer adjustable rate loan products and work with correspondent lenders to purchase adjustable rate loans as a means to achieve this strategy. However, lower interest rates would generally create a decrease in borrower demand for adjustable-rate assets, and there is no guarantee that any adjustable-rate assets obtained will not prepay. Conventional mortgage loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated, which also subjects us to pricing risk in the secondary market. Additionally, we attempt to invest in shorter-term assets in the investment portfolio as a way to reduce our interest rate sensitivity.

We are also managing our liabilities to moderate our interest rate risk sensitivity. Customer demand has recently been primarily for short-term maturity certificates of deposit. Using short-term liabilities to fund long-term fixed-rate assets will generally increase the interest rate sensitivity of any financial institution. We are using our maturing FHLB advances and repurchase agreements to mitigate the impact of the customer demand for long-term fixed-rate mortgages in our local markets by lengthening the maturities of these advances and repurchase agreements, depending on the liquidity or investment opportunities at the time we undertake additional FHLB advances or repurchase agreements. In fiscal year 2009, we prepaid \$875.0 million of FHLB advances to decrease the interest rate and extend the maturities of the advances. FHLB advances and repurchase agreements will be entered into as liquidity is needed or to fund the purchase of assets that provide for spreads at levels acceptable to management.

If we are unable to originate or purchase adjustable-rate assets at favorable rates or fund loan originations or securities purchases with long-term funding, we may have difficulty executing this asset management strategy and/or it may result in a reduction in profitability.

We may have unanticipated credit risk in our investment and mortgage-backed securities portfolio.

At December 31, 2009, \$2.53 billion, or 30.2% of our assets, consisted of investment and mortgage-backed securities, most of which were issued by, or have principal and interest payments guaranteed by FNMA or FHLMC.

On September 7, 2008, the Federal Housing Finance Agency placed FNMA and FHLMC into federal conservatorship. Although the federal government has committed substantial capital to FNMA and FHLMC, there can be no assurance that these credit facilities and other capital infusions will be adequate for their needs. If the financial support is inadequate, or if additional support is not provided when needed, these companies could continue to suffer losses and could fail to honor their guarantees and other obligations. The U.S. Treasury Secretary has suggested that the guarantee payment structure of FNMA and FHLMC should be re-examined. The future roles of FNMA and FHLMC could be significantly reduced and the nature of their guarantees could be eliminated or considerably limited relative to historical measurements. Any changes to the nature of the guarantees provided by FNMA and FHLMC could have a significant adverse affect on the market value and cash flows of the investment and mortgage-backed securities we hold, resulting in substantial losses.

A legislative proposal has been introduced that would eliminate the Office of Thrift Supervision, Capitol Federal Savings Bank’s and CFF’s primary federal regulator, which would require CFF to become a bank holding company.

Legislation has been introduced in the United States Senate and passed in the House of Representatives that would implement sweeping changes to the current bank regulatory structure. The House Bill (H.R. 4173) would eliminate our current primary federal regulator, the Office of Thrift Supervision, by merging it into the Comptroller of the Currency (the primary federal regulator for national banks). The proposed legislation would authorize the Comptroller of the Currency to charter mutual and stock savings banks and mutual holding companies, which would be under the supervision of the Division of Thrift Supervision of the Comptroller of the Currency. The proposed legislation would also establish a Financial Services Oversight Council and grant the Board of Governors of the Federal Reserve System exclusive authority to regulate all bank and thrift holding companies. As a result, CFF would become a holding company subject to supervision by the Federal Reserve Board as opposed to the Office of Thrift Supervision, and would become subject to the Federal Reserve's regulations, including holding company capital requirements, that CFF is not currently subject to as a savings and loan holding company. In addition, compliance with new regulations and being supervised by one or more new regulatory agencies could increase our expenses.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

We are subject to extensive regulation, supervision and examination by the Office of Thrift Supervision and the Federal Deposit Insurance Corporation. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. Because our business is highly regulated, the laws and applicable regulations are subject to frequent change. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations.

In response to the financial crisis of 2008 and early 2009, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the Federal Deposit Insurance Corporation has taken actions to increase insurance coverage on deposit accounts. In addition, there have been proposals made by members of Congress and others that would reduce the amount delinquent borrowers are otherwise contractually obligated to pay under their mortgage loans and limit an institution's ability to foreclose on mortgage collateral.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices and liquidity standards. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Bank regulatory agencies, such as the Office of Thrift Supervision and the Federal Deposit Insurance Corporation, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations may increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge and our ongoing operations, costs and profitability.

Higher Federal Deposit Insurance Corporation insurance premiums and special assessments will adversely affect our earnings.

In 2009, the Federal Deposit Insurance Corporation levied a five basis point special assessment on each insured depository institution's assets minus Tier 1 capital as of June 30, 2009. We recorded an expense of \$3.8 million during the quarter ended June 30, 2009, to reflect the special assessment. In addition, the Federal Deposit Insurance Corporation generally increased the base assessment rates effective April 1, 2009 and, therefore, our Federal Deposit Insurance Corporation insurance premium expense has increased compared to prior periods.

The Federal Deposit Insurance Corporation also required all insured institutions to prepay their estimated assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012. This pre-payment was due on December 30, 2009. The assessment rate for the fourth quarter of 2009 and for 2010 was based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter, and the assessment rate for 2011 and 2012 was calculated as the modified third quarter assessment rate plus an additional three basis points. In addition, every institution's base assessment rate for each period was calculated using its third quarter assessment base, adjusted quarterly for an estimated 5% annual growth rate in the assessment base through the end of 2012. We recorded the pre-payment as a prepaid expense, which will be amortized to expense over three years based upon actual balances insured. Our prepayment amount for calendar years 2010, 2011 and 2012 was \$25.7 million. Future increases in our assessment rate or special assessments would decrease our earnings.





Strong competition may limit growth and profitability.

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

#### Risks Related to the Offering

We have broad discretion to deploy our net proceeds and our failure to effectively deploy the net proceeds may have an adverse impact on our financial performance and the value of our common stock.

Capitol Federal Financial, Inc. intends to contribute between \$757.3 million and \$1.03 billion of the net proceeds of the offering to Capitol Federal Savings Bank. Capitol Federal Financial, Inc. may use the remaining net proceeds to purchase investment securities, repurchase shares of common stock, pay dividends or for other general corporate purposes. Capitol Federal Financial, Inc. also expects to use a portion of the net proceeds it retains to fund a loan for the purchase of shares of common stock in the offering by the employee stock ownership plan, to fund the cash contribution to the charitable foundation and to repay outstanding trust preferred securities. Capitol Federal Savings Bank may use the net proceeds it receives to fund new loans, purchase investment securities, increase the volume of purchased loans, acquire financial institutions or financial services companies, build new branches or acquire branches, repay debt or for other general corporate purposes. With the exception of the loan to the employee stock ownership plan, the cash contribution to the charitable foundation and the repayment of outstanding trust preferred securities, we have not allocated specific amounts of the net proceeds for any of these purposes, and we will have significant flexibility in determining the amount of the net proceeds we apply to different uses and the timing of such applications. We have not established a timetable for reinvesting the net proceeds, and we cannot predict how long reinvesting the net proceeds will require.

The future price of the shares of common stock may be less than the \$10.00 purchase price per share in the offering.

If you purchase shares of common stock in the offering, you may not be able to sell them later at or above the \$10.00 purchase price in the offering. In several cases, shares of common stock issued by newly converted savings institutions or mutual holding companies have traded below the initial offering price. The aggregate purchase price of the shares of common stock sold in the offering will be based on an independent appraisal. The independent appraisal is not intended, and should not be construed, as a recommendation of any kind as to the advisability of purchasing shares of common stock. The independent appraisal is based on certain estimates, assumptions and projections, all of which are subject to change from time to time. After our shares begin trading, the trading price of our common stock will be determined by the marketplace, and may be influenced by many factors, including prevailing interest rates, the overall performance of the economy, investor perceptions of Capitol Federal Financial, Inc. and the outlook for the financial services industry in general. Price fluctuations may be unrelated to the operating performance of particular companies.

You may not revoke your decision to purchase Capitol Federal Financial, Inc. common stock in the subscription or community offering after you send us your subscription.

Funds submitted or automatic withdrawals authorized in the connection with a purchase of shares of common stock in the subscription and community offerings will be held by us until the completion or termination of the conversion and offering, including any extension of the expiration date. Because completion of the conversion and offering will be subject to regulatory approvals and an update of the independent appraisal prepared by RP Financial, LC., among other factors, there may be one or more delays in the completion of the conversion and offering. Orders submitted in the subscription and community offerings are irrevocable, and subscribers will have no access to subscription funds unless the offering is terminated, or extended beyond [ ], 2010, or the number of shares to be sold in the offering is increased to more than 212,750,000 shares or decreased to less than 157,250,000 shares.

Our return on equity initially will be low compared to our historical performance. A lower return on equity may negatively impact the trading price of our common stock.

Net income divided by average stockholders' equity, known as return on average equity is a ratio many investors use to compare the performance of a financial institution to its peers. Our return on average equity ratio, annualized, for the quarter ended December 31, 2009 was 8.82% compared to an average return on equity of (1.01)% based on trailing twelve-month earnings for all publicly traded fully converted savings institutions as of December 31, 2009. Although we expect that our net income will increase following the offering, our return on average equity may decrease as a result of the additional capital that we will raise in the offering. For example, our pro forma return on equity for the quarter ended December 31, 2009 is 3.6%, assuming the sale of shares at the maximum of the offering range. Over time, we intend to use the net proceeds from the offering to increase earnings per share and book value per share, without assuming undue risk, with the goal of achieving a return on equity that is comparable to our historical performance. This goal may take a number of years to achieve, and we cannot assure you that we will be able to achieve it. Consequently, you should not expect a return on equity similar to our current return on equity in the near future. Failure to achieve a competitive return on equity may make an investment in our common stock unattractive to some investors and may cause our common stock to trade at lower prices than comparable companies with higher returns on equity. See "Pro Forma Data" for an illustration of the financial impact of the offering.

The ownership interest of management and employees could enable insiders to make more difficult a merger that may provide stockholders a premium for their shares.

The shares of common stock that our directors and officers intend to purchase in the offering, when combined with the shares that they will receive in exchange for their existing shares of CFF common stock, are expected to result in management and the board controlling approximately 2.63% of our outstanding shares of common stock at the midpoint of the offering range. In addition, our employee stock ownership plan is expected to purchase 4.0% of the shares of common stock sold in the stock offering and receive 2.3% in exchange for shares currently owned by the employee stock ownership plan. Additional stock options and shares of common stock also would be granted to our directors and employees if a stock-based incentive plan is adopted in the future. This would result in management and employees controlling a significant percentage of our shares of common stock. If these individuals were to act together, they could have influence over the outcome of any stockholder vote. This voting power may discourage a potential sale of Capitol Federal Financial, Inc. that our stockholders may desire.

The implementation of the stock-based incentive plan may dilute your ownership interest.

We intend to adopt a new stock-based incentive plan following the offering, subject to receipt of stockholder approval. This stock-based incentive plan may be funded either through open market purchases or from the issuance of authorized but unissued shares of common stock of Capitol Federal Financial, Inc. While our intention is to fund this plan through open market purchases, stockholders would experience a 4.80% reduction in ownership interest at the maximum of the offering range in the event newly issued shares of our common stock are used to fund stock options and shares of restricted common stock under the plan in an amount equal to 5.0% and 2.0%, respectively, of the shares sold in the offering.

Although the implementation of the stock-based benefit plan will be subject to stockholder approval, historically, the overwhelming majority of stock-based benefit plans adopted by savings institutions and their holding companies following mutual-to-stock conversions have been approved by stockholders.

Additional expenses following the conversion from the compensation and benefit expenses associated with the implementation of the new stock-based incentive benefit plan will adversely affect our profitability.

We intend to adopt a new stock-based incentive plan after the offering, subject to stockholder approval, pursuant to which plan participants would be awarded restricted shares of our common stock (at no cost to them) and options to purchase shares of our common stock.

Following the offering, our non-interest expenses are likely to increase as we will recognize additional annual employee compensation and benefit expenses related to the shares granted to employees and executives under our stock-based incentive plan. We cannot predict the actual amount of these new stock-related compensation and benefit expenses because applicable accounting practices require that expenses be based on the fair market value of the shares of common stock at specific points in the future; however, we expect them to be material. In addition, we will recognize expense for our employee stock ownership plan when shares are committed to be released to participants' accounts (i.e., as the loan used to acquire these shares is repaid), and we will recognize expense for restricted stock awards and stock options over the vesting period of awards made to recipients. The expense in the first year following the offering has been estimated to be approximately \$15.8 million (\$11.8 million after tax), assuming all restricted shares are awarded and all options are granted under the plan, at the maximum of the offering range as set forth in the pro forma financial information under "Pro Forma Data," assuming the \$10.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock. For further discussion of our proposed stock-based plans, see "Management — Compensation Discussion and Analysis" and "Note 10 of the Notes to Consolidated Financial Statements."

The contribution to the charitable foundation will adversely affect net income.

Subject to member and stockholder approval, we intend to provide additional funds to the Capitol Federal Foundation in connection with the conversion. We will make a contribution to the charitable foundation in the form of \$40.0 million in cash. The contribution will have an adverse effect on our net income for the quarter and year in which we make the contribution to the charitable foundation. The after-tax expense of the contribution will reduce net income by approximately \$24.7 million. We had net income of \$21.0 million for the three months ended December 31, 2009 and \$66.3 million for the year ended September 30, 2009, respectively.

Various factors may make takeover attempts more difficult to achieve.

Our Board of Directors has no current intention to sell control of Capitol Federal Financial, Inc. Provisions of our articles of incorporation and bylaws, federal regulations, Maryland law and various other factors may make it more difficult for companies or persons to acquire control of Capitol Federal Financial, Inc. without the consent of our Board of Directors. You may want a takeover attempt to succeed because, for example, a potential acquiror could offer a premium over the then prevailing price of our common stock. The factors that may discourage takeover attempts or make them more difficult include:

Office of Thrift Supervision Regulations. Office of Thrift Supervision regulations prohibit, for three years following the completion of a conversion, the direct or indirect acquisition of more than 10% of any class of equity security of a savings institution or holding company regulated by the Office of Thrift Supervision without the prior approval of the Office of Thrift Supervision.

Articles of incorporation and statutory provisions. Provisions of the articles of incorporation and bylaws of Capitol Federal Financial, Inc. and Maryland law may make it more difficult and expensive to pursue a takeover attempt that management opposes, even if the takeover is favored by a majority of our stockholders. These provisions also would make it more difficult to remove our current board of directors or

management, or to elect new directors. Specifically, under our articles of incorporation, any person who acquires more than 10% of the common stock of Capitol Federal Financial, Inc. without the prior approval of its board of directors would be prohibited from engaging in any type of business combination with Capitol Federal Financial, Inc. unless such business combination was approved by a super-majority stockholder vote or met minimum price requirements. Additional provisions include limitations on voting rights of beneficial owners of more than 10% of our common stock, the election of directors to staggered terms of three years and not permitting cumulative voting in the election of directors. Our bylaws also contain provisions regarding the timing and content of stockholder proposals and nominations and qualification for service on the board of directors.

Articles of incorporation of Capitol Federal Savings Bank. The articles of incorporation of Capitol Federal Savings Bank provide that for a period of five years from the closing of the conversion and offering, no person other than Capitol Federal Financial, Inc. may offer directly or indirectly to acquire the beneficial ownership of more than 10% of any class of equity security of Capitol Federal Savings Bank. This provision does not apply to any tax-qualified employee benefit plan of Capitol Federal Savings Bank or Capitol Federal Financial, Inc. or to an underwriter or member of an underwriting or selling group involving the public sale or resale of securities of Capitol Federal Financial, Inc. or any of its subsidiaries, so long as after the sale or resale, no underwriter or member of the selling group is a beneficial owner, directly or indirectly, of more than 10% of any class of equity securities of Capitol Federal Savings Bank. In addition, during this five-year period, all shares owned over the 10% limit may not be voted on any matter submitted to stockholders for a vote.

Issuance of stock options and restricted stock. We also intend to issue stock options and shares of restricted stock to key employees and directors that will require payments to these persons in the event of a change in control of Capitol Federal Financial, Inc. These payments may have the effect of increasing the costs of acquiring Capitol Federal Financial, Inc., thereby discouraging future takeover attempts.

Change of control severance agreements. Capitol Federal Financial, Inc. has change of control severance agreements with executive officers which will remain in effect following the stock offering. These agreements may have the effect of increasing the costs of acquiring Capitol Federal Financial, Inc., thereby discouraging future takeover attempts.

There may be a decrease in stockholders' rights for existing stockholders of CFF.

As a result of the conversion, existing stockholders of CFF will become stockholders of Capitol Federal Financial, Inc. Some rights of stockholders of Capitol Federal Financial, Inc. will be reduced compared to the rights stockholders currently have in CFF. The reduction in stockholder rights results from differences between the federal and Maryland charters and bylaws, and from distinctions between federal and Maryland law. Many of the differences in stockholder rights under the articles of incorporation and bylaws of Capitol Federal Financial, Inc. are not mandated by Maryland law but have been chosen by management as being in the best interests of Capitol Federal Financial, Inc. and its stockholders. The articles of incorporation and bylaws of Capitol Federal Financial, Inc. include the following provisions: (i) approval by at least a majority of outstanding shares required to remove a director for cause; (ii) greater lead time required for stockholders to submit proposals for new business or to nominate directors; and (iii) approval by at least 80% of outstanding shares of capital stock entitled to vote generally is required to amend the bylaws and certain provisions of the articles of incorporation. See "Comparison of Stockholders' Rights For Existing Stockholders of CFF" for a discussion of these differences.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA  
OF  
CFF AND SUBSIDIARY

The summary financial information presented below is derived in part from the consolidated financial statements of CFF and its subsidiary. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. The information at December 31, 2009 and 2008 and for the years ended September 30, 2009, 2008 and 2007 is derived in part from the audited consolidated financial statements of CFF that appear in this prospectus. The information at September 30, 2007, 2006 and 2005, and for the years ended September 30, 2006 and 2005, is derived in part from audited consolidated financial statements that do not appear in this prospectus. The following information is only a summary and you should read it in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and notes thereto contained elsewhere in this prospectus.

(footnotes begin on next page)

	At December 31, 2009	2009	2008	At Year Ended September 30, 2007		2006	2005
	(Dollars and share counts in thousands, except per share amounts)						
Selected Balance Sheet Data:							
Total assets	\$ 8,374,762	\$ 8,403,680	\$ 8,055,249	\$ 7,675,886	\$ 8,199,073	\$ 8,409,687	
Loans receivable, net	5,423,923	5,603,965	5,320,780	5,290,071	5,221,117	5,464,130	
Investment securities:							
Available-for-sale (AFS)	234,001	234,784	49,586	102,424	189,480	—	
Held-to-maturity (HTM)	417,942	245,920	92,773	421,744	240,000	430,499	
Mortgage-backed securities (MBS):							
Trading	—	—	—	—	396,904	—	
AFS	1,305,096	1,389,211	1,484,055	402,686	556,248	737,638	
HTM	572,873	603,256	750,284	1,011,585	1,131,634	1,407,616	
Capital stock of Federal Home Loan Bank (FHLB)	134,064	133,064	124,406	139,661	165,130	182,259	
Deposits	4,227,252	4,228,609	3,923,883	3,922,782	3,900,431	3,960,297	
Advances from FHLB	2,394,214	2,392,570	2,447,129	2,732,183	3,268,705	3,426,465	
Other borrowings	713,609	713,609	713,581	53,524	53,467	53,410	
Stockholders’ equity	941,999	941,298	871,216	867,631	863,219	865,063	
Book value per share	12.86	12.85	11.93	11.88	11.89	11.91	
	Three Months Ended						
	December 31,		Year Ended September 30,				
	2009	2008	2009	2008	2007	2006	2005
	(Dollars and share counts in thousands, except per share amounts)						

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Selected Operations

Data:

Total interest and dividend income	\$ 98,887	\$ 105,273	\$ 412,786	\$ 410,806	\$ 411,550	\$ 410,928	\$ 400,107
Total interest expense	54,033	64,055	236,144	276,638	305,110	283,905	244,201
Net interest and dividend income	44,854	41,218	176,642	134,168	106,440	127,023	155,906
Provision (recovery) for loan losses	3,115	549	6,391	2,051	(225 )	247	215
Net interest and dividend income after provision (recovery) for loan losses	41,739	40,669	170,251	132,117	106,665	126,776	155,691
Retail fees and charges	4,723	4,530	18,023	17,805	16,120	17,007	16,029
Other income	505	644	10,571	12,222	7,846	7,788	7,286
Total other income	13,131	6,642	28,594	30,027	23,966	24,795	23,315
Total other expenses	22,749	22,187	93,621	81,989	77,725	72,868	73,631
Income before income tax expense	32,121	25,124	105,224	80,155	52,906	78,703	105,375
Income tax expense	11,141	9,272	38,926	29,201	20,610	30,586	40,316
Net income	20,980	15,852	66,298	50,954	32,296	48,117	65,059
Basic earnings per share	\$ 0.29	\$ 0.22	\$ 0.91	\$ 0.70	\$ 0.44	\$ 0.66	\$ 0.90
Average shares outstanding	73,267	73,063	73,144	72,939	72,849	72,595	72,506
Diluted earnings per share	\$ 0.29	\$ 0.22	\$ 0.91	\$ 0.70	\$ 0.44	\$ 0.66	\$ 0.89
Average diluted shares outstanding	73,278	73,162	73,208	73,013	72,970	72,854	73,082



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Selected Performance and Financial Ratios and Other Data:	At or For the Three Months Ended December 31, 2009		2009		At and for Year Ended September 30, 2008		2007		2006		2005	
	<b>Performance Ratios:</b>											
Return on average assets	1.00	%	0.81	%	0.65	%	0.41	%	0.58	%	0.77	%
Return on average equity	8.82		7.27		5.86		3.72		5.58		7.62	
Dividends paid per public share (1)	\$ 0.79		\$ 2.11		\$ 2.00		\$ 2.09		\$ 2.30		\$ 2.00	
Dividend payout ratio	79.46		66.47	%	81.30	%	133.14	%	97.41	%	62.59	%
Ratio of operating expense to average total assets	1.08		1.14		1.04		0.98		0.88		0.87	
Efficiency ratio(2)	39.23		45.62		49.93		59.60		48.03		41.19	
Ratio of average interest-earning assets to average interest-bearing liabilities	1.12	x	1.12	x	1.12	x	1.12	x	1.11	x	1.10	x
<b>Interest rate spread information:</b>												
Average during period	1.91	%	1.86	%	1.35	%	0.93	%	1.19	%	1.59	%
End of period	1.91		1.89		1.70		0.89		1.07		1.46	
Net interest margin	2.19		2.20		1.75		1.36		1.57		1.87	
<b>Asset Quality Ratios:</b>												
Non-performing assets to total assets	0.47		0.46		0.23		0.12		0.10		0.08	
Non-performing loans to total loans	0.60		0.55		0.26		0.14		0.11		0.09	
Allowance for loan losses to non-performing loans	37.59		32.83		42.37		56.87		79.03		89.14	
Allowance for loan losses to loans receivable, net	0.23		0.18		0.11		0.08		0.08		0.08	
Ratio of net charge-offs during the period to average loans outstanding	0.02	%	0.04	%	*		*		*		*	
<b>Capital Ratios:</b>												
Equity to total assets at end of period (3)	11.25		11.20		10.82		11.30		10.53		10.29	
Average equity to average assets	11.33		11.08		11.05		10.91		10.47		10.05	
<b>Regulatory Capital Ratios of Bank:</b>												
Tangible equity	10.1		10.0		10.0		10.3		9.5		9.1	
Tier 1 (core) capital	10.1		10.0		10.0		10.3		9.5		9.1	

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Tier 1 (core) risk-based capital	23.8	23.2	23.1	22.9	22.6	21.3
Total risk-based capital	24.0	23.3	23.0	22.8	22.5	21.3

Other Data:

Number of traditional offices	34	33	30	29	29	29
Number of in-store offices	10	9	9	9	9	8

- 
- (1) For all periods shown, Capitol Federal Savings Bank MHC, which owns a majority of the outstanding shares of Capitol Federal Financial common stock, waived its right to receive dividends paid on the common stock with the exception of the \$0.50 per share dividend paid on 500,000 shares in February 2005. Public shares exclude shares held by Capitol Federal Savings Bank MHC, as well as unallocated shares held in the employee stock ownership plan.
  - (2) Non-interest expense divided by net interest and dividend income plus non-interest income.
  - (3) CFF has no intangible assets.

\* Less than 0.01%

## FORWARD-LOOKING STATEMENTS

This prospectus contains forward looking statements 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 area;

our ability to acquire funds from or invest funds in wholesale or secondary markets;

the future earnings and capital levels of Capitol Federal Savings Bank, which could affect the ability of Capitol Federal Financial, Inc. to pay dividends in accordance with its dividend policies;

fluctuations in deposit flows, loan demand, and/or real estate values, 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 and changes in estimates of the adequacy of the allowance for loan losses;

results of examinations of Capitol Federal Savings Bank by its primary regulator, the Office of Thrift Supervision, including the possibility that the Office of Thrift Supervision may, among other things, require Capitol Federal Savings Bank to increase its allowance for loan losses;

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 of 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.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. Please see “Risk Factors” beginning on page [    ].

#### HOW WE INTEND TO USE THE PROCEEDS FROM THE OFFERING

Although we cannot determine what the actual net proceeds from the sale of the shares of common stock in the offering will be until the offering is completed, we anticipate that the aggregate net proceeds will be between \$1.51 billion and \$2.05 billion.

We intend to distribute the net proceeds from the stock offering as follows:

	Based Upon the Sale at \$10.00 Per Share of					
	157,250,000 Shares		185,000,000 Shares		212,750,000 Shares	
	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds	Amount	Percent of Net Proceeds
	(Dollars in Thousands)					
Offering proceeds	\$ 1,572,500		\$ 1,850,000		\$ 2,127,500	
Less offering expenses	57,836		67,119		76,401	
Net offering proceeds	\$ 1,514,664	100.0 %	\$ 1,782,881	100.0 %	\$ 2,051,099	100.0 %
Distribution of net proceeds:						
To Capitol Federal Savings Bank	\$ 757,332	50.0 %	\$ 891,441	50.0 %	\$ 1,025,549	50.0 %
To fund the loan to employee stock ownership plan	62,900	4.2	74,000	4.2	85,100	4.1
To repay outstanding trust preferred securities	53,609	3.5	53,609	3.0	53,609	2.6
	40,000	2.6	40,000	2.2	40,000	2.0

Cash contributed to  
foundation

Retained by Capitol

Federal Financial, Inc.	\$ 600,823	39.7 %	\$ 723,831	40.6 %	\$ 846,841	41.3 %
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Payments for shares of common stock made through withdrawals from existing deposit accounts will not result in the receipt of new funds for investment but will result in a reduction of Capitol Federal Savings Bank's deposits. The net proceeds may vary because total expenses relating to the offering may be more or less than our estimates. For example, our expenses would increase if a larger percentage of shares than we have assumed are sold in the syndicated community offering rather than in the subscription and community offerings.

Capitol Federal Financial, Inc. May Use the Proceeds it Retains From the Offering:

- to fund a loan to the employee stock ownership plan to purchase shares of common stock in the offering;
- to repay the outstanding trust preferred securities;
- to pay cash dividends to stockholders;
- to repurchase shares of our common stock for, among other things, the funding of our stock-based incentive plan;
- to invest in securities;
- to finance, where opportunities are presented, the acquisition of financial institutions or other financial service companies primarily in, or adjacent to, our market areas, although we do not currently have any understandings or agreements regarding any specific acquisition transaction; and
- for other general corporate purposes.

Capitol Federal Financial, Inc. intends to make a \$40.0 million cash contribution to fund the Capitol Federal Foundation and repay outstanding trust preferred securities totaling \$53.6 million. Initially, a substantial portion of the net proceeds will be invested in short-term investments and government agency backed mortgage-backed securities, as well as investment-grade debt obligations.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following the completion of the conversion, except to fund certain stock-based plans or, with prior regulatory approval, when extraordinary circumstances exist.

Capitol Federal Savings Bank May Use the Net Proceeds it Receives From the Offering:

- to increase our emphasis on loan purchases, subject to underwriting standards and availability;
- to support internal growth through lending in the communities we serve;
- to enhance existing products and services and support the development of new products and services by investing, for example, in technology to support growth and enhanced customer service;
- to invest in securities;
- to finance the acquisition of branches from other financial institutions or build or lease new branch facilities primarily in, or adjacent to, the State of Kansas although we do not currently have any agreements or understandings regarding any specific acquisition transaction; and
- for other general corporate purposes.

Initially, a substantial portion of the net proceeds will be invested in short-term investments and government agency backed mortgage-backed securities, as well as investment-grade debt obligations. The use of proceeds may change based on changes in interest rates, equity markets, laws and regulations affecting the financial services industry, our relative position in the financial services industry, the attractiveness of potential acquisitions and overall market

conditions. Our business strategy for the deployment of the net proceeds raised in the offering is discussed in more detail in “Summary — Reasons for the Conversion and the Offering.”



Our return on equity may be relatively low unless and until we are able to effectively reinvest the additional capital raised in the offering. Until we can increase our non-interest income, our return on equity may be below the industry average, which may negatively affect the value of our common stock. See “Risk Factors — Our return on equity will initially be low compared to our historical performance. A lower return on equity may negatively impact the trading price of our common stock.”

#### OUR POLICY REGARDING DIVIDENDS

As of December 31, 2009, CFF paid a quarterly cash dividend of \$0.50 per share, which equals \$2.00 per share on an annualized basis. In addition, we generally declare and pay a year end cash dividend if we have sufficient earnings as determined by our board of directors. After the conversion, we intend to continue to pay cash dividends on a quarterly basis, although at a reduced level, the amount of which will be determined following completion of the conversion. The dividend rate and the continued payment of dividends also will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced or eliminated in the future.

Under the rules of the Office of Thrift Supervision, Capitol Federal Savings Bank will not be permitted to pay dividends on its capital stock to Capitol Federal Financial, Inc., its sole stockholder, if Capitol Federal Savings Bank’s stockholder’s equity would be reduced below the amount of the liquidation account established in connection with the conversion. In addition, Capitol Federal Savings Bank will not be permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. See “The Conversion and Offering — Liquidation Rights.”

Capitol Federal Financial, Inc.’s ability to pay dividends will depend on net proceeds of the offering retained by us and earnings thereon, as well as dividends from Capitol Federal Savings Bank. Our payment of dividends will also be subject to state law limitations and the liquidation account established in connection with the conversion. Maryland law generally limits dividends to an amount equal to the excess of our capital surplus over payments that would be owed upon dissolution to stockholders whose preferential rights upon dissolution are superior to those receiving the dividend, and to an amount that would not make us insolvent.

Finally, pursuant to Office of Thrift Supervision regulations, during the three-year period following the conversion, we will not take any action to declare an extraordinary dividend to stockholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

See “Selected Consolidated Financial and Other Data of CFF and Subsidiary” and “Market for the Common Stock” for information regarding our historical dividend payments.

#### MARKET FOR THE COMMON STOCK

CFF’s common stock currently trades on the Nasdaq Global Select Market under the symbol CFFN. Upon completion of the offering, the shares of common stock of Capitol Federal Financial, Inc. will replace CFF’s shares of common stock. We expect that Capitol Federal Financial, Inc.’s shares of common stock will trade on the Nasdaq Global Select Market under the trading symbol CFFND for a period of 20 trading days following the completion of the offering. Thereafter, the trading symbol will revert to CFFN. In order to list our common stock on the Nasdaq Global Select Market, we are required to have at least three broker-dealers who will make a market in our common stock. CFF currently has 21 registered market makers.

The following table sets forth the high and low trading prices for shares of CFF common stock and cash dividends paid per share for the periods indicated. As of December 31, 2009, there were 21,024,204 shares of CFF common

stock issued and outstanding (excluding shares held by Capitol Federal Savings Bank MHC).

Year Ending September 30, 2010	High	Low	Dividend Paid Per Share
Third quarter (through _____, 2010)	\$ [ ]	\$ [ ]	\$ [ ]
Second quarter	38.20	30.76	.50
First quarter	33.36	28.19	.79
Year Ending September 30, 2009	High	Low	Dividend Paid Per Share
Fourth quarter	\$ 39.29	\$ 30.24	\$ .50
Third quarter	44.93	34.91	.50
Second quarter	45.77	33.02	.50
First quarter	47.64	33.06	.61
Year Ending September 30, 2008	High	Low	Dividend Paid Per Share
Fourth quarter	\$ 51.56	\$ 36.06	\$ .50
Third quarter	41.45	36.82	.50
Second quarter	38.60	27.63	.50
First quarter	36.09	30.47	.50

On May 5, 2010, the business day immediately preceding the public announcement of the conversion, the closing price of CFF common stock as reported on the Nasdaq Global Select Market was \$[ ] per share. At [ ] 2010, the closing price of CFF's common stock was \$[ ], and there were approximately 9,395 stockholders of record.

## HISTORICAL AND PRO FORMA REGULATORY CAPITAL COMPLIANCE

At December 31, 2009, Capitol Federal Savings Bank exceeded all of the applicable regulatory capital requirements. The table below sets forth the historical equity capital and regulatory capital of Capitol Federal Savings Bank at December 31, 2009, and the pro forma regulatory capital of Capitol Federal Savings Bank, after giving effect to the sale of Capitol Federal Financial, Inc.'s shares of common stock at a \$10.00 per share purchase price. Accordingly, the table assumes the receipt by Capitol Federal Savings Bank of 50% of the net proceeds. See "How We Intend to Use the Proceeds from the Offering."

	Capitol Federal Savings Bank		Pro Forma at December 31, 2009 Based Upon the Sale at \$10.00 Per Share					
	Historical at December 31, 2009		157,250,000 Shares		185,000,000 Shares		212,750,000 Shares	
	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)	Amount	Percent of Assets(1)
	(Dollars in Thousands)							
Equity capital	\$ 876,290	10.44 %	\$ 1,539,272	16.82 %	\$ 1,656,731	17.85 %	\$ 1,774,189	18.84 %
Core (leverage) capital(2)	\$ 844,959	10.13 %	\$ 1,507,941	16.57 %	\$ 1,625,400	17.60 %	\$ 1,742,858	18.60 %
Core (leverage) requirement	417,109	5.00	454,975	5.00	461,681	5.00	468,386	5.00
Excess	\$ 427,850	5.13 %	\$ 1,052,966	11.57 %	\$ 1,163,719	12.60 %	\$ 1,274,472	13.60 %
Tier I risk-based capital(2)(3)	\$ 844,959	23.79 %	\$ 1,507,941	40.72 %	\$ 1,625,400	43.57 %	\$ 1,742,858	46.39 %
Tier I requirement	213,118	6.00	222,206	6.00	223,815	6.00	225,424	6.00
Excess	\$ 631,841	17.79 %	\$ 1,285,735	34.72 %	\$ 1,401,585	37.57 %	\$ 1,517,434	40.39 %
Total risk-based capital(2)(3)	\$ 853,139	24.02 %	\$ 1,516,121	40.94 %	\$ 1,633,580	43.79 %	\$ 1,751,038	46.61 %
Risk-based requirement	355,196	10.00	370,343	10.00	373,025	10.00	375,707	10.00
Excess	\$ 497,943	14.02 %	\$ 1,145,778	30.94 %	\$ 1,260,555	33.79 %	\$ 1,375,331	36.61 %
Reconciliation of capital infused into Capitol Federal Savings Bank:								
Net proceeds			\$ 757,332		\$ 891,441		\$ 1,025,549	
Less:								
Common stock acquired by employee stock ownership plan			(62,900 )		(74,000 )		(85,100 )	
			(31,450 )		(37,000 )		(42,550 )	

Common stock  
 acquired by  
 stock-based  
 incentive plan  
 Pro forma  
 increase in  
 GAAP and  
 regulatory  
 capital(3)

\$ 662,982

\$ 780,441

\$ 897,899

- 
- (1) Core capital levels are shown as a percentage of total adjusted assets. Risk-based capital levels are shown as a percentage of risk-weighted assets. Capital requirements of 4.0%, 5.0% and 10% for core (leverage), Tier I risk-based and Total risk-based capital reflect “well capitalized” status under prompt corrective action provisions.
  - (2) Pro forma capital levels assume that we fund the stock-based incentive plans with purchases in the open market equal to 2.0% of the shares of common stock sold in the stock offering at a price equal to the price for which the shares of common stock are sold in the stock offering, and that the employee stock ownership plan purchases 4.0% of the shares of common stock sold in the stock offering with funds we lend. Pro forma GAAP and regulatory capital have been reduced by the amount required to fund both of these plans. See “Management” for a discussion of the stock-based benefit plan and employee stock ownership plan.
  - (3) Pro forma amounts and percentages assume net proceeds are invested in assets that carry a 20% risk weighting.

## CAPITALIZATION

The following table presents the historical consolidated capitalization of CFF at December 31, 2009 and the pro forma consolidated capitalization of Capitol Federal Financial, Inc. after giving effect to the offering, based upon the assumptions set forth in the "Pro Forma Data" section.

	CFF Historical at December 31, 2009	Capitol Federal Financial, Inc. \$10.00 Per Share Pro Forma Based on the Sale of		
		157,250,000 Shares	185,000,000 Shares	212,750,000 Shares
(Dollars in Thousands)				
Deposits(1)	\$ 4,227,252	\$ 4,227,197	\$ 4,227,197	\$ 4,227,197
Borrowed funds	3,054,214	3,054,214	3,054,214	3,054,214
Trust preferred securities	53,609	—	—	—
Total deposits and borrowed funds	\$ 7,335,075	\$ 7,281,411	\$ 7,281,411	\$ 7,281,411
Stockholders' equity:				
Preferred stock, \$0.01 par value, 100,000,000 shares authorized (post-conversion)(2)	\$ —	\$ —	\$ —	\$ —
Common stock \$0.01 par value, 1,400,000,000 shares authorized (post-conversion); shares to be issued as reflected(2)(3)	915	2,230	2,624	3,017
Paid-in capital(2)	453,975	1,967,324	2,235,147	2,502,972
Retained earnings(4)	785,914	785,914	785,914	785,914
Accumulated other comprehensive income	30,875	30,875	30,875	30,875
Plus:				
Capitol Federal Savings Bank MHC capital contribution	—	133	133	133
Less:				
Treasury stock, at cost	(321,859 )	(321,859 )	(321,859 )	(321,859 )
After-tax expense of contribution to charitable foundation(5)	—	(24,672 )	(24,672 )	(24,672 )
Common stock acquired by employee stock ownership plan (6)	(7,561 )	(70,461 )	(81,561 )	(92,661 )
Common stock acquired by the stock-based incentive plan(7)	(260 )	(31,710 )	(37,260 )	(42,810 )
Total stockholders' equity	\$ 941,999	\$ 2,337,774	\$ 2,589,341	\$ 2,840,909
Shares outstanding:				
Total shares outstanding	74,023,577	223,023,170	262,380,200	301,737,230
Exchange shares issued	—	65,773,170	77,380,200	88,987,230
Shares offered for sale	—	157,250,000	185,000,000	212,750,000
Total stockholders' equity as a percentage of total assets	11.25 %	24.06 %	25.98 %	27.80 %

- 
- (1) Does not reflect withdrawals from deposit accounts for the purchase of shares of common stock in the offering other than a deposit of \$55 thousand of Capitol Federal Savings Bank MHC held at Capitol Federal Savings Bank. These withdrawals would reduce pro forma deposits by the amount of the withdrawals. On a pro forma basis, it also reflects a transfer to equity of \$113 thousand from Capitol Federal Savings Bank MHC consisting of the deposits held at Capitol Federal Savings Bank and tax benefits held by Capitol Federal Savings Bank MHC.
  - (2) CFF currently has 50,000,000 authorized shares of preferred stock and 450,000,000 authorized shares of common stock, par value \$0.01 per share. On a pro forma basis, Capitol Federal Financial, Inc. common stock and additional paid-in capital have been revised to reflect the number of shares of Capitol Federal Financial, Inc. common stock to be outstanding, which is 223,023,170 shares, 262,380,200 shares and 301,737,230 shares at the minimum, midpoint and maximum of the offering range, respectively.
  - (3) No effect has been given to the issuance of additional shares of Capitol Federal Financial, Inc. common stock pursuant to stock options to be granted under a stock-based incentive plan. An amount up to 5.0% of the shares of Capitol Federal Financial, Inc. common stock sold in the offering may be reserved for issuance upon the exercise of options. No effect has been given to the exercise of options currently outstanding. See “Management - Benefits to be Considered Following Completion of the Conversion.”
  - (4) The retained earnings of Capitol Federal Savings Bank will be substantially restricted after the conversion. See “The Conversion and Offering - Liquidation Rights” and “Supervision and Regulation.”
  - (5) Represents the expense of the contribution to the charitable foundation based on a 38.32% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable foundations equal to 10% of our annual taxable income, subject to our ability to carry forward for federal or state purposes any unused portion of the deduction for the five years following the year in which the contribution is made.

- (6) Assumes that 4.0% of the shares sold in the offering will be acquired by the employee stock ownership plan financed by a loan from Capitol Federal Financial, Inc. The loan will have a term of 30 years and an interest rate equal to the prime rate as published in The Wall Street Journal, and be repaid principally from Capitol Federal Savings Bank's contributions to the employee stock ownership plan. Since Capitol Federal Financial, Inc. will finance the employee stock ownership plan debt, this debt will be eliminated through consolidation and no liability will be reflected on Capitol Federal Financial, Inc.'s consolidated financial statements. Accordingly, the amount of shares of common stock acquired by the employee stock ownership plan is shown in this table as a reduction of total stockholders' equity.
- (7) Assumes at the minimum, midpoint and maximum of the offering range that a number of shares of common stock equal to 2.0% of the shares of common stock to be sold in the offering will be purchased by the stock-based incentive plan in open market purchases. The stock-based incentive plan will be submitted to a vote of stockholders following the completion of the offering. The funds to be used by the stock-based incentive plan to purchase the shares will be provided by Capitol Federal Financial, Inc. The dollar amount of common stock to be purchased is based on the \$10.00 per share offering price and represents unearned compensation. This amount does not reflect possible increases or decreases in the value of common stock relative to the subscription price in the offering. As Capitol Federal Financial, Inc. accrues compensation expense to reflect the vesting of shares pursuant to the stock-based incentive plan, the credit to capital will be offset by a charge to operations. Implementation of the stock-based incentive plan will require stockholder approval. If the shares to fund the plan (restricted stock awards and stock options) are assumed to come from authorized but unissued shares of Capitol Federal Financial, Inc., the number of outstanding shares at the minimum, midpoint and maximum of the offering range would be 234,030,670, 275,330,200 and 316,629,730 respectively, total stockholders' equity would be \$2.37 billion, \$2.63 billion and \$2.88 billion, respectively, and total stockholders' ownership in Capitol Federal Financial, Inc. would be diluted by approximately 4.80% at the maximum of the offering range.



PRO FORMA DATA

The following tables summarize historical data of CFF and pro forma data at and for the three months ended December 31, 2009 and the year ended September 30, 2009. This information is based on assumptions set forth below and in the tables, and should not be used as a basis for projections of market value of the shares of common stock following the offering. Moreover, pro forma stockholders' equity per share does not give effect to the liquidation account to be established in the conversion or, in the unlikely event of a liquidation of Capitol Federal Savings Bank, to the recoverability of intangible assets or the tax effect of the recapture of the bad debt reserve. See "The Conversion and Reorganization — Liquidation Rights."

The net proceeds in the tables are based upon the following assumptions:

- (i) 30% of all shares of common stock will be sold in the subscription and community offerings, including shares purchased by insiders and the employee stock ownership plan, with the remaining shares to be sold in the syndicated community offering;
- (ii) 250,000 shares of common stock will be purchased by our executive officers and directors and their associates;
- (iii) our employee stock ownership plan will purchase 4.0% of the shares of common stock sold in the offering, which will be funded with a loan from Capitol Federal Financial, Inc. The loan will be repaid in substantially equal payments of principal and interest over a period of 30 years;
- (iv) Sandler O'Neill & Partners, L.P. will receive a fee equal to 0.75% of the aggregate gross proceeds received on all shares of common stock sold in the subscription and community offerings and we will pay (a) a management fee of 1.00% of the aggregate dollar amount of the common stock sold in the syndicated community offering, 75% of which will be paid to Sandler O'Neill & Partners, L.P. and 25% of which will be paid to Keefe, Bruyette & Woods, Inc., and (b) a selling concession of 3.50% of the actual purchase price of each security sold in the syndicated community offering, which will be allocated to dealers (including Sandler O'Neill & Partners, L.P. and Keefe, Bruyette & Woods, Inc.) in accordance with the actual number of shares of common stock sold by such dealers. No fee will be paid with respect to shares of common stock purchased by our qualified and non-qualified employee stock benefit plans, or stock purchased by our officers, directors and employees and their immediate families; and
- (v) total expenses of the offering, including the marketing fees to be paid to Sandler O'Neill & Partners, L.P. and other broker-dealers, will be between \$57.8 million at the minimum of the offering range and \$76.4 million at the maximum of the offering range.

We calculated pro forma consolidated net income for the three months ended December 31, 2009 and for the year ended September 30, 2009 as if the estimated net proceeds we received had been invested at the beginning of the period at an assumed interest rate of 2.69% (1.66% on an after-tax basis). This interest rate was calculated assuming that net proceeds are placed into a mix of assets yielding the 5 year Treasury yield prevailing as of December 31, 2009. We consider the resulting rate to reflect more accurately the pro forma reinvestment rate than an arithmetic average method in light of current market interest rates. The effect of withdrawals from deposit accounts for the purchase of shares of common stock has not been reflected. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of common stock. No effect has been given in the pro forma stockholders' equity calculations for the assumed earnings on the net proceeds.

The pro forma tables give effect to the implementation of one or more stock-based incentive plans. Subject to the receipt of stockholder approval, we have assumed that the stock-based incentive plans will acquire for restricted stock

awards a number of shares of common stock equal to 2.0% of the shares of common stock sold in the stock offering at the same price for which they were sold in the stock offering. We assumed that shares of common stock are granted under the plans in awards that vest over a five-year period.

We have also assumed that the stock-based incentive plans will grant options to acquire shares of common stock equal to 5.0% of the shares of common stock sold in the stock offering. In preparing the tables below, we assumed that stockholder approval was obtained, that the exercise price of the stock options and the market price of the stock at the date of grant were \$10.00 per share and that the stock options had a term of ten years and vested over five years. We applied the Black-Scholes option pricing model to estimate a grant-date fair value of \$3.43 for each option. In addition to the terms of the options described above, the Black-Scholes option pricing model assumed an estimated volatility rate of 36.45% for the shares of common stock, a dividend yield of 3.0%, an expected option life of 10 years and a risk-free interest rate of 3.85%.

As discussed under “How We Intend to Use the Proceeds from the Offering,” we intend to contribute 50% of the net proceeds from the stock offering to Capitol Federal Savings Bank, and we will retain the remainder of the net proceeds from the stock offering. We will use a portion of the proceeds we retain for the purpose of making a loan to the employee stock ownership plan, to make the contribution to the charitable foundation and to repay outstanding trust preferred securities, and retain the rest of the proceeds for future use.

The pro forma table does not give effect to:

withdrawals from deposit accounts for the purpose of purchasing shares of common stock in the stock offering;

our results of operations after the stock offering; or

changes in the market price of the shares of common stock after the stock offering.

The following pro forma information may not represent the financial effects of the stock offering at the date on which the stock offering actually occurs and you should not use the table to indicate future results of operations. Pro forma stockholders' equity represents the difference between the stated amount of our assets and liabilities, computed in accordance with GAAP. We did not increase or decrease stockholders' equity to reflect the difference between the carrying value of loans and other assets and their market value. Pro forma stockholders' equity is not intended to represent the fair market value of the shares of common stock and may be different than the amounts that would be available for distribution to stockholders if we liquidated. Per share figures have been calculated based on shares of CFF issued and outstanding as of the date of the prospectus.

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At or for the Three Months Ended December 31, 2009  
Based Upon the Sale at \$10.00 Per Share of  
157,250,000                      185,000,000                      212,750,000  
Shares                                      Shares                                      Shares  
(Dollars in thousands, except per share amounts)

Gross proceeds of offering	\$ 1,572,500	\$ 1,850,000	\$ 2,127,500
Market value of shares issued in the exchange	657,732	773,802	889,872
Pro forma market capitalization	\$ 2,230,232	\$ 2,623,802	\$ 3,017,372
Gross proceeds of offering	\$ 1,572,500	\$ 1,850,000	\$ 2,127,500
Less: Expenses	57,836	67,119	76,401
Estimated net proceeds	1,514,664	1,782,881	2,051,099
Less: Common stock purchased by employee stock ownership plan	(62,900 )	(74,000 )	(85,100 )
Less: Cash contribution to charitable foundation	(40,000 )	(40,000 )	(40,000 )
Less: Common stock purchased by the stock-based incentive plan	(31,450 )	(37,000 )	(42,550 )
Estimated net proceeds, as adjusted	\$ 1,380,314	\$ 1,631,881	\$ 1,883,449

For the Three Months Ended December 31, 2009

Consolidated net income:			
Historical	\$ 20,980	\$ 20,980	\$ 20,980
Pro forma adjustments:			
Income on adjusted net proceeds	5,726	6,769	7,813
Employee stock ownership plan(1)	(323 )	(380 )	(437 )
Shares granted under the stock based incentive plan(2)	(970 )	(1,141 )	(1,312 )
Options granted under the stock-based incentive plan(3)	(1,219 )	(1,434 )	(1,650 )
Pro forma net income	\$ 24,194	\$ 24,794	\$ 25,394

Net income per share(4):			
Historical	\$ 0.09	\$ 0.08	\$ 0.07
Pro forma adjustments:			
Income on adjusted net proceeds	0.03	0.03	0.03
Employee stock ownership plan(1)	—	—	—
Shares granted under the stock-based incentive plan(2)	—	—	—
Options granted under the stock-based incentive plan(3)	(0.01 )	(0.01 )	(0.01 )
Pro forma net income per share(4)(5)	\$ 0.11	\$ 0.10	\$ 0.09

Offering price to pro forma net income per share (annualized)	22.73	25.00	27.78
Number of shares used in net income per share calculations(4)	214,548,313	252,409,780	290,271,247

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At December 31, 2009

Stockholders' equity:

Historical	\$ 941,999	\$ 941,999	\$ 941,999
Estimated net proceeds	1,514,664	1,782,881	2,051,099
Capitol Federal Savings Bank MHC capital contribution	133	133	133
Tax benefit of contribution to charitable foundation	15,328	15,328	15,328
Less: Common stock acquired by employee stock ownership plan(1)	(62,900 )	(74,000 )	(85,100 )
Less: Common stock acquired by the stock-based incentive plan(2)	(31,450 )	(37,000 )	(42,550 )
Less: Expense of contribution to charitable foundation	(40,000 )	(40,000 )	(40,000 )
Pro forma stockholders' equity	\$ 2,337,774	\$ 2,589,341	\$ 2,840,909

Stockholders' equity per share(6):

Historical	\$ 4.22	\$ 3.58	\$ 3.12
Estimated net proceeds	6.79	6.80	6.80
Capitol Federal Savings Bank MHC capital contribution	—	—	—
Tax benefit of contribution to charitable foundation	0.07	0.06	0.05
Less: Common stock acquired by employee stock ownership plan(1)	(0.28 )	(0.28 )	(0.28 )
Less: Common stock acquired by the stock-based incentive plan(2)	(0.14 )	(0.14 )	(0.14 )
Less: Expense of contribution to charitable foundation	(0.18 )	(0.15 )	(0.13 )
Pro forma stockholders' equity per share(6)	\$ 10.48	\$ 9.87	\$ 9.42

Offering price as percentage of pro forma stockholders' equity per share	95.42	%	101.32	%	106.16	%
Number of shares outstanding for pro forma book value per share calculations(7)	223,023,170		262,380,200		301,737,2300	

(1) Assumes that 4.0% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from Capitol Federal Financial, Inc. The loan will have a term of 30 years and an interest rate equal to the prime rate as published in The Wall Street Journal. Capitol Federal Savings Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. Capitol Federal Savings Bank's total annual payments on the employee stock ownership plan debt are based upon 30 equal annual installments of principal and interest. Current accounting guidance requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that: (i) the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by Capitol Federal Savings Bank; (ii) the fair value of the common stock remains equal to the \$10.00 subscription price; and (iii) the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 38.32%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on

proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 52,417, 61,667 and 70,917 shares were committed to be released during the period at the minimum, midpoint and maximum of the offering range, respectively, and in accordance with ASC 718, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of net income per share calculations.

- (2) Gives effect to the grant of stock awards pursuant to the stock-based incentive plan expected to be adopted by Capitol Federal Financial, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that at the minimum, midpoint and maximum of the offering range this plan acquires a number of shares of restricted common stock equal to 2.0% of the shares sold in the offering, either through open market purchases, from authorized but unissued shares of common stock or treasury stock of Capitol Federal Financial, Inc. Funds used by the stock-based incentive plan to purchase the shares of common stock will be contributed by Capitol Federal Financial, Inc. In calculating the pro forma effect of the stock-based incentive plan, it is assumed that the shares of common stock were acquired by the plan in open market purchases at the beginning of the period presented for a purchase price equal to the price for which the shares are sold in the offering, and that 5% of the amount contributed was an amortized expense (based upon a five-year vesting period) during the three months ended December 31, 2009. There can be no assurance that the actual purchase price of the shares of common stock granted under the stock-based incentive plan will be equal to the \$10.00 subscription price. If shares are acquired from authorized but unissued shares of common stock or from treasury shares of Capitol Federal Financial, Inc., our net income per share and stockholders' equity per share may change. This will also have a dilutive effect of approximately 1.39% on the ownership interest of stockholders. The impact on pro forma net income per share and pro forma stockholders' equity per share is not material. The following table shows pro forma net income per share for the three months ended December 31, 2009 and pro forma stockholders' equity per share at December 31, 2009, based on the sale of the number of shares indicated, assuming all the shares of common stock to fund the stock awards are obtained from authorized but unissued shares.

At or for the Three Months Ended December 31, 2009	157,250,000	185,000,000	212,750,000
Pro forma net income per share	\$ 0.11	\$ 0.10	\$ 0.09
Pro forma stockholders' equity per share	\$ 10.48	\$ 9.87	\$ 9.42

- (3) Gives effect to the granting of options pursuant to the stock-based incentive plan, which is expected to be adopted by Capitol Federal Financial, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that options will be granted to acquire shares of common stock equal to 5.0% of the shares sold in the offering. In calculating the pro forma effect of the stock options, it is assumed that the exercise price of the stock options and the trading price of the stock at the date of grant were \$10.00 per share, and the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was \$3.43 for each option, which was determined using the Black-Scholes option pricing formula using the following assumptions: (i) the trading price on date of grant was \$10.00 per share; (ii) exercise price is equal to the trading price on the date of grant; (iii) dividend yield of 3.0%; (iv) expected life of 10 years; (v) expected volatility of 36.45%; and (vi) risk-free interest rate of 3.85%. If the fair market value per share on the date of grant is different than \$10.00, or if the assumptions used in the option pricing formula are different from those used in preparing this pro forma data, the value of options and the related expense recognized will be different. The aggregate grant date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options. There can be no assurance that the actual exercise price of the stock options will be equal to the \$10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock-based incentive plan is obtained from the issuance of authorized but unissued shares of common stock, our net income and stockholders' equity per share will decrease. This also will have a dilutive effect of up to 3.41% on the ownership interest of persons who purchase shares of common stock in the offering.
- (4) The number of shares used to calculate pro forma net income per share is equal to the estimated weighted average shares outstanding as of December 31, 2009, multiplied by the exchange ratio at the minimum, midpoint and maximum, and subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods in accordance with current accounting guidance. See footnote 1, above.

- (5) The retained earnings of Capitol Federal Savings Bank will be substantially restricted after the conversion. See “Our Policy Regarding Dividends,” “The Conversion and Offering - Liquidation Rights” and “Supervision and Regulation.”
- (6) Per share figures include publicly held shares of CFF common stock that will be exchanged for shares of Capitol Federal Financial, Inc. common stock in the conversion. Stockholders’ equity per share calculations are based upon the sum of the (i) number of subscription shares assumed to be sold in the offering; and (ii) shares to be issued in exchange for publicly held shares.
- (7) The number of shares used to calculate pro forma stockholders’ equity per share is equal to the total number of shares to be outstanding upon completion of the offering.



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At or for the Year Ended September 30, 2009  
Based Upon the Sale at \$10.00 Per Share of

157,250,000      185,000,000      212,750,000  
Shares              Shares              Shares  
(Dollars in thousands, except per share amounts)

Gross proceeds of offering	\$ 1,572,500	\$ 1,850,000	\$ 2,127,500
Market value of shares issued in the exchange	657,732	773,802	889,872
Pro forma market capitalization	\$ 2,230,232	\$ 2,623,802	\$ 3,017,372
Gross proceeds of offering	\$ 1,572,500	\$ 1,850,000	\$ 2,127,500
Less: Expenses	57,836	67,119	76,401
Estimated net proceeds	1,514,664	1,782,881	2,051,099
Less: Common stock purchased by employee stock ownership plan	(62,900 )	(74,000 )	(85,100 )
Less: Cash contribution to the charitable foundation	(40,000 )	(40,000 )	(40,000 )
Less: Common stock purchased by the stock-based incentive plan	(31,450 )	(37,000 )	(42,550 )
Estimated net proceeds, as adjusted	\$ 1,380,314	\$ 1,631,881	\$ 1,883,449
For the Year Ended September 30, 2009			
Consolidated net income:			
Historical	\$ 66,298	\$ 66,298	\$ 66,298
Pro forma adjustments:			
Income on adjusted net proceeds	22,902	27,076	31,250
Employee stock ownership plan(1)	(1,293 )	(1,521 )	(1,750 )
Shares granted under the stock based incentive plan(2)	(3,880 )	(4,564 )	(5,249 )
Options granted under the stock-based incentive plan(3)	(4,877 )	(5,738 )	(6,598 )
Pro forma net income	\$ 79,150	\$ 81,551	\$ 83,951
Net income per share(4):			
Historical	\$ 0.31	\$ 0.26	\$ 0.23
Pro forma adjustments:			
Income on adjusted net proceeds	0.11	0.11	0.11
Employee stock ownership plan(1)	(0.01 )	(0.01 )	(0.01 )
Shares granted under the stock-based incentive plan(2)	(0.02 )	(0.02 )	(0.02 )
Options granted under the stock-based incentive plan(3)	(0.02 )	(0.02 )	(0.02 )
Pro forma net income per share(4)(5)	\$ 0.37	\$ 0.32	\$ 0.29
Offering price to pro forma net income per share	27.03	x 31.25	x 34.48
Number of shares used in net income per share calculations(4)	214,345,203	252,170,827	289,996,451

At September 30, 2009

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Stockholders' equity:								
Historical	\$	941,298		\$	941,298	\$	941,298	
Estimated net proceeds		1,514,664			1,782,881		2,051,099	
Capitol Federal Savings Bank MHC capital contribution		133			133		133	
Tax benefit of contribution to charitable foundation		15,328			15,328		15,328	
Less: Common stock acquired by employee stock ownership plan(1)		(62,900	)		(74,000	)	(85,100	)
Less: Common stock acquired by the stock-based incentive plan(2)		(31,450	)		(37,000	)	(42,550	)
Less: Expense of contribution to charitable foundation		(40,000	)		(40,000	)	(40,000	)
Pro forma stockholders' equity	\$	2,337,073		\$	2,588,640	\$	2,840,208	
Stockholders' equity per share(6):								
Historical	\$	4.22		\$	3.58	\$	3.11	
Estimated net proceeds		6.79			6.80		6.80	
Capitol Federal Savings Bank MHC capital contribution		—			—		—	
Tax benefit of contribution to charitable foundation		0.07			0.06		0.05	
Less: Common stock acquired by employee stock ownership plan(1)		(0.28	)		(0.28	)	(0.28	)
Less: Common stock acquired by the stock-based incentive plan(2)		(0.14	)		(0.14	)	(0.14	)
Less: Expense of contribution to charitable foundation		(0.18	)		(0.15	)	(0.13	)
Pro forma stockholders' equity per share(6)	\$	10.48		\$	9.87	\$	9.41	
Offering price as percentage of pro forma stockholders' equity per share		95.42	%		101.32	%	106.27	%
Number of shares outstanding for pro forma book value per share calculations(7)		223,023,170			262,380,200		301,737,230	

(1) Assumes that 4.0% of shares of common stock sold in the offering will be purchased by the employee stock ownership plan. For purposes of this table, the funds used to acquire these shares are assumed to have been borrowed by the employee stock ownership plan from Capitol Federal Financial, Inc. The loan will have a term of 30 years and an interest rate equal to the prime rate as published in The Wall Street Journal. Capitol Federal Savings Bank intends to make annual contributions to the employee stock ownership plan in an amount at least equal to the required principal and interest payments on the debt. Capitol Federal Savings Bank's total annual payments on the employee stock ownership plan debt are based upon 30 equal annual installments of principal and interest. Current accounting guidance requires that an employer record compensation expense in an amount equal to the fair value of the shares committed to be released to employees. The pro forma adjustments assume that: (i) the employee stock ownership plan shares are allocated in equal annual installments based on the number of loan repayment installments assumed to be paid by Capitol Federal Savings Bank; (ii) the fair value of the common stock remains equal to the \$10.00 subscription price; and (iii) the employee stock ownership plan expense reflects an effective combined federal and state tax rate of 38.32%. The unallocated employee stock ownership plan shares are reflected as a reduction of stockholders' equity. No reinvestment is assumed on

proceeds contributed to fund the employee stock ownership plan. The pro forma net income further assumes that 209,667, 246,667 and 283,667 shares were committed to be released during the period at the minimum, midpoint and maximum of the offering range, respectively, and in accordance with ASC 718, only the employee stock ownership plan shares committed to be released during the period were considered outstanding for purposes of net income per share calculations.

- (2) Gives effect to the grant of stock awards pursuant to the stock-based incentive plan expected to be adopted by Capitol Federal Financial, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that at the minimum, midpoint and maximum of the offering range this plan acquires a number of shares of restricted common stock equal to 2.0% of the shares sold in the offering, either through open market purchases, from authorized but unissued shares of common stock or treasury stock of Capitol Federal Financial, Inc. Funds used by the stock-based incentive plan to purchase the shares of common stock will be contributed by Capitol Federal Financial, Inc. In calculating the pro forma effect of the stock-based incentive plan, it is assumed that the shares of common stock were acquired by the plan in open market purchases at the beginning of the period presented for a purchase price equal to the price for which the shares are sold in the offering, and that 20% of the amount contributed was an amortized expense (based upon a five-year vesting period) during the year ended September 30, 2009. There can be no assurance that the actual purchase price of the shares of common stock granted under the stock-based incentive plan will be equal to the \$10.00 subscription price. If shares are acquired from authorized but unissued shares of common stock or from treasury shares of Capitol Federal Financial, Inc., our net income per share and stockholders' equity per share may change. This will also have a dilutive effect of approximately 1.39% (at the maximum of the offering range) on the ownership interest of stockholders. The impact on pro forma net income per share and pro forma stockholders' equity per share is not material. The following table shows pro forma net income per share for the year ended September 30, 2009 and pro forma stockholders' equity per share at September 30, 2009, based on the sale of the number of shares indicated, assuming all the shares of common stock to fund the stock awards are obtained from authorized but unissued shares.

At or for the Year Ended September 30, 2009	157,250,000	185,000,000	212,750,000
Pro forma net income per share	\$ 0.37	\$ 0.32	\$ 0.29
Pro forma stockholders' equity per share	\$ 10.48	\$ 9.87	\$ 9.41

- (3) Gives effect to the granting of options pursuant to the stock-based incentive plan, which is expected to be adopted by Capitol Federal Financial, Inc. following the offering and presented to stockholders for approval not earlier than six months after the completion of the offering. We have assumed that options will be granted to acquire shares of common stock equal to 5.0% of the shares sold in the offering. In calculating the pro forma effect of the stock options, it is assumed that the exercise price of the stock options and the trading price of the stock at the date of grant were \$10.00 per share, and the estimated grant-date fair value pursuant to the application of the Black-Scholes option pricing model was \$3.43 for each option, which was determined using the Black-Scholes option pricing formula using the following assumptions: (i) the trading price on date of grant was \$10.00 per share; (ii) exercise price is equal to the trading price on the date of grant; (iii) dividend yield of 3.0%; (iv) expected life of 10 years; (v) expected volatility of 36.45%; and (vi) risk-free interest rate of 3.85%. If the fair market value per share on the date of grant is different than \$10.00, or if the assumptions used in the option pricing formula are different from those used in preparing this pro forma data, the value of options and the related expense recognized will be different. The aggregate grant date fair value of the stock options was amortized to expense on a straight-line basis over a five-year vesting period of the options. There can be no assurance that the actual exercise price of the stock options will be equal to the \$10.00 price per share. If a portion of the shares to satisfy the exercise of options under the stock-based incentive plan is obtained from the issuance of authorized but unissued shares of common stock, our net income and stockholders' equity per share will decrease. This also will have a dilutive effect of up to 3.41% on the ownership interest of persons who purchase shares of common stock in the offering.
- (4) The number of shares used to calculate pro forma net income per share is equal to the estimated weighted average shares outstanding for the year ended September 30, 2009, multiplied by the exchange ratio at the minimum, midpoint and maximum and subtracting the employee stock ownership plan shares which have not been committed for release during the respective periods in accordance with current accounting guidance. See footnote 1, above.

- (5) The retained earnings of Capitol Federal Savings Bank will be substantially restricted after the conversion. See “Our Policy Regarding Dividends,” “The Conversion and Offering - Liquidation Rights” and “Supervision and Regulation.”
- (6) Per share figures include publicly held shares of CFF common stock that will be exchanged for shares of Capitol Federal Financial, Inc. common stock in the conversion. Stockholders’ equity per share calculations are based upon the sum of the (i) number of subscription shares assumed to be sold in the offering; (ii) shares to be issued in exchange for publicly held shares.
- (7) The number of shares used to calculate pro forma stockholders’ equity per share is equal to the total number of shares to be outstanding upon completion of the offering.

**COMPARISON OF VALUATION AND PRO FORMA DATA WITH  
AND WITHOUT THE CHARITABLE FOUNDATION**

As reflected in the table below, if the charitable foundation is not funded as part of the stock offering, RP Financial, LC. estimates that our pro forma valuation would be greater and, as a result, a greater number of shares of common stock would be issued in the stock offering. At the minimum, midpoint and maximum of the valuation range, our pro forma valuation is \$1.57 billion, \$1.85 billion and \$2.13 billion with the charitable foundation, as compared to \$1.61 billion, \$1.90 billion and \$2.18 billion, respectively, without the charitable foundation. There is no assurance that in the event the charitable foundation were not funded, the appraisal prepared at that time would conclude that our pro forma market value would be the same as that estimated in the table below. Any appraisal prepared at that time would be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions.

For comparative purposes only, set forth below are certain pricing ratios and financial data and ratios at and for the three months ended December 31, 2010 at the minimum, midpoint and maximum of the offering range, assuming the stock offering was completed at the beginning of the three-month period, with and without the charitable foundation.

	Minimum of Offering Range		Midpoint of Offering Range		Maximum of Offering Range	
	With Foundation	Without Foundation	With Foundation	Without Foundation	With Foundation	Without Foundation
	(Dollars in thousands, except per share amounts)					
Estimated stock offering amount	\$1,572,500	\$1,615,000	\$1,850,000	\$1,900,000	\$2,127,500	\$2,185,000
Estimated full value	2,230,232	2,290,508	2,623,802	2,694,716	3,017,372	3,098,923
Total assets	9,716,795	9,779,995	9,968,362	10,038,362	10,219,930	10,296,729
Total liabilities	7,379,154	7,379,154	7,379,154	7,379,154	7,379,154	7,379,154
Pro forma stockholders' equity	2,337,774	2,400,974	2,589,341	2,659,341	2,840,909	2,917,708
Pro forma net income	24,194	24,451	24,794	25,067	25,394	25,684
Pro forma stockholders' equity per share	10.48	10.48	9.87	9.87	9.42	9.42
Pro forma net income per share	0.11	0.11	0.10	0.10	0.09	0.09
Pro forma pricing ratios:						
Offering price as a percentage of pro forma stockholders' equity per share	95.42%	95.42%	101.32%	101.32%	106.16%	106.16%
Offering price to pro forma net income per share	22.73x	22.73x	25.00x	25.00x	27.78x	27.78x
Pro forma financial ratios:						
Return on assets (annualized)	1.00%	1.00%	0.99%	1.00%	0.99%	1.00%

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Return on equity (annualized)	4.14	4.07	3.83	3.77	3.58	3.52
Equity to assets	24.06	24.55	25.98	26.49	27.80	28.34

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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.

Our principal business consists of attracting deposits from the general public and investing 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 and commercial properties, construction loans secured by one- to four-family residences, commercial real estate loans, and multi-family real estate loans. While our primary business is the origination of one- to four-family loans funded through retail deposits, we also purchase whole loans and invest in certain investment securities and mortgage backed securities (which we call MBS), and use Federal Home Loan Bank (FHLB) advances, repurchase agreements and other borrowings as additional funding sources.

CFF 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.

CFF'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. Capitol Federal Savings 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 Capitol Federal Savings 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 reprice dates of less than two years.

During the first quarter of fiscal year 2010, the economy began to show signs of recovery, as evidenced by an increase in consumer spending and stabilization of the labor market, the housing sector, and financial markets. However, unemployment levels remained elevated, housing prices remained depressed and demand for housing was weak, due to distressed sales and tightened lending standards. In an effort to support mortgage lending and housing market recovery, and to help improve credit conditions overall, the Federal Open Market Committee of the Federal Reserve maintained the overnight lending rate between zero and 25 basis points during the first quarter of fiscal year 2010. The Federal Reserve also announced its intention to conclude its purchase of up to \$1.25 trillion of agency MBS by March 31, 2010.

Due to strong capital levels, prudent underwriting, and relative economic stability in Capitol Federal Savings Bank's local market areas, Capitol Federal Savings Bank has not experienced the same magnitude of adverse operational impacts experienced by many financial institutions since fiscal 2008. We have experienced an increase in the balance of delinquent and non-performing loans and losses on foreclosed property transactions, primarily related to our purchased loan portfolio; however, the amounts continue to remain at low levels relative to the size of our loan



portfolio.

CFF recognized net income of \$21.0 million for the quarter ended December 31, 2009, compared to net income of \$15.9 million for the quarter ended December 31, 2008. The \$5.1 million increase in net income between the periods was primarily due to a decrease of \$10.1 million in interest expense and an increase of \$6.5 million in other income, partially offset by a \$6.4 million decrease in interest and dividend income, a \$2.6 million increase in the provision for loan losses, and a \$1.8 million increase in income taxes due to higher earnings. The decrease in interest expenses was due to a decrease in the rate on our FHLB advances due to the refinancing of \$875.0 million of advances during the second and third quarters of fiscal year 2009 and a decrease in interest expense on deposits due to the continued decline in the cost of our certificate of deposit and money market portfolios as a result of lower short-term market rates. The \$6.5 million increase in other income was primarily due to the gain on the sale of trading securities received in conjunction with a loan swap transaction during the current quarter. The decrease in interest and dividend income was primarily a result of a decrease in the average yield on the MBS and loans receivable portfolios due to prepayments of MBS and mortgage loans with higher yields than the average portfolio yield, adjustable-rate MBS and mortgage loans adjusting to lower market rates on their reprice dates, refinances and modifications of mortgage loans, and the origination of new mortgage loans at rates lower than the overall portfolio rate. The \$2.6 million increase in the provision for loan losses primarily reflected increases in the level of certain qualitative factors in our general valuation allowance model to account for continuing negative economic conditions.

During the first quarter of fiscal year 2010, Capitol Federal Savings Bank swapped \$194.8 million of originated fixed-rate mortgage loans with FHLMC for trading MBS. The trading MBS were sold at a gain of \$6.5 million and the proceeds were reinvested into assets with an average life shorter than that of Capitol Federal Savings Bank's remaining assets in an effort to reduce future interest rate risk sensitivity that could occur as a result of the high volume of refinances and modifications and likely increases in interest rates. Since December 2008, mortgage interest rates have been historically low, prompting increased demand for refinances and loan modifications.

CFF recognized net income of \$66.3 million for the fiscal year ended September 30, 2009, compared to net income of \$51.0 million for the fiscal year ended September 30, 2008. The increase in net income between the periods was primarily due to a decrease of \$40.5 million in interest expense partially offset by a \$9.7 million increase in income tax expense due to higher pre-tax income, an increase of \$6.8 million in Federal Deposit Insurance Corporation (FDIC) insurance premium expense and an increase of \$4.3 million in the provision for loan losses. Capitol Federal Savings Bank's overall cost of funds decreased during fiscal year 2009 due primarily to a reduction in the rate of our certificate of deposit and money market portfolios as a result of lower short-term market rates and our FHLB advances due to the refinance. The increase in FDIC premium expense was a result of an increase in deposit insurance premiums and a special assessment at June 30, 2009. The \$4.3 million increase in the provision for loan losses reflected an increase in specific valuation allowances on purchased loans, an increase in the balance of non-performing purchased loans, an increase in general valuation allowances primarily related to purchased loans 30 to 89 days delinquent, and an increase in charge-offs, also primarily relate to purchased loans. See “– Critical Accounting Policies – Allowance for Loan Losses” and “Business of CFF – Asset Quality.”

Total assets decreased slightly from \$8.40 billion at September 30, 2009 to \$8.37 billion at December 31, 2009. Total liabilities remained relatively unchanged from \$7.46 billion at September 30, 2009 to \$7.43 billion at December 31, 2009. Total assets increased \$348.4 million from \$8.06 billion at September 30, 2008 to \$8.40 billion at September 30, 2009. The increase in assets was primarily attributable to a \$283.2 million increase in loans receivable, substantially due to loan purchases, which was primarily funded by deposit growth. Deposits increased from \$3.92 billion at September 30, 2008 to \$4.23 billion at September 30, 2009. The \$304.7 million increase was primarily in the certificate of deposit and money market portfolios. We believe the turmoil in the credit and equity markets has made deposit products in well-capitalized financial institutions, like Capitol Federal Savings Bank, desirable for many customers. Households have increased their personal savings rate which we believe has also contributed to our growth in deposits.

Capitol Federal Savings Bank opened three new branches in our Kansas City and Wichita market areas in fiscal year 2009, and has opened two new branches in our Kansas City market area since the beginning of fiscal year 2010. We also opened a new branch in the Wichita market area in the second quarter of fiscal 2010. Capitol Federal Savings Bank continues to consider expansion opportunities in all its market areas.

#### Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the allowance for loan losses (ALLL), 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. The following is a description of our critical accounting policies and an explanation of the methods and assumptions underlying their application.



Allowance for Loan Losses. Management maintains an ALLL to absorb known and inherent losses in the loan portfolio based upon ongoing quarterly assessments of the loan portfolio. Our methodology for assessing the appropriateness of the ALLL consists of a formula analysis for general valuation allowances and specific valuation allowances for identified problem loans and impaired loans. The ALLL is maintained through provisions for loan losses which are charged to income. The methodology for determining the ALLL is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded ALLL.

Our primary lending emphasis is the origination and purchase of one- to four-family mortgage loans on residential properties and, to a lesser extent, home equity and second mortgages on one- to four-family residential properties resulting in a loan concentration in residential first mortgage loans. As a result of our lending practices, we also have a concentration of loans secured by real property located primarily in Kansas and Missouri. At December 31, 2009, approximately 70% and approximately 15% of Capitol Federal Savings Bank's loans were secured by real property located in Kansas, and Missouri, respectively. Based on the composition of our loan portfolio, we believe the primary risks inherent in our portfolio are the continued weakened economic conditions due to the recent U.S. recession, continued high levels of unemployment or underemployment, the potential for rising mortgage interest rates in the markets we lend and a continuing decline in 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 levels of loan loss provisions. Although management believes that Capitol Federal Savings Bank has established and maintained the ALLL at appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment.

Management considers quantitative and qualitative factors when determining the appropriateness of the ALLL. Such factors include changes in underwriting standards, the trend and composition of delinquent and non-performing loans, results of foreclosed property and short sale transactions, historical charge-offs, the current status and trends of local and national economies, specifically levels of unemployment, changes in mortgage interest rates and loan portfolio growth and concentrations. Since our loan portfolio is primarily concentrated in one- to four-family real estate, we monitor one- to four-family real estate market value trends in our local market areas and geographic sections of the U.S. by reference to various industry and market reports, economic releases and surveys, and our general and specific knowledge of the real estate markets in which we lend, in order to determine what impact, if any, such trends may have on the level of our ALLL. We also use ratio analyses as a supplemental tool for evaluating the overall reasonableness of the ALLL. We consider the observed trends in the ratios, taking into consideration the composition of our loan portfolio compared to our peers, in combination with our historical loss experience. We also review the actual performance and charge-off history of our portfolio and compare that to our previously determined allowance coverage percentages and specific valuation allowances. In addition, the Office of Thrift Supervision reviews the adequacy of CFF's ALLL during its examination process. We consider any comments from the Office of Thrift Supervision when assessing the appropriateness of our ALLL. Reviewing these quantitative and qualitative factors assists management in evaluating the overall reasonableness of the ALLL and whether changes need to be made to our assumptions. Our ALLL methodology is applied in a consistent manner; however, the methodology can be modified in response to changing conditions.

Each quarter, the loan portfolio is segregated into categories in the formula analysis based on certain risk characteristics such as loan type (one- to four-family, multi-family, etc.), interest payments (fixed-rate, adjustable-rate), loan source (originated or purchased), loan-to-value ratios, borrower's credit score and payment status (i.e. current or number of days delinquent). Consumer loans, such as second mortgages and home equity lines of credit, with the same underlying collateral as a one- to four-family loan are combined with the one- to four-family loan in the formula analysis to calculate a combined loan-to-value ratio. Loss factors are assigned to each category in the formula analysis based on management's assessment of the potential risk inherent in each category. The greater the

risks associated with a particular category, the higher the loss factor. Loss factors increase as individual loans become classified or delinquent, the foreclosure process begins or as economic and market conditions and trends warrant. All loans that are not impaired are included in a formula analysis. Impaired loans are defined as non-accrual loans and troubled debt restructurings (TDRs) that have not been performing under the restructured terms for 12 consecutive months.

The loss factors applied in the formula analysis are reviewed quarterly by management to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. The review considers such qualitative and quantitative factors as the trends and composition of delinquent and non-performing loans, the results of foreclosed property and short sale transactions, and the status and trends of the local and national economies and housing markets. Our ALLL methodology permits modifications to any loss factor used in the computation of the formula analysis in the event that, in management's judgment, significant factors which affect the collectability of the portfolio or any category of the loan portfolio, as of the evaluation date, are not reflected in the current loss factors. Management's evaluation of the qualitative factors with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with a specific problem loan or portfolio segments. During the current quarter, management increased the level of certain qualitative factors in our formula analysis to account for continued negative economic conditions.

Specific valuation allowances are established in connection with individual loan reviews of specifically identified problem and impaired loans. Since the majority of our loan portfolio is composed of one- to four-family real estate, determining the estimated fair value of the underlying collateral is critical in evaluating the amount of specific valuations required for problem and impaired loans. Estimated fair value of the underlying collateral is based on current appraisals, real estate broker values or listing prices. It sometimes takes several months for a loan to work through the foreclosure process. For purchased loans, the estimated fair values received from servicers when a loan becomes 90 days delinquent is not always an accurate representation of the fair value once the collateral has been sold, due to the continued decline in real estate values between the two points in time. To account for the declines in fair value on purchased loans, management applies a market value adjustment to non-performing purchased loans to more accurately estimate the fair values of the underlying collateral. The adjustments are determined based on the geographic location of the underlying collateral, recent losses recognized on foreclosed property and short sale transactions and trends of non-performing purchased loans entering foreclosure in the various geographic areas. Specific valuation allowances are established if the adjusted estimated fair value, less estimated selling costs, is less than the current loan balance.

Loans with an outstanding balance of \$1.5 million or more are individually 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. Specific valuation allowances are established if the individual loan review determines a quantifiable impairment.

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

**Securities Impairment.** Management monitors the securities portfolio for other-than-temporary impairments (OTTI) on an ongoing basis and performs a formal review quarterly. The process involves monitoring market events and other items that could impact issuers' ability to perform. The evaluation includes, but is not limited to such factors as: the nature of the investment, the length of time the security has had a fair value less than the amortized cost basis, the cause(s) and severity of the loss, expectation of an anticipated recovery period, recent events specific to the issuer or industry including the issuer's financial condition and the current ability to make future payments in a timely manner, external credit ratings and recent downgrades in such ratings, CFF's intent to sell and whether it is more likely than not CFF would be required to sell prior to recovery for debt securities.

Management determines whether OTTI losses should be recognized for impaired securities by assessing all known facts and circumstances surrounding the securities. If CFF intends to sell an impaired security or if it is more likely than not that CFF will be required to sell an impaired security before recovery of its amortized cost basis, an OTTI will be recognized and the difference between amortized cost and fair value will be recognized as a loss in earnings. At December 31, 2009, no securities had been identified as other-than-temporarily impaired.

**Fair Value Measurements.** CFF uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures, per the provisions of Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. CFF's AFS securities are recorded at fair value on a recurring basis. Changes in the fair value of AFS securities are recorded, net of tax, in accumulated other comprehensive income, which is a component of stockholders' equity. CFF did not have any liabilities that were measured at fair value at December 31, 2009. Additionally, from time to time, CFF may be required to record at fair value other assets or liabilities on a non-recurring basis, such as REO 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, CFF groups its assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the underlying assumptions used to determine fair value, with Level 1 (quoted prices for identical assets in an active market) being considered the most reliable, and Level 3 having the most unobservable inputs and therefore being considered the least reliable. CFF 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, CFF maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

**Recent Accounting Pronouncements.** For a discussion of Recent Accounting Pronouncements, see “Notes to Consolidated Financial Statements - Note 1- Summary of Significant Accounting Policies.”

### Management Strategy

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

**Portfolio Lending.** We are one of the largest originators of one- to four-family loans in the state of Kansas. We have primarily originated these loans for our own portfolio, rather than for sale, and generally we service the loans we originate. We provide retail customers with alternatives for their borrowing needs by offering both fixed- and adjustable-rate products with various terms to maturity and pricing alternatives. We offer special programs to individuals who may be first time home buyers, have low or moderate incomes or may have certain credit risk concerns in order to maximize our ability to deliver home ownership opportunities. Through our marketing efforts that reflect our reputation and pricing, and strong relationships with real estate agents, we attract mortgage loan business from walk-in customers, customers that apply online, and existing customers. We also purchase one- to four-family loans from correspondent lenders secured by property primarily located within our market areas and select market areas in Missouri and from nationwide lenders. Following completion of this offering, we intend to increase our emphasis on purchased loans that meet our underwriting standards.

**Retail Financial Services.** We offer a wide array of deposit products and retail services for our customers. These products include checking, savings, money market, certificates of deposit and retirement accounts. These products and services are provided through a branch network of 45 locations which includes traditional branch and retail store locations, our call center which operates on extended hours, telephone bill payment services and Internet-based transaction services.

**Cost Control.** We generally are very effective at controlling our costs of operations. By using technology, we are able to centralize our lending and deposit support functions for efficient processing. We have located our branches to serve a broad range of customers through relatively few branch locations. Our average deposit base per traditional branch at December 31, 2009, September 30, 2009 and 2008 was approximately \$115.7 million, \$117.5 million and \$119.5 million, respectively. This large average deposit base per branch helps to control costs. Our one- to four-family lending strategy and our effective management of credit risk allows us to service a large portfolio of loans at efficient levels because it costs less to service a portfolio of performing loans. At December 31, 2009, our efficiency ratio was 39.23%.

**Asset Quality.** We utilize underwriting standards for our lending products that are designed to limit our exposure to credit risk, and we have a portfolio of predominately one- to four-family loans. At December 31, 2009, our ratio of non-performing assets to total assets was 0.47%. See “Business of CFF — Asset Quality.”



Capital Position. Our policy has always been to protect the safety and soundness of Capitol Federal Savings Bank through conservative credit and operational risk management, balance sheet strength, and sound operations. The end result of these activities is a capital ratio in excess of the well-capitalized standards set by the Office of Thrift Supervision. We believe that maintaining a strong capital position safeguards the long-term interests of Capitol Federal Savings Bank, CFF and our stockholders.

**Stockholder Value.** We strive to enhance stockholder value while maintaining a strong capital position. One way that we continue to provide returns to stockholders through our dividend payments. Total dividends declared and paid during the quarter end December 31, 2009 were \$0.79 per public share, which consisted of the regular quarterly dividend of \$0.50 per public share and a special year end dividend of \$0.29 per public share. Total dividends declared and paid during fiscal year 2009 were \$2.11 per public share. CFF's cash dividend payout policy is reviewed quarterly by management and the board of directors, and the ability to pay dividends under the policy depends upon a number of factors, including CFF's financial condition and results of operations, Capitol Federal Savings Bank's regulatory capital requirements, regulatory limitations on Capitol Federal Savings Bank's ability to make capital distributions to CFF and the amount of cash at the holding company. It is the board of directors' intention to continue to pay regular quarterly cash dividends after completion of the offering, but at a reduced rate. See "Dividend Policy."

**Interest Rate Risk Management.** Changes in interest rates are our primary market risk as our balance sheet is almost entirely comprised of interest-earning assets and interest-bearing liabilities. As such, fluctuations in interest rates have a significant impact not only upon our net income but also upon the cash flows related to those assets and liabilities and the market value of our assets and liabilities. In order to maintain acceptable levels of net interest income in varying interest rate environments, we take on a moderate amount of interest rate risk consistent with board policies.

#### Quantitative and Qualitative Disclosure about Market Risk

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

The general objective of our interest rate risk management is to determine and manage an appropriate level of interest rate risk while maximizing net interest income, in a manner consistent with our policy to reduce, to the extent possible, the exposure of our net interest income to changes in market interest rates. Our asset and liability committee (ALCO) regularly reviews the interest rate risk exposure of Capitol Federal Savings Bank by forecasting the impact of hypothetical, alternative interest rate environments on net interest income and market value of portfolio equity (MVPE) at various dates. The MVPE is defined as the net of the present value of the cash flows of an institution's existing assets, liabilities and off-balance sheet instruments. The present values are determined in alternative interest rate environments providing potential changes in net interest income and MVPE under those alternative interest rate environments. Capitol Federal Savings Bank's analysis of its MVPE at December 31, 2009 indicates a general decrease in its risk exposure compared to September 30, 2009 primarily due to the loan swap transaction that resulted in a reduction in amount of long-term mortgage assets outstanding at December 31, 2009. Capitol Federal Savings Bank's analysis of the sensitivity of its net interest income to parallel changes in interest rates at December 31, 2009 indicates an increase in sensitivity since September 30, 2009.

Based upon management's recommendations, the board of directors sets the asset and liability management policies of Capitol Federal Savings Bank. These policies are implemented by ALCO. The purpose of ALCO is to communicate, coordinate and control asset and liability management consistent with the business plan and board-approved policies. ALCO sets goals for and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce the highest profitability balanced against liquidity, capital adequacy and risk management objectives. At each monthly meeting, ALCO recommends appropriate strategy changes. The Chief Financial Officer,

or his designee, is responsible for executing, reviewing and reporting on the results of the policy recommendations and strategies to the board of directors, generally on a monthly basis.

The ability to maximize net interest income is dependent largely upon the achievement of a positive interest rate spread that can be sustained despite fluctuations in prevailing interest rates. The asset and liability repricing gap is a measure of the difference between the amount of interest-earning assets and interest-bearing liabilities which either reprice or mature within a given period of time. The difference provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest-earning assets exceeds the amount of interest-bearing liabilities, maturing or repricing during the same period. A gap is considered negative when the amount of interest-bearing liabilities exceeds the amount of interest-earning assets maturing or repricing during the same period. Generally, during a period of rising interest rates, a negative gap within shorter repricing periods adversely affects net interest income, while a positive gap within shorter repricing periods results in an increase in net interest income. During a period of falling interest rates, the opposite would generally be true. As of December 31, 2009, the ratio of our one-year gap to total assets was a positive 1.75%.

Management recognizes that dramatic changes in interest rates within a short period of time can cause an increase in our interest rate risk relative to the balance sheet. At times, ALCO may recommend increasing our interest rate risk position in an effort to increase our net interest margin, while maintaining compliance with established board limits for interest rate risk sensitivity. Management believes that maintaining and improving earnings is the best way to preserve a strong capital position. Management recognizes the need, in certain interest rate environments, to limit Capitol Federal Savings Bank's exposure to changing interest rates and may implement strategies to reduce our interest rate risk which could, as a result, reduce earnings in the short-term. To minimize the potential for adverse effects of material and prolonged changes in interest rates on our results of operations, we have adopted asset and liability management policies to better balance the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities based on existing local and national interest rates.

During periods of economic uncertainty, rising interest rates or extreme competition for loans, Capitol Federal Savings Bank's ability to originate or purchase loans may be adversely affected. In such situations, Capitol Federal Savings Bank alternatively may invest its funds into investments or MBS. These alternate investments may have rates of interest lower than rates we could receive on loans, if we were able to originate or purchase them, potentially reducing Capitol Federal Savings Bank's interest income.

**Qualitative Disclosure about Market Risk.** For each period end presented in the following table, the estimated percentage change in Capitol Federal Savings Bank's net interest income based on the indicated instantaneous, parallel and permanent change in interest rates is presented. The percentage change in each interest rate environment represents the difference between estimated net interest income in the zero basis point interest rate environment (base case, assumes the forward market and product interest rates implied by the yield curve are realized) and estimated net interest income in each alternative interest rate environment (assumes market and product interest rates have a parallel shift in rates across all maturities by the indicated change in rates). At December 31, 2009, the three-month Treasury bill yield was less than one percent, so the -100 and -200 basis point scenarios are not presented. Estimations of net interest income used in preparing the table below are based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities does not change materially and that any repricing of assets or liabilities occurs at anticipated product and market rates for the alternative rate environments as of the dates presented. The estimation of net interest income does not include any projected gain or loss related to the sale of loans or securities, or income derived from non-interest income sources, but does include the use of different prepayment assumptions in the alternative interest rate environments. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react differently to changes in market interest rates. Assumptions may not reflect how actual yields and costs respond to market changes. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate mortgage (ARM) loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the

event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed. It is important to consider that the changes in estimated net interest income are for a cumulative four-quarter period. These do not reflect the earnings expectations of management.

## Percentage Change in Net Interest Income

Change (in Basis Points) in Interest Rates (1)	At December 31, 2009	At September 30, 2009		
-100 bp	N/A	N/A		
000 bp	—	—		
+100 bp	-0.65 %	0.84 %		
+200 bp	-2.95 %	-0.54 %		
+300 bp	-6.22 %	-2.41 %		

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

At September 30, 2009, the projected net interest income increased in the +100 basis point scenario before declining in the +200 and +300 basis point scenarios. At December 31, 2009, the net interest income projections declined in all interest rate shock scenarios presented. The primary reason for the change in the net interest income projections between the two periods was driven by the increase in interest rates during this time and the resulting change in the cashflow projections of Capitol Federal Savings Bank's mortgage-related assets. Prepayment assumptions for mortgage-related assets change under various interest rate environments because many borrowers look to obtain financing at the lowest cost available. Generally, there is no penalty to prepay a mortgage loan. If interest rates decrease, the borrower has an economic incentive to lower their mortgage payment (through a lower interest rate) with only the fees associated on the new mortgage or loan modification. This results in an increase in prepayments, and the average life a mortgage loan shortens compared to higher interest rate environments. When interest rates increase, the economic incentive for borrowers to refinance or modify their mortgage payment is reduced, resulting in lower prepayment assumptions and longer average lives.

With interest rates increasing between September 30, 2009 and December 31, 2009, the prepayment expectations decreased at December 31, 2009 compared to September 30, 2009. As a result, there are fewer assets expected to reprice during the upcoming year. The amount of liabilities expected to reprice in the rising interest rate scenarios presented is greater than the amount of assets repricing, which results in a reduction in Capitol Federal Savings Bank's net interest margin and thus lower net interest income projections in all scenarios. At September 30, 2009 the amount of assets expected to reprice remained greater than the amount of liabilities in the +100 basis point scenario. As prepayment expectations continued to decrease in the +200 and +300 basis point scenario, the amount of liabilities repricing exceeded the amount of assets repricing, reducing the net interest income projections in these scenarios.

The following table sets forth the percentage change in estimated MVPE at each period presented based on the indicated instantaneous, parallel and permanent change in interest rates. The MVPE is defined as the net of the present value of the cash flows of an institution's existing assets, liabilities and off-balance sheet instruments. The percentage change in each interest rate environment represents the difference between MVPE in the base case and MVPE in each alternative interest rate environment. The estimations of MVPE used in preparing the table below are based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities does not change, that any repricing of assets or liabilities occurs at current product or market rates for the alternative rate environments as of the dates presented and that different prepayment rates are used in each alternative interest rate environment. The estimated MVPE results from the valuation of cash flows from financial assets and liabilities over the anticipated lives of each for each interest rate environment. The table presents the effects of the change in interest

rates on our assets and liabilities as they mature, repay or reprice, as shown by the change in the MVPE in changing interest rate environments.

## Percentage Change in MVPE

Change (in Basis Points) in Interest Rates (1)	At December 31, 2009	At September 30, 2009
-100 bp	N/A	N/A
000 bp	—	—
+100 bp	-5.66 %	-4.92 %
+200 bp	-16.55 %	-18.11 %
+300 bp	-30.26 %	-34.32 %

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

Changes in the estimated market values of our financial assets and liabilities drive changes in the estimates of MVPE. The market value of shorter term-to-maturity financial instruments is less sensitive to changes in interest rates than the market value of longer term-to-maturity financial instruments. Because of this, our certificates of deposit (which have relatively short average lives) tend to display less sensitivity to changes in interest rates than do our mortgage-related assets (which have relatively long average lives). However, the average life expected on our mortgage-related assets varies under different interest rate environments because borrowers have the ability to prepay their mortgage loans, as discussed above.

Capitol Federal Savings Bank's MVPE declines in the rising interest rate environments. As rates increase, the estimated fair values of the liabilities with short average lives do not respond to rates in the same manner as the longer maturity assets, such as our fixed-rate loans, which have longer average lives. The prepayment assumptions on the fixed-rate loans in particular, and all mortgage-related assets in general, anticipate prepayment rates in the increasing rate environments that would likely only be realized through normal changes in borrowers lives, such as divorce, death, job-related relocations, and other life changing events. The lower prepayment assumptions extend the expected average lives on these assets, relative to assumptions in the base case, thereby increasing their sensitivity to changes in interest rates. The net effect of these characteristics of short-lived liabilities and long-lived assets is to increase the sensitivity of Capitol Federal Savings Bank to changes in interest rates the more rates increase.

The MVPE decreased in all interest rate shock scenarios presented at December 31, 2009 and became more sensitive to changes in interest rates in the +100 basis point scenario compared to September 30, 2009. The changes from September 30, 2009 were primarily driven by an increase in interest rates from September 30, 2009 to December 31, 2009. This resulted in a significant increase in the WAL of all mortgage-related assets as borrowers have less economic incentive to refinance or modify their mortgage loan, which increased the price sensitivity of all mortgage-related assets and, as a result, assets as a whole. The sensitivity in the +200 and +300 basis point scenarios decreased from September 30, 2009 as a result of the loan swap transaction during the current quarter. The loan swap transaction reduced the amount of 30-year mortgage loans outstanding at December 31, 2009. Thirty-year mortgage assets are the assets with the greatest amount of interest rate sensitivity for Capitol Federal Savings Bank. The reduction of these assets helped to reduce the overall level of interest rate risk at December 31, 2009 as compared to September 30, 2009.

General assumptions used by management to evaluate the sensitivity of our financial performance to changes in interest rates presented in the tables above are utilized in, and set forth under, the gap table and related notes



below. Although management finds these assumptions reasonable given the constraints described above, the interest rate sensitivity of our assets and liabilities and the estimated effects of changes in interest rates on our net interest income and MVPE indicated in the above tables could vary substantially if different assumptions were used or actual experience differs from these assumptions.

Gap Table: The following gap table summarizes the anticipated maturities or repricing of our interest-earning assets and interest-bearing liabilities as of December 31, 2009, based on the information and assumptions set forth in the notes below. Cash flow projections for mortgage loans and MBS are calculated based on current interest rates. Prepayment projections are subjective in nature, involve uncertainties and assumptions and, therefore, cannot be determined with a high degree of accuracy. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react differently to changes in market interest rates. Assumptions may not reflect how actual yields and costs respond to market changes. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels likely would deviate significantly from those assumed in calculating the gap table. For additional information regarding the impact of changes in interest rates, see the “Percentage Change in Net Interest Income” and “Percentage Change in MVPE” tables above.

	Within Three Months	Three to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years	Over Five Years	Total
(Dollars in thousands)						
Interest-earning assets:						
Loans receivable (1):						
Mortgage loans:						
Fixed	\$ 210,343	\$ 479,397	\$ 858,370	\$ 606,868	\$ 2,017,014	\$ 4,171,992
Adjustable	92,394	608,662	252,229	73,694	19,123	1,046,102
Other loans	137,984	15,952	21,835	15,142	11,735	202,648
Investment securities (2)	99,459	93,713	167,564	265,366	26,340	652,442
MBS (3)	220,651	614,024	421,116	243,759	328,281	1,827,831
Other interest-earning assets	73,792	—	—	—	—	73,792
Total interest-earning assets	834,623	1,811,748	1,721,114	1,204,829	2,402,493	7,974,807
Interest-bearing liabilities:						
Deposits:						
Savings (4)	97,768	8,504	19,608	15,208	84,295	225,383
Checking (4)	11,104	35,729	121,381	68,054	255,351	491,619
Money market (4)	39,078	108,124	215,196	167,831	357,902	888,131
Certificates	472,775	978,088	1,009,708	160,572	976	2,622,119
Borrowings (5)	53,609	695,000	776,000	1,120,000	495,000	3,139,609
Total interest-bearing liabilities	674,334	1,825,445	2,141,893	1,531,665	1,193,524	7,366,861
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	\$ 160,289	\$ (13,697)	\$ (420,779)	\$ (326,836)	\$ 1,208,969	\$ 607,946
Cumulative excess (deficiency) of interest-earning assets over	\$ 160,289	\$ 146,592	\$ (274,187 )	\$ (601,023)	\$ 607,946	

## interest-bearing liabilities

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

December 31, 2009	1.91%	1.75%	(3.27)%	(7.18)%	7.26%
September 30, 2009	0.81	6.78	4.60	(2.48)	8.11

- 
- (1) Adjustable-rate loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur prior to their next rate adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances have been reduced for non-performing loans, which totaled \$32.5 million at December 31, 2009.
  - (2) Based on contractual maturities, or terms to call date or pre-refunding dates as of December 31, 2009, and excludes the unrealized loss adjustment of \$499 thousand on AFS investment securities.
  - (3) Reflects estimated prepayments of MBS in our portfolio, and excludes the unrealized gain adjustment of \$50.1 million on AFS MBS.
  - (4) Although our checking, savings and money market accounts are subject to immediate withdrawal, management considers a substantial amount of such accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rate at which the balance of existing accounts would decline) used on these accounts are based on assumptions developed based upon our actual experience with these accounts. If all of our checking, savings and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$1.16 billion, for a cumulative one-year gap of (13.8)% of total assets.
  - (5) Borrowings exclude \$32.5 million of deferred prepayment penalty costs and \$756 thousand of deferred gain on the terminated interest rate swaps.

The change in the one-year gap to 1.75% at December 31, 2009 from 6.78% at September 30, 2009 was a result of an increase in interest rates, particularly mortgage interest rates. The increase in mortgage interest rates decreased projected cash flows from mortgage loan prepayments which resulted in longer average lives and slower repricing of interest-earning assets at December 31, 2009 compared to September 30, 2009.

#### Financial Condition

Total assets decreased slightly from \$8.40 billion at September 30, 2009 to \$8.37 billion at December 31, 2009. Management may continue to maintain interest-earning assets at current levels or below until market conditions provide profitable growth opportunities that are consistent with interest rate risk management policies.

Total assets increased \$348.4 million from \$8.06 billion at September 30, 2008 to \$8.40 billion at September 30, 2009. The increase in assets was primarily attributed to an increase in investment securities of \$338.3 million and an increase in loans receivable of \$283.2 million, partially offset by a decrease in MBS of \$241.9 million. The increase in the investment securities portfolio was a result of cash flows from the MBS portfolio being used to purchase investment securities. The increase in loans receivable was due substantially to purchases.

Total liabilities increased \$278.3 million from \$7.18 billion at September 30, 2008 to \$7.46 billion at September 30, 2009. The increase in liabilities was a result of an increase of \$304.7 million in deposits, primarily in the certificate of deposit portfolio. We believe the turmoil in the credit and equity markets has made deposit products in well-capitalized financial institutions, like Capitol Federal Savings Bank, desirable for many customers. In response to the economic recession, households increased their personal savings rate which we believe also contributed to our growth in deposits during this period.

**Loans Receivable.** The loans receivable portfolio decreased \$180.0 million from \$5.60 billion at September 30, 2009 to \$5.42 billion at December 31, 2009. The decrease in the portfolio was the result of a loan swap transaction that took place during the quarter, where \$194.8 million of originated fixed-rate mortgage loans were swapped for MBS as a means of reducing future interest rate risk sensitivity. Capitol Federal Savings Bank will continue to service these loans. The MBS were classified as trading securities and sold during the current quarter for a gain. The proceeds from the sale were primarily reinvested into investment securities with terms shorter than that of the loans swapped.

Capitol Federal Savings Bank purchased \$37.6 million of loans from nationwide lenders during the quarter ended December 31, 2009, the majority of which were adjustable-rate. These loans had an average credit score of 725 at origination and a weighted average loan to value ratio of 46%, based upon the loan balance at the time of purchase and the lower of the purchase price or appraisal at origination. At December 31, 2009, loans purchased from nationwide lenders represented 13% of our loan portfolio and were secured by properties located in 47 of the continental United States and Washington, D.C. As of December 31, 2009, the average balance of a purchased nationwide mortgage loan was approximately \$350 thousand, the average balance of a purchased correspondent loan was approximately \$250 thousand, and the average balance of an originated mortgage loan was approximately \$125 thousand. By purchasing loans from nationwide lenders, Capitol Federal Savings Bank is able to attain some geographic diversification in its loan portfolio and help mitigate Capitol Federal Savings Bank's interest rate risk exposure as the purchased loans are predominately adjustable-rate or 15-year fixed-rate loans. Although at the time these loans were purchased they met our underwriting standards, as a result of the continued elevated levels of unemployment and the declines in real estate values in some of the states where we have purchased loans, we have experienced an increase in non-performing purchased loans. See the additional discussion regarding non-performing purchased loans in "Asset Quality – Loans and REO."

The loan portfolio increased \$283.2 million from \$5.32 billion at September 30, 2008 to \$5.60 billion at September 30, 2009. The increase in loans receivable was due to originations and purchases of \$1.45 billion, partially offset by

principal repayments of \$1.08 billion. The increase was primarily a result of \$191.8 million of loan purchases from nationwide lenders. The loans purchased from nationwide lenders during fiscal year 2009 had an average credit score of 745 at the time of origination and a weighted average loan to value ratio of 50% at the time of purchase. The majority of the loans were originated in years outside of the years with peak real estate values and non-traditional underwriting standards. Approximately 80% were originated in 2004 or earlier and approximately 20% were originated in 2008. Additionally, states that experienced historically high foreclosure rates were avoided.

Included in the loan portfolio at December 31, 2009 were \$243.7 million of interest-only ARM loans, the majority of which were purchased from nationwide lenders during fiscal year 2005. These loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or ten years. The interest-only loans purchased had an average credit score of 737 and an average loan to value ratio of 80% or less at the time of purchase. Capitol Federal Savings 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 December 31, 2009, \$233.3 million, or 96% of interest-only loans were still in their interest-only payment term. As of December 31, 2009, \$110.7 million will begin to amortize principal within two years, \$16.4 million will begin to amortize principal within two-to-five years, \$89.7 million will begin to amortize principal within five-to-seven years and the remaining \$16.4 million will begin amortizing in seven-to-ten years. At December 31, 2009, \$15.7 million or approximately 50% of non-performing loans were interest-only and \$2.8 million was reserved in the ALLL for these loans. Non-performing interest-only loans represented approximately 6% of the total interest-only portfolio at December 31, 2009. See the additional discussion regarding non-performing loans in "Asset Quality."

Historically, Capitol Federal Savings Bank's underwriting guidelines have provided Capitol Federal Savings Bank with loans of high quality and low delinquencies, and low levels of non-performing assets compared to national levels. Of particular importance is the complete documentation required for each loan Capitol Federal Savings Bank originates and purchases. This allows Capitol Federal Savings 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. Non-performing loans increased \$17.2 million from \$13.7 million at September 30, 2008 to \$30.9 million at September 30, 2009 and \$1.6 million to \$32.5 million at December 31, 2009. Non-performing loans are at historically high levels due to the continued elevated level of unemployment coupled with the decline in real estate values, particularly in some of the states in which we have purchased loans. Our ratio of non-performing loans to total loans increased from 0.26% at September 30, 2008 to 0.55% at September 30, 2009 and to 0.60% at December 31, 2009. At December 31, 2009, our allowance for loan losses was \$12.2 million or 0.23% of the total loan portfolio and 38% of total non-performing loans. This compares with an allowance for loan losses of \$10.2 million or 0.18% of the total loan portfolio and 33% of total non-performing loans as of September 30, 2009 and \$5.8 million or 0.11% of the total loan portfolio and 42% of total non-performing loans as of September 30, 2008. See "Business – Asset Quality."

Capitol Federal Savings Bank generally prices its one- to four-family loan products based upon prices available in the secondary market. During the three months ended December 31, 2009, the average rate offered on Capitol Federal Savings Bank's 30-year fixed-rate one- to four-family loans, with no points paid by the borrower, was approximately 160 basis points above the average 10-year Treasury rate, while the average rate offered on Capitol Federal Savings Bank's 15-year fixed-rate one- to four-family loans was approximately 100 basis points above the average 10-year Treasury rate.

Conventional one- to four-family loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated to reduce interest rate risk and/or maintain a certain liquidity position. Capitol Federal Savings Bank generally retains the servicing on these sold loans. ALCO determines which conventional one- to four-family loans are to be originated as held for sale or held for investment. Conventional loans originated as held for sale are to be sold in accordance with policies set forth by ALCO. Conventional loans originated as held for investment are generally not eligible for sale unless a specific segment of the portfolio qualifies for asset restructuring purposes.

The following table summarizes the activity in the loan portfolio for the periods indicated, excluding changes in loans in process, deferred fees, and allowance for loan losses. Loans that were paid-off as a result of refinances are included in repayments. 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. During the quarter ended December 31, 2009, Capitol Federal Savings Bank modified \$139.7 million of loans with a weighted average rate decrease of 83 basis points. During fiscal year

2009, Capitol Federal Savings Bank modified \$1.14 billion loans with a weighted average decrease in rate of 87 basis points. The modified balances and rates are included in the ending loan portfolio balance and rate. The weighted average contractual life (WAL) of our real estate loan portfolio was 23 years at December 31, 2009 and September 30, 2009 and 2008.

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	For the Three Months Ended							
	December 31, 2009		September 30, 2009		June 30, 2009		March 31, 2009	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	\$5,646,950	5.29 %	\$5,587,130	5.36 %	\$5,422,798	5.50 %	\$5,506,352	5.63 %
Originations and refinances:								
Fixed	156,507	4.95	255,441	5.07	325,640	4.96	276,888	5.06
Adjustable	37,885	4.57	37,948	4.75	32,652	4.78	25,269	4.83
Purchases:								
Fixed	20,149	5.09	24,670	5.08	37,912	5.11	33,226	5.18
Adjustable	44,930	3.69	11,662	4.82	9,544	5.04	70,349	4.90
Repayments	(245,838 )		(266,362 )		(322,104 )		(311,733 )	
Transfer of modified loans to LHFS (1)	(194,759 )		—		81,190		(175,862 )	
Other (2)	(2,080 )		(3,539 )		(502 )		(1,691 )	
Ending balance	\$5,463,744	5.23 %	\$5,646,950	5.29 %	\$5,587,130	5.36 %	\$5,422,798	5.50 %

	For the Year Ended September 30,			
	2009		2008	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Beginning balance	\$5,379,845	5.66 %	\$5,346,626	5.68 %
Originations and refinances:				
Fixed	988,375	5.12	652,011	5.87
Adjustable	131,306	4.91	168,824	6.16
Purchases:				
Fixed	109,813	5.21	47,795	5.82
Adjustable	223,619	5.01	71,836	5.67
Repayments	(1,083,731)		(899,178 )	
Transfer of modified loans to LHFS	(94,672 )		—	
Other (2)	(7,605 )		(8,069 )	
Ending balance	\$5,646,950	5.29 %	\$5,379,845	5.66 %

- 
- (1) Transfer of modified loans to LHFS in the December 31, 2009 quarter includes loans with a principal balance of \$194.8 million related to the loan swap transaction.
- (2) Other consists of transfers to REO and modification fees advanced.

Mortgage-Backed Securities. The balance of MBS, which primarily consists of securities of U.S. government-sponsored enterprises, decreased \$241.9 million from \$2.23 billion at September 30, 2008 to \$1.99 billion at September 30, 2009 and an additional \$114.5 million to \$1.88 billion at December 31, 2009. The decreases were a



result of some cash flows from the MBS portfolio being reinvested into investment securities.

During the quarter ended December 31, 2009, MBS with a fair value of \$192.7 million were received in conjunction with the loan swap transaction. As previously discussed, the related MBS were sold for a \$6.5 million gain. The proceeds from the sale were primarily used to purchase investment securities with terms shorter than that of the mortgage loans that were swapped. The loan swap transaction was primarily undertaken for interest rate risk management purposes.

The following tables provide 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 and ending balances are as 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 between December 31, 2009 and September 30, 2009 primarily due to the maturity and repayment of securities with higher yields than the overall portfolio and adjustable-rate MBS resetting to lower coupons due to a decline in related indices. The beginning and ending WAL is the estimated remaining maturity after projected prepayment speeds have been applied. The increase in the WAL at December 31, 2009 compared to September 30, 2009 was due to a slowdown in projected prepayment speeds due to an increase in mortgage interest rates. The weighted average yield of the MBS portfolio decreased between September 30, 2008 and September 30, 2009 due to the maturity and repayment of securities with higher yields, the purchase of MBS with yields lower than the existing portfolio and adjustable-rate MBS resetting to lower coupons due to a decline in related indices. The beginning and ending WAL is the estimated remaining maturity after projected prepayment speeds have been applied. The decrease in the WAL at September 30, 2009 compared to September 30, 2008 was due to principal repayments, the purchase of new MBS with a shorter WAL than the existing portfolio and an increase in the assumed prepayment speeds.

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	For the Three Months Ended											
	December 31, 2009			September 30, 2009			June 30, 2009			March 31, 2009		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)											
Beginning balance	\$ 1,992,467	4.42 %	4.67	\$ 2,100,998	4.59 %	4.55	\$ 2,204,369	4.72 %	5.55	\$ 2,176,302	4.82 %	
Maturities and repayments	(112,380 )			(142,182 )			(155,168 )			(107,388 )		
Sale of securities, net of gains	(192,690 )											
Net amortization of premiums (discounts)	(392 )			(366 )			(189 )			46		
Purchases:												
Fixed	2,990	4.10	7.48	18,539	2.80	3.03	3,217	4.34	8.49	—	—	
Adjustable	—	—	—	—	—	—	50,983	2.83	3.58	118,469	2.68	
Fair value of securities received in loan swap transaction	192,690											
Change in valuation on AFS securities	(4,716 )			15,478			(2,214 )			16,940		
Ending balance	\$ 1,877,969	4.34 %	5.09	\$ 1,992,467	4.42 %	4.67	\$ 2,100,998	4.59 %	4.55	\$ 2,204,369	4.72 %	

	For the Year Ended September 30,					
	2009			2008		
	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)					
Beginning balance	\$ 2,234,339	4.82 %	5.05	\$ 1,414,271	4.46 %	4.04
Maturities and repayments	(494,932 )			(500,078 )		
Net amortization of premiums (discounts)	(482 )			(747 )		
Purchases:						
Fixed	21,756	3.03	3.84	785,181	4.94	4.62
Adjustable	169,452	2.72	2.41	545,174	4.81	4.91
Change in valuation on AFS securities	62,334			(9,462 )		
Ending balance	\$ 1,992,467	4.42 %	4.67	\$ 2,234,339	4.82 %	5.05

Investment Securities. Investment securities, which consist primarily of U.S. government-sponsored enterprise debt securities (primarily issued by FNMA, FHLMC, or FHLB) and municipal investments, increased \$171.2 million from \$480.7 million at September 30, 2009 to \$651.9 million at December 31, 2009. The increase in the balance was a result of purchases of \$173.4 million of investment securities. Investment securities increased \$338.3 million from \$142.4 million at September 30, 2008 to \$480.7 million at September 30, 2009. The increase in the balance was primarily a result of purchases of \$448.6 million in short-term securities, partially offset by maturities and calls of \$109.8 million.

The following tables provide a summary of the activity of investment securities for the periods presented. The yields for the beginning and ending balances are as of the first and last days of the periods presented. The increase in the yield at December 31, 2009 compared to September 30, 2009 was a result of purchases of securities with yields higher than the overall portfolio yield. The decrease in the yield at September 30, 2009 compared to September 30, 2008 was a result of calls and/or maturities of securities with yields higher than the overall portfolio yield and to purchases of investment securities with yields lower than the existing portfolio. The beginning and ending WAL represent the estimated remaining maturity of the securities after projected call dates have been considered, based upon market rates at each date presented. The WAL at December 31, 2009 increased slightly from September 30, 2009 due to an increase in interest rates, which extended the WAL. The decrease in the WAL at September 30, 2009 compared to September 30, 2008 was due to issuers of certain securities in the portfolio exercising their option to call the security, to maturing securities and to purchases of investment securities with WALs shorter than the portfolio.

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	For the Three Months Ended											
	December 31, 2009			September 30, 2009			June 30, 2009			March 31, 2009		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)											
Beginning balance	\$480,704	1.93%	1.53	\$322,166	1.84%	2.02	\$214,410	2.16%	2.32	\$105,965	3.34%	3.64
Maturities and calls	(1,033 )			(25,128 )			(25,036 )			(22,168 )		
Net amortization of premiums (discounts)	(1,061 )			(901 )			(685 )			(329 )		
Purchases:												
Fixed	173,431	2.39	1.25	183,391	1.95	2.17	133,047	1.41	1.10	131,229	1.62	1.04
Adjustable	—	—	—	—	—	—	—	—	—	—	—	—
Change in valuation on AFS securities	(98 )			1,176			430			(287 )		
Ending balance	\$651,943	2.05%	1.65	\$480,704	1.93%	1.53	\$322,166	1.84%	2.02	\$214,410	2.16%	2.32

	For the Year Ended September 30,						
	2009			2008			
	Amount	Yield	WAL	Amount	Yield	WAL	
	(Dollars in thousands)						
Beginning balance	\$ 142,359	3.94%	6.06	\$ 524,168	4.52%	1.66	
Maturities and calls	(109,760)			(614,018)			
Net amortization of premiums (discounts)	(2,162 )			30			
Purchases:							
Fixed	448,553	1.70	1.53	230,512	3.96	1.07	
Adjustable	—	—	—	3,874	6.58	28.98	
Change in valuation on AFS securities	1,714			(2,207 )			
Ending balance	\$ 480,704	1.93%	1.53	\$ 142,359	3.94%	6.06	

Liabilities. Total liabilities remained relatively unchanged from \$7.46 billion at September 30, 2009 to \$7.43 billion at December 31, 2009. Liabilities increased from \$7.18 billion at September 30, 2008 to \$7.46 billion at September 30, 2009. The \$278.3 million increase in liabilities was due primarily to an increase in deposits of \$304.7 million. We believe the turmoil in the credit and equity markets made deposit products in well-capitalized financial institutions, like Capitol Federal Savings Bank, desirable for many customers. Households increased their personal savings rate, which we believe also contributed to our growth in deposits during this period.

During fiscal year 2009, Capitol Federal Savings Bank prepaid \$875.0 million of fixed-rate FHLB advances with a weighted average contractual rate of 5.65%. The prepaid FHLB advances were replaced with \$875.0 million of fixed-rate FHLB advances with a weighted average contractual interest rate of 3.41%. Capitol Federal Savings Bank paid a \$38.4 million prepayment penalty to the FHLB. The prepayment penalty is being deferred as an adjustment to the carrying value of the new advances and will be recognized as expense over the life of the new advances, which effectively increased the interest rate on the new advances 96 basis points. See "Notes to Consolidated Financial Statements - Note 7 - Borrowed Funds."

The following table presents the amount, average rate and percentage of total deposits for checking, savings, money market and certificates at December 31, 2009, September 30, 2009 and 2008.

	At December 31, 2009			At September 30, 2009			At September 30, 2008		
	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total	Amount	Average Rate	% of Total
	(Dollars in thousands)								
Checking	\$ 491,619	0.13 %	11.7 %	\$ 439,975	0.17 %	10.4 %	\$ 400,461	0.21 %	10.2 %
Savings	225,383	0.56	5.3	226,396	0.66	5.4	232,103	1.51	5.9
Money market	888,131	0.73	21.0	848,157	0.82	20.1	772,323	1.48	19.7
Certificates	2,622,119	2.83	62.0	2,714,081	3.09	64.1	2,518,996	3.91	64.2
Total deposits	\$ 4,227,252	1.95 %	100.0 %	\$ 4,228,609	2.20 %	100.0 %	\$ 3,923,883	2.91 %	100.0 %

At December 31, 2009, there were no brokered deposits, as they all matured during the quarter, compared to \$71.5 million and \$180.6 million in brokered deposits at September 30, 2009 and 2008, respectively. Management regularly considers brokered deposits as a source of funding, but does not currently consider the cost of this funding source to be balanced with investment opportunities. As of December 31, 2009, \$100.1 million in certificates were public unit deposits, compared to \$91.5 million in public unit deposits at September 30, 2009. There were no public unit deposits at September 30, 2008. Management will continue to monitor the wholesale deposit market for attractive opportunities.

Stockholders' Equity. Stockholders' equity remained relatively flat from \$941.3 million at September 30, 2009 to \$942.0 million at December 31, 2009. During the quarter ended December 31, 2009, \$16.7 million of dividends, or \$0.79 per public share, were paid to stockholders, which included \$6.1 million, or \$0.29 per public share, related to the special dividend. Stockholders' equity increased \$70.1 million from \$871.2 million at September 30, 2008 to \$941.3 million at September 30, 2009. The increase was primarily a result of net income of \$66.3 million and an increase in unrealized gains on AFS securities of \$39.8 million, partially offset by dividends paid of \$44.1 million.

Weighted Average Yields and Rates: The following table presents the weighted average yields earned on loans, securities and other interest-earning assets, the weighted average rates paid on deposits and borrowings and the resultant interest rate spreads at the dates indicated. Yields on tax-exempt securities are not calculated on a tax-equivalent basis.



	At December 31, 2009	At September 30, 2009	2008	2007
Weighted average yield on:				
Loans receivable	5.34%	5.38%	5.69%	5.73%
MBS	4.34	4.42	4.82	4.46
Investment securities	2.05	1.93	3.94	4.52
Capital stock of FHLB	2.98	2.98	4.73	6.68
Cash and cash equivalents	0.23	0.21	2.95	4.94
Combined weighted average yield on				
interest-earning assets	4.76	4.89	5.37	5.41
Weighted average rate paid on:				
Savings deposits	0.56	0.66	1.51	2.58
Checking deposits	0.13	0.17	0.21	0.21
Money market deposits	0.73	0.82	1.48	3.18
Certificate of deposit	2.83	3.09	3.91	4.77
FHLB advances (1)	4.13	4.13	4.75	5.39
Other borrowings	3.90	3.91	4.09	8.12
Combined weighted average rate paid on				
interest-bearing liabilities	2.85	3.00	3.67	4.52
Net interest rate spread	1.91%	1.89%	1.70%	0.89%

(1) The December 31, 2009 and September 30, 2009 rates include the net impact of the deferred prepayment penalties related to the prepayment of certain FHLB advances and deferred gain associated with the interest rate swap termination during fiscal year 2008. The September 30, 2008 rates includes the impact of the deferred gain associated with the interest rate swap termination during fiscal year 2008. The September 30, 2007 rates include the impact of the interest rate swap agreements.

Average Balance Sheets: The following tables present certain information regarding our financial condition and net interest income for the three months ended December 31, 2009 and 2008 and fiscal years 2009, 2008 and 2007. Net interest income represents the difference between interest income earned on interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them. The tables present the average balances of our assets, liabilities and stockholders' equity and the related annualized yields and rates on our interest-earning assets and interest-bearing liabilities for the periods indicated. We derived the average yields and rates by dividing income or expense by the average balance of interest-earning assets or interest-bearing liabilities, respectively, for the periods shown. We derived average balances from daily balances over the periods indicated, except as noted. The average yields and rates include amortization of fees, costs, premiums and discounts which are considered adjustments to yields/rates. Yields on tax-exempt securities were not calculated on a tax-equivalent basis.



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	Three Months Ended								
	December 31, 2009			December 31, 2008			2009		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)								
<b>Assets</b>									
Interest-earning assets:									
Mortgage loans (1)	\$5,347,359	\$71,637	5.36%	\$5,206,218	\$73,409	5.64%	\$5,296,297	\$293,685	5.55%
Other loans	203,524	2,889	5.63	212,961	3,307	6.16	208,252	12,097	5.81
Total loans receivable	5,550,883	74,526	5.37	5,419,179	76,716	5.66	5,504,549	305,782	5.56
MBS (2)	1,888,230	20,754	4.40	2,201,531	26,402	4.80	2,110,701	97,926	4.64
Investment securities (2)(3)	524,854	2,559	1.95	136,295	1,326	3.89	229,766	5,533	2.41
Capital stock of FHLB	133,075	1,001	2.98	124,958	780	2.48	129,716	3,344	2.58
Cash and cash equivalents	80,391	47	0.23	33,025	49	0.58	72,184	201	0.28
Total interest-earning assets	8,177,433	98,887	4.84	7,914,988	105,273	5.32	8,046,916	412,786	5.13
Other noninterest-earning assets	225,321			161,092			181,829		
Total assets	\$8,402,754			\$8,076,080			\$8,228,745		
<b>Liabilities and stockholders' equity</b>									
Interest-bearing liabilities:									
Savings	\$225,837	\$361	0.63%	\$229,540	\$618	1.07%	\$228,879	\$1,873	0.82%
Checking	447,055	176	0.16	405,787	211	0.21	426,976	879	0.21
Money market	867,233	1,740	0.80	775,386	2,553	1.31	814,898	8,512	1.04
Certificates	2,667,141	19,828	2.95	2,473,763	23,403	3.75	2,585,560	89,207	3.45
Total deposits	4,207,266	22,105	2.09	3,884,476	26,785	2.73	4,056,313	100,471	2.48
FHLB advances (4)	2,393,134	24,819	4.11	2,477,961	29,545	4.72	2,437,978	106,551	4.36
Other borrowings	713,609	7,109	3.90	713,585	7,725	4.24	713,601	29,122	4.03
Total interest-bearing liabilities	7,314,009	54,033	2.93	7,076,022	64,055	3.58	7,207,892	236,144	3.27
Other noninterest-bearing liabilities	137,057			121,970			108,940		
Stockholders' equity	951,688			878,088			911,913		
Total liabilities and stockholders' equity	\$8,402,754			\$8,076,080			\$8,228,745		
<b>Net interest income</b>									
Net interest rate spread		\$44,854	1.91%		\$41,218	1.74%		\$176,642	1.86%
Net interest-earning assets	\$863,424			\$838,966			\$839,024		
Net interest margin			2.19%			2.08%			2.20%
Ratio of interest-earning assets to interest-bearing liabilities			1.12 x			1.12 x			1.12 x

\*Annualized

- (1) Calculated net of deferred loan fees, loan discounts, and loans in process. Non-accrual loans are included in the loans receivable average balance with a yield of zero percent.
- (2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of nontaxable securities of \$71.6 million and \$57.5 million for the periods ended December 31, 2009 and 2008 and \$61.0 million, \$45.9 million, and \$12.0 million for the years ended September 30, 2009, 2008 and 2007, respectively.
- (4) FHLB advances are stated net of deferred gains and deferred prepayment penalties. The rate at December 31, 2009 is the effective rate.
- (5) The average balance for other non-interest-earning assets, other non-interest-bearing liabilities, and stockholders' equity was calculated based upon month-end balances.

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Rate/Volume Analysis: The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended December 31, 2009 to the three months ended December 31, 2008, fiscal years 2009 to 2008 and fiscal years 2008 to 2007. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

	Three Months Ended			Year Ended September 30,					
	December			2009 vs. 2008			2008 vs. 2007		
	31,			2009 vs. 2008			2008 vs. 2007		
	2009 vs. 2008			2009 vs. 2008			2008 vs. 2007		
	Increase (Decrease) Due to			Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
(Dollars in thousands)									
Interest-earning assets:									
Loans receivable	\$1,810	\$(4,000 )	\$(2,190 )	\$10,443	\$(6,681 )	\$3,762	\$3,873	\$3,403	\$7,276
MBS	(3,562)	(2,086 )	(5,648 )	10,295	(764 )	9,531	12,824	6,819	19,643
Investment securities	2,174	(941 )	1,233	(494 )	(3,890 )	(4,384 )	(17,380)	(3,552 )	(20,932)
Capital stock of FHLB	53	167	220	27	(3,604 )	(3,577 )	(1,451 )	(1,645 )	(3,096 )
Cash equivalents	40	(41 )	(1 )	(947 )	(2,405 )	(3,352 )	(1,182 )	(2,453 )	(3,635 )
Total interest-earning assets	515	(6,901 )	(6,386 )	19,324	(17,344)	1,980	(3,316 )	2,572	(744 )
Interest-bearing liabilities:									
Savings	(10 )	(252 )	(262 )	(35 )	(2,218 )	(2,253 )	802	(1,640 )	(838 )
Checking	20	(55 )	(35 )	60	42	102	4	(39 )	(35 )
Money market	271	(1,086 )	(815 )	208	(8,589 )	(8,381 )	(90 )	(9,387 )	(9,477 )
Certificates	1,697	(5,265 )	(3,568 )	3,351	(25,783)	(22,432)	141	(3,635 )	(3,494 )
FHLB advances	(538 )	(4,188 )	(4,726 )	(4,606 )	(14,591)	(19,197)	(23,533)	(4,082 )	(27,615)
Other borrowings	—	(616 )	(616 )	12,920	(1,253 )	11,667	13,820	(833 )	12,987
Total interest-bearing liabilities	1,440	(11,462)	(10,022)	11,898	(52,392)	(40,494)	(8,856 )	(19,616)	(28,472)
Net change in net interest and dividend income									
	\$(925 )	\$4,561	\$3,636	\$7,426	\$35,048	\$42,474	\$5,540	\$22,188	\$27,728

Comparison of Results of Operations for the Three Months Ended December 31, 2009 and 2008

Net income for the quarter ended December 31, 2009 was \$21.0 million compared to \$15.9 million for the same period in the prior fiscal year. The \$5.1 million increase in net income between periods was primarily a result of a decrease in interest expense of \$10.1 million and an increase in other income of \$6.5 million, partially offset by a decrease in interest income of \$6.4 million, an increase in the provision for loan losses of \$2.6 million and an increase in income tax expense of \$1.8 million.

**Interest and Dividend Income.** Total interest and dividend income for the current quarter was \$98.9 million compared to \$105.3 million for the prior year quarter. The \$6.4 million decrease was primarily a result of decreases in interest income on MBS of \$5.6 million and loans receivable of \$2.2 million, partially offset by an increase in interest income on investment securities of \$1.2 million.

Interest income on loans receivable for the current quarter was \$74.5 million compared to \$76.7 million for the prior year quarter. The \$2.2 million decrease in interest income was primarily a result of a decrease of 29 basis points in the weighted average yield to 5.37% for the current quarter, partially offset by a \$131.7 million increase in the average balance of the portfolio. The decrease in the weighted average yield was due to purchases and originations at market rates which were lower than the existing portfolio, a significant amount of loan modifications and refinances between periods, partially offset by an increase in deferred fee amortization as a result of prepayments, modifications, and refinances. The increase in the average balance was due to originations and loan purchases between periods.

Interest income on MBS for the current quarter was \$20.8 million compared to \$26.4 million for the prior year quarter. The \$5.6 million decrease was a result of a \$313.3 million decrease in the average balance and a decrease of 40 basis points in the weighted average yield to 4.40% for the current quarter. The decrease in the average balance of the portfolio was due to principal repayments which were not replaced. The weighted average yield decreased between the two periods due to an increase of prepayments on MBS with yields higher than the existing portfolio and, to a lesser extent, purchases of MBS at a lower average yield than the existing portfolio between the two periods, and adjustable-rate securities repricing to lower market rates.

Interest income on investment securities for the current quarter was \$2.6 million compared to \$1.3 million for the prior year quarter. The \$1.3 million increase was primarily a result of a \$388.6 million increase in the average balance, partially offset by a decrease in the average yield of 194 basis points to 1.95% for the current quarter. The average balance increased due to the purchase of \$621.1 million of investment securities between periods, partially offset by calls and maturities of \$73.4 million. The average yield decreased due to purchases at yields lower than the overall portfolio yield.

Interest Expense. Interest expense decreased \$10.1 million to \$54.0 million for the current quarter from \$64.1 million for the prior year quarter. The decrease in interest expense was primarily due to a decrease of \$4.7 million in interest expense on both FHLB advances and deposits.

Interest expense on FHLB advances for the current quarter was \$24.8 million compared to \$29.5 million for the prior year quarter. The \$4.7 million decrease in interest expense on FHLB advances was a result of the refinance of \$875.0 million of FHLB advances during the second and third quarters of fiscal year 2009 and, to a lesser extent, a decrease in the average balance of \$84.8 million due to maturing advances that were not renewed.

Interest expense on deposits for the current quarter was \$22.1 million compared to \$26.8 million for the prior year quarter. The \$4.7 million decrease in interest expense on deposits was due to a decrease in the rates on the entire deposit portfolio, primarily the certificates of deposit and money market portfolios, due to the portfolios repricing to lower market rates. The average rate paid on the deposit portfolio decreased 64 basis points between the two periods, from 2.59% at December 31, 2008 to 1.95% at December 31, 2009. The decrease in interest expense was partially offset by a \$322.8 million increase in the average balance of the deposit portfolio, particularly the certificate of deposit and money market portfolios.

Provision for Loan Losses. Capitol Federal Savings Bank recorded a provision for loan losses of \$3.1 million during the current quarter, compared to a provision of \$549 thousand in the quarter ended December 31, 2008. The \$3.1 million provision for loan losses primarily reflects increases in the level of certain qualitative factors in our general valuation allowance model to account for lingering negative economic conditions. See “– Critical Accounting Policies – Allowance for Loan Losses” and “Business – Asset Quality – Loans and REO.”

Other Income and Expense. Total other income was \$13.1 million for the current quarter compared to \$6.6 million for the prior year quarter. The \$6.5 million increase was due primarily to a gain on the sale of trading MBS of \$6.5 million. As previously discussed, the trading MBS were acquired in conjunction with the loan swap transaction during the current quarter.

Total other expenses for the current quarter were \$22.7 million for the current quarter, compared to \$22.2 million in the prior quarter. The slight increase was due primarily to an increase in federal insurance premium of \$1.6 million, partially offset by a decrease in other expense, net of \$864 thousand as a result of mortgage servicing activity and net REO operations. The increase in federal insurance premium was a result of an increase in the regular quarterly deposit insurance premiums

Income Tax Expense. Income tax expense for the current quarter was \$11.1 million compared to \$9.3 million for the prior year quarter. The \$1.8 million increase was due to an increase in earnings between periods, partially offset by a decrease in the effective tax rate between periods. The effective tax rate for the quarter ended December 31, 2009 was 34.7%, compared to 36.9% for the prior year quarter. The difference in the effective tax rate between periods was primarily a result of a decrease in nondeductible expenses associated with the employee stock ownership plan and a reduction of unrecognized tax benefits due to the lapse of the statute of limitations during the current quarter.

Comparison of Results of Operations for the Years Ended September 30, 2009 and 2008

For fiscal year 2009, CFF recognized net income of \$66.3 million compared to net income of \$51.0 million in fiscal year 2008. The \$15.3 million increase in net income was primarily a result of a \$40.5 million decrease in interest expense, partially offset by an \$11.6 million increase in other expenses, a \$9.7 million increase in income tax expense, and a \$4.3 million increase in provision for loan loss. The net interest margin for fiscal year 2009 was 2.20% compared to 1.75% for fiscal year 2008. The 45 basis point increase in the net interest margin was primarily a result of a decrease in the weighted average rate on interest-bearing liabilities.

**Interest and Dividend Income.** Total interest and dividend income for fiscal year 2009 was \$412.8 million compared to \$410.8 million for fiscal year 2008. The \$2.0 million increase was a result of a \$9.5 million increase in interest income on MBS and a \$3.8 million increase in interest income on loans receivable, partially offset by a \$4.4 million decrease in interest income on investment securities, a \$3.6 million decrease in dividends on FHLB stock and a \$3.4 million decrease in interest income on cash and cash equivalents.

Interest income on loans receivable in fiscal year 2009 was \$305.8 million compared to \$302.0 million in fiscal year 2008. The \$3.8 million increase in loan interest income was a result of a \$189.0 million increase in the average balance of the loan portfolio between the two periods, partially offset by a decrease of 12 basis points in the weighted average yield of the portfolio to 5.56% for the current fiscal year. The increase in the average balance was due to originations and loan purchases during fiscal year 2009. The decrease in the weighted average yield was due to purchases and originations at market rates which were lower than the existing portfolio, loan modifications and refinances during fiscal year 2009, and the home equity loan portfolio repricing to lower market interest rates, partially offset by an increase in deferred fee amortization as a result of prepayments, modifications and refinances.

Interest income on MBS in fiscal year 2009 was \$97.9 million compared to \$88.4 million in fiscal year 2008. The \$9.5 million increase in interest income was primarily due to an increase of \$222.5 million in the average balance, slightly offset by a 4 basis point decrease in the weighted average portfolio yield to 4.64% for the current fiscal year. The increase in the average portfolio balance was a result of purchases. The funds for the purchases came from maturities and calls of investment securities and from new borrowings in fiscal year 2008.

Interest income on investment securities in fiscal year 2009 was \$5.5 million compared to \$9.9 million in fiscal year 2008. The \$4.4 million decrease in interest income was a result of a 168 basis point decrease in the weighted average portfolio yield to 2.41% for fiscal year 2009 and, to a lesser extent, a decrease of \$12.7 million in the average balance of the portfolio. The decrease in the weighted average yield of the portfolio was attributed to maturities and calls of securities with weighted average yields greater than the remaining portfolio, and also due to reinvestments made at lower market yields than the overall portfolio yield. The decrease in the average balance was a result of the timing of calls, maturities and security purchases during fiscal year 2009.

Dividends on FHLB stock in fiscal year 2009 were \$3.3 million compared to \$6.9 million in fiscal year 2008. The \$3.6 million decrease in dividend income was due primarily to a 278 basis point decrease in the average yield to 2.58% for fiscal year 2009. The dividend rate on FHLB stock correlates to the federal funds rate, which decreased during fiscal year 2009.

Interest income on cash and cash equivalents in fiscal year 2009 was \$201 thousand compared to \$3.6 million in fiscal year 2008. The \$3.4 million decrease was due to a 283 basis point decrease in the weighted average yield due to a decrease in short-term interest rates between the two periods, and a decrease in the average balance of \$40.3 million. The decrease in the average balance was a result of cash being utilized to purchase MBS and investment securities.

Interest Expense. Total interest expense for fiscal year 2009 was \$236.1 million, compared to \$276.6 million in fiscal year 2008. The \$40.5 million decrease in interest expense was due to a decrease in interest expense on deposits of \$32.9 million and a decrease in interest expense on FHLB advances of \$19.2 million, partially offset by an increase in interest expense on other borrowings of \$11.6 million.

Interest expense on deposits in fiscal year 2009 was \$100.5 million compared to \$133.4 million in fiscal year 2008. The \$32.9 million decrease in interest expense was primarily a result of a decrease in the average rate paid on the certificate of deposit, money market and savings portfolios due to the portfolios repricing to lower market rates. The average rate paid on the deposit portfolio decreased 89 basis points to 2.48% for fiscal year 2009.

Interest expense on FHLB advances in fiscal year 2009 was \$106.5 million compared to \$125.7 million in fiscal year 2008. The \$19.2 million decrease in interest expense was a result of the termination and maturity of the interest rate swap agreements during fiscal year 2008, a decrease in the average balance of FHLB advances and a decrease in the interest rate due to the refinancing of \$875.0 million of advances during the second and third quarters of fiscal year 2009. The decrease in the average balance was a result of maturing advances that were replaced with repurchase agreements during fiscal year 2008.



Interest expense on other borrowings was \$29.1 million in fiscal year 2009 compared to \$17.5 million in fiscal year 2008. The \$11.6 million increase was due to an increase in the average balance as a result of Capitol Federal Savings Bank entering into \$660.0 million of repurchase agreements during fiscal year 2008. The proceeds from the repurchase agreements were used to purchase MBS and to repay maturing FHLB advances.

Provision for Loan Losses. During fiscal year 2009, Capitol Federal Savings Bank experienced an increase in delinquencies, non-performing loans, net loan charge-offs, and losses on foreclosed property transactions, primarily on purchased loans, as a result of the decline in housing and real estate markets, as well as the ongoing economic recession. As a result of these conditions, Capitol Federal Savings Bank recorded a provision for loan losses of \$6.4 million in fiscal year 2009 compared to a provision of \$2.1 million in fiscal year 2008. The \$4.3 million increase in the provision primarily reflects an increase in the specific valuation allowances on purchased loans, an increase in the balance of non-performing purchased loans, an increase in the general valuation allowances primarily related to purchased loans 30 to 89 days delinquent, and an increase in charge-offs, also primarily related to purchased loans. See “– Critical Accounting Policies – Allowance for Loan Losses” and “Business – Asset Quality.”

Other Income and Expense. Total other income for fiscal year 2009 was \$28.6 million compared to \$30.0 million in fiscal year 2008. The \$1.4 million decrease in other income was a result of a \$2.0 million decrease in other income, net and a \$1.2 million decrease in income from bank owned life insurance as a result of a decrease in the net crediting rate due to a decrease in market interest rates, partially offset by an increase in gains on sale of loans held for sale, net of \$1.3 million. The decrease in other income, net was due primarily to the redemption of shares received in the Visa, Inc. initial public offering of \$992 thousand in fiscal year 2008 and interest received on a tax refund of \$235 thousand also in fiscal year 2008, both with no corresponding item in fiscal year 2009.

Total other expenses for fiscal year 2009 was \$93.6 million compared to \$82.0 million for fiscal year 2008. The \$11.6 million increase was due to a \$6.8 million increase in federal insurance premiums, a \$2.0 million increase in advertising expense and a \$2.0 million increase in mortgage servicing activity, net. The increase in federal insurance premiums was a result of the FDIC special assessment and increases in the regular quarterly deposit insurance premiums. The increase in advertising expense was due to expense associated with Capitol Federal Savings Bank’s new debit card rewards program and to advertising campaigns undertaken to inform customers of Capitol Federal Savings Bank’s safety and soundness in response to current economic conditions. The increase in mortgage servicing activity, net was due to mortgage servicing asset impairments and valuation allowances due to an increase in prepayment speeds.

Income Tax Expense. Income tax expense for fiscal year 2009 was \$38.9 million compared to \$29.2 million for fiscal year 2008. The increase in income tax expense was primarily due to an increase in earnings compared to fiscal year 2008. The effective tax rate was 37.0% for fiscal year 2009, compared to 36.4% for fiscal year 2008. The difference in the effective tax rate between the two fiscal years was primarily a result of a decrease in nontaxable income from bank owned life insurance and an increase in pre-tax income which reduced the effective tax rate benefit of nontaxable income.

#### Comparison of Results of Operations for the Years Ended September 30, 2008 and 2007

For fiscal year 2008, CFF recognized net income of \$51.0 million compared to net income of \$32.3 million in fiscal year 2007. The \$18.7 million increase in net income was primarily a result of a \$28.5 million decrease in interest expense and a \$6.0 million increase in other income, partially offset by an \$8.6 million increase in income tax expense, a \$4.3 million increase in other expenses, and a \$2.3 million increase in the provision for loan loss.

Total interest and dividend income in fiscal year 2008 was \$410.8 million compared to \$411.6 million in fiscal year 2007. Total interest expense in fiscal year 2008 was \$276.6 million compared to \$305.1 million in fiscal year

2007. Net interest margin, before provision for loan losses, was \$134.2 million compared to \$106.4 million in fiscal year 2007. As a result of the flat or inverted yield curve during fiscal year 2007 and the relatively short term to repricing of our liabilities compared to our assets, Capitol Federal Savings Bank experienced net interest margin compression during fiscal year 2007. The steeper, more normalized yield curve during fiscal year 2008 benefited the net interest margin, as short-term liabilities repriced to lower interest rates while cash flows from the mortgage loan and MBS portfolios were reinvested at rates comparable to that of the existing portfolio.

Interest and Dividend Income. Interest income on loans receivable during fiscal year 2008 was \$302.0 million compared to \$294.7 million in fiscal year 2007. The \$7.3 million increase in loan interest income was a result of a \$71.4 million increase in the average balance of the loan portfolio between the two periods and an increase of 6 basis points in the weighted average yield of the loan portfolio to 5.68% in fiscal year 2008. The increase in the weighted average yield can be attributed primarily to loans originated throughout the year at rates higher than the overall portfolio rate.

Interest income on MBS in fiscal year 2008 was \$88.4 million compared to \$68.8 million in fiscal year 2007. The \$19.6 million increase in interest income was due to an increase of \$282.3 million in the average balance of the portfolio and an increase of 40 basis points in the average yield to 4.68% in fiscal year 2008. The increase in the average portfolio balance was due primarily to the utilization of cash available for investment and funds from borrowings to purchase MBS rather than other investment securities due to the more favorable yields available on MBS. The weighted average yield of the MBS portfolio increased between the two periods due to the purchase of MBS with yields higher than the existing portfolio, the maturity and repayment of MBS with lower yields, and adjustable-rate MBS resetting to higher coupons.

Interest income on investment securities in fiscal year 2008 was \$9.9 million compared to \$30.8 million in fiscal year 2007. The \$20.9 million decrease in interest income was primarily a result of a decrease of \$414.4 million in the average balance of the portfolio and, to a lesser extent, a 61 basis point decrease in the weighted average portfolio yield to 4.09% in fiscal year 2008. The decrease in the average balance was a result of maturities and calls which were not reinvested into investment securities and were used, in part, to fund maturing FHLB advances and purchase higher yielding MBS during fiscal year 2008. The decrease in the weighted average yield of the portfolio was attributed to purchases with lower yields than the existing portfolio and maturities and calls of securities with higher yields.

Dividends on FHLB stock in fiscal year 2008 were \$6.9 million compared to \$10.0 million in fiscal year 2007. The \$3.1 million decrease in dividend income was due to a 117 basis point decrease in the average yield to 5.36% in fiscal year 2008 and a \$24.3 million decrease in the average balance. The dividend rate on FHLB stock correlates to the federal funds rate, which also decreased during fiscal year 2008. The decrease in the average balance was due to the redemption of shares as the required number of shares held is based primarily upon the balance of outstanding FHLB advances, which decreased during fiscal year 2008.

Interest income on cash and cash equivalents in fiscal year 2008 was \$3.6 million compared to \$7.2 million in fiscal year 2007. The \$3.6 million decrease was a result of a 200 basis point decrease in the average yield to 3.11% in fiscal year 2008 due to a decrease in short-term market interest rates, and a decrease of \$26.2 million in the average balance as cash was utilized to purchase MBS and fund maturing FHLB advances.

Interest Expense. Interest expense on deposits in fiscal year 2008 was \$133.4 million compared to \$147.3 million in fiscal year 2007. The \$13.9 million decrease in interest expense was primarily a result of a decrease in the rate on the money market, certificate and savings portfolios due to the portfolios repricing to lower market rates. During fiscal year 2007, Capitol Federal Savings Bank increased the rates offered on its certificate of deposit portfolio, with an emphasis on the 19 month to 36 month maturity category, in order to remain competitive. As certificate of deposits matured during fiscal year 2008, the amounts retained rolled into lower rate certificate products.

Interest expense on FHLB advances in fiscal year 2008 was \$125.7 million compared to \$153.4 million in fiscal year 2007. The \$27.7 million decrease in interest expense was primarily a result of a decrease of \$456.7 million in the average balance due to maturing advances which were not renewed in their entirety and, to a lesser extent, a decrease of 14 basis points in the average rate to 4.89% in fiscal year 2008 as a result of the termination of the interest rate swaps. During the quarter ended December 31, 2007, interest rate swaps with a notional amount of \$575.0 million

were terminated. The remaining interest rate swap matured in May 2008. During fiscal year 2008, interest expense related to the interest rate swaps was \$2.3 million, compared to \$13.6 million in fiscal year 2007.

Interest expense on other borrowings was \$17.5 million compared to \$4.5 million in the same period in the prior year. The \$13.0 million increase was due to an increase in the average balance of other borrowings due to Capitol Federal Savings Bank entering into \$660.0 million of repurchase agreements during fiscal year 2008.

Provision for Loan Losses. During fiscal year 2008, Capitol Federal Savings Bank recorded a provision for loan losses of \$2.1 million compared to a recovery for loan losses of \$225 thousand in fiscal year 2007. Based on our evaluation of the issues regarding the real estate markets, the overall economic environment, and the increase in and composition of our delinquencies and non-performing loans, management determined a provision for loan losses was prudent and warranted in fiscal year 2008.

Other Income and Expense. Total other income increased \$6.0 million to \$30.0 million during fiscal year 2008 compared to \$24.0 million for the fiscal year 2007. The increase in other income was due primarily to increases in bank owned life insurance income, retail fees and other income, net. Bank owned life insurance income was \$2.3 million in fiscal year 2008 compared to \$27 thousand in fiscal year 2007 as Capitol Federal Savings Bank's bank owned life insurance purchase was made during the fourth quarter of fiscal year 2007. Retail fees increased \$1.7 million due primarily to an increase in fees received on ATM and Visa check cards from increased volume and an increase in the interchange rate received on point-of-sale transactions. Other income, net increased \$1.3 million due primarily to the redemption of shares received in the Visa, Inc. initial public offering. Total proceeds from the Visa redemption reported in other income, net were \$992 thousand, offset by a liability accrual of \$594 thousand, reported in other expense, net related to litigation involving Visa, Inc. for net proceeds of \$398 thousand.

Total other expenses increased \$4.3 million to \$82.0 million during fiscal year 2008 compared to \$77.7 million in fiscal year 2007. The increase was due primarily to an increase in salaries and employee benefits of \$2.2 million and an increase in other expense, net of \$2.4 million. The increase in salaries and employee benefits was due to an increase in costs associated with the short-term performance plan due to actual corporate performance exceeding targeted performance levels, salary increases, and the lack of capitalization of payroll expense in fiscal year 2008, as salary costs related to the core conversion were capitalized in fiscal year 2007. The increase in other expense, net was due primarily to a liability accrual of \$594 thousand related to litigation involving Visa, Inc., as mentioned above, \$420 thousand related to real-estate owned write-downs and a decrease in fiscal year 2007 miscellaneous expenses of approximately \$1.0 million.

Income Tax Expense. Income tax expense in fiscal year 2008 was \$29.2 million compared to \$20.6 million for fiscal year 2007. The increase in income tax expense was due to an increase in income, partially offset by a decrease in the effective tax rate for the fiscal year to 36.4%, compared to 39.0% for prior fiscal year 2007. The decrease in the effective tax rate between periods was a result of an increase in nontaxable income from municipal securities and bank owned life insurance, along with an increase in pre-tax income.

#### Liquidity and Capital Resources

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

While scheduled payments from the amortization of loans and MBS and payments on short-term investments are relatively predictable sources of funds, deposit flows, prepayments on loans and MBS, and calls of investment securities are greatly influenced by general interest rates, economic conditions and competition, and are less predictable sources of funds. To the extent possible, Capitol Federal Savings Bank manages the cash flows of its loan and deposit portfolios by the rates it offers customers.

At December 31, 2009, cash and cash equivalents totaled \$105.1 million, an increase of \$63.9 million from September 30, 2009. The increase was related to proceeds from the sale of trading MBS received in the loan swap transaction that had not been fully reinvested at the end of the quarter.

At September 30, 2009, cash and cash equivalents totaled \$41.2 million, a decrease of \$46.0 million from September 30, 2008. In fiscal year 2009, yields on cash were significantly lower than in fiscal year 2008 as a result of a decline in short-term market rates. During fiscal year 2009, management used excess cash to purchase MBS and investment securities rather than maintaining a cash balance.

During the first quarter of fiscal year 2010, loan originations and purchases, net of principal repayments was \$18.2 million, compared to \$138.1 million in the prior year quarter. Loan originations and purchases were funded by cash flows from operations, as there were no additional borrowings during the quarter and deposits remained virtually unchanged.

During fiscal year 2009, loan originations and purchases, net of principal repayments was \$396.9 million, compared to \$40.8 million in the prior fiscal year. The increase in loan originations and purchases, net of principal repayments, was funded by an increase of deposits. The increase in deposits reflected the largest change in financing cash flows during fiscal year 2009, as there were no additional FHLB advances or borrowings in fiscal year 2009. Capitol Federal Savings Bank paid competitive rates for its deposits while not paying-up in rates to grow its deposit base beyond Capitol Federal Savings Bank's need for funding. The increase in deposits is believed to have been a result of the economic environment. Households increased their personal savings rate and chose to place those funds in deposit products in well-capitalized financial institutions like Capitol Federal Savings Bank.

During the first quarter of fiscal year 2010, Capitol Federal Savings Bank received principal payments on MBS of \$112.4 million and proceeds from the sale of trading MBS received in the loan swap transaction of \$199.1 million. These cash inflows were largely reinvested in investment securities and used to fund loan purchases. The investment securities purchased have terms shorter than that of the mortgage loans swapped. If market rates were to rise, the short-term nature of these securities may allow management the opportunity to reinvest the maturing funds at a yield higher than current yields.

During fiscal year 2009, Capitol Federal Savings Bank received principal payments on MBS of \$495.0 million and \$97.0 million of investment securities were called. These cash inflows were largely reinvested in their respective portfolios, with the exception of the MBS principal repayments, some of which were reinvested in short-term and callable investment securities. If market rates were to rise, the short-term nature of these securities may allow management the opportunity to reinvest the maturing funds at a yield higher than current yields.

At December 31, 2009, \$1.45 billion of the \$2.62 billion in certificates of deposit were scheduled to mature within one year. Included in the \$1.45 billion are \$100.1 million in public unit deposits, which have a weighted average maturity of less than one year. At that date, Capitol Federal Savings Bank had pledged securities with a fair value of \$158.2 million as collateral for the public unit deposits. The securities pledged as collateral for public unit deposits are held under joint custody receipt by the FHLB and generally will be released upon deposit maturity. Based on our deposit retention experience and our pricing strategy, we anticipate the majority of the maturing retail deposits will renew, although no assurance can be given in this regard. Management continuously monitors the wholesale deposit market for opportunities to obtain brokered and public unit deposits at attractive rates.

Capitol Federal Savings Bank utilizes FHLB advances to provide funds for lending and investment activities. FHLB lending guidelines set borrowing limits as part of their underwriting standards. At December 31, 2009, Capitol Federal Savings Bank's ratio of the face amount of advances to total assets, as reported to the Office of Thrift Supervision, was 29%. Our advances are secured by a blanket pledge of our loan portfolio, as collateral, supported by quarterly reporting to the FHLB. Advances in excess of 40% of total assets, but not exceeding 55% of total assets, may be approved by the president of the FHLB based upon a review of documentation supporting the use of the advances. Currently, the blanket pledge is sufficient collateral for the FHLB advances. It is possible that increases in our borrowings or decreases in our loan portfolio could require Capitol Federal Savings Bank to pledge securities as

collateral on the FHLB advances. Capitol Federal Savings Bank's policy allows borrowing from the FHLB of up to 55% of total assets. Capitol Federal Savings Bank relies on the FHLB advances as a primary source of borrowings. There were no new FHLB advances during the quarter. See "Notes to Consolidated Financial Statements - Note 7 – Borrowed Funds."



Capitol Federal Savings Bank has access to and utilizes other sources for liquidity, such as secondary market repurchase agreements, brokered deposits, and public unit deposits. Capitol Federal Savings Bank's policy allows for repurchase agreements up to 15% of total assets, brokered deposits up to 15% of total deposits, and public unit deposits up to 10% of total deposits. At December 31, 2009, \$1.04 billion of securities were eligible but unused for collateral. At December 31, 2009, Capitol Federal Savings Bank had repurchase agreements of \$660.0 million, or approximately 8% of total assets, and public unit deposits of \$100.1 million, or 1% of total assets. At December 31, 2009, Capitol Federal Savings Bank had pledged securities with an estimated fair value of \$765.3 million as collateral for repurchase agreements. At the maturity date, the securities pledged for the repurchase agreements will be delivered back to Capitol Federal Saving Bank. There were no additional repurchase agreements during the quarter. Capitol Federal Savings Bank may enter into additional repurchase agreements as management deems appropriate. The agreements are treated as secured borrowings and are reported as a liability of CFF on a consolidated basis. See "Notes to Consolidated Financial Statements - Note 7 – Borrowed Funds."

In 2004, CFF issued \$53.6 million in Junior Subordinated Deferrable Interest Debentures in connection with a trust preferred securities offering. CFF received, net, \$52.0 million from the issuance of the debentures and an investment of \$1.6 million in Capitol Federal Financial Trust I. CFF did not down-stream the proceeds to be used by Capitol Federal Savings Bank for Tier 1 capital because Capitol Federal Savings Bank already exceeded all regulatory requirements to be a well-capitalized institution. Instead, CFF deposited the proceeds into certificate accounts at Capitol Federal Savings Bank to be used to further CFF's general corporate and capital management strategies which included the payment of dividends.

During the first quarter of fiscal year 2010, CFF paid cash dividends of \$16.7 million, or \$0.79 per share. The \$0.79 per share consisted of one quarterly dividend of \$0.50 per share and a \$0.29 special dividend per share related to fiscal year 2009 earnings, in accordance with CFF's dividend policy. During fiscal year 2009, CFF paid cash dividends of \$44.1 million, or \$2.11 per share. The \$2.11 per share consisted of four quarterly dividends of \$0.50 per share and a \$0.11 special dividend per share related to net income for fiscal year 2008. Dividend payments depend upon a number of factors including CFF's financial condition and results of operations, Capitol Federal Savings Bank's regulatory capital requirements, regulatory limitations on Capitol Federal Savings Bank's ability to make capital distributions to CFF and the amount of cash at the holding company. See "Dividend Policy" and "Supervision and Regulation."

Due to recent bank failures, in an effort to replenish the Deposit Insurance Fund, the FDIC required insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of calendar year 2009 and for all of calendar year 2010, 2011 and 2012 during the quarter ended December 31, 2009. The cash requirement for the prepaid FDIC assessments was \$27.5 million.

#### Off-Balance Sheet Arrangements, Commitments and Contractual Obligations

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

- the origination, purchase, or sale of loans;
- the purchase or sale of investments and MBS;
- extensions of credit on home equity loans and construction loans;
- terms and conditions of operating leases; and

funding withdrawals of certificate of deposits at maturity.

In addition to its commitments of the types described above, at December 31, 2009 CFF's off-balance sheet arrangements included its \$1.6 million interest in the Capitol Federal Financial Trust I, which in 2004 issued \$52.0 million of variable rate cumulative trust preferred securities. In connection therewith, CFF issued \$53.6 million of debentures to the trust.

The following table summarizes our contractual obligations and other material commitments as of December 31, 2009 (unaudited). The debentures are callable at any time, in whole or in part.

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	Total	Maturity Range			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
(Dollars in thousands)					
Operating leases	\$ 12,809	\$ 1,170	\$ 1,860	\$ 1,521	\$ 8,258
Certificates of Deposit	\$ 2,622,119	\$ 1,446,540	\$ 1,013,342	\$ 160,978	\$ 1,259
Weighted average rate	2.83%	2.61%	3.10%	3.10%	3.52%
FHLB Advances	\$ 2,426,000	\$ 550,000	\$ 526,000	\$ 875,000	\$ 475,000
Weighted average rate	3.79%	4.57%	3.58%	3.49%	3.67%
Repurchase Agreements	\$ 660,000	\$ 145,000	\$ 250,000	\$ 245,000	\$ 20,000
Weighted average rate	3.97%	3.87%	3.99%	3.97%	4.45%
Debentures	\$ 53,609	\$ —	\$ —	\$ —	\$ 53,609
Weighted average rate	3.03%	—	—	—	3.03%
Commitments to originate and Purchase first mortgage loans	\$ 104,214	\$ 104,214	\$ —	\$ —	\$ —
Weighted average rate	4.87%	4.87%	—	—	—
Commitments to fund unused home equity lines of credit	\$ 270,069	\$ 270,069	\$ —	\$ —	\$ —
Weighted average rate	4.47%	4.47%	—	—	—
Unadvanced portion of construction loans	\$ 17,089	\$ 17,089	\$ —	\$ —	\$ —
Weighted average rate	5.15%	5.15%	—	—	—

Excluded from the table above are income tax liabilities of \$101 thousand related to uncertain income tax positions. The amounts are excluded as management is unable to estimate the period of cash settlement as it is contingent on the statute of limitations expiring without examination by the respective taxing authority.

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

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

#### Contingencies

In the normal course of business, CFF and its subsidiary are named defendants in various lawsuits and counter claims. In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a materially adverse effect on CFF's consolidated financial statements for the quarter ended December 31, 2009 or future periods.

#### Regulatory Capital

Consistent with management's goals to operate a sound and profitable financial organization, we actively seek to maintain a well capitalized status in accordance with regulatory standards. As of December 31, 2009, Capitol Federal Savings Bank exceeded all capital requirements of the Office of Thrift Supervision. The following table presents Capitol Federal Savings Bank's regulatory capital ratios at December 31, 2009 based upon regulatory guidelines.

	Bank Ratios	Regulatory Requirement For Well-Capitalized Status	
Tangible equity	10.1%	N/A	
Tier 1 (core) capital	10.1%	5.0	%
Tier 1 (core) risk-based capital	23.8%	6.0	%
Total risk-based capital	24.0%	10.0	%

A reconciliation of Capitol Federal Savings Bank's equity under accounting principles generally accepted in the United States of America (GAAP) to regulatory capital amounts as of December 31, 2009 is as follows (dollars in thousands):

Total equity as reported under GAAP	\$876,290
Unrealized gains losses on AFS securities	(30,875 )
Other	(456 )
Total tangible and core capital	844,959
ALLL (1)	8,180
Total risk based capital	\$853,139

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(1) This amount represents the general valuation allowances calculated using the formula analysis. Specific valuation allowances are netted against the related loan balance on the Thrift Financial Report and are therefore not included in this amount. See "Critical Accounting Policies - Allowance for Loan Losses" for additional information.

#### BUSINESS OF CFF

Incorporated in March 1999, CFF is a federally chartered mid-tier stock holding company for Capitol Federal Savings Bank, a wholly-owned subsidiary of CFF. CFF is majority-owned by Capitol Federal Savings Bank MHC, a federally chartered mutual holding company. CFF's common stock is traded on the NASDAQ Global Select Market under the symbol CFFN.

Capitol Federal Savings Bank is the only operating subsidiary of CFF. Capitol Federal Savings Bank is a federally-chartered and insured savings bank headquartered in Topeka, Kansas. Capitol Federal Savings Bank is

examined and regulated by the Office of Thrift Supervision and its deposits are insured up to applicable limits by the Deposit Insurance Fund, which is administered by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2009, we had total assets of \$8.37 billion, loans of \$5.42 billion, deposits of \$4.23 billion and total equity of \$942.0 million.

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 MBS and investment securities funded through retail deposits, advances from the FHLB and repurchase agreements. We occasionally originate loans outside of our market area, and the majority of the whole loans we purchase from nationwide lenders are secured by properties located outside of our market areas.

Our revenues are derived principally from interest on loans, MBS and investment securities. Our primary sources of funds are retail deposits, borrowings, repayments on and maturities of loans and MBS, calls and maturities of investment securities, and funds generated by operations.

We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, interest bearing and non-interest bearing checking accounts, and certificates of deposit with terms ranging from 91 days to 96 months.

Our executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603, and our telephone number at that address is (785) 235-1341. Our website address is [www.capfed.com](http://www.capfed.com). Information on our website should not be considered a part of this prospectus.

#### Market Area and Competition

Our corporate office is located in Topeka, Kansas. We currently have a network of 45 branches located in nine counties throughout the state of Kansas and two counties in Missouri. We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and a portion of the metropolitan area of greater Kansas City. In addition to providing full service banking offices, we also provide our customers telephone and internet banking capabilities.

Capitol Federal Savings Bank ranked first in deposit market share in the state of Kansas as reported in the FDIC "Summary of Deposits - Market Share Report" dated June 30, 2009. Deposit market share is measured by total deposits, without consideration for type of deposit. We do not have commercial deposit accounts because of our focus on retail deposits, while many of our competitors have both commercial and retail deposits in their total deposit base. Some of our competitors also offer products and services that we do not, such as trust services and private banking. In recent years, Capitol Federal Savings Bank has experienced a slight decrease in market share due to the entrance of new competitors such as credit unions, newly chartered banks (de novo institutions), and increased banking locations by established financial institutions. Additionally, consumers have the ability to utilize financial institutions without a brick-and-mortar presence in our market area by way of online products and services. Management considers our strong retail banking network and our reputation for financial strength and customer service to be our major strengths in attracting and retaining customers in our market areas.

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

We purchase one- to four-family conventional mortgage loans from correspondent lenders located within our market areas and select market areas in Missouri, and from nationwide lenders. At December 31, 2009 loans purchased from nationwide lenders represented 13% of our total loan portfolio and were secured by properties located in 47 of the continental United States and Washington, D.C. At December 31, 2009, purchases from nationwide lenders in the following states comprised greater than 5% of nationwide purchased loans: Illinois 12%; Texas 8%; New York 7%; Florida 7%; and Colorado 5%.

Capitol Federal Savings Bank has opened two new branches in our Kansas City market area since the beginning of fiscal year 2010, and will open a new branch in the Wichita market area in the second quarter of 2010. Capitol Federal Savings Bank continues to consider expansion opportunities in all its market areas.

#### Lending Practices and Underwriting Standards

General. Capitol Federal Savings Bank's primary lending activity is the origination of loans and the purchase of loans from a select group of correspondent lenders. These loans are generally secured by first mortgages on owner-occupied, one- to four-family residences in Capitol Federal Savings Bank's primary market areas and select market areas in Missouri. To a much lesser extent, Capitol Federal Savings Bank also makes consumer loans, loans secured by first mortgages on non-owner occupied one-to four-family residences, construction loans secured by residential or commercial properties, and real estate loans secured by multi-family dwellings and commercial real estate. Additional lending volume has been generated by purchasing whole one- to four-family conventional mortgage loans from nationwide lenders. By purchasing loans from nationwide lenders, Capitol Federal Savings Bank is able to attain some geographic diversification in its loan portfolio, and help mitigate Capitol Federal Savings Bank's interest rate risk exposure as the purchased loans are predominately adjustable-rate or 15-year fixed-rate loans. At the time these loans were purchased, they met our underwriting standards. As a result of the continued elevated levels of unemployment and the declines in real estate values in some of the states where we have purchased loans, we have experienced an increase in non-performing purchased loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Allowance for Loan Losses" and "– Asset Quality." The loans purchased during fiscal year 2009 had an average credit score of 745 at origination and a weighted average loan to value ratio of 50%, based upon the loan balance at the time of purchase and the lower of the purchase price or the appraisal at origination. Capitol Federal Savings Bank purchased \$37.6 million of loans from nationwide lenders during the December 31, 2009 quarter, the majority of which were adjustable rate. These loans had an average credit score of 725 at origination and a weighted average loan to value ratio of 46% based upon the loan balance at the time of purchase and the lower of the purchase price or the appraisal at origination. As of December 31, 2009, we had not experienced any performance problems with the loans purchased during fiscal years 2009 or 2010. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Loans Receivable."



The ability of financial institutions, including us, to originate or purchase large dollar volumes of one- to four-family real estate loans may be substantially reduced or restricted under certain economic and regulatory conditions, with a resultant decrease in interest income from these assets. At December 31, 2009, our one- to four-family residential real estate loan portfolio totaled \$5.16 billion, which constituted 94.4% of our total loan portfolio and 61.6% of our total assets. For a discussion of our interest rate risk associated with loans see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Quantitative and Qualitative Disclosure about Market Risk."

Loans over \$500 thousand must be underwritten by two of our highest class of underwriters. Any loan greater than \$750 thousand must be approved by the ALCO and loans over \$1.5 million must be approved by the board of directors. For loans requiring ALCO and/or board of directors' approval, lending management is responsible for presenting to ALCO and/or board of directors information about the creditworthiness of the borrower and the value of the subject property. Information pertaining to the creditworthiness of the borrower generally consists of a summary of the borrower's credit history, employment stability, sources of income, assets, net worth, and debt ratios. The value of the property must be supported by an independent appraisal report prepared in accordance with our appraisal policy. Loans over \$500 thousand are priced above the standard mortgage rate.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, the maximum amount which we could have loaned to any one borrower and the borrower's related entities at December 31, 2009 was \$127.0 million. Our largest lending relationship to a single borrower or a group of related borrowers at December 31, 2009 consisted of 17 multi-family real estate projects, two single-family homes, and four commercial real estate projects located in Kansas, Iowa, and Texas. Total commitments and loans outstanding to this group of related borrowers was \$47.8 million as of December 31, 2009. Most of the multi-family real estate loans qualify for the low income housing tax credit program. We have over 30 years of experience with this group of borrowers, who usually build and manage their own properties. Each of the loans to this group of borrowers was current and performing in accordance with repayment terms at December 31, 2009. See additional information under the heading "Multi-family and Commercial Real Estate Lending."

The second largest lending relationship at December 31, 2009, consisted of nine loans totaling \$11.7 million. Five loans are secured by multi-family real estate units and four are secured by one- to four-family real estate. We have over 30 years of experience with the borrowers. All units were built and are presently being managed by the borrowers. Each of the loans to this group of borrowers was current and performing in accordance with repayment terms at December 31, 2009.

**One- to Four-Family Residential Real Estate Lending.** Capitol Federal Savings Bank originates and services conventional mortgage loans, or loans not insured or guaranteed by a government agency. Capitol Federal Savings Bank also originates Federal Housing Administration (FHA) insured loan products which are generally sold, along with the servicing of these loans. New loans are originated through referrals from real estate brokers and builders, our marketing efforts, and our existing and walk-in customers. While Capitol Federal Savings Bank originates both adjustable and fixed-rate loans, our ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition and the interest rate environment. During the first quarter of fiscal year 2010, Capitol Federal Savings Bank originated and refinanced \$154.6 million of one- to four-family fixed-rate mortgage loans and \$14.9 million of one- to four-family ARM loans. During fiscal years 2009 and 2008, Capitol Federal Savings Bank originated and refinanced \$961.5 million and \$631.8 million of one- to four-family fixed-rate mortgage loans, and \$35.9 million and \$77.7 million of one- to four-family ARM loans, respectively.

Repayment. Capitol Federal Savings Bank's one- to four-family loans are primarily fully amortizing fixed- or ARM loans with contractual maturities of up to 30 years, except for interest-only ARM loans, which require only the payment of interest during the interest-only period, all with payments due monthly. Our one- to four-family loans are generally not assumable and do not contain prepayment penalties. A due on sale clause, allowing Capitol Federal Savings Bank to declare the unpaid principal balance due and payable upon the sale of the secured property, is generally included in the security instrument.

Pricing. Our pricing strategy for first mortgage loan products includes setting interest rates based on secondary market prices and competition within our local lending markets. ARM loans are offered with either a three-year, five-year or seven-year term to the initial repricing date. After the initial period, the interest rate for each ARM loan generally adjusts annually for the remainder of the term of the loan. A number of different indices are used to reprice our ARM loans.

Adjustable rate loans. Current adjustable-rate one- to four-family conventional mortgage loans originated by Capitol Federal Savings Bank generally provide for a specified rate limit or cap on the periodic adjustment to the interest rate, as well as a specified maximum lifetime cap and minimum rate, or floor. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Negative amortization of principal is not allowed. For three, five, or seven year ARM loans, borrowers are qualified based on the principal, interest, taxes and insurance payments at either the initial rate or the fully indexed accrual rate, whichever is greater. After the initial three, five, or seven year period, the interest rate is repriced annually and the new principal and interest payment is based on the new interest rate, remaining unpaid principal balance and term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans; however, we do allow borrowers to pay a modification fee to convert an ARM loan to a fixed-rate loan. ARM loans can pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment also rises, increasing the potential for default. This specific risk type is known as repricing risk.

Included in the loan portfolio at December 31, 2009 were \$243.7 million of interest-only ARM loans, the majority of which were purchased from nationwide lenders during fiscal year 2005. These loans do not typically require principal payments during their initial term, and have initial interest-only terms of either five or ten years. The interest-only loans purchased had an average credit score of 737 and an average loan to value ratio of 80% or less at the time of purchase. Capitol Federal Savings 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 December 31, 2009, \$233.3 million, or 96% of interest-only loans were still in their interest-only payment term. As of December 31, 2009, \$110.7 million will begin to amortize principal within two years, \$16.4 million will begin to amortize principal within two-to-five years, \$89.7 million will begin to amortize principal within five-to-seven years and the remaining \$16.4 million will begin amortizing in seven-to-ten years. At December 31, 2009, \$15.7 million or approximately 50% of non-performing loans were interest-only and \$2.8 million was reserved in the ALLL for these loans. Non-performing interest-only loans represent approximately 6% of the total interest-only portfolio at December 31, 2009. See "Asset Quality – Loans and REO."

Underwriting. 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 Capitol Federal Savings Bank's manual underwriting standards which are generally in accordance with Freddie Mac (FHLMC) and Fannie Mae (FNMA) 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 loan-to-value ratio. Full documentation to support the applicant's credit, income, and sufficient funds to cover all applicable fees and reserves at closing are required on all loans. Loans that do not meet the automated underwriting standards are referred to a staff underwriter for manual underwriting. Properties securing one- to four-family loans are appraised by either staff appraisers or fee appraisers, both of which are independent of the loan origination function

and have been approved by the board of directors.

**Mortgage Insurance.** For a conventional mortgage with a loan to value ratio in excess of 80%, private mortgage insurance (PMI) is required in order to reduce Capitol Federal Savings Bank's loss exposure to less than 80% of either the appraised value or the purchase price of the property, whichever is less. Capitol Federal Savings Bank will lend up to 97% of the lesser of the appraised value or purchase price for conventional one- to four-family loans, provided private mortgage insurance is obtained. Management continuously monitors the claim paying ability of our private mortgage insurance counterparties. At this time, we believe that our private mortgage insurance counterparties have the ability to meet potential claim obligations we may file in the foreseeable future.

FHA loans have mortgage insurance provided by the federal government. The loans are up to 97.5% of the lesser of the appraised value or purchase price and are originated and underwritten manually according to private investor and FHA guidelines. Capitol Federal Savings Bank began offering FHA loans in late September 2009 to accommodate customers who may not qualify for a conventional mortgage loan. FHA loans are originated by Capitol Federal Savings Bank with the intention of selling the loans on a flow basis to a private investor with servicing released.

**Purchased loans.** Capitol Federal Savings Bank purchases approved conventional one- to four-family loans and the related servicing rights, on a loan-by-loan basis, from correspondent lenders. During the first quarter of fiscal 2010, Capitol Federal Savings Bank purchased \$27.5 million of one- to four-family loans from correspondent lenders. During the 2009 and 2008 fiscal years, Capitol Federal Savings Bank purchased \$141.6 million and \$119.5 million, respectively, of one- to four-family loans from correspondent lenders. These loans generally have an interest rate 0.125% higher than loans we originate; however, we pay a premium for these loans.

The underwriting of loans purchased through correspondent lenders is generally performed by our underwriters, using our underwriting standards. The products offered by our correspondents are underwritten to standards that are at least as restrictive as Capitol Federal Savings Bank's own internal products and underwriting standards. No doc or stated income, stated assets loans are not permitted under our underwriting standards. Lenders are required to fully document all data sources for each application. Management believes these requirements reduce the credit risk associated with these loans. Lenders are located within the metropolitan Kansas City market area and select market areas in Missouri.

Capitol Federal Savings Bank also purchases conventional one- to four-family loans from nationwide lenders. The underwriting standards are generally similar to Capitol Federal Savings Bank's internal underwriting standards. No doc or stated income, stated assets loans are not permitted under our underwriting standards. Lenders are required to fully document all data sources for each application. Management believes these requirements reduce the credit risk associated with these loans. Before committing to purchase a pool of loans from a lender, Capitol Federal Savings Bank's Chief Lending Officer or Secondary Marketing Manager reviews specific criteria such as loan amount, credit scores, loan to value ratios, geographic location, and debt ratios of each loan in the pool. If the specific criteria do not meet Capitol Federal Savings Bank's underwriting standards and compensating factors are not sufficient, then a loan will be removed from the pool. Once the review of the specific criteria is complete and loans not meeting Capitol Federal Savings Bank's standards are removed from the pool, changes are sent back to the lender for acceptance and pricing. 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 appraisal and other underwriting related documentation. Our standard contractual agreement with the lender includes recourse options for any breach of representation or warranty with respect to the loans purchased. In general, loans are purchased with servicing retained by the seller. The servicing of purchased loans is governed by a servicing agreement, which outlines collection policies and procedures, as well as oversight requirements, such as servicer certifications attesting to and providing proof of compliance with the servicer agreement. During the first quarter of fiscal year 2010, Capitol Federal Savings Bank purchased \$37.6 million of one- to four-family loans from nationwide lenders. During fiscal years 2009 and 2008, Capitol Federal Savings Bank purchased \$191.8 million and \$155 thousand, respectively, of one- to four-family loans from nationwide lenders.

**Loan modification program.** In an effort to offset the impact of repayments and to retain our customers, Capitol Federal Savings Bank offers existing loan customers whose loans have not been sold to third parties the opportunity to modify their original loan terms to new loan terms generally consistent with those currently being offered. This is a convenient tool for customers who may have considered refinancing from an ARM loan to a fixed-rate loan, would like to reduce their term, or take advantage of lower rates associated with current market rates. The program helps ensure Capitol Federal Savings Bank maintains the relationship with the customer and significantly reduces the amount of effort required for customers to obtain current market pricing and terms without having to refinance their loans. Capitol Federal Savings Bank charges a fee for this service generally comparable to fees charged on new

loans. Capitol Federal Savings Bank does not solicit customers for this program, but considers it a valuable opportunity to retain customers who, due to our conservative initial underwriting, could likely obtain similar financing elsewhere. During the first quarter of fiscal 2010 we modified \$139.7 million of our originated loans. During fiscal years 2009 and 2008, we modified \$1.14 billion and \$200.4 million of our originated loans.

Loan sales. Conventional one- to four-family loans may be sold on a bulk basis for portfolio restructuring or on a flow basis as loans are originated to reduce interest rate risk and/or maintain a certain liquidity position. Capitol Federal Savings Bank generally retains the servicing on these loans. ALCO determines which conventional one- to four-family loans are to be originated as held for sale or held for investment. Conventional one- to four-family loans originated as held for sale are to be sold in accordance with policies set forth by ALCO. Conventional one- to four-family loans originated as held for investment are generally not eligible for sale unless a specific segment of the portfolio is identified for asset restructuring purposes. Generally, Capitol Federal Savings Bank will continue to service these loans.

Construction Lending. Capitol Federal Savings Bank also originates construction-to-permanent loans primarily 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 Capitol Federal Savings Bank's Kansas City market areas. 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. These items are used as a basis to determine the appraised value of the subject property. All construction loans are manually underwritten using Capitol Federal Savings Bank's internal underwriting standards. The construction and permanent loans are closed at the same time allowing the borrower to secure the interest rate at the beginning of the construction period and throughout the permanent loan. Construction draw requests and the supporting documentation are reviewed and approved by management. Capitol Federal Savings 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. At December 31, 2009, we had \$33.4 million in construction-to-permanent loans outstanding, including undisbursed loan funds, representing almost 1% of our total loan portfolio.

Consumer Lending. Capitol Federal Savings 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. Capitol Federal Savings Bank also originates a very limited amount of unsecured loans. Capitol Federal Savings Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. All consumer loans are originated in Capitol Federal Savings Bank's market areas. At December 31, 2009, our consumer loan portfolio totaled \$203.2 million, or 3.7% of our total loan portfolio.

The majority of the consumer loan portfolio is comprised of home equity lines of credit, which have interest rates that can adjust monthly based upon changes in the Prime rate, to a maximum of 18%. Home equity loans may be originated in amounts, together with the amount of the existing first mortgage, of up to 95% of the value of the property securing the loan. In order to minimize risk of loss, home equity loans that are greater than 80% of the value of the property, when combined with the first mortgage, require private mortgage insurance. The term-to-maturity of home equity and home improvement loans may be up to 20 years. Other home equity lines of credit have no stated term-to-maturity and require a payment of 1.5% of the outstanding loan balance per month. Interest-only home equity lines of credit have a maximum term of 12 months, monthly payments of accrued interest, and a balloon payment at maturity. Repaid principal may be re-advanced at any time, not to exceed the original credit limit of the loan. Other consumer loan terms vary according to the type of collateral and the length of the contract. Home equity loans, including lines of credit and home improvement loans, comprised 3.5% of our total loan portfolio, or \$194.0 million, at December 31, 2009. As of December 31, 2009, 72.0% of the home equity portfolio was adjustable-rate.

The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of 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.

Consumer loans generally have shorter terms to maturity or reprice more frequently, which reduces our exposure to changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as automobiles. Management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.



**Multi-family and Commercial Real Estate Lending.** At December 31, 2009, multi-family and commercial real estate loans totaled \$71.4 million, or 1.3% of our total loan portfolio. Capitol Federal Savings Bank's multi-family and commercial real estate loans are secured primarily by multi-family dwellings and small commercial buildings generally located in Capitol Federal Savings Bank's market areas. These loans are granted based on the income producing potential of the property and the financial strength of the borrower. Loan to value ratios on multi-family and commercial real estate loans do not 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. Capitol Federal Savings 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 approved by the board of directors. Our multi-family and commercial real estate loans are originated with either a fixed or adjustable interest rate. The interest rate on ARM loans is based on a variety of indices, generally determined through negotiation with the borrower. While maximum maturities may extend to 30 years, these loans frequently have shorter maturities and may not be fully amortizing, requiring balloon payments of unamortized principal at maturity.

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

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

Capitol Federal Savings Bank is a participant with four other banking institutions on a \$42.5 million commercial construction loan secured by a retail shopping center in Kansas. Capitol Federal Savings Bank's original participant share was \$15.0 million, which was to be disbursed as the improvements were completed. The loan was converted from a construction loan to a permanent loan in April 2009, but still had funds to advance for tenant finish. Due to economic factors, the lead bank and the borrower requested to restructure the project and reduce the overall commitment to \$31.0 million, which reduced Capitol Federal Savings Bank's commitment to \$10.9 million as of August 2009. The overall commitment was reduced further to \$23.1 million in December, 2009, which reduced Capitol Federal Savings Bank's commitment to \$8.2 million at December 31, 2009. The change involved completing construction for retail space that was already started, of which 83% was leased as of December 31, 2009, and postponing the development of additional space. This loan is part of our largest lending relationship to a single borrower or a group of related borrowers at December 31, 2009. Although the loan has performed per the terms of the agreement, the change in the agreement has prompted management to classify the loan as Special Mention at December 31, 2009. See "— Classified Assets."

**Loan Portfolio.** 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 allowance for loan losses) as of the dates indicated.



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	December 31, 2009		2009		2008		September 30, 2007		2006		
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	
	(Dollars in thousands)										
Real Estate											
Loans:											
One- to four-family	\$5,155,773	94.4 %	\$5,321,935	94.2 %	\$5,026,358	93.4 %	\$4,992,398	93.4 %	\$4,931,505	93.4 %	
Multi-family and commercial	71,395	1.3	80,493	1.4	56,081	1.0	60,625	1.1	56,774	1.1	
Construction	33,403	0.6	39,535	0.7	85,178	1.6	74,521	1.4	45,452	0.8	
Total real estate loans	5,260,571	96.3	5,441,963	96.3	5,167,617	96.0	5,127,544	95.9	5,033,731	95.9	
Consumer											
Loans:											
Home equity	193,987	3.5	195,557	3.5	202,956	3.8	208,642	3.9	212,938	4.1	
Other	9,186	0.2	9,430	0.2	9,272	0.2	10,440	0.2	10,804	0.2	
Total consumer loans	203,173	3.7	204,987	3.7	212,228	4.0	219,082	4.1	223,742	4.3	
Total loans receivable	5,463,744	100.0%	5,646,950	100.0%	5,379,845	100.0%	5,346,626	100.0%	5,257,473	100.0%	
Less:											
Undisbursed loan funds	17,089		20,649		43,186		42,481		22,605		
Unearned loan fees and deferred costs	10,525		12,186		10,088		9,893		9,318		
Allowance for losses	12,207		10,150		5,791		4,181		4,433		
Total loans receivable, net	\$5,423,923		\$5,603,965		\$5,320,780		\$5,290,071		\$5,221,117		

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The following table presents the contractual maturity of our loan portfolio at December 31, 2009. Loans which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses.

	Real Estate				Consumer				Amount		
	One- to Four-Family		Multi-family and Commercial		Construction(2)		Home Equity (3)			Other	
	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	Weighted	
	Average	Average	Average	Average	Average	Average	Average	Average	Average	Average	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	
(Dollars in thousands)											
Amounts due:											
Within one year (1)	\$ 2,131	6.00%	\$ 22	7.00%	\$ 17,673	5.18%	\$ 4,024	4.14%	\$ 1,478	5.59%	\$ 25
After one year:											
Over one to two	5,117	5.57	—	—	15,730	5.11	1,456	4.64	1,083	8.10	23
Over two to three	8,508	5.53	996	5.72	—	—	2,004	5.23	1,092	6.56	12
Over three to five	45,562	5.30	34	8.50	—	—	3,580	5.42	5,136	5.36	54
Over five to ten	479,433	5.18	6,867	5.87	—	—	32,187	5.11	368	8.62	518
Over 10 to 15	856,233	5.00	13,098	6.40	—	—	60,379	4.87	29	6.50	929
After 15 years	3,758,789	5.25	50,378	6.17	—	—	90,357	6.37	—	—	3,899
Total due after one year	5,153,642	5.21	71,373	6.18	15,730	5.11	189,963	5.64	7,708	6.07	5,438
Total loans	\$ 5,155,773	5.21%	\$ 71,395	6.18%	\$ 33,403	5.15%	\$ 193,987	5.60%	\$ 9,186	6.00%	5,463
Less:											
Undisbursed loan funds											17
Unearned loan fees and deferred costs											10
Allowance for loan losses											12
Total loans receivable, net											\$ 5,423

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

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

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The following table presents, as of December 31, 2009, the amount of loans, net of undisbursed loan funds, due after December 31, 2010, and whether these loans have fixed or adjustable interest rates.

	Fixed	Adjustable	Total
	(Dollars in thousands)		
Real Estate Loans:			
One- to four-family	\$ 4,096,494	\$ 1,057,148	\$ 5,153,642
Multi-family and commercial	68,902	2,471	71,373
Construction	15,185	545	15,730
Consumer Loans:			
Home equity	53,203	136,760	189,963
Other	3,780	3,928	7,708
Total	\$ 4,237,564	\$ 1,200,852	\$ 5,438,416

The following table shows our loan originations, loan purchases and participations, transfers, and repayment activity for the periods indicated. Purchased loans include loans purchased from correspondent and nationwide lenders. The table below does not include modified loans.

	Three Months Ended		Year Ended	
	December 31, 2009	2009	September 30, 2008	2007
	(Dollars in thousands)			
Originations by type:				
Adjustable-rate:				
Real estate - one- to four-family	\$ 14,885	\$ 33,601	\$ 65,740	\$ 91,570
- multi-family and commercial	—	—	1,800	—
- construction	—	2,261	11,939	12,792
Home equity	21,810	91,053	87,614	87,022
Other consumer	1,190	4,391	1,731	—
Total adjustable-rate loans originated	37,885	131,306	168,824	191,384
Fixed-rate:				
Real estate - one- to four-family	146,194	936,930	584,181	541,521
- multi-family and commercial	—	14,891	975	4,873
- construction	8,395	24,563	47,584	32,368
Home equity	1,500	10,069	14,475	25,285
Other consumer	418	1,922	4,796	8,019
Total fixed-rate loans originated	156,507	988,375	652,011	612,066
Total loans originated	194,392	1,119,681	820,835	803,450
Purchases and Participations:				
Real estate - one- to four-family	65,079	333,432	119,631	129,335
- multi-family and commercial	—	—	—	—
- construction	—	—	—	15,000
Total loans purchased/participations	65,079	333,432	119,631	144,335
	(194,759)	(94,672 )	—	—

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Transfer of modified loans to loans held for sale,  
net

Principal repayments	(245,838)	(1,083,731)	(899,178)	(855,980)
Decrease in other items, net	(2,080 )	(7,605 )	(8,069 )	(2,652 )
Net loan activity	\$ (183,206)	\$ 267,105	\$ 33,219	\$ 89,153

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Asset Quality

Capitol Federal Savings Bank’s traditional underwriting guidelines have provided Capitol Federal Savings Bank generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete documentation required for each loan Capitol Federal Savings Bank originates and purchases. This allows us 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.

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. All delinquent balances are reviewed by collection personnel once the loan is 16 or more 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 may 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. Once 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 specific valuation allowances. The servicers handle collection efforts per the terms of the servicing agreement. In the event of a foreclosure, the servicer obtains our approval prior to initiating foreclosure proceedings, and handles all aspects of the repossession and disposition of the repossessed property, which is also governed by the terms of the servicing agreement.

The following matrix shows the balance of one- to four-family loans as of December 31, 2009, cross-referenced by loan to value ratio and credit score. The loan to value ratios used in the matrix were based on the current loan balance and the most recent bank appraisal available, or the lesser of the purchase price or original appraisal. In most cases, the most recent appraisal was obtained at the time of origination. The loan to value ratios based upon appraisals obtained at the time of origination may not necessarily indicate the extent to which we may incur a loss on any given loan that may go into foreclosure as the value of the underlying collateral may have declined since the time of origination. Credit scores were updated in March 2009 for loans originated by Capitol Federal Savings Bank and in September 2009 for purchased loans. Management will continue to update credit scores as deemed necessary based upon economic conditions. As set forth in the matrix, the greatest concentration of loans fall into the “751 and above” credit score category and have a loan to value ratio of less than 70%. The loans falling into the “less than 660” credit score category and having loan to value ratios of more than 80% comprise the lowest concentration. The average loan to value ratio and credit score for our one-to four-family loans purchased at December 31, 2009 was approximately 67% and 758, respectively. The average loan to value ratio and credit score for our one- to four-family originated loans at December 31, 2009 was approximately 59% and 742, respectively.

Loan to value ratio	Less than 660		661 to 700		Credit Score 701 to 750		751 and above		Total	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total

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(Dollars in thousands)

Less than 70%	\$ 121,923	2.4%	\$ 158,508	3.1%	\$ 427,621	8.3%	\$ 1,891,927	36.7%	\$ 2,599,979	50.5%
70% to 80%	114,771	2.2	125,766	2.4	406,457	7.9	1,152,435	22.3	1,799,429	34.8
More than 80%	71,345	1.4	77,532	1.5	211,548	4.1	395,940	7.7	756,365	14.7
	\$ 308,039	6.0%	\$ 361,806	7.0%	\$ 1,045,626	20.3%	\$ 3,440,302	66.7%	\$ 5,155,773	100.0%

Delinquent Loans. The following tables set forth our loans 30 - 89 days delinquent by type, number and amount as of the periods presented. Purchased loans include loans purchased from nationwide lenders.

	December 31, 2009		Loans Delinquent for 30-89 Days at September 30,					
	Number	Amount	2009		2008		2007	
			Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)							
One- to four-family:								
Originated	184	\$19,468	159	\$15,488	125	\$13,244	149	\$13,117
Purchased	44	11,464	41	10,556	37	7,083	26	3,854
Multi-family & commercial	1	5	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—
Consumer Loans:								
Home equity	49	1,021	40	708	33	664	28	589
Other	24	114	15	89	21	118	29	172
Total	302	\$32,072	255	\$26,841	216	\$21,109	232	\$17,732

Delinquent loans to total loans	0.59	%	0.48	%	0.40	%	0.34	%
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Loans 30 to 89 days delinquent increased \$5.7 million from \$21.1 million at September 30, 2008 to \$26.8 million at September 30, 2009. Loans 30 to 89 days delinquent increased \$5.3 million from \$26.8 million at September 30, 2009 to \$32.1 million at December 31, 2009. We believe the increase in the 30 to 89 day delinquent balance from September 30, 2008 to September 30, 2009 and September 30, 2009 to December 31, 2009 was primarily due to the increase in and continued elevated level of unemployment.

The following table presents the average percentage of one- to four-family loans, by principal balance, that entered the 30-89 days delinquent category during the 12 months ended December 31, 2009 that paid off, returned to performing status, stayed 30-89 days delinquent, or progressed to the non-performing or REO categories. Purchased loans include loans purchased from nationwide lenders.

	30-89 Day Delinquent Loan Trend Analysis					
	Paid Off	Performing	30-89 Days Delinquent	Non-Performing	REO	Total
Originated	5.7%	38.1%	34.1%	18.0%	4.1%	100.0%
Purchased	3.7%	20.9%	35.6%	37.6%	2.2%	100.0%
Total Portfolio Average	4.8%	30.9%	35.3%	25.9%	3.1%	100.0%

Non-performing Assets. The table below sets forth the number, amount and categories of non-performing assets. Non-performing assets consist of non-performing loans and real estate owned (REO). Purchased loans include loans purchased from nationwide lenders. 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, we had no loans past due 90 days or more that were still accruing interest. The amount of interest income on non-performing loans, before non-accruing status, that was included in interest income was \$115 thousand for the three months ended December 31, 2009 and \$473 thousand for the year ended September 30, 2009. The amount of additional interest income that would have been recorded on



non-performing loans if they were not on non-accruing status was \$298 thousand for the three months ended December 31, 2009 and \$603 thousand for the year ended September 30, 2009. REO includes assets acquired in settlement of loans.

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	December 31, 2009		2009		2008		September 30, 2007		2006		2005	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)											
Non-performing loans:												
One- to four-family:												
Originated	104	\$ 10,040	99	\$ 9,248	70	\$ 6,488	68	\$ 4,941	56	\$ 3,534	74	\$ 4,471
Purchased	70	21,912	70	21,259	25	6,708	9	2,163	13	1,857	5	563
Multi-family & commercial	—	—	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—	—	—
Consumer loans:												
Home equity	32	516	22	367	19	379	13	207	12	177	11	113
Other	6	9	8	45	11	91	7	41	3	41	4	11
	212	32,477	199	30,919	125	13,666	97	7,352	84	5,609	94	5,158
Real estate owned:												
One- to four-family:												
Originated (1)	55	4,726	51	5,702	36	2,228	30	2,036	34	2,401	30	1,368
Purchased	9	1,911	8	1,702	12	2,918	1	61	—	—	1	245
Multi-family & commercial	—	—	—	—	—	—	—	—	—	—	—	—
Construction	—	—	—	—	—	—	—	—	—	—	—	—
Consumer loans:												
Home equity	—	—	—	—	—	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—	—	1	8	1	40
	64	6,637	59	7,404	48	5,146	31	2,097	35	2,409	32	1,653
Total non-performing assets	276	\$ 39,114	258	\$ 38,323	173	\$ 18,812	128	\$ 9,449	119	\$ 8,018	126	\$ 6,811
Non-performing loans as a percentage of total loans		0.60%		0.55%		0.26%		0.14%		0.11%		0.09%
		0.47%		0.46%		0.23%		0.12%		0.10%		0.08%

Non-performing  
assets as a  
percentage of  
total assets

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(1) Real estate related consumer loans are included in the one- to four-family category as the underlying collateral is a one- to four-family property.

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Non-performing loans increased \$17.2 million from \$13.7 million at September 30, 2008 to \$30.9 million at September 30, 2009. The increase in non-performing loans reflected the economic recession and the continued deterioration of the housing market, particularly in some of the states in which we have purchased loans. Non-performing loans increased \$1.6 million from \$30.9 million at September 30, 2009 to \$32.5 million at December 31, 2009. The balance of 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 values, particularly in some of the states in which we have purchased loans. At December 31, 2009, one-to four-family non-performing loans with loan to value ratios greater than 80% comprised approximately 15% of total non-performing loans. Of these loans, 71% have PMI which reduces or eliminates Capitol Federal Savings Bank's exposure to loss. The balance of one-to four-family non-performing loans with loan to value ratios greater than 80% with no PMI was \$1.4 million at December 31, 2009. At origination, these loans generally had loan to value ratios less than 80%, but as a result of declining real estate values as reflected in updated appraisals, the loan to value ratios are now in excess of 80%.

The following table presents the top twelve states where our one- to four-family mortgages are located, and the corresponding balance of 30-89 day delinquent loans, non-performing loans and the weighted average loan to value ratios for non-performing loans at December 31, 2009. The loan to value ratios were based on the current loan balance and the most recent appraisal available, or the lesser of the purchase price or original appraisal.

State	One- to Four-Family Balance	% of Total Balance	Loans 30 to 89 Days Delinquent	% of Total Balance	Non-Performing Loans	% of Total
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