

Capitol Federal Financial Inc  
Form 10-Q  
August 04, 2015

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

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission file number: 001-34814

Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of incorporation or  
organization)

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

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

66603  
(Zip Code)

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

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

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

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

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

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

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As of July 24, 2015, there were 138,421,120 shares of Capitol Federal Financial, Inc. common stock outstanding.

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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

## CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share amounts)

	June 30, 2015	September 30, 2014
<b>ASSETS:</b>		
Cash and cash equivalents (includes interest-earning deposits of \$40,408 and \$799,340)	\$46,668	\$810,840
Securities:		
Available-for-sale ("AFS"), at estimated fair value (amortized cost of \$833,832 and \$829,558)	847,059	840,790
Held-to-maturity ("HTM"), at amortized cost (estimated fair value of \$1,378,612 and \$1,571,524)	1,359,657	1,552,699
Loans receivable, net (allowance for credit losses ("ACL") of \$9,601 and \$9,227)	6,496,468	6,233,170
Federal Home Loan Bank Topeka ("FHLB") stock, at cost	166,257	213,054
Premises and equipment, net	73,066	70,530
Income taxes receivable, net	417	—
Other assets	141,589	143,945
<b>TOTAL ASSETS</b>	<b>\$9,131,181</b>	<b>\$9,865,028</b>
<b>LIABILITIES:</b>		
Deposits	\$4,813,188	\$4,655,272
FHLB borrowings	2,572,898	3,369,677
Repurchase agreements	220,000	220,000
Advance payments by borrowers for taxes and insurance	37,431	58,105
Income taxes payable, net	—	368
Deferred income tax liabilities, net	25,671	22,367
Accounts payable and accrued expenses	35,270	46,357
Total liabilities	7,704,458	8,372,146
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value; 100,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value; 1,400,000,000 shares authorized, 138,699,031 and 140,951,203 shares issued and outstanding as of June 30, 2015 and September 30, 2014, respectively	1,387	1,410
Additional paid-in capital	1,163,824	1,180,732
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(41,712)	(42,951)
Retained earnings	294,997	346,705
Accumulated other comprehensive income ("AOCI"), net of tax	8,227	6,986
Total stockholders' equity	1,426,723	1,492,882
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$9,131,181</b>	<b>\$9,865,028</b>

See accompanying notes to consolidated financial statements.



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

(Dollars in thousands, except per share amounts)

	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
<b>INTEREST AND DIVIDEND INCOME:</b>				
Loans receivable	\$58,922	\$57,474	\$175,739	\$171,539
Mortgage-backed securities ("MBS")	8,849	11,206	28,387	34,765
Investment securities	1,914	1,739	5,262	5,674
FHLB stock	3,132	1,452	9,389	3,877
Cash and cash equivalents	1,357	50	4,174	157
Total interest and dividend income	74,174	71,921	222,951	216,012
<b>INTEREST EXPENSE:</b>				
FHLB borrowings	17,072	14,826	51,258	47,000
Deposits	8,377	8,124	24,729	24,523
Repurchase agreements	1,712	2,773	5,136	8,319
Total interest expense	27,161	25,723	81,123	79,842
NET INTEREST INCOME	47,013	46,198	141,828	136,170
PROVISION FOR CREDIT LOSSES	323	307	771	982
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	46,690	45,891	141,057	135,188
<b>NON-INTEREST INCOME:</b>				
Retail fees and charges	3,798	3,792	11,052	11,056
Insurance commissions	537	827	2,059	2,589
Loan fees	340	367	1,071	1,221
Income from bank-owned life insurance ("BOLI")	251	333	819	1,001
Other non-interest income	219	300	678	979
Total non-interest income	5,145	5,619	15,679	16,846
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	11,038	10,929	31,927	32,379
Information technology and communications	2,573	2,373	7,726	6,985
Occupancy, net	2,557	2,479	7,437	7,662
Federal insurance premium	1,342	1,078	4,092	3,264
Deposit and loan transaction costs	1,435	1,326	4,065	3,976
Regulatory and outside services	1,365	1,437	3,867	3,990
Low income housing partnerships	492	547	3,404	1,966
Advertising and promotional	1,069	942	2,707	2,825
Other non-interest expense	1,235	1,269	3,882	3,948
Total non-interest expense	23,106	22,380	69,107	66,995
INCOME BEFORE INCOME TAX EXPENSE	28,729	29,130	87,629	85,039
INCOME TAX EXPENSE	9,127	9,147	28,321	27,555
NET INCOME	\$19,602	\$19,983	\$59,308	\$57,484
Basic earnings per share ("EPS")	\$0.14	\$0.14	\$0.43	\$0.41
Diluted EPS	\$0.14	\$0.14	\$0.43	\$0.41
Dividends declared per share	\$0.34	\$0.33	\$0.76	\$0.91
Basic weighted average common shares	135,745,753	138,331,681	136,013,448	140,246,658

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Diluted weighted average common shares	135,763,353	138,334,404	136,040,702	140,247,794
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See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 19,602	\$ 19,983	\$ 59,308	\$ 57,484
Other comprehensive income (loss), net of tax:				
Changes in unrealized holding gains/(losses) on AFS securities,				
net of deferred income tax (benefits) expenses of \$919 and \$(1,260) for the three months ended June 30, 2015 and 2014,				
respectively, and \$(754) and \$103 for the nine months ended				
June 30, 2015 and 2014, respectively	(1,513	) 2,074	1,241	(167
Comprehensive income	\$ 18,089	\$ 22,057	\$ 60,549	\$ 57,317

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at October 1, 2014	\$ 1,410	\$ 1,180,732	\$(42,951)	\$ 346,705	\$ 6,986	\$ 1,492,882
Net income				59,308		59,308
Other comprehensive income, net of tax					1,241	1,241
ESOP activity, net		300	1,239			1,539
Restricted stock activity, net		80				80
Stock-based compensation		1,566				1,566
Repurchase of common stock	(23)	(19,121)		(8,239)		(27,383)
Stock options exercised		267				267
Dividends on common stock to stockholders (\$0.76 per share)				(102,777)		(102,777)
Balance at June 30, 2015	\$ 1,387	\$ 1,163,824	\$(41,712)	\$ 294,997	\$ 8,227	\$ 1,426,723

See accompanying notes to consolidated financial statements.

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

	For the Nine Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 59,308	\$ 57,484
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(9,389)	(3,877)
Provision for credit losses	771	982
Originations of loans receivable held-for-sale ("LHFS")	—	(1,325)
Proceeds from sales of LHFS	—	1,998
Amortization and accretion of premiums and discounts on securities	4,217	4,502
Depreciation and amortization of premises and equipment	5,054	4,704
Amortization of deferred amounts related to FHLB advances, net	3,270	4,882
Common stock committed to be released for allocation - ESOP	1,539	1,516
Stock-based compensation	1,566	1,617
Changes in:		
Other assets, net	2,869	2,375
Income taxes payable/receivable	1,845	3,766
Accounts payable and accrued expenses	(8,847)	(11,983)
Net cash provided by operating activities	62,203	66,641
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of AFS securities	(149,937)	(120,817)
Purchase of HTM securities	(54,133)	(164,128)
Proceeds from calls, maturities and principal reductions of AFS securities	145,663	332,841
Proceeds from calls, maturities and principal reductions of HTM securities	242,958	240,907
Proceeds from the redemption of FHLB stock	202,929	22,387
Purchase of FHLB stock	(146,743)	(2,856)
Net increase in loans receivable	(268,769)	(177,483)
Purchase of premises and equipment	(7,396)	(5,036)
Proceeds from sale of other real estate owned ("OREO")	4,212	3,888
Net cash (used in) provided by investing activities	(31,216)	129,703

(Continued)

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

	For the Nine Months Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	(102,777	) (127,854
Deposits, net of withdrawals	157,916	43,416
Proceeds from borrowings	5,400,000	644,477
Repayments on borrowings	(6,200,000	) (694,477
Change in advance payments by borrowers for taxes and insurance	(20,674	) (21,956
Repurchase of common stock	(29,842	) (65,823
Other, net	218	411
Net cash used in financing activities	(795,159	) (221,806
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(764,172</b>	<b>) (25,462</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	810,840	113,886
End of period	\$46,668	\$88,424
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Income tax payments	\$26,476	\$23,790
Interest payments	\$77,861	\$75,705
See accompanying notes to consolidated financial statements.		(Concluded)

Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of Capitol Federal® Financial, Inc. (the "Company") and its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

Recent Accounting Pronouncements - In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. The ASU provides recognition, measurement, and disclosure guidance for certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. ASU 2013-04 is effective for fiscal years beginning after December 15, 2013, which was October 1, 2014 for the Company, and should be applied retrospectively. The adoption of this ASU did not have a material impact on the Company's consolidated financial condition or result of operations.

In January 2014, the FASB issued ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU revised the conditions that an entity must meet to elect to use the effective yield method when accounting for qualified affordable housing project investments. Per current accounting guidance, an entity that invests in a qualified affordable housing project may elect to account for that investment using the effective yield method if all required conditions are met. For those investments that are not accounted for using the effective yield method, current accounting guidance requires that the investments be accounted for under either the equity method or the cost method. Certain existing conditions required to be met to use the effective yield method are restrictive and thus prevent many such investments from qualifying for the use of the effective yield method. The ASU replaces the effective yield method with the proportional amortization method and modifies the conditions that an entity must meet to be eligible to use a method other than the equity or cost methods to account for qualified affordable housing project investments. If the modified conditions are met, the ASU permits an entity to use the proportional amortization method to amortize the initial cost of the investment in proportion to the amount of tax credits and other tax benefits received and recognize the net investment performance in the income statement as a component of income tax expense. Additionally, the ASU requires new disclosures about all investments in qualified affordable housing projects irrespective of the method used to account for the investments. ASU 2014-01 is effective for fiscal years beginning after December 15, 2014, which is October 1, 2015 for the Company, and should be applied retrospectively. The ASU is not expected to have a material impact on the Company's consolidated financial condition or result of operations when adopted.

In January 2014, the FASB issued ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The ASU also requires disclosure of both (1) the amount of foreclosed residential real estate property held by a creditor and (2) the recorded investment in consumer mortgage loans collateralized by residenti