CENTURY CASINOS INC /CO/
Form 10-K
March 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended

December 31, 2012

OR

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

For the transition period from ___________ to ___________

Commission file number 0-22900

CENTURY CASINOS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	84-1271317

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2860 South Circle Drive, Suite 350, Colorado Springs, Colorado 80906

(Address of principal executive offices) (Zip Code)

(719) 527-8300

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Per Share Par Value	NASDAQ Capital Market, Inc.

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No þ

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 filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2012, based upon the closing price of $2.72 for the Common Stock on the NASDAQ Capital Market on that date, was $57,300,505. For purposes of this calculation only, executive officers and directors of the registrant are considered affiliates.

As of March 12, 2013, the registrant had 24,128,114 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: Part III incorporates by reference the registrant's definitive Proxy Statement for its 2013 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2012.

2

INDEX

Part I		Page
Item 1.	Business	4
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	24
Item 2.	Properties	25
Item 3.	Legal Proceedings	25
Item 4.	Mine Safety Disclosures	25
Part II		
Item 5.	Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	26
Item 6.	Selected Financial Data	26
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 8.	Financial Statements and Supplementary Data	44
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	44
Item 9A.	Controls and Procedures	44
Item 9B.	Other Information	44
Part III		
Item 10.	Directors, Executive Officers and Corporate Governance	45
Item 11.	Executive Compensation	45
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	46
Item 13.	Certain Relationships and Related Transactions, and Director Independence	46
Item 14.	Principal Accountant Fees and Services	46
Part IV		
Item 15.	Exhibits and Financial Statement Schedules	47
SIGNATURES		49

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and certain information incorporated herein by reference contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and the Private Securities Litigation Reform Act of 1995 and, as such, may involve risks and uncertainties. All statements included or incorporated by reference in this report, other than statements that are purely historical, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "could," "potential," "continue" or similar terminology. statements are based on the beliefs and assumptions of the management of the Company based on information currently available to management. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements.

The forward-looking statements included or incorporated by reference in this report are subject to additional risks and uncertainties further discussed under Item 1A. "Risk Factors" and are based on information available to us on the filing date of this report. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this report. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to update any forward-looking statements.

PART I

As used in this report, the terms "Company," "CCI," "we," "our," or "us" refer to Century Casinos, Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

This report includes amounts translated into U.S. dollars from certain foreign currencies. For a description of the currency conversion methodology and exchange rates used for certain transactions, see Note 2 to the Consolidated Financial Statements included elsewhere in this report. The following information should be read in conjunction with the Consolidated Financial Statements and notes thereto included in Part II, Item 8, "Financial Statements and Supplementary Data" of this report.

Item 1. Business.

General

Century Casinos, Inc., a Delaware corporation founded in 1992, is an international casino entertainment company that develops and operates gaming establishments as well as related lodging, restaurant and entertainment facilities around the world. Our main goal is to grow our business worldwide by actively pursuing the development or acquisition of new gaming opportunities and reinvesting in our existing operations.

Overview of Operations

As of December 31, 2012, we own, operate, manage or otherwise have interests in the following properties:

Wholly-Owned Casinos

Century Casino & Hotel – Edmonton, Alberta, Canada

In November 2006, we opened the casino portion of the Century Casino & Hotel in Edmonton, Alberta, Canada, and in March 2007, we opened the attached 26-room hotel. Edmonton is the capital of the Canadian province of Alberta, serving a metropolitan population of over one million people. The facility has 750 ticket in/ticket out ("TITO") slot machines, 35 tables (including a 24-hour poker room) and 8 video lottery terminals. In addition, the property has 26 hotel rooms, a 4,000 square foot showroom that can seat approximately 400 customers, a 3,000 square foot showroom that can seat approximately 200 customers, where we host Yuk Yuks Comedy Club comedic performances, 4 food and beverage outlets and a 200 stall on-site covered parking garage. For the year ended

December 31, 2012, net operating revenue from this property totaled $24.5 million, or 34%, of our total net operating revenue.

Century Casino Calgary – Calgary, Alberta, Canada

In January 2010, we acquired Century Casino Calgary in Calgary, Alberta, Canada. Calgary is the largest city in the province of Alberta, serving a metropolitan population of over one million people. The casino includes 504 TITO slot machines, 16 tables and 25 video lottery terminals. In addition, the property has 2 restaurants, 1 lounge, a 2,300 square foot showroom that can seat approximately 200 customers, a 4,500 square foot showroom that can seat approximately 500 customers, an 18,000 square foot showroom that can seat approximately 1,000 customers, a 30-lane bowling alley, 536 owned parking spaces and 262 leased parking spaces neighboring the casino. For the year ended December 31, 2012, net operating revenue from this property totaled $9.9 million, or 14%, of our total net operating revenue.

Century Casino & Hotel – Central City, Colorado

In July 2006, as part of a joint venture, we opened the Century Casino & Hotel in Central City, Colorado. On December 31, 2007, we acquired the remaining 35% interest in the joint venture that we previously did not own. Central City is located approximately 35 miles west of Denver, serving a metropolitan population of over two and a half million people. The Century Casino & Hotel is located in Central City at the end of the Central City Parkway, a four lane highway that connects I-70, the main east/west interstate highway in Colorado, to Central City. The facility has 500 TITO slot machines, 12 tables (3 of which are player-banked poker tables), 26 hotel rooms, 1 bar, 2 restaurants and a 500 space on-site covered parking garage. For the year ended December 31, 2012, net operating revenue from this property totaled $18.5 million, or 25%, of our total net operating revenue.

Century Casino & Hotel – Cripple Creek, Colorado

Since 1996, we have owned and operated the Century Casino & Hotel in Cripple Creek, Colorado. The town of Cripple Creek is located approximately 45 miles southwest of Colorado Springs, the second largest city in the state of Colorado, serving a metropolitan population of over 500,000 people. The facility has 450 TITO slot machines, 6 tables, 21 hotel rooms, 2 bars, 1 restaurant and 271 parking spaces neighboring the casino. For the year ended December 31, 2012, net operating revenue from this property totaled $11.9 million, or 16%, of our total net operating revenue.

Concessionaire and Management Agreements

Cruise Ships

In addition to our land-based casinos, we operate ship-based casinos on international waters pursuant to casino concessionaire agreements with cruise lines that give us the exclusive right to install and operate casinos aboard specified vessels. With the exception of TUI Cruises, these agreements also give us the right of first refusal to install casinos onboard any new ships built or acquired by these cruise line operators.

The following table summarizes the cruise lines for which we have entered into agreements and the associated ships on which we currently operate ship-based casinos.

Cruise Line	Ship
Oceania Cruises	Regatta
Oceania Cruises	Nautica
Oceania Cruises	Insignia*
Oceania Cruises	Marina
Oceania Cruises	Riviera
TUI Cruises	Mein Schiff 1
TUI Cruises	Mein Schiff 2
Windstar Cruises	Wind Surf
Windstar Cruises	Wind Star
Windstar Cruises	Wind Spirit
Regent Seven Seas Cruises	Seven Seas Voyager
Regent Seven Seas Cruises	Seven Seas Mariner
Regent Seven Seas Cruises	Seven Seas Navigator

* The casino operation on board Insignia was suspended on April 5, 2012 as Oceania Cruises leased the vessel to a different cruise line. We will not operate this casino as long as the ship is leased to a different cruise line.

As of December 31, 2012, we had a total of 423 slot machines and 55 tables aboard the 12 cruise ships where we operated casinos.

Radisson Aruba Resort, Casino & Spa Management Agreement

In December 2010, we entered into a long-term management agreement to direct the operation of the casino at the Radisson Aruba Resort, Casino & Spa. We were not required to invest any amounts under the management agreement. In exchange for our assistance in the operation of the casino at the Radisson Aruba Resort, we receive a management fee consisting of a fixed fee, plus a percentage of earnings before interest, taxes, depreciation and amortization ("EBITDA"). The casino at the Radisson Aruba Resort is a 16,000 square foot casino centrally located within the hotel. The casino operates with approximately 200 TITO slot machines, 16 tables and 1 food and beverage outlet. The island of Aruba has a population of 104,000, and up to 70,000 tourists visit on any given day. The casino is located on the High Rise strip on Palm Beach, the main tourist destination on the island, approximately two miles from downtown Oranjestad, the capital of Aruba.

For the year ended December 31, 2012, net operating revenue from concessionaire and management agreements totaled $6.9 million, or 9%, of our total net operating revenue.

Equity Investment

Casinos Poland

In March 2007, we acquired 33.3% of the outstanding shares issued by Casinos Poland Ltd ("CPL"). We actively participate in the management of CPL and currently account for this investment under the equity method. CPL has been operating since 1989.

On October 11, 2012, our subsidiary Century Casinos Europe GmbH ("CCE") signed an agreement with LOT Polish Airlines to acquire an additional 33.3% ownership interest in CPL. Upon closing of the transaction, CCE will own a 66.6% ownership interest in CPL. The purchase price is approximately $6.9 million. On February 21, 2013, we borrowed CAD 7.3 million (approximately $7.2 million based on the exchange rate in effect on February 21, 2013) from our Bank of Montreal credit agreement (the "BMO Credit Agreement") to pay for the investment. CCE has obtained required approval from Polish Airports, which is the co-shareholder in CPL, and from the Polish Minister of Finance. We anticipate closing the transaction in early April 2013. Once the transaction is final, we anticipate consolidating CPL as a majority-owned subsidiary for which we would have a controlling financial interest. We would account for and report the 33.3% Polish Airports ownership interest as a non-controlling financial interest. Consolidation of CPL would increase our overall net operating revenue and operating costs and expenses because previously we have reported our interest in CPL under the equity method.

The following table summarizes the Polish cities in which CPL operated as of December 31, 2012, each casino's location, number of slots and tables.

City	Population	Location	Number of Slots	Number of Tables
Warsaw	1.7 million	Marriott Hotel	70	23
Krakow	760,000	Dwor Kosciuszko Hotel	33	8
Lodz	730,000	Manufaktura Entertainment Complex	32	8
Wroclaw	630,000	HP Park Plaza Hotel	49	12
Poznan	550,000	NH Hotel	23	6
Katowice	310,000	Altus Building	44	10
Gdynia	250,000	Gdynia City Center	40	6
Sosnowiec	220,000	Sosnowiec City Center	26	4

CPL obtained an additional gaming license in the city of Plock and opened a casino on February 10, 2013. Plock, one of the oldest cities in Poland, has 130,000 inhabitants and is located approximately 62 miles north of Warsaw. CPL is also participating in other license applications, including another location in Warsaw. Decisions from the Polish Minister of Finance on these applications are pending.

For the year ended December 31, 2012, our earnings from our ownership interest in CPL totaled $0.4 million, or 7%, of total earnings from operations.

Additional Projects and Other Developments

On November 30, 2012, CCE signed credit and management agreements with United Horseman of Alberta Inc. (“UHA”) in connection with the development of a proposed Racing Entertainment Center (“REC”) in Balzac, north metropolitan area of Calgary, Alberta, Canada. We would manage the REC upon completion.

The proposed project would be located less than one mile north of the city limits of Calgary and 4.5 miles from the Calgary International Airport. The location is ideally positioned at an exit off the Queen Elizabeth II Highway, which is the main corridor between Calgary and Edmonton and one of the most heavily used highways in Western Canada. The location is also next to the CrossIron Mills shopping mall, a major regional attraction. The location would allow the REC to capture both the north and the northwest Calgary markets, where there is not currently a casino. The REC would be located approximately 17 miles from Century Casino Calgary and would serve what we believe is a different customer base, including customers who also are interested in horse racing.

The REC project would be the only horse race track in the Calgary area and would consist of a 5.5 furlongs (0.7 miles) race track, a gaming floor proposing 625 slot machines, a bar, a lounge, restaurant facilities, an off-track-betting area and an entertainment area. This REC license is the only license still available in any metropolitan area of Alberta. The license application for this REC project pre-dates a recent three-year moratorium imposed by the Alberta Gaming and Liquor Commission ("AGLC") on new casinos and RECs. The AGLC also has an option to extend the moratorium for an additional two years.

The REC project is subject to development approvals and licensing from the AGLC. We anticipate that the REC would be completed 12 to 18 months following completion of the approval process. However, there is no assurance that the needed approvals will be obtained or as to the timing of such approvals.

CCE has agreed to loan to UHA up to CAD 13 million ($13 million) for the exclusive use of developing the REC project. The loan has an interest rate of LIBOR plus 800 basis points and a term of five years and is convertible at CCE's option once the project becomes operational into an ownership position in UHA of up to 60%. The loan will be secured by a leasehold mortgage on the REC property and a pledge of UHA's stock by the majority of UHA shareholders. We intend to fund the loan with borrowings under the BMO Credit Agreement. We have paid $0.1 million in deferred financing costs related to legal fees incurred for the UHA loan. In addition, we have placed $0.3 million in escrow related to the UHA loan.

Once the REC is developed and operational and for as long as CCE has not converted the UHA loan into a majority ownership position in UHA, CCE will receive 60% of UHA's net profit before tax as a management fee.

Both the credit and management agreements are subject to development approvals and licensing from the AGLC. UHA and CCE have submitted the relevant applications, but there is no assurance that the needed approvals will be obtained or as to the timing of such approvals. Horse Racing Alberta, the governing authority for horse racing in Alberta, has already approved the REC project and issued a license.

In addition to the project and operations described above, we have additional potential gaming projects that we are currently exploring. Along with the capital needs of potential projects, there are various other risks which, if they materialize, could affect our ability to complete a proposed project or could eliminate its feasibility altogether. For more information on these and other risks related to our business, see Item 1A, “Risk Factors” below.

Capital Needs, Uses and Cash Flow

As a gaming company, our operating results are highly dependent on the volume of customers at our casinos. Most of our revenue is essentially cash-based, through customers wagering with cash or paying for non-gaming services with cash or credit cards. Our industry is capital intensive, and we rely heavily on the ability of our casinos to generate operating cash flow to repay debt financing, fund maintenance capital expenditures and provide excess cash for future development.

Marketing and Competition

We face intense competition from other casinos in jurisdictions in which we operate and destination resorts. Many of our competitors are larger and have substantially greater name recognition, marketing resources and access to lower cost sources of financing than we do. We seek to compete through promotion of our players’ clubs, enhancement of social networking initiatives and other marketing efforts. In addition to our players’ clubs, we also have various cash and prize promotions and market our casinos through a variety of media outlets including internet,

television, radio, print or billboard advertising. Our marketing focuses on competition and other facts and circumstances of each market area in which we operate. Our primary marketing strategy centers on attracting new customers and rewarding repeat customers through our players' club programs. All visitors to our properties are offered the opportunity to join our players' club. We maintain a proprietary database that consists primarily of slot machine customers that allows us to create effective targeted marketing and promotional programs, cash and merchandise giveaways, coupons, preferred parking, food, lodging, game tournaments and other special events. Our players' club cards allow us to update our database and track member gaming preferences, including, but not limited to, maximum, minimum, and total amounts wagered and frequency of visits. We have designed a multi-tiered reward program based on total amount wagered and frequency of visits to reward customer loyalty and attract new customers to our properties. Those who qualify for VIP status receive additional benefits compared to regular club membership, such as invitations to exclusive VIP events.

Edmonton, Canada – The Century Casino & Hotel in Edmonton, Canada has seven competitors (six casinos and one REC) in the Edmonton market. Our casino is one of two casinos in Edmonton that have both a hotel and showrooms. Our showrooms allow the property to attract customers to the casino through live music concerts, private concerts, comedic performances, catering and banquet events. Our casino is the only casino in the Edmonton market to offer comedic performances and a heated parking garage. Our hotel has 26 rooms. One showroom is 4,000 square feet and seats approximately 400 patrons, and the other showroom is 3,000 square feet and seats approximately 200 patrons. Our main marketing activity focuses on branding the casino, through various forms of media, as the ultimate entertainment destination and as a provider of a sophisticated, interactive and intimate gaming experience. The casino is located in a densely populated area with the closest competing casino approximately ten miles away. With the exception of a First Nations gaming operation, smoking has been banned in all Edmonton casinos and this is considered a competitive disadvantage.

Calgary, Canada – The Century Casino Calgary has six competitors (two of which have a combination of hotel and casino) in the Calgary market. Unique to our casino is a 30-lane bowling alley, a 2,300 square foot Winner's Lounge, a 4,500 square foot showroom and an 18,000 square foot showroom. Using numerous forms of media, we concentrate our marketing on the casino floor, the players' club and the bowling alley. The casino is located in a metropolitan area approximately three miles from downtown Calgary with the closest competition located five blocks away. With the exception of a First Nations gaming operation, smoking has been banned in all Calgary casinos and this is considered a competitive disadvantage.

Colorado – Cripple Creek, Central City and Black Hawk are the only three cities in Colorado that allow gaming, exclusive of two Native American gaming operations in southwestern Colorado. Cripple Creek, located approximately 45 miles southwest of Colorado Springs, and Central City and Black Hawk, located approximately 35 miles west of Denver, are historic mining towns dating back to the late 1800's that have developed into tourist attractions. As of December 31, 2012, there were 15 active casino licensees operating in Cripple Creek, 8 active casino licensees operating in Central City and 18 active casino licensees operating in Black Hawk. Unlike other regions in which we operate, gaming in Colorado is "limited stakes," which restricts any single wager to a current maximum of one hundred dollars.

The cities of Central City and Black Hawk are adjoining small mountain tourist towns, located approximately one mile apart. Central City and Black Hawk compete with one another for market share, and we view the two cities as one combined market servicing the Denver area. Black Hawk, which we believe does not maintain the same rigorous historical preservation standards as Central City, has been able to successfully attract major casino industry leaders with the ability to offer larger hotels, upscale dining facilities, performance centers and spa facilities. The casino operations in Black Hawk constitute a significant portion of the overall casino gaming market in Colorado (exclusive of the Native American gaming operations), with 56% of the total gaming devices and approximately 73% of total gaming revenues in 2012.

Management believes that an integral component in attracting gaming patrons to our Colorado casinos is the availability of adequate, nearby parking and lodging. At our Cripple Creek property, we presently own a total of 271 uncovered parking spaces. We believe we have sufficient close proximity parking. However, covered parking garages provided by three of our competitors in Cripple Creek may negatively impact our casino, particularly during inclement weather. Our casino in Central City has a 500-space covered parking garage offering free public parking. Several other casinos in the Central City/Black Hawk market also have covered parking garages. In addition, three of our competitors in the Cripple Creek market and five of our competitors in the Central City and Black Hawk market have more hotel rooms, providing them with an advantage during inclement weather and the peak tourist season.

Our marketing objective for the casinos in Colorado is to create public awareness by positioning our casinos as the premier provider of personal service, convenient parking, the latest gaming products and superior food quality. In addition to our players' clubs, we also have various cash and prize promotions and market our casinos through a variety of media outlets including internet, television, radio, print or billboard advertising.

Cruise Ships – We have limited marketing opportunities on our ship-based casinos. We rely on each cruise ship's marketing efforts to attract on-board customers to our casinos. While we offer modern gaming products, we compete with other activities on the ship as well as onshore activities including land-based casinos.

Radisson Aruba Hotel, Casino & Spa – The Radisson Aruba Hotel, Casino & Spa, for which we hold the casino management agreement, has 12 competitors (one recently opened in December 2012) in the Aruba market. Our main marketing activity is focused on promotions to drive traffic at the casino with promotions such as tables and slot tournaments and various events at the casino including live music and bingo. Marketing efforts are targeted to hotel guests staying at the Radisson Aruba Hotel as well as tourists and locals from the island. In addition, the casino is located on the High Rise Strip on Palm Beach, which is the main tourist destination on the island.

Poland – CPL competes with 37 casinos located throughout Poland. Casino licenses in Poland are issued by district and there are additional casinos in each district in which CPL operates. For example, there are four other casinos in the Warsaw district, which compete with our casino. Five additional licenses to operate casinos in small cities across Poland were granted by the Minister of Finance in 2012 but have not started operations. The Polish government generally forbids the marketing of gaming activities outside of a casino, but the marketing of entertainment is permissible. Therefore, CPL's marketing focuses on advertising the entertainment possibilities at each casino, such as concerts and parties. CPL also relies on the locations of its casinos, which are in major cities throughout Poland, to attract customers. For the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, CPL's market share decreased from 58% to 43%. We believe this decrease is due to the addition of 19 operations to the market during 2012 and lower performing properties that were in a start-up phase during the second and third quarters of 2012. Smoking was restricted in all Polish casinos in November 2010. However, the impact of this restriction on revenues has not been significant as CPL currently offers a smoker friendly environment to guests by providing smoking zones and/or smoking cabins in each casino.

Seasonality

Colorado – Our casinos in Colorado attract more customers during the warmer months from May through September. We expect to attract fewer customers from October through April because weather conditions during this period are variable and can have a significant impact on daily business levels.

Cruise Ships - Our business aboard cruise ships typically is not impacted by seasonality because the cruise ships generally operate year round. Our revenues from these operations fluctuate significantly with the volume and quality of the players on board the ships. In addition, the cruise ships on which we conduct operations may be out of service from time to time for maintenance or based on the operating schedule of the cruise line, which may impact revenue from our cruise ship casinos.

Casinos Poland – CPL generally attracts more customers from October through March.

Aruba – The Radisson Aruba Hotel, for which we hold the management agreement, is popular among tourists throughout the year, with the peak season being from the end of December through April.

Governmental Regulation and Licensing

The ownership and operation of casino gaming facilities are subject to extensive state, local, foreign, provincial or federal regulations. We are required to obtain and maintain gaming licenses in each of the jurisdictions in which we conduct gaming operations. The limitation, conditioning, suspension, revocation or non-renewal of gaming licenses, or the failure to reauthorize gaming in certain jurisdictions, would materially adversely affect our gaming operations in that jurisdiction. In addition, changes in law that restrict or prohibit gaming operations in any jurisdiction could have a material adverse effect on our financial position, results of operations and cash flows.

Statutes and regulations can require us to meet various standards relating to, among other matters, business licenses, registration of employees, floor plans, background investigations of licensees and employees, historic preservation, building, fire and accessibility requirements, payment of gaming taxes, and regulations concerning equipment, machines, tokens, gaming participants, and ownership interests. Civil and criminal penalties, including shutdowns or the loss of our ability to operate gaming facilities in a particular jurisdiction, can be assessed against us and/or our officers to the extent of their individual participation in, or association with, a violation of any of the state or local gaming statutes or regulations. Such laws and regulations apply in all jurisdictions in which we may do business. Management believes that we are in compliance with all applicable gaming and non-gaming regulations as described below.

Alberta, Canada

Gaming in Alberta is governed by the provincial government. The AGLC administers and regulates the gaming industry in Alberta. The AGLC operates in accordance with the Gaming and Liquor Act, the Gaming and Liquor Regulation and the Criminal Code of Canada.

The AGLC requires all gaming operations to be licensed but only allows a certain number of licenses to be granted. All available licenses have currently been granted, and the AGLC recently approved a three-year moratorium on new casinos and RECs with an option to extend the moratorium for an additional two years. If the AGLC increases the number of licenses available in the future, applicants for a gaming license must submit an application and run through a detailed approval process. Following the approval of the board of the AGLC, the applicant may operate the casino applied for in accordance with federal and provincial legislation, regulation, and policies as well as the municipal requirements, permits, licenses and authorization relating to the casino. Our license must be renewed every three years. The AGLC monitors the casino operator and its compliance with all requirements. In the event of a violation of such requirements, civil and criminal charges can be assessed.

The AGLC allows casino table games to operate a maximum of 14 consecutive hours, commencing no earlier than 10:00 a.m. and ending no later than 2:00 a.m. Casino slot machines are allowed to operate a maximum of 17 consecutive hours commencing at 10:00 a.m. and ending no later than 3:00 a.m. and casino poker rooms may operate 24- hours a day. Casinos may permit only individuals 18 or older to gamble in the casino and may not provide credit to gaming patrons. The AGLC permits slot machines, video lottery terminals, baccarat, blackjack, poker, craps and roulette with a maximum single bet of $100 for 3 Card Poker, 4 Card Poker and Ultimate Texas Hold'em table games, $1,000 for all other tables games and a maximum single bet of $1 for slot machines.

The AGLC provides casinos with slot machines, slot technicians and personnel to administer table game counts. In return, casino licensees market the casinos, provide table game dealers and provide the AGLC with a place to operate slot machines. Casino licensees do not incur lease expenditures with the AGLC. In lieu of these lease expenses and other expenses associated with operating slot machines (i.e. equipment and personnel), casino licensees retain only a portion of net sales. Net sales, as defined by the AGLC, are calculated as cash played, less cash won, less the cost to lease the equipment, if applicable.

The AGLC retains 85% of slot machine net sales, of which 15% is allocated to licensed charities. For all table games, excluding poker and craps, we are required to allocate 50% of our net win to a charity designated by the AGLC. For poker and craps, we are required to allocate 25% of our net win to the charity. We record our revenues net of the amounts retained by the AGLC or allocated to the AGLC-designated charity.

Colorado, United States

The ownership and operation of gaming facilities in Colorado are subject to extensive state and local regulations. Licenses must be obtained from the Colorado Limited Gaming Control Commission (the “Gaming Commission”) prior to offering limited gaming to the public in the State of Colorado. In addition, the Division of Gaming (the “DOG”) within the Colorado Department of Revenue, licenses, implements, regulates, and supervises the conduct of limited stakes gaming. The Director of the DOG, under the supervision of the Gaming Commission, has been granted broad powers to ensure compliance with the laws and regulations. The Gaming Commission, DOG and DOG Director are collectively referred to as the “Colorado Gaming Authorities.”

The laws, regulations, and internal control minimum procedures of the Colorado Gaming Authorities seek to maintain public confidence and trust that licensed limited gaming is conducted honestly and competitively, that the rights of the creditors of licensees are protected, and that gaming is free from criminal and corruptive elements. The Colorado Gaming Authorities’ stated policy is that public confidence and trust can be maintained only by strict regulation of all persons, locations, practices, associations, and activities related to the operation of the licensed gaming establishments and the manufacture and distribution of gaming devices and equipment.

The Gaming Commission is empowered to issue five types of gaming and related licenses. In order to operate a casino, an operator is required to obtain a retail gaming license. Further, under Colorado gaming regulations, no person or entity can have an ownership interest in more than three retail licenses. We currently operate under the maximum of three retail gaming licenses in Colorado (Century Casino & Hotel in Cripple Creek operates under two gaming licenses). Licenses must be renewed every two years. In addition, the Gaming Commission has broad discretion to revoke, suspend, condition, limit or restrict the licensee at any time. The failure or inability of the Century Casino & Hotel in Central City or Cripple Creek, or the failure or inability of others associated with these casinos to maintain necessary gaming licenses or approvals would have a material adverse effect on our operations.

Our Colorado casinos must meet specified architectural requirements and must not exceed specified gaming square footage limits as a total of each floor and the full building. Colorado casinos may operate 24- hours a day, and may permit only individuals 21 or older to gamble in the casino. Colorado law permits slot machines, blackjack, poker, craps and roulette with a maximum single bet of $100. Colorado casinos may not provide credit to gaming patrons.

The Colorado constitution permits a gaming tax of up to 40% on adjusted gross gaming proceeds, and voter approval is required for any increase to this gaming tax rate. The current gaming tax in Colorado established by the Gaming Commission is a graduated rate of 0.25% to 20% on adjusted gross gaming proceeds, where casinos pay a higher percentage as their adjusted gross proceeds increase.

Colorado law requires that every officer, director or stockholder holding a 5% or greater interest or controlling interest of a publicly traded corporation, or owner of an applicant or licensee, shall be a person of good moral character and submit to and pay the cost of a full background investigation conducted by the Gaming Commission. Persons found unsuitable by the Gaming Commission may be required to immediately terminate any interest in, association or agreement with, or relationship to, a gaming licensee. A finding of unsuitability with respect to any officer, director, employee, associate, lender or beneficial owner of a licensee or applicant may also jeopardize the licensee's retail license or applicant's license application. Licenses may, however, be conditioned upon termination of any relationship with unsuitable persons.

We may not issue any voting securities except in accordance with the provisions of the Colorado Limited Gaming Act (the "Act") and the regulations promulgated thereunder. The issuance of any voting securities in violation of the Act will be void, and the voting securities will be deemed not to be issued and outstanding. No voting securities may be transferred, except in accordance with the provisions of the Act and the regulations promulgated thereunder. Any transfer in violation of these provisions will be void. If the Gaming Commission at any time determines that a holder in excess of 5% of our voting securities is unsuitable to hold the securities, then we may, within sixty (60) days after the finding of unsuitability, purchase the voting securities of the unsuitable person at the lesser of (a) the cash equivalent of such person's investment, or (b) the current market price as of the date of the finding of unsuitability, unless such voting securities are transferred to a suitable person within sixty (60) days after the finding of unsuitability. Until our voting securities are owned by persons found by the Gaming Commission to be suitable to own them, (a) we are not permitted to pay any dividends or interest with regard to the voting securities, (b) the holder of such voting securities will not be entitled to vote, and the voting securities will not for any purposes be included in the voting securities entitled to vote, and (c) we may not pay any remuneration in any form to the holder of the voting securities, except in exchange for the voting securities.

In November 2011, the Gaming Commission voted unanimously to allow Colorado casinos to begin offering electronic downloadable promotional credits. Promotional credits allow casinos to offer customers free plays on slot machines through an electronic card that patrons receive. However, the downloadable credits are subject to tax by the state. Previously, Colorado gaming rules required that all winnings or credits earned by players be redeemable and were not subject to tax until played. Machine manufacturers have tested the new technology and software is available. Management is currently evaluating the purchase of this type of software.

Cruise Ships

The casinos onboard the cruise ships operate only on international waters and are not regulated by any national or local regulatory body. However, we follow standardized rules and practices in the daily operation of the casinos.

Poland

Gaming in Poland is governed by the Minister of Finance, who operates in accordance with Polish gaming law and has the authority to grant casino licenses. Polish gaming law was enacted in 1992. Key items included in Polish gaming law include the following requirements:

- The operation of slot machines is permitted in casinos only;
- A maximum of 70 slot machines is allowed per casino;
- All licensees must go through a renewal process once their current 6 year license has expired;
- All slot arcades are being phased out and will cease operations in 2014;

- The gaming tax rate assessed on gross gaming revenue is 50%; and
- Poker cash games are prohibited in Poland, except for authorized poker tournaments.

Casino licenses in Poland are limited to 52 and are subject to regional limitations. The Minister of Finance periodically notifies the public of license availability and those interested can submit an application. Applicants for a gaming license must complete a detailed approval process. Following approval from the Minister of Finance, the applicant may operate the casino applied for in accordance with Polish gaming legislation and policies for 6 years. The Minister of Finance monitors the casino operator and its compliance with all requirements. In the event of a violation, charges can be assessed.

Aruba

Gaming in Aruba is governed by the Minister of Justice. The Minister of Justice has the authority to grant a casino license, and a casino license will only be granted to the holder of a hotel license with a minimum of 250 rooms. As a result, the Radisson Aruba Hotel, which has 355 hotel rooms, holds the casino license and we operate the casino under a management agreement. The casino license is not required to be renewed by the hotel. The casino must be a facility belonging to the hotel but separated from the normal hotel business matters. Gaming applicants must be in good standing and reputation as determined by the Minister of Justice. Games permitted include craps, bingo, keno, card games, roulette, wheel of fortune and slot machines. Casinos must be in compliance with conditions and rules and regulations set forth by the Minister of Justice, subject to penalty of closure and/or withdrawal of license.

Non-Gaming Regulation

We are subject to certain foreign, federal, state and local safety and health, employment and environmental laws, regulations and ordinances that apply to our non-gaming operations. We have not made, and do not anticipate making, material expenditures with respect to these laws, regulations and ordinances. However, the coverage of and attendant compliance costs associated with, such laws, regulations and ordinances may result in future additional costs to our operations.

Rules and regulations regarding the service of alcoholic beverages are strict. The loss or suspension of a liquor license could significantly impair our operations. Local building, parking and fire codes and similar regulations also could impact our operations and any proposed development of our properties.

Employees

As of December 31, 2012, we had approximately 1,000 employees. During busier months, a casino may supplement its permanent staff with seasonal employees.

Executive Management

Name	Age	Position Held
Erwin Haitzmann	59	Chairman of the Board and Co Chief Executive Officer
Peter Hoetzinger	50	Vice Chairman of the Board, Co Chief Executive Officer and President
Margaret Stapleton	51	Executive Vice President, Principal Financial/Accounting Officer and Secretary

Erwin Haitzmann holds a Doctorate and a Masters degree in Social and Economic Sciences from the University of Linz, Austria (1980), and has extensive casino gaming experience ranging from dealer through various casino management positions. Dr. Haitzmann has been employed full-time by us since 1993 and has been employed as either Chief Executive Officer or Co Chief Executive Officer since March 1994.

Peter Hoetzinger received a Masters degree from the University of Linz, Austria (1986). He thereafter was employed in several managerial positions in the gaming industry with Austrian casino companies. Mr. Hoetzinger has been employed full-time by us since 1993 and has been Co Chief Executive Officer since March 2005.

Margaret Stapleton was appointed Executive Vice President, Principal Financial/ Accounting Officer and Secretary, effective May 2010. She holds a Bachelor of Science degree in Accounting from Regis University, Denver, Colorado (2004) and has over 30 years of experience in corporate accounting and internal audit. Mrs. Stapleton has been employed by us since 2005, previously serving as our Director of Internal Audit and Compliance.

Available Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are made available free of charge through the Investor Relations-Corporate section of our website at http://www.cnty.com as soon as reasonably practicable after such report has been filed with, or furnished to, the SEC. None of the information posted to our website is incorporated by reference into this report.

Segment and Financial Information about Geographic Areas

See Part II, Item 8, “Financial Statements and Supplementary Data” – Note 11 for segment information.

Item 1A. Risk Factors.

Our short and long-term success is subject to many factors beyond our control. If any of the following risks, or any risks described elsewhere in or incorporated by reference in this report, actually occur, our business, financial condition or results of operations could suffer. Additional risks not presently known to us or which we currently consider immaterial may also adversely affect our business, financial condition or results of operations.

Risks Related to our Business and Operations

We face significant competition, and if we are not able to compete successfully, our results of operations will be harmed.

We face intense competition from other casinos in jurisdictions in which we operate and destination resorts. Many of our competitors are larger and have substantially greater name recognition, marketing resources and access to lower cost sources of financing than we do. We seek to compete through promotion of our players' clubs and other marketing efforts. For example, for our casino in Edmonton, Canada we emphasize the casino's showroom, heated parking, players' club program, and superior service. These marketing efforts may not be successful, which could hurt our competitive position. The markets in which we operate are generally not destination resort areas and rely on a local customer base as well as tourists during peak seasons. The number of casinos in our markets may exceed demand, which could make it difficult for us to sustain profitability.

The gaming industry is highly fragmented and characterized by a high degree of competition among a large number of participants. Legalized gaming is currently permitted in various forms throughout much of the world. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the U.S. and other jurisdictions. Other jurisdictions may legalize gaming or liberalize their gaming rules in the near future. In addition, there has been increased discussion recently about potential legalized Internet gaming in the U.S. at the national or state levels, in part due to the interest in raising tax revenue. For example, Nevada recently enacted new regulations to allow the state's casino companies to operate Internet poker websites limited to players within Nevada's borders, and the U.S. Department of Justice released an opinion that the Interstate Wire Act of 1961 applies only to sports-related gambling activities in interstate and foreign commerce. This opinion, in conjunction with the Unlawful Internet Gambling Enforcement Act, may increase non-sport related Internet gambling. Any additional gaming opportunities that become available in our markets, such as video lottery terminals that have been proposed for Colorado race tracks, could attract players that might otherwise have visited our casinos. The resulting loss of revenue at our casinos may have a material adverse effect on our business, financial condition and results of operations. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other entities in any of the markets in which we operate will increase competition for our gaming operations and could have a material adverse impact on us. We are particularly vulnerable to competition in Colorado. If other gaming operations were permitted to open closer to Colorado Springs or Denver, our operations in Cripple Creek and Central City, respectively, could be substantially harmed, which would have a

material adverse effect on us.

We face extensive regulation from gaming and other regulatory authorities, which involve considerable expense and could harm our business.

As owners and operators of gaming facilities, we are subject to extensive state, local, and international provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities may, for any reason set forth in applicable legislation, rules and regulations, limit, condition, suspend or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries. Like all gaming operators in the jurisdictions in which we operate or plan to operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. We may not be able to obtain such renewals or approvals. Regulatory authorities may also levy substantial fines against us or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could force us to terminate operations at an existing gaming facility, either on a temporary or permanent basis, could result in us

being fined or could prohibit us from successfully completing a project in which we invest. Closing facilities or an inability to expand may have a material adverse effect on our business, financial condition and results of operations.

We face extensive taxation from gaming and regulatory authorities. Potential changes to the tax laws in the jurisdictions in which we operate may adversely affect the results of our operations.

We believe that the prospect of significant revenue to a jurisdiction through taxation and fees is one of the primary reasons jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. For instance, the Colorado constitution permits a gaming tax of up to 40% on adjusted gross gaming proceeds. The current gaming tax in Colorado established by the Colorado Gaming Commission is a graduated rate of 0.25% to 20% on adjusted gross gaming proceeds, where casinos pay a higher percentage as their adjusted gross proceeds increase. In addition, negative economic conditions could intensify the efforts of U.S., state, provincial and local governments to raise revenues through increases in gaming taxes or introduction of additional gaming opportunities.

Potential changes in the regulatory environment may adversely affect the results of our operations.

From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations or that may otherwise adversely impact our operations in the jurisdictions in which we operate. Any expansion of the gaming industry that results in increased competition and any restriction on or prohibition of our gaming operations could have a material adverse effect on our operating results or cause us to record an impairment of our assets.

We may be unable to obtain the capital necessary to fund our operations or potential acquisitions.

While we have a significant amount of cash currently on hand, we may not be able to obtain funding when we need it on favorable terms or at all. If we are unable to finance our current or future expansion projects, we will have to adopt one or more alternatives, such as reducing or delaying planned expansion, development and renovation projects and capital expenditures, selling assets, restructuring debt, obtaining additional equity financing or joint venture partners, or modifying our bank credit facility. In addition, the amount of capital that we are able to raise often depends on variables that are beyond our control, such as the share price of our stock and its trading volume. Funding may be impacted by the global economic, credit and stock market conditions. As a result, we may not be able to secure financing on terms attractive to us, in a timely manner or at all. If we are able to consummate a financing arrangement, the amount raised may not be sufficient to meet all of our future needs and may be highly dilutive to our current stockholders. If we cannot raise adequate funds to satisfy our capital requirements, we may have to reduce, dispose of or eliminate certain operations.

The BMO Credit Agreement imposes covenants that limit our operating flexibility, and a default could have a material adverse effect on us.

In May 2012, our Canadian subsidiaries entered into the BMO Credit Agreement, which has a term of five years and is guaranteed by the Company. The BMO Credit Agreement contains a number of significant financial covenants applicable to the Canadian subsidiaries, in addition to covenants restricting their incurrence of additional debt. These restrictions will limit the subsidiaries' ability to obtain future financings to withstand a future downturn in our business or the economy in general, or to otherwise conduct necessary corporate activities. A breach of any covenant in the BMO Credit Agreement would result in an event of default under that agreement after any applicable grace periods. An event of default, if not waived or cured, could cause the lender to accelerate the repayment of all outstanding amounts due under the agreement, foreclose on the security granted under the agreement and enforce the Company's obligations under its guarantee. There can be no assurances that we or our subsidiaries would be able to obtain a waiver of an event of default or modification of a covenant if necessary, or otherwise obtain alternative sources of funding to repay the obligation if a default occurred. Any such occurrences could have a material adverse effect on us.

We intend to make a loan to the REC project in Calgary, and if the loan defaults, our business may be adversely affected.

CCE has agreed to loan to UHA up to CAD 13 million ($13 million) for the exclusive use of developing and operating the REC project as various stages of the REC are completed. The loan is secured by the assets of the project. If the project is not completed and loan advances have been made, CCE would have the right to foreclose on any assets purchased. However, in those circumstances the value of the project assets may not be sufficient to satisfy the outstanding loan amount. In addition, the REC project may not be successful, which would adversely affect UHA's ability to repay the loan. The failure of UHA to repay the loan could have a material adverse effect on the Company.

We intend to develop and operate additional casino properties in the future, and if our development efforts are not successful our business may be adversely affected.

We regularly review opportunities to develop new casino properties. We may not be successful in obtaining the rights to develop such properties, and as a result, we may incur significant costs for which we will receive no return. Even if we are successful in obtaining the rights to develop new casino properties, commencing operations at new casino projects may require substantial development capital. This could be the case, for example, with the proposed REC project in Calgary. Development activities involve expenses and risks, including expenses involved in securing licenses, permits or authorizations other than those required from gaming regulators, and the risk of potential cost over-runs, construction delays, and market deterioration. Additional risks before commencing operations include the time and expense incurred and unforeseen difficulties in obtaining suitable sites, liquor licenses, building permits, materials, competent and able contractors, supplies, employees, gaming devices and related matters.

We may pursue gaming opportunities that would require us to obtain a gaming license. While our management believes that we are licensable in any jurisdiction that allows gaming operations, each licensing process is unique and requires a significant amount of funds and management time. The licensing process in any particular jurisdiction can take significant time and expense through licensing fees, background investigation costs, fees of counsel and other associated preparation costs. Moreover, if we proceed with a licensing approval process with industry partners, such industry partners would be subject to regulatory review as well. We seek to find industry partners that are licensable, but cannot assure that such partners will, in fact, be licensable. Certain licenses include competitive situations where, even if we and our industry partners are licensable, other factors such as the economic impact of gaming, financial and operational capabilities of competitors must be analyzed by regulatory authorities. In addition, political factors may make the licensing process more difficult. If any of our gaming license applications are denied, we may have to write off costs related to our investment in such application processes, which could be significant. In addition, our ability to attract and retain competent management and employees for any new location is critical to our success. One or more of these risks may result in any new gaming opportunity not being successful. If we are not able to successfully commence operations at these properties, our results of operations may be adversely affected.

We may experience construction delays during our expansion or development projects, which could adversely affect our operations.

From time to time we may commence construction projects at our properties. We also evaluate other expansion opportunities as they become available and we may, in the future, engage in additional construction projects as part of our expansion of existing casinos. The anticipated costs and construction periods are based on budgets, conceptual design documents and construction schedule estimates prepared by us in consultation with our architects and contractors. Construction projects entail significant risks, which can substantially increase costs or delay completion of a project. Such risks include shortages of materials or skilled labor, unforeseen engineering, environmental or geological problems, work stoppages, weather interference and unanticipated cost increases. Most of these factors are beyond our control. In addition, difficulties or delays in obtaining any of the requisite licenses, permits or authorizations from regulatory authorities can increase the cost or delay the completion of an expansion or development. Significant budget overruns or delays with respect to expansion and development projects could adversely affect our results of operations. In addition, construction at our operating casinos may disrupt our customer's experience and cause a decline in our revenue.

We may face disruption in integrating and managing facilities we open or acquire in the future, which could adversely impact our operations.

We continually evaluate opportunities to open new properties, some of which are potentially significant in relation to our size. We expect to continue pursuing expansion opportunities, and we could face significant challenges in managing and integrating expanded or combined operations resulting from our expansion activities. The integration of any new properties we open or acquire in the future will require the dedication of management resources that may temporarily divert attention from the day-to-day business of our existing operations, which may interrupt the activities of those operations and could result in deteriorating performance from those operations. Management of new properties, especially in new geographic areas, may require that we increase our managerial staff, which would increase our expenses.

Difficulties in managing our worldwide operations may have an adverse impact on our business.

In 2012, we derived our revenue principally from operations located on two continents and on cruise ships operating around the world. Our management is located in the United States and Europe. We are also listed on two stock exchanges, the NASDAQ Capital Market and the Vienna Stock Exchange. As a result of long distances, different time zones, culture, management, foreign currency and language differences, our worldwide operations pose risks to our business, especially for a smaller company such as ours. These factors make it more challenging to manage and administer a globally-dispersed business, increase the resources we must devote to operating under several different regulatory and legislative regimes and realize gains/losses from foreign currency exchange rates (See “Governmental Regulation and Licensing” in Item 1, “Business”). This business model also increases our costs.

We may continue to be adversely affected by reductions in discretionary consumer spending as a result of a world economic downturn.

Our business operations are impacted by international, national and local economic conditions, such as the recent U.S. and international recession and the current European sovereign debt crisis. The volatile global economic environment has had and is continuing to have negative effects on our business because our business is largely impacted by discretionary customer spending. Recessions and downturns in the general economies of the countries in which we operate have resulted in reduced consumer spending and fewer customers visiting our properties, and have adversely affected our results of operations. Management believes that weak economic conditions may continue to negatively affect our results and operations in 2013.

We experience seasonal fluctuations that significantly impact our quarterly operating results.

Weather patterns and holidays affect our operations. For example, our Colorado casinos, which are located in mountain tourist towns, typically experience greater gaming revenues in the summer tourist season than any other time during the year. During the year ended December 31, 2012, net operating revenue attributable to our Colorado operations fluctuated from a low of $6.9 million in the fourth quarter to a high of $8.4 million in the third quarter. If we are not able to offset these seasonal declines with additional revenue from other properties, our quarterly results may suffer.

Energy and fuel price increases may adversely affect our costs of operations and our revenues.

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. We expended approximately $1.7 million for utilities for all of our operations in 2012. Substantial increases in the cost of electricity and natural gas will negatively affect our results of operations. In addition, energy and fuel price increases could reduce the disposable income of our customers and cause a corresponding decrease in visitation to our properties, which would negatively impact our revenues. Fuel price increases also could discourage customers from driving to our casinos, particularly at Cripple Creek and Central City, which are not located in metropolitan areas. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material to our results of operations.

Inclement weather and other conditions could seriously disrupt our business, which may hamper our financial condition and results of operations.

The operations of our facilities are subject to disruptions or reductions in the number of customers who visit our properties because of severe weather conditions. High winds, blizzards and sub-zero temperatures, such as those experienced in Colorado, Alberta and Poland from time to time, can limit access to our properties. If weather conditions limit access to our casino properties or otherwise adversely impact our ability to operate our casinos at full capacity, our revenue will suffer, which will negatively impact our operating results. The Waldo Canyon wildfire, which occurred in and near Colorado Springs, Colorado in late June and early July 2012, had a significant negative impact on our business in Cripple Creek during the second quarter of 2012. Several thousand people in Colorado Springs, the metropolitan area that our Cripple Creek casino primarily serves, were evacuated and the main highway to the casino, Highway 24, was closed for eight days from June 24, 2012 through July 1, 2012. We estimate that this event adversely affected our revenues for the second quarter by $0.2 million.

We maintain both property and business interruption insurance coverage for certain severe weather conditions. However, such coverage is subject to deductibles and limits on maximum benefits, including limitations on the coverage period for business interruption. Due to these variables, we may not be able to fully insure such losses, or fully collect, if at all, on claims resulting from severe weather conditions. Business interruption insurance did not apply to the Waldo Canyon fire because access to Cripple Creek was not blocked from the less traveled highways west and south of the town.

Fluctuations in currency exchange rates could adversely affect our business.

Our casinos in Canada and our equity interest in Casinos Poland represent a significant portion of our business, and the revenue generated and expenses incurred by these operations are generally denominated in Canadian dollars and Polish Zloty, respectively. A decrease in the value of either of these currencies in relation to the value of the U.S. dollar would decrease the operating profit from our foreign operations when translated into U.S. dollars, which would adversely affect our consolidated results of operations. In addition, we may expand our operations into other countries and, accordingly, we could face similar exchange rate risk with respect to the costs of doing business in such countries as a result of any increases in the value of the U.S. dollar in relation to the currencies of such countries. We do not currently hedge our exposure to fluctuations of these foreign currencies, and there is no guarantee that we will be able to successfully hedge any future foreign currency exposure.

The loss of key personnel could have a material adverse effect on us.

We are highly dependent on the services of Erwin Haitzmann and Peter Hoetzinger, our Co Chief Executive Officers, and other members of our senior management team. The employment agreements with Erwin Haitzmann and Peter Hoetzinger provide that, under some circumstances, the departure of one executive could allow the other to leave for cause. Our ability to retain key personnel is affected by the competitiveness of our compensation packages and the other terms and conditions of employment, our continued ability to compete effectively against other gaming companies and our growth prospects. The loss of the services of any of these individuals could have a material

adverse effect on our business, financial condition and results of operations.

The concentration and evolution of the slot machine manufacturing industry or other technological conditions could impose additional costs on us.

The majority of our revenues are generated from slot machines at our casinos. At our Colorado properties, we own or lease our slot machines through participation agreements. At our Canadian properties, the AGLC owns or leases slot machines through participation agreements. It is important for competitive reasons that we offer popular and up-to-date slot machine games to our guests at all of our casinos.

Slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participation agreements in order to acquire the machines. Generally, a participation agreement is substantially more expensive over the long term than the cost to purchase a new machine. Participation agreements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win.

For competitive reasons, we may be forced to purchase new slot machines or enter into participation agreements that are more expensive than the costs associated with the continued operation of our existing slot machines in Colorado. In Canada, the AGLC is faced with this same risk. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participation costs, it could hurt our profitability.

We may be required in the future to record impairment losses related to assets we currently carry on our balance sheet.

We have $111 million of long lived assets including $4.9 million of goodwill, $3.3 million equity investment and $100 million in property and equipment as of December 31, 2012. Accounting rules require that we make certain estimates and assumptions related to our determinations as to the future recoverability of these assets. If we were to determine that the values of the long lived assets carried on our balance sheet are impaired, we may be required to record an impairment charge to write down the value of these assets, which would adversely affect our results during the period in which we recorded the impairment charge.

The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially affect our financial position and results of operations.

The current U.S. administration has made public statements indicating that is has made international tax reform a priority, and key members of the U.S. Congress have conducted hearings and proposed a wide variety of potential changes. Certain changes to U.S. tax laws, including limitations on the ability to defer U.S. taxation on earnings outside of the U.S. until those earnings are repatriated to the U.S., could affect the tax treatment of our foreign earnings. In addition, the cash and cash equivalent balances we currently maintain outside of the U.S. could be affected. Due to our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and harm our financial position and results of operations.

Uncertainties in Polish tax laws and other Polish laws and regulations may lead to additional liabilities

Polish tax laws and other Polish laws and regulations change frequently, and frequently there is no reference to established regulations or cases. The current laws and regulations also have ambiguities that lead to differences in interpretations between authorities and between authorities and companies. Taxes or other payments may frequently be inspected by Polish authorities that are authorized to impose significant fines, extra liabilities and interest for underpayments. As a result, the tax risk is higher in Poland than in countries with better-developed tax systems. Polish tax payments may be inspected for up to five years. As a result, the amounts included in the financial statements for Polish taxes may change at a later date after the final amounts are determined, and other Polish laws and regulations may lead to additional liabilities.

Our failure to maintain adequate internal controls over financial reporting could adversely affect our business and financial condition.

The Sarbanes-Oxley Act requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. Our compliance with the Sarbanes-Oxley Act requires that we incur substantial expense and expend significant management time on compliance-related issues. For the year ended December 31, 2012, we have performed system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. Although management has concluded that our internal control over financial reporting was effective as of December 31, 2012, management identified a material weakness during the quarter ended December 31, 2011 related to the absence of a process to substantiate and support tax positions taken related to our international operations and international legal entity structure. This material weakness was remediated during the first quarter of 2012. If in the future, we identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses or if our remedial measures are insufficient to address the material weaknesses, our consolidated financial statements may contain material misstatements or other errors and we could be required to restate our financial results. In addition, a material weakness in the effectiveness of our internal control over financial reporting could increase our chance of fraud, reduce our ability to obtain financing and require additional expenditures, each of which could negatively impact our business, profitability and financial condition. If we cannot produce reliable financial reports, we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities. Such sanctions or investigations would require significant additional financial and management resources, investors could lose confidence in our reported financial information, our business and financial condition could be harmed, and the market price of our stock could decline.

Our reputation and business may be harmed by cyber security breaches, and we may be subject to legal claims if there is loss, disclosure or misappropriation of or access to our customers', our business partners' or our own information or other breaches of our information security.

We make use of online services and centralized data processing, including through third party service providers. The secure maintenance and transmission of customer information, including credit card numbers and other personally identifiable information for marketing and promotional purposes, is a critical element of our operations. Our information technology and other systems that maintain and transmit customer information, or those of service providers, or our employee or business information may be compromised by a malicious third party penetration of our network security, or that of a third party service provider or business partner, or by actions or inactions by our employees. As a result, information of our customers, third party service providers or business partners or our business information may be lost, disclosed, accessed or taken without their or our consent.

Any such loss, disclosure or misappropriation of, or access to, customers' or business partners' information or other breach of our information security can result in legal claims or legal proceedings, including regulatory investigations and actions, may have a serious impact on our reputation and may adversely affect our businesses, operating results and financial condition. Furthermore, the loss, disclosure or misappropriation of our business information may adversely affect our businesses, operating results and financial condition.

Risks Related to Our Common Stock and Austrian Depositary Certificates

Our stock price has been volatile and may decline significantly and unexpectedly.

Our common stock trades in the U.S. on the NASDAQ Capital Market, which consists of relatively small issuers and a lack of significant trading volumes relative to other U.S. markets. These factors may result in volatility in the price of our common stock. For instance, the trading price of our common stock on the NASDAQ Capital Market in 2011 and 2012 varied from a high of $3.80 to a low of $2.11. Our common stock also trades on the Vienna Stock Exchange in the form of Austrian Depositary Certificates (“ADCs”). For a small company such as ours, having listings on two securities markets could decrease the trading volume on each market to levels that might increase the volatility of the trading price of our securities. Increased trading focus of our securities on one trading market could affect and significantly decrease the liquidity of our securities on the other market, which could make it difficult or impossible for an investor to sell our common stock or ADCs on the market with declining value.

Certain anti-takeover measures we have adopted may limit our ability to consummate transactions that some of our security holders might otherwise support.

We have a fair price business combination provision in our certificate of incorporation, which requires approval of certain business combinations and other transactions by holders of 80% of our outstanding shares of voting stock. In addition, our certificate of incorporation allows our board of directors to issue shares of preferred stock without stockholder approval. These provisions generally have the effect of requiring that any party seeking to acquire us negotiate with our board of directors in order to structure a business combination with us. This may have the effect of depressing the price of our common stock, and may similarly depress the price of the ADCs, due to the possibility that certain transactions that our stockholders might favor could be precluded by these provisions.

Because we are a foreign corporation listed on the Vienna Stock Exchange, the Austrian and other European takeover regimes do not apply to us.

Austrian takeover law does not apply to foreign corporations listed on the Vienna Stock Exchange. If an investor proposes to take us over, Delaware law would apply, and neither our stockholders nor our ADC holders could rely on the Austrian or any other European takeover regime to influence such a takeover. As a result, a holder of our ADCs may be forced to sell the ADCs at a price that is less than the price paid by such holder or that is less than what such holder otherwise would accept.

Service of process and enforceability of certain foreign judgments is limited.

We are incorporated in the U.S., and a substantial portion of our assets are located in North America. In addition, some of our directors and officers are residents of the U.S. and all or a substantial portion of their assets are located in the U.S. As a result, it may be difficult for European investors who hold ADCs to affect service of process within Austria upon us or our affiliates in the U.S. or to enforce judgments obtained against us or our affiliates in Austrian or U.S. courts based on civil liability provisions of the European securities laws.

Regulation Risk Related to Stockholders

Stockholders may be required to dispose of their shares of our common stock or shares of common stock underlying our ADCs if they are found unsuitable by U.S. gaming authorities.

Gaming authorities in the U.S. generally can require that any beneficial owner of our common stock and other securities, including our ADCs or common stock underlying the ADCs, file an application for a finding of suitability. If a gaming authority requires a record or beneficial owner of our securities to file a suitability application, the owner must apply for a finding of suitability within 30 days or at an earlier time prescribed by the gaming authority. The gaming authority has the power to investigate an owner's suitability, and the owner must pay all costs of the investigation. If the owner is found unsuitable, then the owner may be required by law to dispose of our securities. Our certificate of incorporation also provides us with the right to repurchase shares of our common stock (including shares of common stock underlying our ADCs) from certain beneficial owners declared by gaming regulators to be unsuitable holders of our equity securities, and the price we pay to any such beneficial owner may be below the price such beneficial owner would otherwise accept for his or her shares of our common stock.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The following table sets forth the location, size and a description of the gaming and other facilities at each of our casinos as of December 31, 2012:

Summary of Property Information

Property	Casino Space Sq Ft	Acreage	Number of Slot Machines	Number of Video Lottery Terminals	Number of Tables	Number of Hotel Rooms	Number of Restaurants	Number of Showrooms	Number of Bowling Alleys
Century Casino & Hotel – Edmonton	35,000	7	750	8	35	26	4	2	-
Century Casino – Calgary	20,000	7	504	25	16	-	2	3	1
Century Casino & Hotel – Central City	22,350	1.3	500	-	12	26	2	-	-
Century Casino & Hotel – Cripple Creek	19,600	3.5	450	-	6	21	1	-	-
Cruise Ships (total of 12) (1)	13,500	-	423	-	55	-	-	-	-
Radisson Aruba Resort, Casino & Spa (2)	14,000	15	200	-	16	-	1	-	-

(1) Operated under concession agreements. We do not own the ships on which our casinos operate.
(2) Operated under a casino management agreement. We do not own the hotel in which the casino operates.

We own each of the locations listed in the table above except for the cruise ships and the Radisson Aruba Resort, Casino & Spa.

As of December 31, 2012, the Century Casino & Hotel in Edmonton and Century Casino in Calgary are pledged as collateral for our obligations under a mortgage with Bank of Montreal (see Note 6 to the Consolidated Financial Statements included elsewhere in this report).

Additional Property Information

Century Casino Calgary – In addition to the property described above, we currently lease land at our property in Calgary for the purpose of additional parking.

Corporate Offices – We currently lease office space for corporate and administrative purposes in Colorado Springs, Colorado and Vienna, Austria.

Item 3. Legal Proceedings.

We are not a party to any material pending litigation which, in management's opinion, could have a material adverse effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded in the United States on the NASDAQ Capital Market under the symbol “CNTY”.

Our common stock in the form of ADCs is also traded on the Vienna Stock Exchange (“VSE”). At December 31, 2012, we had 2.4 million ADCs outstanding. Each ADC is equivalent to one share of our common stock.

The following table sets forth the low and high sales price per share of our common stock as reported on the NASDAQ Capital Market for the periods indicated.

	2012		2011	
	High	Low	High	Low
First Quarter	$3.19	$2.45	$3.13	$2.48
Second Quarter	$3.18	$2.50	$3.80	$2.51
Third Quarter	$3.08	$2.46	$2.95	$2.11
Fourth Quarter	$3.04	$2.48	$2.78	$2.12

No dividends have been declared or paid by us. Declaration and payment of dividends, if any, in the future will be at the discretion of the Board of Directors. At the present time, we intend to use any earnings that may be generated to finance the growth of our business.

At March 12, 2013, we had 120 holders of record of our common stock.

In March 2000, our board of directors approved and announced a discretionary program to repurchase up to $5.0 million of our outstanding common stock. In November 2009, our board of directors approved an increase of the amount available to be repurchased under the program to $15.0 million. The amount available for repurchase as of December 31, 2012 is $14.7 million. The repurchase program has no set expiration or termination date. No repurchases were made during the year ended December 31, 2012.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with Part II, Item 8, "Financial Statements and Supplementary Data" included elsewhere herein. Information contained in the following discussion of our results of operations and financial condition contains forward-looking statements within the meaning of Section 21E of the Exchange Act, Section 27A of the Securities Act, and the Private Securities Litigation Reform Act of 1995, and, as such, is based on current expectations and is subject to certain risks and uncertainties. The reader should not place undue reliance on these forward-looking statements for many reasons, including those risks discussed under Item 1A, "Risk Factors," and elsewhere in this document. See "Disclosure Regarding Forward-Looking Statements" that precedes Part I of this report. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise.

References in this item to "we," "our," or "us" are to the Company and its subsidiaries on a consolidated basis unless the context otherwise requires. The term "CAD" refers to Canadian dollars.

Amounts presented in this Item 7 are rounded. As such, there may be rounding differences in period over period changes and percentages reported throughout this Item 7.

EXECUTIVE OVERVIEW

Overview

Since our inception in 1992, we have been primarily engaged in developing and operating gaming establishments and related lodging, restaurant and entertainment facilities. Our primary source of revenue is from the net proceeds of our gaming machines and tables, with ancillary revenue generated from hotel, restaurant, bowling and entertainment facilities that are a part of the casinos.

We currently own, operate and manage the following casinos through wholly-owned subsidiaries:

- The Century Casino & Hotel in Edmonton, Alberta, Canada;
- The Century Casino Calgary, Alberta, Canada;
- The Century Casino & Hotel in Central City, Colorado; and
- The Century Casino & Hotel in Cripple Creek, Colorado.

We also operate 12 ship-based casinos onboard four cruise lines: Oceania Cruises, TUI Cruises, Windstar Cruises and Regent Seven Seas Cruises. The following table summarizes the cruise lines for which we have entered into agreements and the associated ships on which we operate ship-based casinos.

Cruise Line	Ship

Oceania Cruises	Regatta
Oceania Cruises	Nautica
Oceania Cruises	Insignia*
Oceania Cruises	Marina
Oceania Cruises	Riviera
TUI Cruises	Mein Schiff 1
TUI Cruises	Mein Schiff 2
Windstar Cruises	Wind Surf
Windstar Cruises	Wind Star
Windstar Cruises	Wind Spirit
Regent Seven Seas Cruises	Seven Seas Voyager
Regent Seven Seas Cruises	Seven Seas Mariner
Regent Seven Seas Cruises	Seven Seas Navigator

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* Our casino operation on board Insignia was suspended on April 5, 2012, as the vessel was leased by Oceania Cruises to a different cruise line. We will not operate this ship-based casino as long as the vessel is leased to a different cruise line.

We also hold a 33.3% ownership interest in and actively participate in the management of CPL, the owner and operator of 8 casinos throughout Poland. We account for this investment under the equity method. On October 11, 2012, our subsidiary Century Casinos Europe GmbH ("CCE") signed an agreement with LOT Polish Airlines to acquire an additional 33.3% ownership interest in CPL. Upon closing of the transaction, CCE will own a 66.6% ownership interest in CPL. The purchase price is approximately $6.9 million. On February 21, 2013, we borrowed CAD 7.3 million (approximately $7.2 million based on the exchange rate in effect on February 21, 2013) from the BMO Credit Agreement to pay for the investment. CCE has obtained the required approval from Polish Airports, which is the co-shareholder in CPL, and from the Polish Minister of Finance. We anticipate closing the transaction in early April 2013.

The following table summarizes the Polish cities in which CPL operated as of December 31, 2012, each casino's location, number of slots and tables.

City	Population	Location	Number of Slots	Number of Tables
Warsaw	1.7 million	Marriott Hotel	70	23
Krakow	760,000	Dwor Kosciuszko Hotel	33	8
Lodz	730,000	Manufaktura Entertainment Complex	32	8
Wroclaw	630,000	HP Park Plaza Hotel	49	12
Poznan	550,000	NH Hotel	23	6
Katowice	310,000	Altus Building	44	10
Gdynia	250,000	Gdynia City Center	40	6
Sosnowiec	220,000	Sosnowiec City Center	26	4

CPL obtained an additional gaming license in the city of Plock and opened a casino on February 10, 2013. Plock, one of the oldest cities in Poland, has more than 130,000 inhabitants and is located approximately 62 miles north of Warsaw. CPL is also participating in other license applications, including another location in Warsaw. Decisions from the Polish Minister of Finance on these applications are pending.

In December 2010, we entered into a long-term management agreement to direct the operation of the casino at the Radisson Aruba Resort, Casino & Spa. We receive a management fee consisting of a fixed fee, plus a percentage of the casino’s EBITDA. We were not required to invest any amounts under the management agreement.

We recognize in our statement of earnings, foreign currency transaction gains or losses resulting from the translation of casino operations and other transactions that are denominated in a currency other than U.S. dollars. Our casinos in Canada represent a significant portion of our business, and the revenue generated and expenses incurred by these operations are generally denominated in Canadian dollars. A decrease in the value of this currency in relation to the value of the U.S. dollar would decrease the earnings from our foreign operations when translated into U.S. dollars, and an increase in the value of this currency in relation to the value of the U.S. dollar would increase the earnings from our foreign operations when translated into U.S. dollars. See Note 2 "Significant Accounting Policies - Foreign Currency Translation" to the Consolidated Financial Statements included elsewhere in this report.

Presentation of Foreign Currency Amounts - The average exchange rates to the U.S. dollar used to translate balances during each reported period are as follows:

Average Rates	2012	2011	% Change
Canadian dollar (CAD)	0.9996	0.9892	-1.1%
Euros (€)	0.7781	0.7190	-8.2%
Polish zloty (PLN)	3.2541	2.9644	-9.8%
Source: Pacific Exchange Rate Service			

Recent Developments

On November 30, 2012, CCE signed credit and management agreements with United Horseman of Alberta Inc. (“UHA”) in connection with the development of a proposed Racing Entertainment Center (“REC”) in Balzac, north metropolitan area of Calgary, Alberta, Canada. We would manage the REC upon completion. Both the credit and management agreements are subject to development approvals and licensing from the AGLC as discussed below.

The proposed project would be located less than one mile north of the city limits of Calgary and 4.5 miles from the Calgary International Airport. The location is ideally positioned at an exit off the Queen Elizabeth II Highway, which is the main corridor between Calgary and Edmonton and one of the most heavily used highways in Western Canada. The location is also next to the CrossIron Mills shopping mall, a major regional attraction. The location would allow the REC to capture both the north and the northwest Calgary markets, where there is not currently a casino. The REC would be located approximately 17 miles from Century Casino Calgary and would serve what we believe is a different customer base including customers who also are interested in horse racing.

The REC project would be the only horse race track in the Calgary area and would consist of a 5.5 furlongs (0.7 miles) race track, a gaming floor proposing 625 slot machines, a bar, a lounge, restaurant facilities, an off-track-betting area and an entertainment area. This REC license is the only license still available in any metropolitan area of Alberta. The license application for this REC project pre-dates a recent three-year moratorium imposed by the Alberta Gaming and Liquor Commission (“AGLC”) on new casinos and RECs. The AGLC also has an option to extend the moratorium for an additional two years.

The REC project is subject to development approvals and licensing from the AGLC. UHA and CCE have submitted the relevant applications, but there is no assurance that the needed approvals will be obtained or as to the timing of such approvals. Horse Racing Alberta, the governing authority for horse racing in Alberta, has already approved the REC project and issued a license. We anticipate that the REC would be completed 12 to 18 months following completion of the approval process. There is no assurance that the needed approvals will be obtained or as to the timing of such approvals.

CCE has agreed to loan to UHA up to CAD 13 million ($13 million) for the exclusive use of developing the REC project. The loan has an interest rate of LIBOR plus 800 basis points and a term of five years and is convertible at CCE’s option once the project becomes operational into an ownership position in UHA of up to 60%. The loan is secured by a leasehold mortgage on the REC property and a pledge of UHA’s stock by the majority of UHA shareholders. We intend to fund the loan with borrowings under our BMO Credit Agreement. We have paid $0.1 million in deferred financing costs related to legal fees incurred for the UHA loan. In addition, we have placed $0.3 million in escrow related to the UHA loan. No amounts have been advanced as of December 31, 2012. Once the REC is developed and operational and for as long as CCE has not converted the UHA loan into a majority ownership position in UHA, CCE will receive 60% of UHA’s net profit before tax as a management fee.

DISCUSSION OF RESULTS

Year ended December 31, 2012 vs. 2011

Century Casinos, Inc. and Subsidiaries

Amounts in thousands	For the year ended December 31, 2012	2011	Change	% Change
	$	$	$	
Gaming Revenue	62,871	62,070	801	1.3%
Hotel, Bowling, Food and Beverage Revenue	13,190	12,946	244	1.9%
Other Revenue	4,206	4,033	173	4.3%
Gross Revenue	80,267	79,049	1,218	1.5%
Less Promotional Allowances	(8,439)	(8,183)	256	3.1%
Net Operating Revenue	71,828	70,866	962	1.4%
Gaming Expenses	(30,208)	(29,365)	843	2.9%
Hotel, Bowling, Food and Beverage Expenses	(10,061)	(10,094)	(33)	(0.3%)
General and Administrative Expenses	(21,452)	(21,582)	(132)	(0.6%)
Total Operating Costs and Expenses	(66,478)	(67,190)	(712)	(1.1%)
Earnings from Equity Investment	426	589	(163)	(27.7%)
Earnings from Operations	5,776	4,265	1,511	35.4%
	$	$	$	
Net Earnings	4,091	3,021	1,070	35.4%
	$	$	$	
Basic and Diluted, Earnings Per Share	0.17	0.13	0.04	30.8%

Net operating revenue increased by $1.0 million, or 1.4% for the year ended December 31, 2012 compared to the year ended December 31, 2011. Following is a breakout of net operating revenue by property for the year ended December 31, 2012 compared to the year ended December 31, 2011:

- Net operating revenue at our property in Edmonton increased by $0.6 million, or 2.6%.
- Net operating revenue at our property in Calgary decreased by ($0.3) million, or (2.7%).
- Net operating revenue at our property in Central City increased by $0.5 million, or 2.9%.
- Net operating revenue at our property in Cripple Creek decreased by ($0.3) million, or (2.5%).
- Net operating revenue from our ship-based casinos and other increased by $0.4 million, or 6.0%.

Operating costs and expenses decreased by ($0.7) million, or (1.1%), for the year ended December 31, 2012 compared to the year ended December 31, 2011. Following is a breakout of total operating costs and expenses by property for the year ended December 31, 2012 compared to the year ended December 31, 2011:

· Total operating costs and expenses at our property in Edmonton increased by $0.2 million, or 0.9%.
· Total operating costs and expenses at our property in Calgary increased by $0.2 million, or 1.9%.
· Total operating costs and expenses at our property in Central City decreased by ($0.5) million, or (2.8%).
· Total operating costs and expenses at our property in Cripple Creek decreased by ($0.4) million, or (3.7%).
· Total operating costs and expenses for our ship-based casinos and other increased by $0.4 million, or 6.9%.
· Total operating costs and expenses for corporate other decreased by ($0.6) million, or (10.3%).

Earnings from operations increased by $1.5 million, or 35.4%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. Following is a breakout of earnings from operations by property for the year ended December 31, 2012 compared to the year ended December 31, 2011:

- Earnings from operations at our property in Edmonton increased by $0.5 million, or 7.3%.
- Losses from operations at our property in Calgary increased by $0.5 million, or 300.0%.
- Earnings from operations at our property in Central City increased by $1.0 million, or 63.9%.
- Earnings from operations at our property in Cripple Creek increased by $0.1 million, or 8.3%.
- Earnings from operations at our ship-based casinos and other decreased by less than ($0.1) million, or (5.9%).
- Losses from operations at corporate and other decreased by ($0.5) million, or (8.6%) .

The increase in earnings from operations is due to increased efforts to attract customers and increase revenue while controlling costs at all properties.

Net earnings increased by $1.1 million, or 35.4% for the year ended December 31, 2012 compared to the year ended December 31, 2011. Items deducted from or added to earnings from operations to arrive at net earnings included interest income, interest expense, gains or losses on foreign currency transactions and income tax expense. For a discussion of these items see "Non-Operating Income (Expense) and Taxes" on page 38 below.

Results by property are discussed in further detail in the following pages.

Casinos

Edmonton

Amounts in thousands	For the year ended December 31, 2012	2011	Change	% Change
	$	$	$	
Gaming	17,341	16,954	387	2.3%
Hotel, Food and Beverage	6,063	5,859	204	3.5%
Other	2,161	2,031	130	6.4%
Gross Revenue	25,565	24,844	721	2.9%
Less Promotional Allowances	(1,029)	(938)	91	9.7%
Net Operating Revenue	24,536	23,906	630	2.6%
Gaming Expenses	(6,827)	(6,665)	162	2.4%
Hotel, Food and Beverage Expenses	(4,291)	(3,907)	384	9.8%
General & Administrative Expenses	(5,461)	(5,435)	26	0.5%
Total Operating Costs and Expenses	(17,589)	(17,429)	160	0.9%
Earnings from Operations	6,947	6,477	470	7.3%
	$	$	$	
Net Earnings	4,688	4,298	390	9.1%

Net operating revenue at our property in Edmonton increased by $0.6 million or 2.6%, for the year ended December 31, 2012 compared to the year ended December 31, 2011.

In CAD, net operating revenue increased by $0.9 million, or 3.7%, due to increases in gaming, hotel, food, beverage and other revenue for the year ended December 31, 2012 compared to the year ended December 31, 2011.

The increase in gaming revenue is due to 50 additional slot machines added to the floor during the year and an increase in Baccarat table games play for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in hotel, food and beverage is due to higher hotel room occupancy, increased customer volumes on the gaming floor and increased showroom event attendance for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in other revenue is due to increased showroom and Comedy Club ticket sales for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Total operating costs and expenses increased by $0.2 million, or 0.9% , for the year ended December 31, 2012 compared to the year ended December 31, 2011.

In CAD, total operating costs and expenses increased by $0.3 million, or 1.9% for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase is due to higher advertising, promotional, food and payroll costs of $0.7 million offset by a decrease in depreciation expense of $0.4 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

As a result of the foregoing, earnings from operations increased by $0.5 million, or 7.3%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. In CAD, earnings from operations increased by $0.5 million, or 8.4%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

Net earnings increased by $0.4 million, or 9.1%, for the year ended December 31, 2012 compared to the year ended December 31, 2011.

In CAD, net earnings increased by $1.0 million, or 24.8%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in net earnings compared to earnings from operations is due to an increase in foreign currency exchange gains of $0.5 million for the year ended December 31, 2012, a decrease in interest expense of $0.1 million and an increase in income tax expense of $0.2 million.

Calgary

Amounts in thousands	For the year ended December 31, 2012	2011	Change	% Change
	$	$		
Gaming	6,390	6,529	($139)	(2.1%)
Bowling, Food and Beverage	3,015	3,212	(197)	(6.1%)
Other	1,026	938	88	9.4%
Gross Revenue	10,431	10,679	(248)	(2.3%)
Less Promotional Allowances	(502)	(473)	29	6.1%
Net Operating Revenue	9,929	10,206	(277)	(2.7%)
Gaming Expenses	(4,308)	(3,949)	359	9.1%
Bowling, Food and Beverage Expenses	(2,206)	(2,546)	(340)	(13.4%)
General & Administrative Expenses	(3,191)	(3,091)	100	3.2%
Total Operating Costs and Expenses	(10,565)	(10,365)	200	1.9%
Losses from Operations	(636)	(159)	477	300.0%
Net (Losses)	($527)	($126)	$ 401	318.3%

Net operating revenue at our property in Calgary decreased by ($0.3) million, or (2.7%), for the year ended December 31, 2012 compared to the year ended December 31, 2011.

In CAD, net operating revenue decreased by ($0.2) million, or (1.8%), due to decreases in gaming, bowling, food and beverage revenue offset by an increase in other revenue for the year ended December 31, 2012 compared to the year ended December 31, 2011

Gaming revenue decreased in 2012 primarily due to a decrease in Baccarat table games hold percentage and lower customer volume during the fourth quarter of 2012 compared to the fourth quarter of 2011. The decrease in gaming revenue during the fourth quarter 2012 was offset by an increase in gaming revenue of $0.2 million, or 3.9%, during the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011. The decrease in

bowling, food and beverage revenue is due to a decrease in food and beverage revenue from a lower number of showroom events for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Total operating costs and expenses increased by $0.2 million, or 1.9%, for the year ended December 31, 2012 compared to the year ended December 31, 2011.

In CAD, total operating costs and expenses increased by $0.3 million, or 3.0%, due to higher band entertainment costs, promotional, payroll and utility costs as well as increased depreciation costs for the year ended December 31, 2012 compared to the year ended December 31, 2011. Beginning in 2013, the property will host showroom performances from third party vendors only, substantially decreasing marketing costs.

As a result of the foregoing, losses from operations increased by $0.5 million, or 300.0%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. In CAD, losses from operations increased by $0.5 million, or 317.8%, for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Net losses increased by $0.4 million, or 318.3%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in net loses is due to the foregoing operational items.

In CAD, net losses increased by $0.1 million, or 47.2%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The smaller increase in net losses compared to losses from operations is due to an increase in foreign currency exchange gains of $0.3 million for the year ended December 31, 2012 and an increase in the income tax benefit of $0.1 million.

Central City

	For the year ended December 31,			
Amounts in thousands	2012	2011	Change	% Change
	$	$	$	
Gaming	20,013	19,625	388	2.0%
Hotel, Food and Beverage	2,631	2,485	146	5.9%
Other	195	164	31	18.9%
Gross Revenue	22,839	22,274	565	2.5%
Less Promotional Allowances	(4,338)	(4,294)	44	1.0%
Net Operating Revenue	18,501	17,980	521	2.9%
Gaming Expenses	(8,625)	(8,427)	198	2.3%
Hotel, Food and Beverage Expenses	(2,144)	(2,143)	1	0.0%
General & Administrative Expenses	(3,865)	(3,642)	223	6.1%
Total Operating Costs and Expenses	(15,984)	(16,444)	(460)	(2.8%)
Earnings from Operations	2,517	1,536	981	63.9%
	$	$	$	
Net Earnings	1,561	983	578	58.8%

Net operating revenue at our property in Central City increased by $0.5 million, or 2.9%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in net operating revenue is due to increases in gaming, hotel, food and beverage revenue for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in gaming revenue is due to an increase in customer volumes and slot machine hold

percentages for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in hotel, food and beverage revenue is due to a new menu introduced in both the grill and deli and increased customer volumes for the year ended December 31, 2012 compared to the year ended December 31, 2011.

The Central City market increased by 10% and our market share at our property in Central City decreased by 6% for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in the Central City market is due to additional slot machines and table games from competitor casinos opening and remodeling during the year ended December 31, 2012 compared to the year ended December 31, 2011. The Central City market remains competitive.

Total operating costs and expenses decreased by ($0.5) million, or (2.8%), for the year ended December 31, 2012 compared to the year ended December 31, 2011. The decrease in total operating costs and expenses is due to a ($0.9) million decrease in depreciation expense offset by an increase of $0.4 million in advertising and promotional costs and higher gaming taxes for the year ended December 31, 2012 compared to the year ended December 31, 2011.

As a result of the foregoing, earnings from operations increased by $1.0 million, or 63.9%, for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Net earnings increased by $0.6 million, or 58.8%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase in net earnings of $0.6 million compared to the $1.0 million increase in earnings from operations is due an increase in income tax expense of $0.4 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Cripple Creek

Amounts in thousands	For the year ended December 31, 2012	2011	Change	% Change
Gaming	$ 12,916	$ 13,216	($300)	(2.3%)
Hotel, Food and Beverage	1,481	1,389	92	6.6%
Other	104	108	(4)	(3.7%)
Gross Revenue	14,501	14,713	(212)	(1.4%)
Less Promotional Allowances	(2,570)	(2,477)	93	3.8%
Net Operating Revenue	11,931	12,236	(305)	(2.5%)
Gaming Expenses	(5,115)	(5,365)	(250)	(4.7%)
Hotel, Food and Beverage Expenses	(1,420)	(1,499)	(79)	(5.3%)
General & Administrative Expenses	(3,013)	(3,071)	(58)	(1.9%)
Total Operating Costs and Expenses	(10,555)	(10,966)	(411)	(3.7%)
Earnings from Operations	1,376	1,270	106	8.3%
Net Earnings	$ 854	$ 788	$ 66	8.4%

Net operating revenue at our property in Cripple Creek decreased by ($0.3) million, or (2.5%), for the year ended December 31, 2012 compared to the year ended December 31, 2011. The decrease is due to a decrease in gaming revenue due to lower slot machine hold percentages and the eight-day road closure of the main highway to the casino from June 24 – July 1, 2012 because of the Waldo Canyon fire offset by an increase in hotel, food and beverage revenue of $0.1 million, or 6.6%. The increase in hotel, food and beverage revenue is primarily due to a marketing

focus on hotel occupancy and an increase in retail prices for the year ended December 31, 2012 compared to the year ended December 31, 2011.

The Cripple Creek market increased by 1% and our market share at our property in Cripple Creek City decreased by 3% for the year ended December 31, 2012 compared to the year ended December 31, 2011. The Cripple Creek market remains competitive.

The Waldo Canyon fire, which occurred in and near Colorado Springs, Colorado in late June and early July 2012, had a significant negative impact on our business in Cripple Creek during the second quarter of 2012. Several thousand people in Colorado Springs, the metropolitan population which the casino primarily serves, were evacuated and the main highway to the casino, Highway 24, was closed for eight days from June 24, 2012 through July 1, 2012. We estimate that this event adversely affected our revenue for the second quarter of 2012 by ($0.2) million.

Total operating costs and expenses decreased by ($0.4) million, or (3.7%), due to the overall management of operating costs and decreases in payroll costs for the year ended December 31, 2012 compared to the year ended December 31, 2011.

As a result of the foregoing, earnings from operations and net earnings increased by $0.1 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Cruise Ships & Other

Amounts in thousands	For the year ended December 31, 2012	2011	Change	% Change
	$	$	$	
Gaming	6,211	5,747	464	8.1%
Other	712	792	(80)	(10.1%)
Net Operating Revenue	6,923	6,529	394	6.0%
Gaming Expenses	(5,333)	(4,958)	375	7.6%
General & Administrative Expenses	(676)	(597)	79	13.2%
Total Operating Costs and Expenses	(6,413)	(5,997)	416	6.9%
Earnings from Operations	510	542	(32)	(5.9%)
	$	$	$	
Net Earnings	450	456	(6)	(1.3%)

Net operating revenue from our ship-based casinos and Aruba management agreement increased by $0.4 million, or 6.0%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase is primarily due to increased revenue from the Riviera, Marina, Mein Schiff 2 and Mariner cruise ships offset by a decrease in management fee revenue from the Aruba management agreement.

Total operating costs and expenses increased by $0.4 million, or 6.9%, for the year ended December 31, 2012 compared to the year ended December 31, 2011. The increase is due to increased gaming tax expense, increased staffing and contract labor costs from the Aruba management agreement, an increase in concession and annual fees paid to cruise ship operators and an increase in travel expenses for the movement of staff between ships for the year ended December 31, 2012 compared to the year ended December 31, 2011.

As a result of the foregoing, net earnings decreased by less than ($0.1) million, or (1.3%), for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Corporate Other

	For the year ended December 31,			
Amounts in thousands	2012	2011	Change	% Change
Other Revenue	$ 8	$ 0	$ 8	100.0%
General & Administrative Expenses	(5,243)	(5,746)	(503)	(8.8%)
Total Operating Costs and Expenses	(5,372)	(5,989)	(617)	(10.3%)
Losses from Operations	(4,938)	(5,401)	(463)	(8.6%)
Net Loss	$ (2,935)	$ (3,378)	$ (443)	(13.1%)

General and administrative expenses for Corporate Other consist primarily of legal and accounting fees, corporate travel expenses, corporate payroll, the amortization of stock-based compensation and other expenses not directly related to any of our individual properties. General and administrative expenses decreased by ($0.5) million, or (8.8%), for year ended December 31, 2012 compared to the year ended December 31, 2011. This decrease is mainly due to a reduction in stock-based compensation expense of $0.2 million relating to vesting of restricted stock and a reduction in professional services and depreciation expense of $0.3 million for the year ended December 31, 2012 compared to the year ended December 31, 2011.

During 2011, we recorded approximately $0.2 million in stock-based compensation expense as a component of general and administrative expenses. At December 31, 2012, we had less than $0.1 million of total unrecognized compensation expense related to stock options.

Earnings from Equity Investment

We own 33.3% of all shares issued by CPL. Our portion of CPL's earnings is recorded as earnings from equity investment. We recorded a decrease in earnings from our investment in CPL of $0.2 million for the year ended December 31, 2012 compared to year ended December 31, 2011. The decrease for the year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily the result of lower performing properties that were in a start-up phase during the second and third quarters of 2012 offset by increased gaming revenue. For the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011, CPL's market share decreased from 58% to 43%. We believe the decrease is due to the addition of 19 operations to the market during 2012 and lower performing properties that were in a start-up phase during the second and third quarters of 2012.

On October 11, 2012, CCE signed an agreement with LOT Polish Airlines to acquire an additional 33.3% ownership interest in CPL. CCE has obtained required approval from the co-shareholder in CPL, Polish Airports and from the Polish Minister of Finance. Upon closing of the transaction, CCE will own a 66.6% ownership interest in CPL. The purchase price is approximately $6.9 million, and on February 21, 2013, we borrowed CAD 7.3 million (approximately $7.2 million based on the exchange rate in effect on February 21, 2013) from the BMO Credit Agreement to pay for the investment. We anticipate closing the transaction in early April 2013. Once the transaction is final, we anticipate consolidating CPL as a majority-owned subsidiary for which we would have a controlling financial interest. We would account for and report the 33.3% Polish Airports ownership interest as a non-controlling financial interest. Consolidation of CPL would increase our overall net operating revenue and operating costs and expenses because previously we have reported our interest in CPL under the equity method.

In March 2011, the Polish Internal Revenue Service ("Polish IRS") conducted a tax audit of CPL to review the calculation and payment of personal income tax by CPL employees covering January 2011. Based on this audit, the Polish IRS concluded that CPL should calculate, collect and remit to the Polish IRS personal income tax on tips

received by CPL employees from casino customers. After proceedings between CPL and the Polish IRS, the Director of the Tax Chamber in Warsaw confirmed the opinion of the Polish IRS on November 19, 2012, and on November 30, 2012 CPL paid PLN 125,269 (less than $0.1 million) to the Polish IRS resulting from the decision. CPL appealed the decision to the Regional Administrative Court in Warsaw on December 21, 2012. A final decision is not expect to be reached in 2013 and could take longer. Similar litigation involving competitors concerning the treatment of tips is ongoing.

Non-Operating Income (Expense)

Non-operating income (expense) for the years ended December 31, 2012 and 2011 was as follows:

Amount in thousands	For the year ended December 31, 2012	2011	Change	% Change
	$	$		
Interest Income	37	38	($1)	(2.6%)
Interest Expense	(670)	(802)	132	16.5%
Gains on Foreign Currency Transactions & Other	(24)	187	(211)	(112.8%)
Non-Operating Expense	($657)	($577)	($80)	13.9%

Interest income

Interest income is directly related to interest earned on our cash reserves.

Interest expense

The decrease in interest expense of $0.1 million for the year ended December 31, 2012 compared to the year ended December 31, 2011 is due to interest expense savings from a lower average debt balance in 2012 of $5.1 million compared to an average debt balance of $10.7 million in 2011. The decrease in interest expense was offset by prepayment penalties of $0.2 million related to the early payoff of the Edmonton Mortgage in May 2012.

Taxes

The Company's income tax expense by jurisdiction is summarized in the table below:

Amounts in thousands	For the twelve months ended December 31, 2012			For the twelve months ended December 31, 2011		
	Pre-tax income	Income tax	Effective tax rate	Pre-tax income (loss)	Income tax	Effective tax rate
	$	$		$	$	
Canada	3,270	877	26.9%	2,701	607	22.5%
United States	774	66	8.6%	(767)	27	-3.5%
Mauritius	334	10	3.0%	2,178	52	2.4%
Austria	457	66	14.4%	(890)	2	-0.2%
Poland*	285	9	3.2%	466	(21)	-4.5%

Total	$ 5,120	$ 1,028	20.1%	$ 3,688	$ 667	18.1%

* Poland includes earnings from the equity investment in CPL.

The U.S. effective income tax rate has increased for the year ended December 31, 2012 compared to the year ended December 31, 2011 due to a one-time withholding tax payment of $0.1 million related to a Canadian intercompany payable offset by the benefit associated with utilizing net operating losses that had been previously reserved.

The Canadian effective income tax rate increased for the year ended December 31, 2012 compared to the year ended December 31, 2011 due primarily to the translation effect of foreign currency gains and losses related to the change in the foreign exchange rate and interest expense related to lower principal balances on third party debt related to our Canadian properties.

The effective tax rates of our foreign properties are impacted by the movement of exchange rates primarily due to intercompany loans which are denominated in U.S. dollars. Therefore, foreign currency gains or losses recorded in each property's local currency do not impact our earnings reported in U.S. dollars. Certain intercompany loans of our foreign properties are denominated in U.S. dollars. Therefore, foreign currency gains or losses can significantly impact each jurisdiction's effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Our business is capital intensive, and we rely heavily on the ability of our casinos to generate operating cash flow. We use the cash flows that we generate to maintain operations, fund reinvestment in existing properties for both refurbishment and expansion projects, repay third party debt, and pursue additional growth via new development and acquisition opportunities. When necessary and available, we supplement the cash flows generated by our operations with either cash on hand or funds provided by bank borrowings or other debt or equity financing activities.

On May 23, 2012, the Company through its Canadian subsidiaries entered into a CAD 28.0 million ($27.5 million) credit agreement with the Bank of Montreal. Proceeds from the BMO Credit Agreement were used to repay the Edmonton Mortgage and will also be used to pursue the development or acquisition of new gaming opportunities and for general corporate purposes. The BMO Credit Agreement has a term of five years and is guaranteed by the Company. The BMO Credit Agreement contains a number of financial covenants applicable to the Canadian subsidiaries, in addition to covenants restricting their incurrence of additional debt. As of December 31, 2012, the amount outstanding under the BMO Credit Agreement was $3.6 million and we had approximately $23.8 million available under the BMO Credit Agreement. On February 21, 2013, we borrowed an additional CAD 7.3 million (approximately $7.2 million based on the exchange rate in effect on February 21, 2013) from the BMO Credit Agreement to pay for the investment (see Note 6 to consolidated financial statements for further discussion of the BMO Credit Agreement). We were in compliance with all covenants of the BMO Credit Agreement as of December 31, 2012.

Cash and cash equivalents totaled $24.8 million at December 31, 2012, and we had working capital (current assets minus current liabilities) of $13.5 million compared to cash and cash equivalents of $25.2 million and working capital of $6.0 million at December 31, 2011. The decrease in cash and cash equivalents is due to $9.1 million for the repayment of the Edmonton Mortgage, $3.8 million for various capital expenditures and $0.4 million for deferred financing and escrow costs related to the UHA loan. These uses of cash were offset by $9.2 million cash provided by operating activities, $3.2 million in proceeds from BMO borrowings net of principal repayments and deferred financing costs and $0.3 million proceeds from the exercise of stock options. The increase in working capital is due to the $9.1 million repayment of the Edmonton Mortgage, which was classified as a current liability as of December 31, 2011.

Net cash provided by operating activities was $9.2 million and $10.7 million in 2012 and 2011, respectively. Our cash flows from operations have historically been positive and sufficient to fund ordinary operations. Trends in our operating cash flows tend to follow trends in earnings from operations, excluding non-cash charges. Please refer to the condensed consolidated statements of cash flows and to management's discussion of the results of operations above for a discussion of earnings from operations.

Net cash used in investing activities of $4.2 million for the year ended December 31, 2012 was used in the acquisition of property and equipment. We used $0.6 million to construct a new poker room and remodel the casino entrance in Calgary, $1.0 million to purchase slot machines and a kiosk at our two Colorado properties, $0.6 million to replace the carpet, a server and a water line at the casino in Edmonton, $0.5 million to remodel hotel rooms in Cripple Creek, $0.3 million for hotel room upgrades in Central City and purchase count equipment in Cripple Creek, $0.3 million to replace HVAC units and pinsetters in Calgary, $0.1 million to purchase slot machines for the ship-based casinos, $0.1 million to purchase a slot accounting system for the ship-based casinos and $0.3 million in cumulative remaining additions at our properties. In addition, we used $0.4 million for deferred financing and escrow costs related to the UHA loan.

Net cash used in investing activities of $2.8 million for the year ended December 31, 2011 was used in the acquisition of property and equipment. We used $1.0 million to purchase new slot machines and a kiosk, replace surveillance cameras and purchase property in Central City, $0.6 million to complete electrical and surveillance upgrades and various general building renovations at our property in Calgary, $0.5 million to purchase new slot machines and a kiosk at our property in Cripple Creek, $0.4 million to replace a waterline, complete a beverage station in the poker room and build a smoker shelter at our property in Edmonton and $0.3 million for gaming equipment additions on cruise ship-based casinos.

Net cash used in financing activities of $5.7 million for the year ended December 31, 2012 consisted of $9.1 million for the repayment of the Edmonton Mortgage, $0.2 million for the repayment of the BMO Credit Agreement and $0.3 million payment of deferred financing costs related to the BMO Credit Agreement offset by $3.6 million cash received from the BMO Credit Agreement and $0.3 million cash received for the exercise of stock options.

Net cash used in financing activities of $4.0 million for the year ended December 31, 2011 consisted of $4.2 million for the repayment of the Edmonton Mortgage offset by a $0.2 million cash dividend received from our equity investment in CPL.

Common Stock Repurchase Program

Since 2000, we have had a discretionary program to repurchase our outstanding common stock. In November 2009, we increased the amount available to be repurchased to $15.0 million. We did not repurchase any common stock in 2011 or 2012. During 2010, we repurchased 57,330 shares of our common stock for $0.1 million at a weighted average cost of $2.46 per share. During 2009, we repurchased 53,557 shares of our common stock for $0.1 million at a weighted average cost of $2.43. The total amount remaining under the repurchase program was $14.7 million as of December 31, 2012. The repurchase program has no set expiration or termination date.

Potential Sources of Liquidity, Short-Term Liquidity

Historically, our primary sources of liquidity and capital resources have been cash flow from operations, bank borrowings, sales of existing casino operations and proceeds from the issuance of equity securities.

We expect that the primary source of cash will be from our gaming operations. In addition to the payment of operating costs, expected uses of cash within one year include capital expenditures for our existing properties, interest and principal payments on outstanding debt and potential new projects or dividends, if declared by the Board of Directors. If necessary, we may seek to obtain term loans, mortgages or lines of credit with commercial banks or other debt or

equity financings to supplement our working capital and investing requirements.

We believe that our cash at December 31, 2012 as supplemented by cash flows from operations will be sufficient to fund our anticipated operating costs, capital expenditures at existing properties and current debt repayment obligations for at least the next 12 months. We will continue to evaluate our planned capital expenditures at each of our existing locations in light of the operating performance of the facilities at such locations. From time to time we expect to have cash needs for the development or purchase of new properties that exceed our current borrowing capacity and we may be required to seek additional debt, equity or bank financing.

In addition, we expect our U.S. domestic cash resources will be sufficient to fund our U.S. operating activities and cash commitments for investing and financing activities. While we currently do not have an intent nor foresee a need to repatriate funds, if we require more capital in the U.S. than is generated by our U.S. operations either for operations, capital expenditures or significant discretionary activities such as acquisitions or businesses and share repurchases, we could elect to repatriate earnings from foreign jurisdictions or raise capital in the U.S. through debt or equity issuances, which could have adverse tax consequences as we have not accrued taxes for un-repatriated earnings of our foreign subsidiaries. The determination of the additional deferred taxes that would be provided for undistributed earnings has not been determined because the hypothetical calculation is not practicable.

Off-Balance Sheet Arrangements

We have issued a guarantee of $1.1 million (€0.8 million) to Bank Austria in connection with our listing of ADCs on the Vienna Stock Exchange. Bank Austria in turn issued a guarantee in the same amount to Oesterreichische Kontrollbank, the holder of our global certificate representing the ADCs. The guarantee is provided to reimburse Oesterreichisch Kontrollbank through Bank Austria for any amounts incurred by it as a result of claims or damages and lawsuits that an ADC holder may raise or file against us. The guarantee is required by the Oesterreichische Kontrollbank.

We do not have any other off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial statements.

Critical Accounting Estimates

The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate these estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. Our significant accounting policies are discussed in Note 2 of the Notes to Consolidated Financial Statements. Critical estimates inherent in these accounting policies are discussed in the following paragraphs.

Impairment -

Goodwill– At December 31, 2012, we had goodwill of $4.9 million at our Edmonton property. Given the historically profitable operations of this reporting unit, no impairments have been recognized on this goodwill. We evaluate our goodwill for impairment on an annual basis (as of October 1) or whenever events or changes in circumstances occur that may reduce the fair value of the asset below its carrying value. The implied fair value includes an assessment of qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that fair value of a reporting unit is less than its carrying amount. Changes in relevant events or circumstances or application of alternative assumptions could produce significantly different results.

Property and Equipment - We have significant capital invested in our property and equipment, which represents approximately 72% of our total assets as of December 31, 2012. Judgments are made in determining the estimated useful lives of assets, salvage values to be assigned to assets and if or when an asset has been impaired. The accuracy of these estimates affects the amount of depreciation expense recognized in our financial results and the extent to which we have a gain or loss on the disposal of the asset. We assign lives to our assets based on our standard policy, which we believe is representative of the useful life of each category of assets. We review the carrying value of our property and equipment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The factors we consider in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. As of December 31, 2012, we believe that our investments in property and equipment are recoverable.

Equity Investment – As of December 31, 2012, the value of our investment in CPL was $3.3 million. We evaluate our equity investment in CPL for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may have experienced an “other-than-temporary” decline in value. If these conditions exist, we compare the estimated fair value of the investment to its carrying value to determine whether impairment is indicated and determine whether the impairment is “other-than-temporary” based on our assessment of relevant factors, including consideration of our intent and ability to retain our investment. We estimate fair value using a discounted cash flow analysis utilizing estimates of future cash flows and market indicators of discount rates and terminal year capitalization rates.

Stock-Based Compensation – We use the Black-Scholes option pricing model to estimate the fair value of stock options. The Black-Scholes model requires management to estimate certain variables. Such estimates include the estimated lives of options from grant date to exercise date, the volatility of the underlying shares and estimated future dividend rates. The two most significant estimates in the Black-Scholes model are volatility and expected life. An increase in the volatility rate increases the value of stock options and a decrease causes a decline in value. We estimate expected volatility using an average of our common stock price over the expected life of the option. For expected lives, an increase in the expected life of an option increases its value. For all options currently outstanding, we have estimated their expected lives to be the average of their vesting term and their contractual terms.

Equity compensation is recorded net of estimated forfeitures over the vesting term. Determining this estimate requires significant judgment on the number of actual awards that will ultimately vest over the term of the award. This estimate is reviewed quarterly and any change in actual forfeitures in comparison to estimates may cause an increase or decrease in the ultimate expense recognized in that period.

Income Taxes – Significant judgment is required in developing our income tax provision. We have a valuation allowance of $5.0 million on our U.S. deferred tax assets as of December 31, 2012 due to the uncertainty of future taxable income. We have a $0.9 million valuation allowance on our Calgary property deferred tax assets as of December 31, 2012 due to the uncertainty of future taxable income. We also have a $0.8 million valuation allowance on our CCE subsidiary’s deferred tax assets as of December 31, 2012 due to the uncertainty of future taxable income. We will assess the continuing need for a valuation allowance that results from uncertainty regarding our ability to

realize the benefits of our deferred tax assets. Further, the Company's implementation of certain tax strategies could reduce the need for a valuation allowance in the future. If we conclude that our prospects for the realization of our deferred tax assets are more likely than not, we will reduce our valuation allowance as appropriate.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data

See Index to the Financial Statements on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures – Our management, with the participation of our principal executive officers and principal financial/accounting officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2012. Based on such evaluation, our principal executive officers and principal financial/accounting officer have concluded that as of December 31, 2012, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, our management used the criteria set forth in the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework.

Based on our assessment using the criteria set forth by COSO, our management determined that, as of December 31, 2012, our internal control over financial reporting was effective.

Changes in Internal Control Over Financial Reporting – There were no changes in our internal control over financial reporting during the three months ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item will be included in our definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2012 and is incorporated herein by reference. Information required by Regulation S-K Item 401 concerning executive officers is included in Part I of this Annual Report on Form 10-K under the caption “Executive Management.”

We have adopted a Code of Ethics that applies to all directors, officers and employees, including our Co- Chief Executive Officers and our Principal Financial/Accounting Officer. A complete text of this Code of Ethics is available on our web site (http://www.cnty.com). Any future amendments to or waivers of the Code of Ethics will be posted to the Corporate Governance section of our web site.

Item 11. Executive Compensation.

The information required by this item will be included in our definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2012 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item will be included in our definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2012 and is incorporated herein by reference.

Information related to securities authorized for issuance under equity compensation plans as of December 31, 2012 is as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	944,848 (1)	$3.10	1,169,367
Equity compensation plans not approved by security holders	-	-	-
Total	944,848	$3.10	1,169,367

(1) As of December 31, 2012, there were 849,210 securities to be issued upon exercise of outstanding options and other rights exercisable under the equity incentive plan adopted in 1994. The remaining 95,638 securities pertain to outstanding options and other rights exercisable under the 2005 Equity Incentive Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item will be included in our definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2012 and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information required by this item will be included in our definitive proxy statement for our 2013 Annual Meeting of Stockholders to be filed with the SEC within 120 days after December 31, 2012 and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) List of documents filed with this report

1. Financial Statements

The financial statements and related notes, together with the report of Grant Thornton LLP, appear in Part II, Item 8, "Financial Statements and Supplementary Data", of this Form 10-K.

2. Financial Statement Schedules

None.

3. List of Exhibits

(b) Exhibits Filed Herewith or Incorporated by Reference to Previous Filings with the Securities and Exchange Commission:

(3) Articles of Incorporation and Bylaws

3.1 Certificate of Incorporation of Century Casinos, Inc. is hereby incorporated by reference to the Company's Proxy Statement in respect of the 1994 Annual Meeting of Stockholders.

3.2 Amended and Restated Bylaws of Century Casinos, Inc., is hereby incorporated by reference to Exhibit 11.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

(10) Material Contracts

10.1 Credit Agreement by and between Century Resorts Alberta Inc. and Century Casino Calgary Inc. and the Bank of Montreal, dated May 23, 2012.

10.2 Credit Agreement by and between Century Casinos Europe GmbH and United Horsemen of Alberta Inc., dated November 30, 2012.

10.2A Management Agreement by and between Century Casinos Europe GmbH and United Horsemen of Alberta Inc., dated November 30, 2012.

10.3 Preliminary Conditional Share Sale Agreement by and between Polskie Linie Lotnicze LOT S.A. and Century Casinos Europe GmbH, dated September 21, 2012.

10.4* Deferred Compensation Agreement (Form) is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 21, 2008.

10.5A* Employment Agreement by and between Century Casinos, Inc. and Erwin Haitzmann as restated on February 18, 2003, is hereby incorporated by reference to Exhibit 10.120 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

10.5B* Amendment No. 1 to Employment Agreement by and between Century Casinos, Inc. and Erwin Haitzmann, dated February 3, 2005, is hereby incorporated by reference to Exhibit 10.143 to the Company's Current report on Form 8-K dated February 3, 2005.

10.5C* Amendment No. 2 to Employment Agreement by and between Century Casinos, Inc. and Erwin Haitzmann, effective September 1, 2006, is hereby incorporated by reference to Exhibit 10.178 to the Company's Current Report on Form 8-K dated October 19, 2006.

10.5D* Amendment No. 3 to Employment Agreement by and between Century Casinos, Inc. and Erwin Haitzmann, effective November 5, 2009 is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 10, 2009.

10.6A* Employment Agreement by and between Century Casinos, Inc. and Peter Hoetzinger as restated on February 18, 2003, is hereby incorporated by reference to Exhibit 10.121 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

10.6B* Amendment No. 1 to Employment Agreement by and between Century Casinos, Inc. and Peter Hoetzinger, dated February 3, 2005, is hereby incorporated by reference to Exhibit 10.144 to the Company's Current Report on Form 8-K dated February 3, 2005.

10.6C* Amendment No. 2 to Employment Agreement by and between Century Casinos, Inc. and Peter Hoetzinger, effective September 1, 2006, is hereby incorporated by reference to Exhibit 10.179 to the Company's Current Report on Form 8-K dated October 19, 2006.

10.6D* Amendment No. 3 to Employment Agreement by and between Century Casinos, Inc. and Peter Hoetzinger, effective November 5, 2009, is hereby incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 10, 2009.

10.9* Revised and Restated Management Agreement, effective September 30, 2006, by and between Century Resorts International Ltd, Century Casinos, Inc. and Flyfish Consulting Agreement, is hereby incorporated by reference to Exhibit 10.176 to the Company's Current Report on Form 8-K dated October 19, 2006.

10.10* Revised and Restated Management Agreement, effective September 30, 2006, by and between Century Resorts International Ltd, Century Casinos, Inc. and Focus Consulting Agreement, is hereby incorporated by reference to Exhibit 10.177 to the Company's Current Report on Form 8-K dated October 19, 2006.

10.11A ADC Agreement, dated September 30, 2005, by and between Bank Austria Creditanstalt AG, Century Casinos, Inc., and Oesterreichische Kontrollbank Aktiengesellschaft, is hereby incorporated by reference to Exhibit 10.157 to the Company's Current Report on Form 8-K dated October 3, 2005.

10.11B Annex to ADC Agreement by and between Bank Austria Creditanstalt AG, Century Casinos, Inc. and Oesterreichische Kontrollbank Aktiengesellschaft, is hereby incorporated by reference to Exhibit 10.158 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005.

	(21) Subsidiaries of the Registrant
21†	Subsidiaries of the Registrant
	(23) Consents of Experts and Counsel
23†	Consent of Independent Registered Public Accounting Firm – Grant Thornton LLP
	(31) Rule 13a-14(a)/15d-14(a) Certifications
31.1†	Certification of Erwin Haitzmann, Co Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2†	Certification of Peter Hoetzinger, President and Co-Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.3†	Certification of Margaret Stapleton, Principal Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
	(32) Section 1350 Certifications
32.1†	Certification of Erwin Haitzmann, Co Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.2†	Certification of Peter Hoetzinger, President and Co Chief Executive Officer, pursuant to 18 U.S.C. Section 1350.
32.3†	Certification of Margaret Stapleton, Principal Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.

** Users of this data are advised pursuant to Rule 401 of Regulation S-T that the financial information contained in the XBRL-Related Documents is unaudited. Furthermore, users of this data are advised in accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these Sections.

† Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CENTURY CASINOS, INC.

By:/s/ Erwin Haitzmann Erwin Haitzmann, Chairman of the Board and Co Chief Executive Officer (Co Principal Executive Officer)	By:/s/ Peter Hoetzinger Peter Hoetzinger, Vice Chairman of the Board, Co Chief Executive Officer and President (Co Principal Executive Officer)
	Date: March 28, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on March 28, 2013.

Signature	Title	Signature	Title
/s/ Erwin Haitzmann Erwin Haitzmann	Chairman of the Board and Co Chief Executive Officer	/s/ Gottfried Schellmann Gottfried Schellmann	Director
/s/ Peter Hoetzinger Peter Hoetzinger	Vice Chairman of the Board, Co Chief Executive Officer and President	/s/ Robert S. Eichberg Robert S. Eichberg	Director
/s/ Margaret Stapleton Margaret Stapleton	Principal Financial/Accounting Officer	/s/ Dinah Corbaci Dinah Corbaci	Director

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Item 8. Financial Statements and Supplementary Data.

Index to Financial Statements

Financial Statements:

Report of Independent Registered Public Accounting Firm	F2
Consolidated Balance Sheets as of December 31, 2012 and 2011	F3
Consolidated Statements of Earnings for the Years Ended December 31, 2012 and 2011	F4
Consolidated Statements of Comprehensive Earnings (Loss) for the Years Ended December 31, 2012 and 2011	F5
Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2012 and 2011	F6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012 and 2011	F7
Notes to Consolidated Financial Statements	F9

Financial Statement Schedules:
All schedules are omitted because they are not applicable or are insignificant, or the required information is shown in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Century Casinos, Inc.

We have audited the accompanying consolidated balance sheets of Century Casinos, Inc. (a Delaware Corporation) and subsidiaries (collectively, the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive earnings (loss), shareholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Casinos, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

Denver, Colorado

March 28, 2013

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in thousands, except for share and per share information	December 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,747	$ 25,192
Receivables, net	700	1,108
Prepaid expenses	608	510
Inventories	311	273
Other current assets	86	113
Deferred income taxes	83	90
Total Current Assets	26,535	27,286
Property and equipment, net	99,526	99,605
Goodwill	4,941	4,833
Equity investment	3,346	2,756
Deferred income taxes	2,145	2,054
Other assets	582	193
Restricted cash	261	0
Total Assets	$ 137,336	$ 136,727
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term debt	$ 372	$ 9,100
Accounts payable and accrued liabilities	6,379	6,666
Accrued payroll	2,806	2,373
Taxes payable	3,413	3,100
Deferred income taxes	101	120
Total Current Liabilities	13,071	21,359
Long-term debt, less current portion	3,192	0
Taxes payable	237	203
Deferred income taxes	2,680	2,625
Total Liabilities	19,180	24,187
Commitments and Contingencies		
Shareholders' Equity:		
Preferred stock; $0.01 par value; 20,000,000 shares authorized; no shares issued or outstanding	0	0
Common stock; $0.01 par value; 50,000,000 shares authorized; 24,243,926 and 23,993,174 shares issued; 24,128,114 and 23,877,362 shares outstanding	243	240
Additional paid-in capital	75,388	75,144
Accumulated other comprehensive earnings	4,569	3,291

Retained earnings	38,238	34,147
	118,438	112,822
Treasury stock – 115,812 shares at cost	(282)	(282)
Total Shareholders' Equity	118,156	112,540
Total Liabilities and Shareholders' Equity	$ 137,336	$ 136,727

See notes to consolidated financial statements.

-F3-

CENTURY CASINOS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

	For the Year ended December 31,				
Amounts in thousands, except for share and per share information	2012	2011			
Operating revenue:					
	$	$			
Gaming	62,871	62,070			
Hotel, bowling, food and beverage	13,190	12,946			
Other	4,206	4,033			
Gross revenue	80,267	79,049			
Less: Promotional allowances	(8,439)	(8,183)			
Net operating revenue	71,828	70,866			
Operating costs and expenses:					
Gaming	30,208	29,365			
Hotel, bowling, food and beverage	10,061	10,094			
General and administrative	21,452	21,587			
Depreciation	4,757	6,144			
Total operating costs and expenses	66,478	67,190			
Earnings from equity investment	426	589			
Earnings from operations	5,776	4,265			
Non-operating income (expense):					
Interest income	37	38			
Interest expense	(670)	(802)			
(Losses) gains on foreign currency transactions and other	(24)	187			
Non-operating income (expense), net	(657)	(577)			
Earnings before income taxes	5,119	3,688			
Income tax provision	1,028	$	1,635	$248,920	$1,721

Table of Contents

	For the Six Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related IVA recorded:				
Residential Core	$70,956	$586	$83,212	$575
Residential Home Today	27,254	123	31,854	153
Home equity loans and lines of credit	25,426	158	28,210	177
Construction	—	—	287	6
Other consumer loans	—	—	—	—
Total	$123,636	$867	$143,563	$911
With an IVA recorded:				
Residential Core	$58,856	$1,314	$59,749	$1,423
Residential Home Today	38,031	963	43,677	1,089
Home equity loans and lines of credit	8,001	126	6,889	119
Construction	—	—	33	—
Other consumer loans	—	—	—	—
Total	$104,888	$2,403	$110,348	$2,631
Total impaired loans:				
Residential Core	$129,812	$1,900	$142,961	$1,998
Residential Home Today	65,285	1,086	75,531	1,242
Home equity loans and lines of credit	33,427	284	35,099	296
Construction	—	—	320	6
Other consumer loans	—	—	—	—
Total	$228,524	$3,270	$253,911	$3,542

Interest on loans in non-accrual status is recognized on a cash-basis. The amounts of interest income on impaired loans recognized using a cash-basis method were $306 and $583 for the quarter ended and six months ended March 31, 2015, respectively, and $285 and $629 for the quarter ended and six months ended March 31, 2014, respectively. Cash payments on loans with a partial charge-off are applied fully to principal, then to recovery of the charged off amount prior to interest income being recognized. Interest income on the remaining impaired loans is recognized on an accrual basis.

The recorded investment in TDRs by type of concession as of March 31, 2015 and September 30, 2014 is shown in the tables below.

March 31, 2015	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 16,925	$ 1,087	$ 9,277	$ 22,147	$ 22,909	$33,939	$106,284
Residential Home Today	8,666	60	6,336	13,346	22,879	6,567	57,854
Home equity loans and lines of credit	102	2,553	444	2,215	765	14,090	20,169
Total	$ 25,693	$ 3,700	$ 16,057	$ 37,708	$ 46,553	$54,596	$184,307

September 30, 2014	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$ 16,693	$ 1,265	$ 10,248	$ 21,113	$ 22,687	$33,576	$105,582
Residential Home Today	11,374	78	7,448	15,085	20,823	5,301	60,109

Home equity loans and lines of credit	74	1,833	769	1,213	819	16,029	20,737
Total	$ 28,141	$ 3,176	$ 18,465	$ 37,411	$ 44,329	$ 54,906	$ 186,428

19

Table of Contents

TDRs may be restructured more than once. Among other requirements, a subsequent restructuring may be available for a borrower upon the expiration of temporary restructuring terms if the borrower cannot return to regular loan payments. If the borrower is experiencing an income curtailment that temporarily has reduced his/her capacity to repay, such as loss of employment, reduction of hours, non-paid leave or short term disability, a temporary restructuring is considered. If the borrower lacks the capacity to repay the loan at the current terms due to a permanent condition, a permanent restructuring is considered. In evaluating the need for a subsequent restructuring, the borrower's ability to repay is generally assessed utilizing a debt to income and cash flow analysis. As the economy slowly improves, the need for multiple restructurings continues to linger. Loans discharged in Chapter 7 bankruptcy are classified as multiple restructurings if the loan's original terms had also been restructured by the Association.

For all loans restructured during the three months and six months ended March 31, 2015 and March 31, 2014 (set forth in the table below), the pre-restructured outstanding recorded investment was not materially different from the post-restructured outstanding recorded investment.

The following tables set forth the recorded investment in TDRs restructured during the periods presented, according to the types of concessions granted.

	For the Three Months Ended March 31, 2015						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$805	$—	$212	$1,149	$ 1,528	$2,233	$5,927
Residential Home Today	—	—	188	95	2,484	796	3,563
Home equity loans and lines of credit	—	369	—	446	40	348	1,203
Total	$805	$369	$400	$1,690	$ 4,052	$3,377	$10,693

	For the Three Months Ended March 31, 2014						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$442	$—	$—	$586	$ 1,360	$1,541	$3,929
Residential Home Today	74	—	—	2	1,207	227	1,510
Home equity loans and lines of credit	—	237	—	551	70	1,189	2,047
Total	$516	$237	$—	$1,139	$ 2,637	$2,957	$7,486

	For the Six Months Ended March 31, 2015						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
Residential Core	$1,565	$—	$278	$2,998	$ 2,515	$5,089	$12,445
Residential Home Today	82	—	357	158	3,806	1,786	6,189
Home equity loans and lines of credit	—	1,015	—	917	83	913	2,928
Total	$1,647	$1,015	$635	$4,073	$ 6,404	$7,788	$21,562

	For the Six Months Ended March 31, 2014						
	Reduction in Interest Rates	Payment Extensions	Forbearance or Other	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total

			Actions				
Residential Core	$921	$—	$225	$2,112	$ 2,637	$3,397	$9,292
Residential Home Today	163	—	—	227	2,321	445	3,156
Home equity loans and lines of credit	—	523	—	745	126	2,073	3,467
Total	$1,084	$523	$225	$3,084	$ 5,084	$5,915	$15,915

20

Table of Contents

Below summarizes the information on TDRs restructured within the previous 12 months of the period listed for which there was a subsequent payment default, at least 30 days past due on one scheduled payment, during the period presented.

TDRs That Subsequently Defaulted	For the Three Months Ended March 31,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Residential Core	29	$3,698	32	$3,359
Residential Home Today	22	799	31	1,516
Home equity loans and lines of credit	14	575	40	1,469
Total	65	$5,072	103	$6,344

TDRs That Subsequently Defaulted	For the Six Months Ended March 31,			
	2015		2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)		(Dollars in thousands)	
Residential Core	34	$3,801	37	$3,773
Residential Home Today	25	1,065	38	1,776
Home equity loans and lines of credit	21	642	49	1,554
Total	80	$5,508	124	$7,103

The following tables provide information about the credit quality of residential loan receivables by an internally assigned grade. Balances are net of deferred fees and any applicable LIP.

	Pass	Special Mention	Substandard	Loss	Total
March 31, 2015					
Real Estate Loans:					
Residential Core	$9,050,345	$—	$76,403	$—	$9,126,748
Residential Home Today	115,344	—	28,028	—	143,372
Home equity loans and lines of credit	1,630,364	5,879	28,334	—	1,664,577
Construction	20,090	—	—	—	20,090
Total	$10,816,143	$5,879	$132,765	$—	$10,954,787

	Pass	Special Mention	Substandard	Loss	Total
September 30, 2014					
Real Estate Loans:					
Residential Core	$8,739,183	$—	$83,414	$—	$8,822,597
Residential Home Today	120,827	—	31,135	—	151,962
Home equity loans and lines of credit	1,667,939	6,084	30,192	—	1,704,215
Construction	28,554	—	—	—	28,554
Total	$10,556,503	$6,084	$144,741	$—	$10,707,328

Residential loans are internally assigned a grade that complies with the guidelines outlined in the OCC’s Handbook for Rating Credit Risk. Pass loans are assets well protected by the current paying capacity of the borrower. Special Mention loans have a potential weakness that the Association feels deserve management’s attention and may result in further deterioration in their repayment prospects and/or the Association’s credit position. Substandard loans are

inadequately protected by the current payment capacity of the borrower or the collateral pledged with a defined weakness that jeopardizes the liquidation of the debt. Also included in Substandard are performing home equity loans and lines of credit where the customer has a severely delinquent first mortgage to which the performing home equity loan or line of credit is subordinate and loans in Chapter 7

21

Table of Contents

bankruptcy status where all borrowers have filed, and have not reaffirmed or been dismissed. Loss loans are considered uncollectible and are charged off when identified.
At March 31, 2015 and September 30, 2014, respectively, the recorded investment of impaired loans includes $102,906 and $103,459 of TDRs that are individually evaluated for impairment, but have adequately performed under the terms of the restructuring and are classified as Pass loans. At March 31, 2015 and September 30, 2014, respectively, there were $12,010 and $14,814 of loans classified substandard and $5,879 and $6,084 of loans designated special mention that are not included in the recorded investment of impaired loans; rather, they are included in loans collectively evaluated for impairment.
Other consumer loans are internally assigned a grade of nonperforming when they become 90 days or more past due. At March 31, 2015 and September 30, 2014, no consumer loans were graded as nonperforming.
During the quarter ended December 31, 2013, $5,321 of residential loans were deemed uncollectible and fully charged-off as a result of implementing a new practice of charging off the remaining balance on loans that had remained delinquent and in the foreclosure process for greater than 1,500 days. These loans previously were recorded at estimated net realizable value, with the potential for additional loss recognized within the allowance for loan losses. Any future foreclosure proceeds on these loans would result in recoveries of prior charge-offs.

Activity in the allowance for loan losses is summarized as follows:

	For the Three Months Ended March 31, 2015				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$28,717	$1,315	$(2,916)	$1,391	$28,507
Residential Home Today	16,434	(3,537)	(581)	262	12,578
Home equity loans and lines of credit	34,595	3,221	(3,124)	1,298	35,990
Construction	16	1	—	1	18
Total real estate loans	79,762	1,000	(6,621)	2,952	77,093
Other consumer loans	—	—	—	—	—
Total	$79,762	$1,000	$(6,621)	$2,952	$77,093

	For the Three Months Ended March 31, 2014				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$33,462	$1,865	$(3,707)	$1,022	$32,642
Residential Home Today	20,479	(2,412)	(2,388)	1,240	16,919
Home equity loans and lines of credit	31,227	5,624	(4,258)	1,192	33,785
Construction	114	(77)	—	8	45
Total real estate loans	85,282	5,000	(10,353)	3,462	83,391
Other consumer loans	—	—	—	—	—
Total	$85,282	$5,000	$(10,353)	$3,462	$83,391

	For the Six Months Ended March 31, 2015				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$31,080	$(409)	$(4,184)	$2,020	$28,507
Residential Home Today	16,424	(2,613)	(1,663)	430	12,578
Home equity loans and lines of credit	33,831	6,201	(6,753)	2,711	35,990

Construction	27	(179)	—	170	18
Total real estate loans	81,362	3,000	(12,600)	5,331	77,093
Other consumer loans	—	—	—	—	—
Total	$81,362	$3,000	$(12,600)	$5,331	$77,093

22

Table of Contents

	For the Six Months Ended March 31, 2014				
	Beginning Balance	Provisions	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	$35,427	$6,946	$(11,183)	$1,452	$32,642
Residential Home Today	24,112	(3,219)	(5,321)	1,347	16,919
Home equity loans and lines of credit	32,818	7,381	(8,935)	2,521	33,785
Construction	180	(108)	(41)	14	45
Total real estate loans	92,537	11,000	(25,480)	5,334	83,391
Other consumer loans	—	—	—	—	—
Total	$92,537	$11,000	$(25,480)	$5,334	$83,391

5. DEPOSITS

Deposit account balances are summarized as follows:

	March 31, 2015	September 30, 2014
Negotiable order of withdrawal accounts	$1,015,153	$990,326
Savings accounts	1,639,910	1,661,920
Certificates of deposit	5,844,321	6,000,216
	8,499,384	8,652,462
Accrued interest	1,534	1,416
Total deposits	$8,500,918	$8,653,878

Brokered certificates of deposit, which are used as a cost effective funding alternative, totaled $477,110 and $356,685 at March 31, 2015 and September 30, 2014, respectively. The FDIC places restrictions on banks with regard to issuing brokered deposits based on the bank's capital classification. As a well-capitalized institution at March 31, 2015 and September 30, 2014, the Association may accept brokered deposits without FDIC restrictions.

23

Table of Contents

6. OTHER COMPREHENSIVE INCOME (LOSS)

The change in accumulated other comprehensive income (loss) by component is as follows:

	For the Three Months Ended March 31, 2015			For the Three Months Ended March 31, 2014		
	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan	Total	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan	Total
Balance at beginning of period	$(659)	$(9,576)	$(10,235)	$(4,083)	$(6,420)	$(10,503)
Other comprehensive income before reclassifications, net of tax expense of $2,083 and $955	3,868	—	3,868	1,773	—	1,773
Amounts reclassified from accumulated other comprehensive income (loss), net of tax benefit of $67 and $26	—	123	123	—	48	48
Other comprehensive income	3,868	123	3,991	1,773	48	1,821
Balance at end of period	$3,209	$(9,453)	$(6,244)	$(2,310)	$(6,372)	$(8,682)

	For the Six Months Ended March 31, 2015			For the Six Months Ended March 31, 2014		
	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan	Total	Unrealized gains (losses) on securities available for sale	Defined Benefit Plan	Total
Balance at beginning of period	$(1,092)	$(9,700)	$(10,792)	$(2,136)	$(6,468)	$(8,604)
Other comprehensive income (loss) before reclassifications, net of tax (expense) benefit of $(2,316) and $94	4,301	—	4,301	(174)	—	(174)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax benefit of $133 and $52	—	247	247	—	96	96
Other comprehensive income (loss)	4,301	247	4,548	(174)	96	(78)
Balance at end of period	$3,209	$(9,453)	$(6,244)	$(2,310)	$(6,372)	$(8,682)

The following table presents the reclassification adjustment out of accumulated other comprehensive income (loss) included in net income and the corresponding line item on the consolidated statements of income for the periods indicated:

	Amounts Reclassified from Accumulated Other Comprehensive Income				
Details about Accumulated Other Comprehensive Income Components	For the Three Months Ended March 31, 2015	2014	For the Six Months Ended March 31, 2015	2014	Line Item in the Statement of Income

Actuarial loss	$190	$74	$380	$148	(a)
Income tax benefit	(67)	(26)	(133)	(52)	Income tax expense
Net of income tax benefit	$123	$48	$247	$96	

(a) These items are included in the computation of net period pension cost. See Note 8. Defined Benefit Plan for additional disclosure.

24

Table of Contents

7. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and in various state and city jurisdictions. Federal income tax returns and the Association's Ohio Franchise Tax returns have been audited and settled for tax years through 2010 and 2011, respectively. With few exceptions, the Company is no longer subject to federal or state tax examinations for tax years prior to 2011.

The Company recognizes interest and penalties on income tax assessments or income tax refunds, where applicable, in the financial statements as a component of its provision for income taxes.

The Company makes certain investments in limited partnerships which invest in affordable housing projects that qualify for the Low Income Housing Tax Credit. The Company acts as a limited partner in these investments and does not exert control over the operating or financial policies of the partnership. The balance of these investments is included in Other Assets on the Consolidated Statements of Condition, $994 at March 31, 2015 and $0 at September 30, 2014.

The Company accounts for its interests in LIHTCs using the proportional amortization method. The impact of the Company's investments in tax credit entities on the provision for income taxes was not material during the three and six months ended March 31, 2015 and March 31, 2014.

8. DEFINED BENEFIT PLAN

The Third Federal Savings Retirement Plan (the “Plan”) is a defined benefit pension plan. Effective December 31, 2002, the Plan was amended to limit participation to employees who met the Plan’s eligibility requirements on that date. Effective December 31, 2011, the Plan was amended to freeze future benefit accruals for participants in the Plan. After December 31, 2002, employees not participating in the Plan, upon meeting the applicable eligibility requirements, and those eligible participants who no longer receive service credits under the Plan, participate in a separate tier of the Company’s defined contribution 401(k) Savings Plan. Benefits under the Plan are based on years of service and the employee’s average annual compensation (as defined in the Plan) through December 31, 2011. The funding policy of the Plan is consistent with the funding requirements of U.S. federal and other governmental laws and regulations.

The components, including an estimated settlement adjustment due to expected lump sum payments exceeding the interest cost for the year, of net periodic cost recognized in the statements of income are as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Interest cost	$782	$801	$1,565	$1,602
Expected return on plan assets	(1,103)	(1,056)	(2,207)	(2,111)
Amortization of net loss	190	74	380	148
Estimated net loss due to settlement	228	181	456	361
Net periodic cost	$97	$—	$194	$—

There were no minimum employer contributions during the six months ended March 31, 2015. No minimum employer contributions are expected during the remainder of the fiscal year.

9. EQUITY INCENTIVE PLAN

In December 2014, 961,200 options to purchase our common stock and 295,500 restricted stock units were granted to certain directors, officers and employees of the Company. The awards were made pursuant to the shareholder-approved 2008 Equity Incentive Plan.

During the six months ended March 31, 2015 and 2014, the Company recorded $3,854 and $3,591, respectively, of stock-based compensation expense, comprised of stock option expense of $1,744 and $1,626, respectively, and restricted stock units expense of $2,110 and $1,965, respectively.

At March 31, 2015, 7,311,175 shares were subject to options, with a weighted average exercise price of $11.69 per share and a weighted average grant date fair value of $2.98 per share. Expected future expense related to the 2,037,102 non-vested options outstanding as of March 31, 2015 is $3,583 over a weighted average of 1.6 years. At

March 31, 2015, 855,812 restricted stock units, with a weighted average grant date fair value of $12.71 per unit, are unvested. Expected future

compensation expense relating to the 1,226,190 restricted stock units outstanding as of March 31, 2015 is $5,297 over a weighted average period of 1.9 years. Each unit is equivalent to one share of common stock.

10. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company enters into commitments with off-balance sheet risk to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to originate loans generally have fixed expiration dates of 60 to 360 days or other termination clauses and may require payment of a fee. Unfunded commitments related to home equity lines of credit generally expire from 5 to 10 years following the date that the line of credit was established, subject to various conditions, including compliance with payment obligation, adequacy of collateral securing the line and maintenance of a satisfactory credit profile by the borrower. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Off-balance sheet commitments to extend credit involve elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated statements of condition. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitment is represented by the contractual amount of the commitment. The
Company generally uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Interest rate risk on commitments to extend credit results from the possibility that interest rates may have moved unfavorably from the position of the Company since the time the commitment was made.

At March 31, 2015, the Company had commitments to originate loans as follows:

Fixed-rate mortgage loans	$295,960
Adjustable-rate mortgage loans	273,605
Equity loans and lines of credit including bridge loans	37,017
Total	$606,582

At March 31, 2015, the Company had unfunded commitments outstanding as follows:

Equity lines of credit	$1,172,701
Construction loans	25,068
Private equity investments	12,941
Total	$1,210,710

At March 31, 2015, the unfunded commitment on home equity lines of credit, including commitments for accounts suspended as a result of material default or a decline in equity, is $1,353,593.

At March 31, 2015 and September 30, 2014, the Company had $1,111 and $4,570, respectively, in commitments to securitize and sell mortgage loans.

Management expects that the above commitments will be funded through normal operations.

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's financial condition, results of operation, or statements of cash flows.

11. FAIR VALUE

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and a fair value framework is established whereby assets and liabilities measured at fair value are grouped into three levels of a fair value hierarchy, based on the transparency of inputs and the reliability of assumptions used to estimate fair value. The Company's policy is to recognize transfers between levels of the hierarchy as of the end of the reporting period in which the transfer occurs. The three levels of inputs are defined as follows:

Table of Contents

Level 1 –	quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 –	quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets with few transactions, or model-based valuation techniques using assumptions that are observable in the market.
Level 3 –	a company's own assumptions about how market participants would price an asset or liability.

As permitted under the fair value guidance in U.S. GAAP, the Company elects to measure at fair value mortgage loans classified as held for sale that are subject to pending agency contracts to securitize and sell loans. This election is expected to reduce volatility in earnings related to market fluctuations between the contract trade and settlement dates. At March 31, 2015 and September 30, 2014, respectively, there were $1,101 and $4,570 loans held for sale, with unpaid principal balances of $1,111 and $4,491, subject to pending agency contracts for which the fair value option was elected. Included in the net gain on the sale of loans is $0 and $37 for the three months ending March 31, 2015 and 2014, respectively, and $(111) and $(53) for the six months ending March 31, 2015 and 2014, respectively, related to changes during the period in the fair value of loans held for sale subject to pending agency contracts.
Presented below is a discussion of the methods and significant assumptions used by the Company to estimate fair value.
Investment Securities Available for Sale—Investment securities available for sale are recorded at fair value on a recurring basis. At March 31, 2015 and September 30, 2014, respectively, this includes $586,091 and $568,868 of investments in U.S. government and agency obligations including U.S. Treasury notes and sequentially structured, highly liquid collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae. Both are measured using the market approach. The fair values of treasury notes and collateralized mortgage obligations represent unadjusted price estimates obtained from third party independent nationally recognized pricing services using pricing models or quoted prices of securities with similar characteristics and are included in Level 2 of the hierarchy. Third party pricing is reviewed on a monthly basis for reasonableness based on the market knowledge and experience of company personnel that interact daily with the markets for these types of securities.
Mortgage Loans Held for Sale—The fair value of mortgage loans held for sale is estimated on an aggregate basis using a market approach based on quoted secondary market pricing for loan portfolios with similar characteristics. Loans held for sale are carried at the lower of cost or fair value except, as described above, the Company elects the fair value measurement option for mortgage loans held for sale subject to pending agency contracts to securitize and sell loans. Loans held for sale are included in Level 2 of the hierarchy. At March 31, 2015 and September 30, 2014 there were $1,101 and $4,570, respectively, of loans held for sale measured at fair value and $0 and $392, respectively, of loans held for sale carried at cost.
Impaired Loans—Impaired loans represent certain loans held for investment that are subject to a fair value measurement under U.S. GAAP because they are individually evaluated for impairment and that impairment is measured using a fair value measurement, such as the observable market price of the loan or the fair value of the collateral less estimated costs to dispose. Impairment is measured using the market approach based on the fair value of the collateral less estimated costs to dispose for loans the Company considers to be collateral-dependent due to a delinquency status or other adverse condition severe enough to indicate that the borrower can no longer be relied upon as the continued source of repayment. These conditions are described more fully in Note 4. Loans and Allowance for Loan Losses. To calculate impairment of collateral-dependent loans, the fair market values of the collateral, estimated using exterior appraisals in the majority of instances, are reduced by calculated costs to dispose derived from historical experience and recent market conditions. Any indicated impairment is recognized by a charge to the allowance for loan losses. Subsequent increases in collateral values or principal pay downs on loans with recognized impairment could result in an impaired loan being carried below its fair value. When no impairment loss is indicated, the carrying amount is considered to approximate the fair value of that loan to the Company because contractually that is the maximum recovery the Company can expect. The recorded investment of loans individually evaluated for impairment based on the fair value of the collateral are included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis. The range and weighted average impact of costs to dispose on fair values is determined at the time of impairment or when additional impairment is recognized and is included in quantitative information about

significant unobservable inputs later in this note.

Loans held for investment that have been restructured in TDRs and are performing according to the restructured terms of the loan agreement are individually evaluated for impairment using the present value of future cash flows based on the loan's effective interest rate, which is not a fair value measurement. At March 31, 2015 and September 30, 2014, respectively, this included $103,963 and $105,954 in recorded investment of TDRs with related allowances for loss of $14,560 and $15,787.

Real Estate Owned—Real estate owned includes real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of the cost basis or fair value less estimated costs to dispose. Fair value is estimated under the market approach using independent third party appraisals. As these properties are actively marketed, estimated fair

27

Table of Contents

values may be adjusted by management to reflect current economic and market conditions. At March 31, 2015 and September 30, 2014, these adjustments were not significant to reported fair values. At March 31, 2015 and September 30, 2014, respectively, $15,503 and $17,970 of real estate owned is included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis where the cost basis equals or exceeds the estimate of fair values less costs to dispose of these properties. Real estate owned, as reported in the Consolidated Statements of Condition, includes estimated costs to dispose of $1,813 and $1,667 related to properties measured at fair value and $6,588 and $5,465 of properties carried at their original or adjusted cost basis at March 31, 2015 and September 30, 2014, respectively.

Derivatives—Derivative instruments include interest rate locks on commitments to originate loans for the held for sale portfolio and forward commitments on contracts to deliver mortgage loans. Derivatives are reported at fair value in other assets or other liabilities on the Consolidated Statement of Condition with changes in value recorded in current earnings. Fair value is estimated using a market approach based on quoted secondary market pricing for loan portfolios with characteristics similar to loans underlying the derivative contracts. The fair value of interest rate lock commitments is adjusted by a closure rate based on the estimated percentage of commitments that will result in closed loans. The range and weighted average impact of the closure rate is included in quantitative information about significant unobservable inputs later in this note. A significant change in the closure rate may result in a significant change in the ending fair value measurement of these derivatives relative to their total fair value. Because the closure rate is a significantly unobservable assumption, interest rate lock commitments are included in Level 3 of the hierarchy. Forward commitments on contracts to deliver mortgage loans are included in Level 2 of the hierarchy.

Assets and liabilities carried at fair value on a recurring basis in the Consolidated Statements of Condition at March 31, 2015 and September 30, 2014 are summarized below. There were no liabilities carried at fair value on a recurring basis at March 31, 2015.

		Recurring Fair Value Measurements at Reporting Date Using		
	March 31, 2015	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Investment securities available for sale:				
U.S. government and agency obligations	$2,012	$ —	$ 2,012	$ —
REMIC's	573,150	—	573,150	—
Fannie Mae certificates	10,929	—	10,929	—
Mortgage loans held for sale	1,101	—	1,101	—
Derivatives:				
Interest rate lock commitments	169	—	—	169
Total	$587,361	$ —	$ 587,192	$ 169

28

Table of Contents

		Recurring Fair Value Measurements at Reporting Date Using		
	September 30, 2014	Quoted Prices in Active Markets for Identical Assets	Other Observable Inputs	Significant Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Assets				
Investment securities available for sale:				
U.S. government and agency obligations	$2,023	$ —	$ 2,023	$ —
REMIC's	555,607	—	555,607	—
Fannie Mae certificates	11,238	—	11,238	—
Mortgage loans held for sale	4,570	—	4,570	—
Derivatives:				
Interest rate lock commitments	59	—	—	59
Total	$573,497	$ —	$ 573,438	$ 59
Liabilities				
Derivatives:				
Forward commitments for the sale of mortgage loans	$14	$ —	$ 14	$ —
Total	$14	$ —	$ 14	$ —

The table below presents a reconciliation of the beginning and ending balances and the location within the Consolidated Statements of Income where gains (losses) due to changes in fair value are recognized on interest rate lock commitments which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Beginning balance	$92	$52	$59	$158
Gain (loss) during the period due to changes in fair value:				
Included in other non-interest income	77	16	110	(90)
Ending balance	$169	$68	$169	$68
Change in unrealized gains for the period included in earnings for assets held at end of the reporting date	$169	$68	$169	$68

Summarized in the tables below are those assets measured at fair value on a nonrecurring basis. This includes loans held for investment that are individually evaluated for impairment, excluding performing TDRs valued using the present value of cash flow method, and properties included in real estate owned that are carried at fair value less estimated costs to dispose at the reporting date.

		Nonrecurring Fair Value Measurements at Reporting Date Using		
	March 31, 2015	Quoted Prices in Active Markets for	Other Observable Inputs	Significant Significant Unobservable Inputs

		Identical Assets (Level 1)	(Level 2)	(Level 3)
Impaired loans, net of allowance	$119,698	$ —	$ —	$ 119,698
Real estate owned[1]	15,503	—	—	15,503
Total	$135,201	$ —	$ —	$ 135,201

[1] Amounts represent fair value measurements of properties before deducting estimated costs to dispose.

29

Table of Contents

	September 30, 2014	Nonrecurring Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Impaired loans, net of allowance	$ 127,432	$ —	$ —	$ 127,432
Real estate owned[1]	17,970	—	—	17,970
Total	$ 145,402	$ —	$ —	$ 145,402

[1] Amounts represent fair value measurements of properties before deducting estimated costs to dispose.

The following provides quantitative information about significant unobservable inputs categorized within Level 3 of the Fair Value Hierarchy.

	Fair Value 3/31/2015	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Impaired loans, net of allowance	$119,698	Market comparables of collateral discounted to estimated net proceeds	Discount appraised value to estimated net proceeds based on historical experience: • Residential Properties	0 - 24%	8.0%
Interest rate lock commitments	$169	Quoted Secondary Market pricing	Closure rate	0 - 100%	73.4%

	Fair Value 9/30/2014	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Impaired loans, net of allowance	$127,432	Market comparables of collateral discounted to estimated net proceeds	Discount appraised value to estimated net proceeds based on historical experience: • Residential Properties	0 - 24%	8.3%
Interest rate lock commitments	$59	Quoted Secondary Market pricing	Closure rate	0 - 100%	76.0%

The following table presents the estimated fair value of the Company’s financial instruments. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Table of Contents

	March 31, 2015				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks	$27,918	$27,918	$27,918	$—	$—
Interest earning cash equivalents	192,817	192,817	192,817	—	—
Investment securities:					
Available for sale	586,091	586,091	—	586,091	—
Mortgage loans held for sale	1,101	1,101	—	1,101	—
Loans, net:					
Mortgage loans held for investment	10,877,694	11,261,484	—	—	11,261,484
Other loans	3,874	4,071	—	—	4,071
Federal Home Loan Bank stock	69,470	69,470	N/A	—	—
Private equity investments	369	369	—	—	369
Accrued interest receivable	31,793	31,793	—	31,793	—
Derivatives	169	169	—	—	169
Liabilities:					
NOW and passbook accounts	$2,655,063	$2,655,063	$—	$2,655,063	$—
Certificates of deposit	5,845,855	5,807,768	—	5,807,768	—
Borrowed funds	1,667,753	1,683,020	—	1,683,020	—
Borrowers' advances for taxes and insurance	71,422	71,422	—	71,422	—
Principal, interest and escrow owed on loans serviced	60,370	60,370	—	60,370	—

	September 30, 2014				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks	$26,886	$26,886	$26,886	$—	$—
Interest earning cash equivalents	154,517	154,517	154,517	—	—
Investment securities:					
Available for sale	568,868	568,868	—	568,868	—
Mortgage loans held for sale	4,962	4,974	—	4,974	—
Loans, net:					
Mortgage loans held for investment	10,625,966	10,876,564	—	—	10,876,564
Other loans	4,721	4,894	—	—	4,894
Federal Home Loan Bank stock	40,411	40,411	N/A	—	—
Private equity investments	551	551	—	—	551
Accrued interest receivable	31,952	31,952	—	31,952	—
Derivatives	59	59	—	—	59
Liabilities:					
NOW and passbook accounts	$2,652,246	$2,652,246	$—	$2,652,246	$—
Certificates of deposit	6,001,632	5,875,499	—	5,875,499	—
Borrowed funds	1,138,639	1,139,647	—	1,139,647	—
Borrowers' advances for taxes and insurance	76,266	76,266	—	76,266	—
Principal, interest and escrow owed on loans serviced	54,670	54,670	—	54,670	—
Derivatives	14	14	—	14	—

31

Presented below is a discussion of the valuation techniques and inputs used by the Company to estimate fair value.

Cash and Due from Banks, Interest Earning Cash Equivalents— The carrying amount is a reasonable estimate of fair value.

Investment and Mortgage-Backed Securities— Estimated fair value for investment and mortgage-backed securities is based on quoted market prices, when available. If quoted prices are not available, management will use as part of their estimation process fair values which are obtained from third party independent nationally recognized pricing services using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Mortgage Loans Held for Sale— Fair value of mortgage loans held for sale is based on quoted secondary market pricing for loan portfolios with similar characteristics.

Loans— For mortgage loans held for investment and other loans, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. The use of current rates to discount cash flows reflects current market expectations with respect to credit exposure. Impaired loans are measured at the lower of cost or fair value as described earlier in this footnote.

Federal Home Loan Bank Stock— It is not practical to estimate the fair value of FHLB stock due to restrictions on its transferability. The fair value is estimated to be the carrying value, which is par. All transactions in capital stock of the FHLB Cincinnati are executed at par.

Private Equity Investments— Private equity investments are initially valued based upon transaction price. The carrying value is subsequently adjusted when it is considered necessary based on current performance and market conditions. The carrying values are adjusted to reflect expected exit values. These investments are included in Other Assets in the accompanying Consolidated Statements of Condition at fair value.

Deposits— The fair value of demand deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flows and rates currently offered for deposits of similar remaining maturities.

Borrowed Funds— Estimated fair value for borrowed funds is estimated using discounted cash flows and rates currently charged for borrowings of similar remaining maturities.

Accrued Interest Receivable, Borrowers' Advances for Insurance and Taxes, and Principal, Interest and Related Escrow Owed on Loans Serviced— The carrying amount is a reasonable estimate of fair value.

Derivatives— Fair value is estimated based on the valuation techniques and inputs described earlier in this footnote.

12. DERIVATIVE INSTRUMENTS

The Company enters into forward commitments for the sale of mortgage loans principally to protect against the risk of adverse interest rate movements on net income. The Company recognizes the fair value of such contracts when the characteristics of those contracts meet the definition of a derivative. These derivatives are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the statement of income. In addition, the Company enters into commitments to originate a portion of its loans, which when funded, are classified as held for sale. Such commitments meet the definition of a derivative and are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the statement of income. The Company had no derivatives designated as hedging instruments under FASB ASC 815, “Derivatives and Hedging,” at March 31, 2015 or September 30, 2014.

Table of Contents

The following table provides the locations within the Consolidated Statements of Condition and the fair values for derivatives not designated as hedging instruments.

	Asset Derivatives			
	March 31, 2015		September 30, 2014	
	Location	Fair Value	Location	Fair Value
Interest rate lock commitments	Other Assets	$169	Other Assets	$59

	Liability Derivatives			
	March 31, 2015		September 30, 2014	
	Location	Fair Value	Location	Fair Value
Forward commitments for the sale of mortgage loans	Other Liabilities	$—	Other Liabilities	$14

The following table summarizes the locations and amounts of gain or (loss) recognized within the Consolidated Statements of Income on derivative instruments not designated as hedging instruments.

		Amount of Gain or (Loss) Recognized in Income on Derivatives			
		Three Months Ended		Six Months Ended	
	Location of Gain or (Loss)	March 31,		March 31,	
	Recognized in Income	2015	2014	2015	2014
Interest rate lock commitments	Other non-interest income	$77	$16	$110	$(90)
Forward commitments for the sale of mortgage loans	Net gain on the sale of loans	—	3	14	9
Total		$77	$19	$124	$(81)

13. RECENT ACCOUNTING PRONOUNCEMENTS

Pending as of March 31, 2015

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis. This amendment modifies the consolidation model for reporting legal entities under both the variable interest model and the voting interest model. This ASU will require all legal entities to reevaluate previous consolidation conclusions under the revised model and will be effective for annual periods beginning after December 15, 2015. Early adoption is permitted. A reporting entity may apply the ASU by using a modified retrospective approach (by recording a cumulative-effect adjustment to equity as of the beginning of the year of adoption) or a full retrospective approach (by restating all periods presented). The Company is currently evaluating the impact of adopting the amendments on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), affecting any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. ASC Topic 606 does not apply to rights or obligations associated with financial instruments. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting the amendments on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40), Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure to reduce diversity by clarifying 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 amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure

Table of Contents

according to local requirements of the applicable jurisdiction. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The only impact of these amendments on the Company's consolidated financial statements will be an addition of the disclosure of loans in foreclosure in the Loans and Allowance for Loan Loss footnote.

Adopted in quarter ended March 31, 2015

FASB ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, which was issued in January 2014, permits entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statements as a component of income tax expense or benefit. The Company early adopted the amendments in ASC 323-740 related to investments in Qualified Affordable Housing Projects for the quarter ended March 31, 2015, to utilize the proportional amortization method for a recent tax credit investment. The adoption of ASU 2014-01 did not have a material impact on the Company's consolidated financial statements. Related disclosures are included in Note 7. Income Taxes.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on the Company’s consolidated financial statements or do not apply to its operations.

Table of Contents

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

Forward Looking Statements

This report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, among other things:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements concerning trends in our provision for loan losses and charge-offs;
- statements regarding the trends in factors affecting our financial condition and results of operations, including asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, including employment prospects, real estate values and conditions that are worse than expected;
- decreased demand for our products and services and lower revenue and earnings because of a recession or other events;
- adverse changes and volatility in the securities markets, credit markets or real estate markets;
- legislative or regulatory changes that adversely affect our business, including changes in regulatory costs and capital requirements and changes related to our ability to pay dividends and the ability of Third Federal Savings, MHC to waive dividends;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or de novo branches, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board;
- future adverse developments concerning Fannie Mae or Freddie Mac;
- changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the FRS and changes in the level of government support of housing finance;
- changes in policy and/or assessment rates of taxing authorities that adversely affect us;
- changes in our organization, or compensation and benefit plans and changes in expense trends (including, but not limited to trends affecting non-performing assets, charge-offs and provisions for loan losses);
- the impact of the governmental effort to restructure the U.S. financial and regulatory system, including the extensive reforms enacted in the DFA and the continuing impact of our coming under the jurisdiction of new federal regulators;
- the inability of third-party providers to perform their obligations to us;
- a slowing or failure of the moderate economic recovery;
- the adoption of implementing regulations by a number of different regulatory bodies under the DFA, and uncertainty in the exact nature, extent and timing of such regulations and the impact they will have on us;
- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and its impact on the credit quality of our loans and other assets, and
- the ability of the U.S. Government to manage federal debt limits.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by law. Please

see Part II, Other Information Item 1A. Risk Factors for a discussion of certain risks related to our business.

35

Table of Contents

Overview

Our business strategy is to operate as a well-capitalized and profitable financial institution dedicated to providing exceptional personal service to our customers.

Since being organized in 1938, we grew to become, at the time of our initial public offering of stock in April 2007, the nation's largest mutually-owned savings and loan association based on total assets. We credit our success to our continued emphasis on our primary values: "Love, Trust, Respect, and a Commitment to Excellence, along with Having Fun." Our values are reflected in the design and pricing of our loan and deposit products, and historically, in our Home Today program, as described below. Our values are further reflected in the Broadway Redevelopment Initiative (a long-term revitalization program encompassing the three-mile corridor of the Broadway-Slavic Village neighborhood in Cleveland, Ohio where our main office was established and continues to be located) and the educational programs we have established and/or supported. We intend to continue to adhere to our primary values and to support our customers and the communities in which we operate.

In connection with the financial crisis of 2008 and its subsequent turmoil, regionally high unemployment, weak residential real estate values, less than robust capital and credit markets, and a general lack of confidence in the financial services sector of the economy presented significant challenges for us. Since the latter portion of calendar 2012 however, improving regional employment levels, recovering residential real estate values, recovering capital and credit markets and greater confidence in the financial services sector have resulted in better credit metrics and improved operating results for us.

Management believes that the following matters are those most critical to our success: (1) controlling our interest rate risk exposure; (2) monitoring and limiting our credit risk; (3) maintaining access to adequate liquidity and diverse funding sources; and (4) monitoring and controlling operating expenses.

Controlling Our Interest Rate Risk Exposure. Although the significant housing and credit quality issues that arose in connection with the 2008 financial crisis had a distinctly negative effect on our operating results and, as described below, are a matter of continuing concern for us, historically our greatest risk has been our exposure to changes in interest rates. When we hold long-term, fixed-rate assets, funded by liabilities with shorter re-pricing characteristics, we are exposed to potentially adverse impacts from changing interest rates, and most notably when interest rates are rising. Generally, and particularly over extended periods of time that encompass full economic cycles, interest rates associated with longer-term assets, like fixed-rate mortgages, have been higher than interest rates associated with shorter-term funding sources, like deposits. This difference has been an important component of our net interest income and is fundamental to our operations. We manage the risk of holding longer-term, fixed-rate mortgage assets primarily by maintaining high levels of regulatory capital and by promoting adjustable-rate loans and shorter-term, fixed-rate loans.

High Levels of Regulatory Capital

At March 31, 2015, as computed in accordance with the revised, effective January 1, 2015, capital requirements and computational methodologies promulgated by the federal banking agencies, the Company's Tier1 (leverage) capital totaled $1.79 billion or 13.83% of net average assets and 24.52% of risk-weighted assets, while the Association's Tier1(leverage) capital totaled $1.56 billion or 12.09% of net average assets and 21.47% of risk-weighted assets. Each of these measures was more than twice the minimum requirements currently in effect for the Association, for designation as "well capitalized" under regulatory prompt corrective action provisions which set minimum levels of 5.00% of net average assets and 8.00% of risk-weighted assets. Refer to the Liquidity and Capital Resources of this Item 2 for additional discussion regarding regulatory capital requirements.

Promotion of Adjustable-Rate Loans and Shorter-Term, Fixed-Rate Loans

In July 2010, we began marketing an adjustable-rate mortgage loan product that provides us with improved interest rate risk characteristics when compared to a 30-year, fixed-rate mortgage loan. Since its introduction, our "Smart Rate" adjustable rate mortgage has offered borrowers an interest rate lower than that of a 30-year, fixed-rate loan. The interest rate in the Smart Rate mortgage is locked for three or five years then resets annually after that. It contains a feature to re-lock the rate an unlimited number of times at our then current interest rate and fee schedule, for another three or five years (which must be the same as the original lock period) without having to complete a full refinance

transaction. Re-lock eligibility is subject to a satisfactory payment performance history by the borrower (never 60 days late, no 30-day delinquencies during the last twelve months, current at the time of re-lock, and no foreclosures or bankruptcies since the Smart Rate application was taken). In addition to a satisfactory payment history, re-lock eligibility requires that the property continues to be the borrower's primary residence. The loan term cannot be extended in connection with a re-lock nor can new funds be advanced. All interest rate caps and floors remain as originated.

Table of Contents

Beginning in the latter portion of fiscal 2012, we began to feature our ten-year, fully amortizing fixed-rate first mortgage loan in our product promotions. The ten-year, fixed-rate loan has a less severe interest rate risk profile when compared to loans with fixed-rate terms of 15 to 30 years and helps us to more effectively manage our interest rate risk exposure, yet provides our borrowers with the certainty of a fixed interest rate throughout the life of the obligation.
The following tables set forth our first mortgage loan production and balances segregated by loan structure at origination.

	For the Six Months Ended March 31, 2015		For the Six Months Ended March 31, 2014	
	Amount	Percent	Amount	Percent
First Mortgage Loan Originations:				
ARM production	$462,479	45.7 %	$388,252	37.7 %
Fixed-rate production:				
Terms less than or equal to 10 years	319,685	31.6	439,913	42.7
Terms greater than 10 years	229,694	22.7	202,688	19.6
Total fixed-rate production	549,379	54.3	642,601	62.3
Total First Mortgage Loan Originations:	$1,011,858	100.0 %	$1,030,853	100.0 %

	March 31, 2015		March 31, 2014	
	Amount	Percent	Amount	Percent
Residential Mortgage Loans Held For Investment, at the indicated dates:				
ARM Loans	$3,656,691	39.4 %	$3,312,833	38.3 %
Fixed-rate Loans:				
Terms less than or equal to 10 years	1,691,160	18.2	1,198,864	13.9
Terms greater than 10 years	3,926,199	42.4	4,140,230	47.8
Total fixed-rate loans	5,617,359	60.6	5,339,094	61.7
Total Residential Mortgage Loans Held For Investment:	$9,274,050	100.0 %	$8,651,927	100.0 %

The following table sets forth the balances as of March 31, 2015 for all ARM loans segregated by the next scheduled interest rate reset date.

During the Fiscal Years Ending September 30,	Current Balance of ARM Loans Scheduled for Interest Rate Reset (in thousands)
2015	$57,394
2016	369,732
2017	863,744
2018	1,068,599
2019	767,391
2020	529,831
Total	$3,656,691

At March 31, 2015 and September 30, 2014, mortgage loans held for sale, all of which were long-term, fixed-rate first mortgage loans and all of which were held for sale to Fannie Mae, totaled $1.1 million and $5.0 million, respectively.

Other Interest Rate Risk Management Tools

In years prior to fiscal 2010, in addition to maintaining high levels of regulatory capital, we also managed interest rate risk by actively selling long-term, fixed-rate mortgage loans in the secondary market, a strategy pursuant to which we were able to modulate the amount of long-term, fixed-rate loans held in our portfolio. Also prior to fiscal 2010, we

actively marketed home equity lines of credit which carry an adjustable rate of interest indexed to the prime rate and provide interest rate sensitivity to

Table of Contents

that portion of our assets. In light of the economic and regulatory environments that existed between 2010 and 2012, neither of these strategies were utilized during that period in managing our interest rate risk exposure.
Beginning in March 2012, the Association began offering redesigned home equity lines of credit subject to certain property and credit performance conditions. Through these redesigned products, we have begun the process of re-establishing home equity line of credit lending as a meaningful strategy used to manage our interest rate risk profile. At March 31, 2015, home equity lines of credit totaled $1.50 billion. Our home equity lending is discussed in the Allowance for Loan Losses section of the Critical Accounting Policies that follows this Overview.
While the sales of first mortgage loans and originations of new home equity lines of credit remain strategically important for us, since fiscal 2010, they have played only minor roles in our management of interest rate risk. Loan sales are discussed later in this Part 1, Item 2. under the heading Liquidity and Capital Resources, and in Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk.
Notwithstanding our efforts to manage interest rate risk, should a rapid and substantial increase occur in general market interest rates, it is probable that, prospectively and particularly over a multi-year time horizon, the level of our net interest income would be adversely impacted.
Monitoring and Limiting Our Credit Risk. While, historically, we had been successful in limiting our credit risk exposure by generally imposing high credit standards with respect to lending, the confluence of unfavorable regional and macro-economic events that culminated in the 2008 housing market collapse and financial crisis, coupled with our pre-2010 expanded participation in the second lien mortgage lending markets, significantly refocused our attention with respect to credit risk. In response to the evolving economic landscape, we continuously revise and update our quarterly analysis and evaluation procedures, as needed, for each category of our lending with the objective of identifying and recognizing all appropriate credit impairments. At March 31, 2015, 90% of our assets consisted of residential real estate loans (both “held for sale” and “held for investment”) and home equity loans and lines of credit, which were originated predominantly to borrowers in the states of Ohio and Florida. Our analytic procedures and evaluations include specific reviews of all home equity loans and lines of credit that become 90 or more days past due, as well as specific reviews of all first mortgage loans that become 180 or more days past due. We transfer performing home equity lines of credit subordinate to first mortgages delinquent greater than 90 days to non-accrual status. We also charge-off performing loans to collateral value and classify those loans as non-accrual within 60 days of notification of all borrowers filing Chapter 7 bankruptcy, that have not reaffirmed or been dismissed, regardless of how long the loans have been performing. Loans where at least one borrower has been discharged of their obligation in Chapter 7 bankruptcy, are classified as TDRs. At March 31, 2015, $51.3 million of loans in Chapter 7 bankruptcy status were included in total TDRs. At March 31, 2015, the recorded investment in non-accrual status loans included $46.2 million of performing loans in Chapter 7 bankruptcy status, of which $44.6 million were also reported as TDRs.
In response to the unfavorable regional and macro-economic environment that arose beginning in 2008, and in an effort to limit our credit risk exposure and improve the credit performance of new customers, we tightened our credit eligibility criteria in evaluating a borrower’s ability to successfully fulfill his or her repayment obligation and we revised the design of many of our loan products to require higher borrower down-payments, limited the products available for condominiums, eliminated certain product features (such as interest-only adjustable-rate loans and loans above certain loan-to-value ratios), and we previously suspended home equity lending products with the exception of bridge loans between June 2010 and March 2012. The delinquency level related to loan originations prior to 2009, compared to originations in 2009 and after, reflect the higher credit standards to which we have subjected all new originations. As of March 31, 2015, loans originated prior to 2009 had a balance of $2.84 billion, of which $67.5 million, or 2.4%, were delinquent, while loans originated in 2009 and after had a balance of $8.12 billion, of which $7.9 million, or 0.1%, were delinquent.
One aspect of our credit risk concern relates to high concentrations of our loans that are secured by residential real estate in individual states, such as Ohio and Florida, particularly in light of the difficulties that arose in connection with the 2008 housing crisis with respect to the real estate markets in those two states. At March 31, 2015, approximately 65.1% and 17.3% of the combined total of our residential Core and construction loans held for investment were secured by properties in Ohio and Florida, respectively. Our 30 or more days delinquency ratios on

those loans in Ohio and Florida at March 31, 2015 were 0.5% and 0.7%, respectively. Our 30 or more days delinquency ratio for the Core portfolio as a whole was 0.4% at March 31, 2015. Also, at March 31, 2015, approximately 39.5% and 27.4% of our home equity loans and lines of credit were secured by properties in Ohio and Florida, respectively. Our 30 days or more delinquency ratios on those loans in Ohio and Florida at March 31, 2015 were 1.2% and 1.0%, respectively. Our 30 or more days delinquency ratio for the home equity loans and lines of credit portfolio as a whole at March 31, 2015 was 0.9%. While we focus our attention on, and are concerned with respect to the resolution of all loan delinquencies, our highest concern relates to loans that are secured by properties in Florida. The "Loan Portfolio Composition" portion of this Overview section and the “Allowance for Loan Losses” portion of the Critical Accounting Policies section that immediately follows this Overview, provides extensive details regarding our loan portfolio

composition, delinquency statistics, our methodology in evaluating our loan loss provisions and the adequacy of our allowance for loan losses. In an effort to moderate the concentration of our credit risk exposure in individual states, particularly Ohio and Florida, we have utilized direct mail marketing, our internet site and our customer service call center to extend our lending activities to other attractive geographic locations. Currently, in addition to Ohio and Florida, we are actively lending in 19 other states and the District of Columbia, and as a result of that activity, the concentration ratios of the combined total of our residential, Core and construction loans held for investment for Ohio and Florida, as disclosed earlier in this paragraph, have trended downward from their September 30, 2010 levels when the concentrations were 79.1% in Ohio and 19.0% in Florida. Of the total mortgage and equity loan originations for the six months ended March 31, 2015, 40.6% are secured by properties in states other than Ohio or Florida. Although somewhat dissipating during the last two years, the lingering effects of the adverse economic conditions and market for real estate in Ohio and Florida that arose in connection with the financial crisis of 2008, continue to unfavorably impact the ability of borrowers in those areas to repay their loans.

Our residential Home Today loans are another area of credit risk concern. Although the principal balance in these loans totaled $145.4 million at March 31, 2015, and constituted only 1.4% of our total "held for investment" loan portfolio balance, these loans comprised 24.2% and 25.2% of our 90 days or greater delinquencies and our total delinquencies, respectively, at that date. At March 31, 2015, approximately 95.4% and 4.4% of our residential, Home Today loans were secured by properties in Ohio and Florida, respectively. At March 31, 2015, the percentages of those loans delinquent 30 days or more in Ohio and Florida were 13.0% and 18.2%, respectively. The disparity between the portfolio composition ratio and delinquency composition ratio reflects the nature of the Home Today loans. We do not offer, and have not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, or low initial payment features with adjustable interest rates. Our Home Today loans, the majority of which were entered into with borrowers that had credit profiles that would not have otherwise qualified for our loan products due to deficient credit scores, generally contained the same features as loans offered to our Core borrowers. The overriding objective of our Home Today lending, just as it is with our Core lending, was to create successful homeowners. We have attempted to manage our Home Today credit risk by requiring that borrowers attend pre- and post-borrowing financial management education and counseling and that the borrowers be referred to us by a sponsoring organization with which we have partnered. Further, to manage the credit aspect of these loans, inasmuch as the majority of these buyers do not have sufficient funds for required down payments, many loans include private mortgage insurance. At March 31, 2015, 37.2% of Home Today loans included private mortgage insurance coverage. From a peak recorded investment of $306.6 million at December 31, 2007, the total recorded investment of the Home Today portfolio has declined to $143.4 million at March 31, 2015. This trend generally reflects the evolving conditions in the mortgage real estate market and the tightening of standards imposed by issuers of private mortgage insurance. As part of our effort to manage credit risk, effective March 27, 2009, the Home Today underwriting guidelines were revised to be substantially the same as our traditional mortgage product. At March 31, 2015, the recorded investment in Home Today loans originated subsequent to March 27, 2009 was $2.5 million. Unless private mortgage insurance requirements loosen among other things, we expect the Home Today portfolio to continue to decline in balance due to contractual amortization.

Maintaining Access to Adequate Liquidity and Diverse Funding Sources. For most insured depositories, customer and community confidence are critical to their ability to maintain access to adequate liquidity and to conduct business in an orderly fashion. The Company believes that maintaining high levels of capital is one of the most important factors in nurturing customer and community confidence. Accordingly, we have managed the pace of our growth in a manner that reflects our emphasis on high capital levels. At March 31, 2015, the Association's ratio of Tier 1 (leverage) capital to net average assets (a basic industry measure that deems 5.00% or above to represent a "well capitalized" status) was 12.09%. The Association's current Tier 1 (leverage) capital ratio is lower than its ratio at September 30, 2014 (13.47%), due primarily to:

•the implementation, effective January 1, 2015, of the modified calculation methodology for the Tier 1 (leverage) capital ratio related to the standardized approach of the Basel III capital framework for U.S. banking organizations

("Basel III Rules"). This computational change reduced our Tier 1 (leverage) capital ratio by an estimated 79 basis points. The new methodology specifies that the denominator of the ratio is defined as "net average assets" rather than "adjusted tangible assets", as had previously been the case. As more fully described below in this Part 1, Item 2. under the heading Comparison of Financial Condition at March 31, 2015 and September 30, 2014, the strategy to increase net income that we employed beginning October 1, 2014, increased the balance of our average assets during the quarter, but did not impact our adjusted tangible assets at quarter end, as used in the denominator of the previous methodology's calculation; and

• a $66 million cash dividend payment that the Association made to the Company, its sole shareholder, in December 2014 that reduced our Tier 1 (leverage) capital ratio by an estimated 55 basis points. The amount of the dividend was determined using regulatory guidelines that allow dividends in an amount that does not exceed the Association's current calendar year-to-date net income, plus the preceding two year's retained net income, less prior

dividend payments made during that time frame. Because of its intercompany nature, this dividend payment did not impact the Company's consolidated capital ratios.

We expect to continue to remain a well capitalized institution.

In managing its level of liquidity, the Company monitors available funding sources, which include attracting new deposits (including brokered CDs), borrowings from others, the conversion of assets to cash and the generation of funds through profitable operations. The Company has traditionally relied on retail deposits as its primary means in meeting its funding needs. At March 31, 2015, deposits totaled $8.50 billion (including $477.1 million of brokered CDs), while borrowings totaled $1.67 billion and borrowers' advances and servicing escrows totaled $131.8 million, combined. In evaluating funding sources, we consider many factors, including cost, duration, current availability, expected sustainability, impact on operations and capital levels.

To attract deposits, we offer our customers attractive rates of return on our deposit products. Our deposit products typically offer rates that are highly competitive with the rates on similar products offered by other financial institutions. We intend to continue this practice, subject to market conditions.

We preserve the availability of alternative funding sources through various mechanisms. First, by maintaining high capital levels, we retain the flexibility to increase our balance sheet size without jeopardizing our capital adequacy. Effectively, this permits us to increase the rates that we offer on our deposit products thereby attracting more potential customers. Second, we pledge available real estate mortgage loans and investment securities with the FHLB of Cincinnati and the FRB-Cleveland. At March 31, 2015, these collateral pledge support arrangements provide the ability to immediately borrow an additional $956.3 million from the FHLB of Cincinnati and $132.5 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for additional borrowings beyond the immediately available limits at March 31, 2015 was $3.48 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement we would need to increase our ownership of FHLB of Cincinnati common stock by an additional $69.7 million. Third, we invest in high quality marketable securities that exhibit limited market price variability, and to the extent that they are not needed as collateral for borrowings, can be sold in the institutional market and converted to cash. At March 31, 2015, our investment securities portfolio totaled $586.1 million. Finally, cash flows from operating activities have been a regular source of funds. During the six months ended March 31, 2015 and 2014, cash flows from operations totaled $48.4 million and $61.1 million, respectively.

Historically, a portion of the residential first mortgage loans that we originated were considered to be highly liquid as they were eligible for delivery/sale to Fannie Mae. However, due to delivery requirement changes imposed by Fannie Mae during and subsequent to the 2008 financial crisis, effective July 1, 2010, that was no longer an available source of liquidity. In response to Fannie Mae's delivery requirement changes, during fiscal 2013 we took the following measures: (1) we completed $276.9 million of non-agency eligible, whole loan sales, all on a servicing retained basis; and (2) we implemented certain loan origination changes required by Fannie Mae which resulted in our November 15, 2013 reinstatement as an approved seller to Fannie Mae. The non-agency sales which included both fixed-rate and Smart Rate loans, demonstrated that, with adequate lead time, the majority of our residential, first mortgage loan portfolio could be available for liquidity management purposes. Also, implementation of the loan origination changes required by Fannie Mae, to which a portion of our loan production will be subjected, elevates the level of liquidity available for those loans. At March 31, 2015, $1.1 million of agency eligible, long-term, fixed-rate HARP II first mortgage loans were classified as "held for sale". During the six months ended March 31, 2015, $10.9 million of agency-compliant HARP II loans and $45.2 million of long-term, fixed-rate, agency-compliant, non-HARP II first mortgage loans were sold to Fannie Mae.

Overall, while customer and community confidence can never be assured, the Company believes that its liquidity is adequate and that it has adequate access to alternative funding sources.

Monitoring and Controlling Operating Expenses. We continue to focus on managing operating expenses. Our ratio of non-interest expense to average assets was 1.47% for the six months ended March 31, 2015 and 1.55% for the six months ended March 31, 2014. As of March 31, 2015, our average assets per full-time employee and our average deposits per full-time employee were $12.2 million and $8.5 million, respectively. We believe that each of these

measures compares favorably with the averages for our peer group. Our average deposits held at our branch offices ($223.7 million per branch office as of March 31, 2015) contributes to our expense management efforts by limiting the overhead costs of serving our deposit customers. We will continue our efforts to control operating expenses as we grow our business.

Table of Contents

Loan Portfolio Composition. The following table sets forth the composition of the portfolio of loans held for investment, by type of loan segregated by geographic location at the indicated dates, excluding loans held for sale. The majority of our construction loan portfolio is secured by properties located in Ohio and the balances of other consumer loans are considered immaterial. Therefore, neither is segregated by geographic location.

	March 31, 2015		December 31, 2014		September 30, 2014		March 31, 2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)							
Real estate loans:								
Residential Core								
Ohio	$5,930,611		$5,975,418		$5,986,801		$6,015,052	
Florida	1,582,412		1,576,535		1,570,087		1,526,678	
Other	1,615,600		1,444,149		1,271,951		944,971	
Total Residential Core	9,128,623	83.1 %	8,996,102	82.7 %	8,828,839	82.2 %	8,486,701	80.9 %
Residential Home Today								
Ohio	138,762		142,753		146,974		157,463	
Florida	6,361		6,636		6,909		7,447	
Other	304		307		313		316	
Total Residential Home Today	145,427	1.4	149,696	1.5	154,196	1.5	165,226	1.6
Home equity loans and lines of credit								
Ohio	654,729		667,802		675,911		687,660	
Florida	453,234		465,426		475,375		506,132	
California	213,794		212,393		213,309		216,995	
Other	334,574		331,679		332,334		348,024	
Total Home equity loans and lines of credit	1,656,331	15.1	1,677,300	15.4	1,696,929	15.8	1,758,811	16.8
Total Construction	44,949	0.4	48,899	0.4	57,104	0.5	70,236	0.7
Other consumer loans	3,874	—	4,636	—	4,721	—	4,076	—
Total loans receivable	10,979,204	100.0 %	10,876,633	100.0 %	10,741,789	100.0 %	10,485,050	100.0 %
Deferred loan expenses (fees), net	4,525		1,643		(1,155)		(7,913)	
Loans in process	(25,068)		(27,795)		(28,585)		(36,928)	
Allowance for loan losses	(77,093)		(79,762)		(81,362)		(83,391)	
Total loans receivable, net	$10,881,568		$10,770,719		$10,630,687		$10,356,818	

Table of Contents

On March 31, 2015, the unpaid principal balance of our home equity loans and lines of credit portfolio consisted of $159.7 million in home equity loans (which included $138.3 million of home equity lines of credit, which are in the amortization period and no longer eligible to be drawn upon, and $1.1 million in bridge loans) and $1.50 billion in home equity lines of credit. The following table sets forth credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the current mean CLTV percent of our home equity loans, home equity lines of credit and bridge loan portfolio as of March 31, 2015. Home equity lines of credit in the draw period are reported according to geographic distribution.

	Credit Exposure	Principal Balance	Percent Delinquent 90 Days or More		Mean CLTV Percent at Origination (2)		Current Mean CLTV Percent (3)	
	(Dollars in thousands)							
Home equity lines of credit in draw period (by state)								
Ohio	$1,209,293	$556,910	0.18	%	60	%	59	%
Florida	614,570	431,907	0.37	%	62	%	71	%
California	315,529	204,829	0.17	%	66	%	63	%
Other (1)	529,912	302,957	0.33	%	63	%	65	%
Total home equity lines of credit in draw period	2,669,304	1,496,603	0.26	%	61	%	63	%
Home equity lines in repayment, home equity loans and bridge loans	159,728	159,728	2.31	%	67	%	50	%
Total	$2,829,032	$1,656,331	0.46	%	62	%	61	%

(1) No individual other state has a committed or drawn balance greater than 10% of total equities nor 5% of total loans.

(2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(3) Current Mean CLTV is based on best available first mortgage and property values as of March 31, 2015. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

At March 31, 2015, 43.0% of our home equity lending portfolio was either in a first lien position (25.6%), in a subordinate (second) lien position behind a first lien that we held (8.8%) or behind a first lien that was held by a loan that we serviced for others (8.6%). In addition, at March 31, 2015, 18.1% of our home equity line of credit portfolio in the draw period was making only the required minimum payment on their outstanding line balance.

Table of Contents

The following table sets forth credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the current mean CLTV percent of our home equity loans, home equity lines of credit and bridge loan portfolio as of March 31, 2015. Home equity lines of credit in the draw period are stratified by the calendar year originated:

	Credit Exposure	Principal Balance	Percent Delinquent 90 Days or More	Mean CLTV Percent at Origination (1)	Current Mean CLTV Percent (2)
	(Dollars in thousands)				
Home equity lines of credit in draw period					
2005 and prior	$563,697	$303,131	0.34 %	57 %	58 %
2006	223,206	141,885	0.57 %	65 %	72 %
2007	347,999	238,401	0.36 %	67 %	74 %
2008	739,473	465,492	0.25 %	63 %	64 %
2009	297,190	145,564	0.07 %	55 %	57 %
2010	25,161	10,909	— %	58 %	53 %
2011	232	165	— %	39 %	50 %
2012	27,184	11,884	— %	50 %	46 %
2013	79,032	35,874	— %	60 %	53 %
2014	275,159	112,136	— %	60 %	58 %
2015	90,971	31,162	— %	61 %	60 %
Total home equity lines of credit in draw period	2,669,304	1,496,603	0.26 %	61 %	63 %
Home equity lines in repayment, home equity loans and bridge loans	159,728	159,728	2.31 %	67 %	50 %
Total	$2,829,032	$1,656,331	0.46 %	62 %	61 %

(1) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(2) Current Mean CLTV is based on best available first mortgage and property values as of March 31, 2015. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

In general, the home equity line of credit product originated prior to June 2010 (when new home equity lending was temporarily suspended) was characterized by a ten year draw period followed by a ten year repayment period; however, there were two types of transactions that could result in a draw period that extended beyond ten years. The first transaction involved customer requests for increases in the amount of their home equity line of credit. When the customer’s credit performance and profile supported the increase, the draw period term was reset for the ten year period following the date of the increase in the home equity line of credit amount. A second transaction that impacted the draw period involved extensions. For a period of time prior to June 2008, the Association had a program that evaluated home equity lines of credit that were nearing the end of their draw period and made a determination as to whether or not the customer should be offered an additional ten year draw period. If the account and customer met certain pre-established criteria, an offer was made to extend the otherwise expiring draw period by ten years from the date of the offer. If the customer chose to accept the extension, the origination date of the account remained unchanged but the account would have a revised draw period that was extended by ten years. As a result of these two programs, the reported draw periods for certain home equity line of credit accounts exceed ten years.

Table of Contents

The following table sets forth by fiscal year that the draw period expires, the principal balance of home equity lines of credit in the draw period as of March 31, 2015, segregated by the current combined LTV range.

	Current CLTV Category					
Home equity lines of credit in draw period (by End of Draw Fiscal Year):	< 80%	80 - 89.9%	90 - 100%	>100%	Unknown (2)	Total
	(Dollars in thousands)					
2015	$26,285	$4,852	$4,704	$3,105	$386	$39,332
2016	79,671	19,815	17,043	33,428	788	150,745
2017	129,614	32,821	28,664	54,963	3,832	249,894
2018 (1)	380,633	82,383	52,351	50,600	8,066	574,033
2019 (1)	328,847	42,175	8,535	4,290	6,113	389,960
2020 (1)	87,581	3,690	360	296	503	92,430
Post 2020	117	43	—	—	49	209
Total	$1,032,748	$185,779	$111,657	$146,682	$19,737	$1,496,603

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(1) Home equity lines of credit whose draw period ends in fiscal years 2018, 2019, and 2020 include $18,598, $92,877, and $62,296 respectively, of lines where the customer has an amortizing payment during the draw period.
(2) Market data necessary for stratification is not readily available.

As shown in the origination by year table, which is the second preceding table above, the percents of loans delinquent 90 days or more (seriously delinquent) originated during the years preceding the 2008 financial and housing crisis are comparatively higher than the years following 2008. Those years saw rapidly increasing housing prices, especially in our Florida market. As the housing prices declined along with the general economic downturn and higher levels of unemployment that accompanied the 2008 financial crisis, we see that reflected in delinquencies for those years. Home equity lines of credit originated during those years also saw higher loan amounts, higher permitted loan-to-value ratios, and lower credit scores. Reflective of the general decrease in housing values since 2006 and through the aftermath of the 2008 financial crisis, current mean CLTV percentages remain higher than the mean CLTV percentages at origination.

As described above, in light of the past and continuing weakness in the housing market, the current level of delinquencies and the uncertainty with respect to future employment levels and economic prospects, we currently conduct an expanded loan level evaluation of our equity lines of credit which are delinquent 90 days or more.

Table of Contents

The following table sets forth the breakdown of current mean CLTV percentages for our home equity lines of credit in the draw period as of March 31, 2015.

	Credit Exposure	Principal Balance	Percent of Total	Percent Delinquent 90 Days or More	Mean CLTV Percent at Origination (2)	Current Mean CLTV Percent (3)
	(Dollars in thousands)					
Home equity lines of credit in draw period (by current mean CLTV)						
< 80%	$2,062,561	$1,032,747	69.0 %	0.19 %	56 %	54 %
80 - 89.9%	272,727	185,779	12.4 %	0.48 %	78 %	84 %
90 - 100%	139,563	111,657	7.5 %	0.32 %	80 %	94 %
> 100%	159,401	146,682	9.8 %	0.31 %	81 %	120 %
Unknown (1)	35,052	19,738	1.3 %	1.21 %	55 %	(1)
	$2,669,304	$1,496,603	100.0 %	0.26 %	61 %	63 %

(1) Market data necessary for stratification is not readily available.

(2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.

(3) Current Mean CLTV is based on best available first mortgage and property values as of March 31, 2015. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

Delinquent Loans. The following tables set forth the number and recorded investment in loan delinquencies by type, segregated by geographic location and severity of delinquency at the dates indicated. The majority of our construction loan portfolio is secured by properties located in Ohio and there were no delinquencies in the other consumer loan portfolio; therefore, neither is segregated by geography.

	Loans Delinquent for 30-89 Days		90 Days or More		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
March 31, 2015						
Real estate loans:						
Residential Core						
Ohio	102	$9,026	223	$19,972	325	$28,998
Florida	7	885	96	9,865	103	10,750
Other	—	—	8	1,066	8	1,066
Total Residential Core	109	9,911	327	30,903	436	40,814
Residential Home Today						
Ohio	108	6,290	289	11,553	397	17,843
Florida	5	372	13	772	18	1,144
Kentucky	1	42	—	—	1	42
Total Residential Home Today	114	6,704	302	12,325	416	19,029
Home equity loans and lines of credit						
Ohio	139	3,969	201	3,614	340	7,583
Florida	49	2,540	160	1,912	209	4,452
California	8	664	16	436	24	1,100
Other	21	762	63	1,654	84	2,416
Total Home equity loans and lines of credit	217	7,935	440	7,616	657	15,551

Construction	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total	440	$24,550	1,069	$50,844	1,509	$75,394

Table of Contents

	Loans Delinquent for 30-89 Days		90 Days or More		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
December 31, 2014						
Real estate loans:						
Residential Core						
Ohio	129	$13,715	247	$20,032	376	$33,747
Florida	10	1,777	114	11,814	124	13,591
Other	2	355	8	1,542	10	1,897
Total Residential Core	141	15,847	369	33,388	510	49,235
Residential Home Today						
Ohio	173	9,986	311	12,937	484	22,923
Florida	9	734	17	753	26	1,487
Total Residential Home Today	182	10,720	328	13,690	510	24,410
Home equity loans and lines of credit						
Ohio	147	4,313	215	3,522	362	7,835
Florida	40	1,773	168	2,096	208	3,869
California	8	679	16	495	24	1,174
Other	35	1,841	58	1,594	93	3,435
Total Home equity loans and lines of credit	230	8,606	457	7,707	687	16,313
Construction	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—
Total	553	$35,173	1,154	$54,785	1,707	$89,958

	Loans Delinquent for 30-89 Days		90 Days or More		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
September 30, 2014						
Real estate loans:						
Residential Core						
Ohio	108	$10,416	263	$22,218	371	$32,634
Florida	14	2,006	141	14,291	155	16,297
Other	3	544	4	942	7	1,486
Total Residential Core	125	12,966	408	37,451	533	50,417
Residential Home Today						
Ohio	168	9,797	328	14,256	496	24,053
Florida	9	643	18	849	27	1,492
Total Residential Home Today	177	10,440	346	15,105	523	25,545
Home equity loans and lines of credit						
Ohio	123	3,753	214	3,637	337	7,390
Florida	36	2,365	184	3,010	220	5,375
California	11	753	16	298	27	1,051
Other	21	958	59	2,092	80	3,050
Total Home equity loans and lines of credit	191	7,829	473	9,037	664	16,866
Construction	1	200	—	—	1	200
Other consumer loans	—	—	—	—	—	—
Total	494	$31,435	1,227	$61,593	1,721	$93,028

46

Table of Contents

	Loans Delinquent for				Total	
	30-89 Days		90 Days or More			
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
March 31, 2014						
Real estate loans:						
Residential Core						
Ohio	119	$13,179	284	$24,842	403	$38,021
Florida	16	2,777	178	19,222	194	21,999
Kentucky	3	245	1	327	4	572
Total Residential Core	138	16,201	463	44,391	601	60,592
Residential Home Today						
Ohio	146	8,583	348	15,500	494	24,083
Florida	3	283	15	722	18	1,005
Total Residential Home Today	149	8,866	363	16,222	512	25,088
Home equity loans and lines of credit						
Ohio	126	3,579	233	5,198	359	8,777
Florida	55	3,845	187	4,114	242	7,959
California	10	635	22	1,041	32	1,676
Other	22	1,185	63	2,754	85	3,939
Total Home equity loans and lines of credit	213	9,244	505	13,107	718	22,351
Construction	—	—	3	151	3	151
Other consumer loans	—	—	—	—	—	—
Total	500	$34,311	1,334	$73,871	1,834	$108,182

Loans delinquent 90 days or more remained at 0.5% of total net loans at March 31, 2015 compared to December 31, 2014, and decreased 0.2% from 0.7% at March 31, 2014. Loans delinquent 30 to 89 days decreased 0.1% to 0.2% of total net loans at March 31, 2015 from both December 31, 2014 and March 31, 2014. During the last several years, the inability of borrowers to repay their loans has been primarily a result of high unemployment and uncertain economic prospects in our primary lending markets. Although regional employment levels have improved, we believe the breadth and sustainability of the economic recovery has slowed and, accordingly, some borrowers who were current on their loans at March 31, 2015 may experience payment problems in the future. The excess number of housing units available for sale in certain segments of the market today also may limit a borrower’s ability to sell a home he or she can no longer afford. In many Florida areas, although housing values have recovered to a certain extent over the past year, values remain depressed from the state’s market peak which may limit a borrower’s ability to sell a home at a price that equals or exceeds the balance of the outstanding mortgage indebtedness.

Table of Contents

Non-Performing Assets and Troubled Debt Restructurings. The following table sets forth the recorded investments and categories of our non-performing assets and TDRs at the dates indicated.

	March 31, 2015	December 31, 2014	September 30, 2014	March 31, 2014
	(Dollars in thousands)			
Non-accrual loans:				
Real estate loans:				
Residential Core	$71,180	$73,585	$79,388	$80,915
Residential Home Today	26,455	28,249	29,960	31,469
Home equity loans and lines of credit	24,658	25,005	26,189	30,162
Construction	—	—	—	151
Other consumer loans	—	—	—	—
Total non-accrual loans (1)(2)	122,293	126,839	135,537	142,697
Real estate owned	20,278	21,984	21,768	19,912
Other non-performing assets	—	—	—	—
Total non-performing assets	$142,571	$148,823	$157,305	$162,609
Ratios:				
Total non-accrual loans to total loans	1.12 %	1.17 %	1.27 %	1.37 %
Total non-accrual loans to total assets	1.01 %	1.05 %	1.15 %	1.24 %
Total non-performing assets to total assets	1.18 %	1.23 %	1.33 %	1.41 %
TDRs: (not included in non-accrual loans above)				
Real estate loans:				
Residential Core	$61,099	$60,806	$59,630	$58,842
Residential Home Today	37,404	38,292	39,148	42,066
Home equity loans and lines of credit	9,094	8,960	8,117	7,303
Construction	—	—	—	—
Other consumer loans	—	—	—	—
Total	$107,597	$108,058	$106,895	$108,211

(1) Totals at March 31, 2015, December 31, 2014, September 30, 2014 and March 31, 2014, include $57.7 million, $57.4 million, $58.7 million and $54.9 million, respectively, in TDRs, which are less than 90 days past due but included with nonaccrual loans for a minimum period of six months from the restructuring date due to their non-accrual status prior to restructuring, because they have been partially charged off, or because all borrowers have been discharged of their obligation through a Chapter 7 bankruptcy.

(2) Includes $19.0 million, $19.1 million, $20.9 million and $26.6 million in TDRs that are 90 days or more past due at March 31, 2015, December 31, 2014, September 30, 2014 and March 31, 2014, respectively.

The gross interest income that would have been recorded during the six months ended March 31, 2015 and March 31, 2014 on non-accrual loans if they had been accruing during the entire period and TDRs if they had been current and performing in accordance with their original terms during the entire period was $6.6 million and $6.7 million, respectively. The interest income recognized on those loans included in net income for the six months ended March 31, 2015 and March 31, 2014 was $3.2 million and $3.4 million, respectively.

At March 31, 2015, December 31, 2014, September 30, 2014 and March 31, 2014, the recorded investment of impaired loans includes accruing TDRs and loans that are returned to accrual status when contractual payments are less than 90 days past due. These loans continue to be individually evaluated for impairment until at a minimum, contractual payments are less than 30 days past due. Also, the recorded investment of non-accrual loans includes loans that are not included in the recorded investment of impaired loans because they are included in loans collectively evaluated for impairment.

48

Table of Contents

The table below sets forth the recorded investments and categories between non-accrual loans and impaired loans at the dates indicated.

	March 31, 2015	December 31, 2014	September 30, 2014	March 31, 2014
	(Dollars in thousands)			
Non-Accrual Loans	$122,293	$126,839	$135,537	$142,697
Accruing TDRs	107,597	108,057	106,895	108,211
Performing Impaired	5,417	6,145	5,389	7,184
Collectively Evaluated	(11,646)	(12,411)	(14,435)	(13,314)
Total Impaired loans	$223,661	$228,630	$233,386	$244,778

In response to the economic challenges facing many borrowers, the Association continues to restructure loans, resulting in $184.3 million of total TDRs (accrual and non-accrual) recorded at March 31, 2015. There was a $2.1 million decrease in the recorded investment of TDRs from September 30, 2014 and a $5.4 million decrease in the aggregate balance from March 31, 2014.

Loan restructuring is a method used to help families keep their homes and preserve our neighborhoods. This involves making changes to the borrowers' loan terms through interest rate reductions, either for a specific period or for the remaining term of the loan; term extensions, including beyond that provided in the original agreement; principal forgiveness; capitalization of delinquent payments in special situations; or some combination of the above. Loans discharged through Chapter 7 bankruptcy are also reported as TDRs per OCC interpretive guidance issued in July 2012. For discussion on impairment measurement, see Note 4 to the Unaudited Interim Consolidated Financial Statements: LOANS AND ALLOWANCE FOR LOAN LOSSES.

Table of Contents

The following table sets forth the recorded investment in accrual and non-accrual TDRs, by the types of concessions granted, as of March 31, 2015.

	Reduction in Interest Rates	Payment Extensions	Forbearance or Other Actions	Multiple Concessions	Multiple Restructurings	Bankruptcy	Total
	(In thousands)						
Accrual							
Residential Core	$ 14,767	$ 698	$ 7,989	$ 17,989	$ 11,340	$ 8,316	$ 61,099
Residential Home Today	6,227	—	4,175	11,784	14,072	1,146	37,404
Home equity loans and lines of credit	102	2,407	317	1,789	352	4,127	9,094
Construction	—	—	—	—	—	—	—
Total	$ 21,096	$ 3,105	$ 12,481	$ 31,562	$ 25,764	$ 13,589	$ 107,597
Non-Accrual, Performing							
Residential Core	$ 1,450	$ 160	$ 205	$ 3,472	$ 9,520	$ 20,647	$ 35,454
Residential Home Today	1,253	11	671	1,117	4,980	3,652	11,684
Home equity loans and lines of credit	—	146	127	426	413	9,450	10,562
Construction	—	—	—	—	—	—	—
Total	$ 2,703	$ 317	$ 1,003	$ 5,015	$ 14,913	$ 33,749	$ 57,700
Non-Accrual, Non-Performing							
Residential Core	$ 708	$ 229	$ 1,083	$ 686	$ 2,049	$ 4,976	$ 9,731
Residential Home Today	1,186	49	1,490	445	3,827	1,769	8,766
Home equity loans and lines of credit	—	—	—	—	—	513	513
Construction	—	—	—	—	—	—	—
Total	$ 1,894	$ 278	$ 2,573	$ 1,131	$ 5,876	$ 7,258	$ 19,010
TDRs							
Residential Core	$ 16,925	$ 1,087	$ 9,277	$ 22,147	$ 22,909	$ 33,939	$ 106,284
Residential Home Today	8,666	60	6,336	13,346	22,879	6,567	57,854
Home equity loans and lines of credit	102	2,553	444	2,215	765	14,090	20,169
Construction	—	—	—	—	—	—	—
Total	$ 25,693	$ 3,700	$ 16,057	$ 37,708	$ 46,553	$ 54,596	$ 184,307

TDRs in accrual status are loans accruing interest and performing according to the terms of the restructuring. To be performing, a loan must be less than 90 days past due as of the report date. Non-accrual, performing status indicates that a loan was not accruing interest at the time of restructuring, continues to not accrue interest and is performing according to the terms of the restructuring, but has not been current for at least six consecutive months since its restructuring, has a partial charge-off, or is being classified as non-accrual per the OCC guidance on loans in Chapter 7 bankruptcy status, where all borrowers have filed and have not reaffirmed or been dismissed. Non-accrual, non-performing status includes loans that are not accruing interest because they are greater than 90 days past due and therefore not performing according to the terms of the restructuring.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments and uncertainties, and could potentially give rise to materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operations depend, and which

involve the most complex subjective decisions or assessments, are our policies with respect to our allowance for loan losses, mortgage servicing rights, income taxes and pension benefits.

Table of Contents

Allowance for Loan Losses. We provide for loan losses based on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to it. Additions to the allowance for loan losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make provisions for loan losses in order to maintain the allowance for loan losses in accordance with U.S. GAAP. Our allowance for loan losses consists of two components:

(1) individual valuation allowances established for any impaired loans dependent on cash flows, such as performing TDRs, and IVAs related to a portion of the allowance on loans individually reviewed that represents further deterioration in the fair value of the collateral not yet identified as uncollectible; and

(2) general valuation allowances, which are comprised of quantitative GVAs, which are general allowances for loan losses for each loan type based on historical loan loss experience and qualitative GVAs, which are adjustments to the quantitative GVAs, maintained to cover uncertainties that affect our estimate of incurred probable losses for each loan type.

The qualitative GVAs expand our ability to identify and estimate probable losses and are based on our evaluation of the following factors, some of which are consistent with factors that impact the determination of quantitative GVAs. For example, delinquency statistics (both current and historical) are used in developing the quantitative GVAs while the trending of the delinquency statistics is considered and evaluated in the determination of the qualitative GVAs. Factors impacting the determination of qualitative GVAs include:

- changes in lending policies and procedures including underwriting standards, collection, charge-off or recovery practices;
- changes in national, regional, and local economic and business conditions and trends including housing market factors and trends, such as the status of loans in foreclosure, real estate in judgment and real estate owned, and unemployment statistics and trends;
- changes in the nature and volume of the portfolios including home equity lines of credit nearing the end of the draw period;
- changes in the experience, ability or depth of lending management;
- changes in the volume or severity of past due loans, volume of nonaccrual loans, or the volume and severity of adversely classified loans including the trending of delinquency statistics (both current and historical), historical loan loss experience and trends, the frequency and magnitude of multiple restructurings of loans previously the subject of TDRs, and uncertainty surrounding borrowers’ ability to recover from temporary hardships for which short-term loan restructurings are granted;
- changes in the quality of the loan review system;
- changes in the value of the underlying collateral including asset disposition loss statistics (both current and historical) and the trending of those statistics, and additional charge-offs on individually reviewed loans;
- existence of any concentrations of credit;
- effect of other external factors such as competition, or legal and regulatory requirements including market conditions and regulatory directives that impact the entire financial services industry.

When loan restructurings qualify as TDRs and the loans are performing according to the terms of the restructuring, we record an IVA based on the present value of expected future cash flows, which includes a factor for subsequent potential defaults, discounted at the effective interest rate of the original loan contract. Potential defaults are distinguished from multiple restructurings as borrowers who default are generally not eligible for subsequent restructurings. At March 31, 2015, the balance of such individual valuation allowances was $14.6 million. In instances when loans require more than one restructuring, additional valuation allowances may be required. The new valuation allowance on a loan that has been restructured more than once, is calculated based on the present value of the expected cash flows, discounted at the effective interest rate of the original loan contract, considering the new terms of the restructured agreement. Due to the immaterial amount of this exposure to date, we continue to capture this exposure as a component of our qualitative GVA evaluation. The significance of this exposure will be monitored and if warranted, we will enhance our loan loss methodology to include a new default factor (developed to reflect the estimated impact

to the balance of the allowance for loan losses that will occur as a result of subsequent future restructurings) that will be assessed against all loans reviewed collectively. If new default factors are implemented, the qualitative GVA methodology will be adjusted to preclude duplicative loss consideration.

Table of Contents

We evaluate the allowance for loan losses based upon the combined total of the quantitative and qualitative GVAs and IVAs. Generally, when the loan portfolio increases, absent other factors, the allowance for loan loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally, when the loan portfolio decreases, absent other factors, the allowance for loan loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

Home equity loans and lines of credit generally have higher credit risk than traditional residential mortgage loans. These loans and credit lines are usually in a second lien position and when combined with the first mortgage, result in generally higher overall loan-to-value ratios. In a stressed housing market with high delinquencies and eroded housing prices, as arose beginning in 2008, these higher loan-to-value ratios represent a greater risk of loss to the Company. A borrower with more equity in the property has more of a vested interest in keeping the loan current compared to a borrower with little or no equity in the property. In light of the past weakness in the housing market, the historical level of delinquencies and the current uncertainty with respect to future employment levels and economic prospects, we currently conduct an expanded loan level evaluation of our home equity loans and lines of credit, including bridge loans, which are delinquent 90 days or more. This expanded evaluation is in addition to our traditional evaluation procedures. Our home equity loans and lines of credit portfolio continues to comprise a significant portion of our net charge-offs, although the level of home equity loans and lines of credit charge-offs has receded over the last year from levels previously experienced. At March 31, 2015, we had a recorded investment of $1.66 billion in home equity loans and equity lines of credit outstanding, 0.5% of which were 90 days or more past due.

We periodically evaluate the carrying value of loans and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future additions to the allowance may be necessary based on unforeseen changes in loan quality and economic conditions.

The following table sets forth the allowance for loan losses allocated by loan category, the percent of allowance in each category to the total allowance, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	March 31, 2015			December 31, 2014		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)			(Dollars in thousands)		
Real estate loans:						
Residential Core	$28,507	37.0 %	83.1 %	$28,717	36.0 %	82.7 %
Residential Home Today	12,578	16.3	1.4	16,434	20.6	1.5
Home equity loans and lines of credit	35,990	46.7	15.1	34,595	43.4	15.4
Construction	18	—	0.4	16	—	0.4
Other consumer loans	—	—	—	—	—	—
Total allowance	$77,093	100.0 %	100.0 %	$79,762	100.0 %	100.0 %

	September 30, 2014			March 31, 2014		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
	(Dollars in thousands)			(Dollars in thousands)		
Real estate loans:						
Residential Core	$31,080	38.2 %	82.2 %	$32,642	39.1 %	80.9 %

Residential Home Today	16,424	20.2	1.5	16,919	20.3	1.6
Home equity loans and lines of credit	33,831	41.6	15.8	33,785	40.5	16.8
Construction	27	—	0.5	45	0.1	0.7
Other consumer loans	—	—	—	—	—	—
Total allowance	$81,362	100.0 %	100.0 %	$83,391	100.0 %	100.0 %

Table of Contents

The following table sets forth activity in our allowance for loan losses segregated by geographic location for the periods indicated. The majority of our construction loan portfolio is secured by properties located in Ohio and the balances of other consumer loans are considered immaterial, therefore neither is segregated by geography.

	As of and For the Three Months Ended March 31,		As of and For the Six Months Ended March 31,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Allowance balance (beginning of the period)	$79,762	$85,282	$81,362	$92,537
Charge-offs:				
Real estate loans:				
Residential Core				
Ohio	1,461	2,031	2,421	5,608
Florida	877	1,669	1,159	5,543
Other	578	7	604	32
Total Residential Core	2,916	3,707	4,184	11,183
Residential Home Today				
Ohio	607	2,364	1,537	5,281
Florida	(26)	24	126	40
Total Residential Home Today	581	2,388	1,663	5,321
Home equity loans and lines of credit				
Ohio	1,175	1,112	2,849	2,826
Florida	1,379	2,140	2,762	4,246
California	242	335	308	745
Other	328	671	834	1,118
Total Home equity loans and lines of credit	3,124	4,258	6,753	8,935
Construction	—	—	—	41
Other consumer loans	—	—	—	—
Total charge-offs	6,621	10,353	12,600	25,480
Recoveries:				
Real estate loans:				
Residential Core	1,391	1,022	2,020	1,452
Residential Home Today	262	1,240	430	1,347
Home equity loans and lines of credit	1,298	1,192	2,711	2,521
Construction	1	8	170	14
Other consumer loans	—	—	—	—
Total recoveries	2,952	3,462	5,331	5,334
Net charge-offs	(3,669)	(6,891)	(7,269)	(20,146)
Provision for loan losses	1,000	5,000	3,000	11,000
Allowance balance (end of the period)	$77,093	$83,391	$77,093	$83,391
Ratios:				
Net charge-offs (annualized) to average loans outstanding	0.13%	0.27%	0.13%	0.39%
Allowance for loan losses to non-accrual loans at end of the year	63.04%	58.44%	63.04%	58.44%
Allowance for loan losses to the total recorded investment in loans at end of the period	0.70%	0.80%	0.70%	0.80%

The net charge-offs of $7.3 million during the six months ended March 31, 2015 decreased from $20.1 million during the six months ended March 31, 2014, as credit quality continued to improve during the current fiscal year. Also, during the quarter ended December 31, 2013, a new practice of charging off the remaining balance of loans that

remained delinquent for at least 1,500 days as a result of stalled foreclosure processes was implemented. Of the residential charge-offs during the six months ended March 31, 2014, $5.3 million were attributable to full charge-offs of loans 1,500 days past due. During the quarter ended March 31, 2014, $1.3 million in recoveries were recorded representing the cumulative one-time payment received as a result of

53

Table of Contents

PMIC increasing the cash percentage of the partial claim payment plan from 55% to 67%. The remaining net charge-offs for the six months ended March 31, 2014 were $16.1 million, resulting in a net decrease of $8.8 million for the six months ended March 31, 2015 from the adjusted net charge-offs during the six months ended March 31, 2014.

We continue to evaluate loans becoming delinquent for potential losses and record provisions for our estimate of those losses. We expect a moderate level of charge-offs to continue as the delinquent loans are resolved in the future and uncollected balances are charged against the allowance.

During the three months ended March 31, 2015, the total allowance for loan losses decreased $2.7 million, to $77.1 million from $79.8 million at December 31, 2014, as we recorded a $1.0 million provision for loan losses, which was less than the actual net charge-offs of $3.7 million for the quarter. The allowance for loan losses related to loans evaluated collectively decreased by $2.2 million during the quarter ended March 31, 2015, and the allowance for loan losses related to loans evaluated individually decreased by $0.5 million. Refer to the "activity in the allowance for loan losses" and "analysis of the allowance for loan losses" tables in Note 4 of the Notes to the Unaudited Interim Consolidated Financial Statements for more information. Other than the less significant construction and other consumer loans segments, changes during the three months ended March 31, 2015 in the balances of the GVAs, excluding changes in IVAs, related to the significant loan segments are described as follows:

- Residential Core – The total balance of this segment of the loan portfolio increased 1.5% or $135.1 million during the quarter, while the total allowance for loan losses for this segment decreased 0.7% or $0.2 million. The portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated), decreased 7.9%, or $1.6 million, to $18.7 million at March 31, 2015 from $20.3 million at December 31, 2014. The ratio of this portion of the allowance for loan losses to the total balance of loans in this loan segment that were evaluated collectively, decreased to 0.21% at March 31, 2015 from 0.23% at December 31, 2014. Total delinquencies decreased 17.1% to $40.8 million at March 31, 2015 from $49.2 million at December 31, 2014. While loans 90 or more days delinquent decreased 7.4% to $30.9 million at March 31, 2015 from $33.4 million at December 31, 2014, loans 30 to 89 days delinquent decreased by 37.5%, or $5.9 million. The positive trending in the amount of net charge-offs continued as net charge-offs for the quarter ended March 31, 2015 were less at $1.5 million as compared to $2.7 million during the quarter ended March 31, 2014. The credit profile of this portfolio segment improved during the quarter due to the addition of high credit quality, residential first mortgage loans. As there continues to be a consistent improving trend in this portfolio, reductions in the allowance are warranted.
- Residential Home Today – The total balance of this segment of the loan portfolio decreased 2.8% or $4.2 million as new originations have effectively stopped since the imposition of more restrictive lending requirements in 2009. The total allowance for loan losses for this segment decreased from $16.4 million at the prior quarter to $12.6 million at March 31, 2015. The portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated), decreased by 20.9% to $8.4 million at March 31, 2015 from $10.6 million at December 31, 2014. Similarly, the ratio of this portion of the allowance to the total balance of loans in this loan segment that were evaluated collectively, decreased 2.3% to 10.5% at March 31, 2015 from 12.8% at December 31, 2014. Total delinquencies decreased to $19.0 million at March 31, 2015 from $24.4 million at December 31, 2014. While delinquencies greater than 90 days decreased to $12.3 million from $13.7 million during the same period, loans 30 to 89 days delinquent decreased by 37.5%, or $4.0 million. Net charge-offs were less at $0.3 million during the quarter ended March 31, 2015, as compared to $1.1 million during the quarter ended March 31, 2014. The allowance for this portfolio fluctuates based on not only the generally declining portfolio balance, but also on the credit profile trends in this portfolio. This portfolio's allowance decreased this quarter based on the decrease in the Home Today balance yet continued depressed home values remain in this portfolio.
- Home Equity Loans and Lines of Credit – The total balance of this segment of the loan portfolio decreased 1.2% or $20.5 million to $1.66 billion at March 31, 2015 from $1.69 billion at December 31, 2014. The total allowance for loan losses for this segment increased 4.0% to $36.0 million from $34.6 million at December 31, 2014. During the

quarter ended March 31, 2015, the portion of this loan segment's allowance for loan losses that was determined by evaluating groups of loans collectively (i.e. those loans that were not individually evaluated) increased by $1.6 million, or 4.7%, to $35.4 million from $33.9 million at December 31, 2014. The ratio of this portion of the allowance to the total balance of loans in this loan segment that were evaluated collectively also increased to 2.2% at March 31, 2015 from 2.1% at December 31, 2014. Total delinquencies for this portfolio segment decreased 4.7% to $15.6 million at March 31, 2015 as compared to $16.3 million at December 31, 2014. Delinquencies greater than 90 days decreased 1.2% to $7.6 million at March 31, 2015 from $7.7 million at December 31, 2014, while 30 to 89 day delinquent loans decreased 7.8% to $7.9 million at March 31, 2015 from $8.6 million at the prior quarter end. Net charge-offs for this loan segment during the current quarter were less at $1.8 million as compared to $3.1 million for

Table of Contents

the quarter ended March 31, 2014. While there were some improvements in the credit metrics of this portfolio during the quarter, the allowance considers the adverse impact of potential payment increases that will be faced by borrowers as home equity lines of credit near the end of their draw periods, and as a result, the allowance for this loan segment remains elevated.

Mortgage Servicing Rights. Mortgage servicing rights represent the present value of the estimated future net servicing fees expected to be received pursuant to the right to service loans that are in our loan servicing portfolio but are owned by others. Mortgage servicing rights are recognized as assets for both purchased rights and for the allocated value of retained servicing rights on loans sold. The most critical accounting policy associated with mortgage servicing is the methodology used to determine the fair value of capitalized mortgage servicing rights. A number of estimates affect the capitalized value and include: (1) the mortgage loan prepayment speed assumption; (2) the estimated prospective cost expected to be incurred in connection with servicing the mortgage loans; and (3) the discount factor used to compute the present value of the mortgage servicing right. The mortgage loan prepayment speed assumption is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans prepay faster and the value of our mortgage servicing rights decreases. Conversely, during periods of rising rates, the value of mortgage servicing rights generally increases due to slower rates of prepayments. The estimated prospective cost expected to be incurred in connection with servicing the mortgage loans is deducted from the retained servicing fee (gross mortgage loan interest rate less amounts remitted to third parties – investor pass-through rate, guarantee fee, mortgage insurance fee, etc.) to determine the net servicing fee for purposes of capitalization computations. To the extent that prospective actual costs incurred to service the mortgage loans differ from the estimate, our future results will be adversely (or favorably) impacted. The discount factor selected to compute the present value of the servicing right reflects expected marketplace yield requirements.

The amount and timing of mortgage servicing rights amortization is adjusted monthly based on actual results. In addition, on a quarterly basis, we perform a valuation review of mortgage servicing rights for potential decreases in value. This quarterly valuation review entails applying current assumptions to the portfolio classified by interest rates and, secondarily, by prepayment characteristics. At March 31, 2015, the capitalized value of our right to service $2.33 billion of loans for others was $10.7 million, or 0.46% of the serviced loan portfolio, and was based on an estimated weighted-average life of 4.4 years. Activity in the balance of mortgage servicing rights is summarized as follows:

	Three Months Ended					
	March 31, 2015			March 31, 2014		
	Mortgage Servicing Rights	Valuation Allowance	Net	Mortgage Servicing Rights	Valuation Allowance	Net
	(Dollars in thousands)					
Balance - beginning of period	$11,229	$—	$11,229	$13,391	$—	$13,391
Additions from loan securitizations/sales	167		167	104		104
Amortization	(655)		(655)	(650)		(650)
Net change in valuation allowance		—	—		—	—
Balance - end of period	$10,741	$—	$10,741	$12,845	$—	$12,845
Fair value of capitalized amounts			$22,174			$29,469

	Six Months Ended					
	March 31, 2015			March 31, 2014		
	Mortgage Servicing Rights	Valuation Allowance	Net	Mortgage Servicing Rights	Valuation Allowance	Net
	(Dollars in thousands)					

Balance - beginning of period	$11,669	$—	$11,669	$14,074	$—	$14,074
Additions from loan securitizations/sales	303		303	213		213
Amortization	(1,231)		(1,231)	(1,442)		(1,442)
Net change in valuation allowance		—	—		—	—
Balance - end of period	$10,741	$—	$10,741	$12,845	$—	$12,845
Fair value of capitalized amounts			$22,174			$29,469

At March 31, 2015, substantially all of the 25,408 loans serviced for Fannie Mae and others were performing in accordance with their contractual terms and management believes that it has no material repurchase obligations associated with these loans. The following table summarizes our repurchases and loss reimbursements to investors, charges related to default servicing non-compliance and compensatory fees incurred during the indicated periods. All transactions, except for the fiscal 2015 loan repurchase, were related to loans serviced for Fannie Mae. There were no material repurchase or loss reimbursement requests outstanding at March 31, 2015. An accrual for $0.9 million remains available to cover probable losses. On November 7, 2013, the Association entered into a resolution agreement with Fannie Mae pursuant to which, on November 14, 2013, the Association remitted $3.1 million to Fannie Mae. The remittance amount included $0.4 million related to outstanding mortgage insurance claim payments on 42 loans. Under the terms of the resolution agreement, Fannie Mae withdrew all outstanding repurchase and make-whole demands and generally waived its right to enforce future repurchase obligations with respect to all mortgage loans (approximately 23,400 active loans or loans with a remaining balance) that were originated by the Association between January 1, 2000 and December 31, 2008 and delivered to Fannie Mae prior to January 1, 2009. The Association believes that by entering into this resolution agreement, a potentially large uncertainty with respect to future performance has been substantially reduced.

	Three Months Ended					
	March 31, 2015			March 31, 2014		
	Number of Loans	Balance	Losses or Charges Incurred	Number of Loans	Balance	Losses or Charges Incurred
	(Dollars in thousands)					
Repurchased loans:						
Non-recourse, non-performing loans (1)	1	$521	$194	—	$—	$—
Compensatory fees related to default servicing (3)	—	—	30	—	—	9
	1	$521	$224	—	$—	$9

	Six Months Ended					
	March 31, 2015			March 31, 2014		
	Number of Loans	Balance	Losses or Charges Incurred	Number of Loans	Balance	Losses or Charges Incurred
	(Dollars in thousands)					
Repurchased loans:						
Non-recourse, non-performing loans (1)	1	$521	$ 194	—	$—	$ —
Post-disposition file reviews (2)	—	—	—	1	—	51
Compensatory fees related to default servicing (3)	—	—	52	—	—	95
	1	$521	$ 246	1	$—	$ 146

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(1) Repurchase of this non-recourse, non performing loan was attributed to servicing non-compliance.

(2) Post-disposition file reviews resulted in losses or charges when loans which had been sold to Fannie Mae failed to perform; the underlying collateral was sold; a loss was incurred; and a post-disposition file review identified underwriting (primarily debt-to-income ratio) non-compliance.

(3) Compensatory fees related to default servicing represented instances in which the Association's default servicing procedures did not comply with Fannie Mae's servicing requirements

Income Taxes. We consider accounting for income taxes a critical accounting policy due to the subjective nature of certain estimates that are involved in the calculation. We use the asset/liability method of accounting for income taxes in which deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. We must assess the realization of the deferred tax asset

and, to the extent that we believe that recovery is not likely, a valuation allowance is established. Adjustments to increase or decrease existing valuation allowances, if any, are charged or credited, respectively, to income tax expense. At March 31, 2015, no valuation allowances were outstanding and even though we have determined a valuation allowance is not required for deferred tax assets at March 31, 2015, there is no guarantee that those assets will be recognizable in the future.

Pension Benefits. The determination of our obligations and expense for pension benefits is dependent upon certain assumptions used in calculating such amounts. Key assumptions used in the actuarial valuations include the discount rate and expected long-term rate of return on plan assets. Actual results could differ from the assumptions and market driven rates may

Table of Contents

fluctuate. Significant differences in actual experience or significant changes in the assumptions could materially affect future pension obligations and expense.

Comparison of Financial Condition at March 31, 2015 and September 30, 2014
Total assets increased $330.5 million, or 3%, to $12.13 billion at March 31, 2015 from $11.80 billion at September 30, 2014. This increase was primarily the result of increases in the balances of loans held for investment, cash and cash equivalents, FHLB stock and investment securities.
Cash and cash equivalents increased $39.3 million, or 22%, to $220.7 million at March 31, 2015 from $181.4 million at September 30, 2014 and reflects the decision to maintain higher liquidity.
Investment securities increased $17.2 million, or 3%, to $586.1 million at March 31, 2015 from $568.9 million at September 30, 2014 as the Company also increased liquidity by allocating additional funds to the comparatively higher yields provided by investment securities when compared to the yields provided by cash and cash equivalents. Purchases of $83.0 million exceeded $69.9 million in principal paydowns and $2.6 million of net acquisition premium amortization that occurred in the mortgage-backed securities portfolio during the six months ended March 31, 2015. There were no sales of investment securities during the six months ended March 31, 2015.
Loans held for investment, net, increased $250.9 million, or 2%, to $10.88 billion at March 31, 2015 from $10.63 billion at September 30, 2014. Residential mortgage loans increased $291.0 million, or 3%, to $9.27 billion at March 31, 2015. The increase in residential mortgage loans was partially offset by the negative impact of $3.4 million in net charge-offs during the six months ended March 31, 2015. The total allowance for loan losses decreased $4.3 million, or 5%, to $77.1 million at March 31, 2015 from $81.4 million at September 30, 2014, primarily reflecting improved credit metrics, including reduced net charge-offs and lower loan delinquencies. During the six months ended March 31, 2015, $462.5 million of three- and five-year "SmartRate" loans were originated while $549.4 million of 10-, 15-, and 30-year fixed-rate first mortgage loans were originated. These fixed-rate originations were partially offset by paydowns and fixed-rate loan sales. Between September 30, 2014 and March 31, 2015 the total fixed-rate portion of first mortgage loan portfolio increased $87.4 million and was comprised of an increase of $197.0 million in the balance of fixed-rate loans with original terms of 10 years or less and a decrease of $109.6 million in the balance of fixed-rate loans with original terms greater than 10 years. Historically, the preponderance of our new loan originations was comprised of fixed-rate loans with original terms greater than 10 years which were frequently offset by fixed-rate loan sales. During the six months ended March 31, 2015, we completed $56.1 million in loan sales to Fannie Mae, which included $10.9 million of agency-compliant HARP II loans and $45.2 million of long-term, fixed-rate, agency-compliant, non-HARP II first mortgage loans. The relatively low volume of long-term, fixed-rate first mortgage loan sales since June 30, 2010 reflects the impact of changes imposed by Fannie Mae, the Association's primary loan investor, related to requirements for loans that it accepts, as well as the strategy of originating adjustable-rate loans and fixed-rate loans with original terms of 10 years or less with the expectation that such loans would be carried as held for investment loans on our balance sheet. The sale of non-HARP II loans in the current fiscal year is the result of our implementation of certain loan origination changes required by Fannie Mae, and which resulted in our November 15, 2013 reinstatement as an approved seller to Fannie Mae. Refer to the Controlling Our Interest Rate Risk Exposure section of the Overview for additional discussion regarding loan sales to Fannie Mae and our management of interest rate risk.
Partially offsetting the increase in residential mortgage loans was a $40.6 million decrease in home equity loans and lines of credit during the current period as repayments exceeded new originations and additional draws on existing accounts. Between June 28, 2010 and March 20, 2012, we suspended the acceptance of new home equity loan and line of credit applications with the exception of bridge loans. Beginning in March, 2012, we offered redesigned home equity lines of credit to qualifying existing home equity customers, subject to certain property and credit performance conditions. At March 31, 2015, the recorded investment related to home equity lines of credit originated subsequent to March 20, 2012, totaled $195.9 million. At March 31, 2015, pending commitments to extend new home equity lines of credit to our existing customers totaled $36.5 million. Refer to the Controlling Our Interest Rate Risk Exposure section of the Overview for additional information.
Our investment in FHLB stock increased $29.1 million, or 72%, to $69.5 million at March 31, 2015 from $40.4 million at September 30, 2014. The increase relates to our strategy to increase net income that was implemented effective October 1, 2014. This strategy involves borrowing, on an overnight basis, approximately $1.00 billion of

additional funds from the FHLB at the beginning of the quarter and repaying it prior to the quarter end. The proceeds of the borrowings, net of the required investment in FHLB stock, were deposited at the Federal Reserve. The increased borrowings necessitated the additional purchases of FHLB stock, which remained outstanding over the quarter end. We expect to continue this strategy for as long as it is effective in increasing net income.

Deposits decreased $153.0 million, or 2%, to $8.50 billion at March 31, 2015 from $8.65 billion at September 30, 2014. The decrease in deposits resulted primarily from a $155.9 million decrease in CDs, combined with a $19.7 million decrease in high-yield savings accounts (a subcategory of savings accounts) partially offset by a $21.2 million increase in high-yield checking accounts (a subcategory of our negotiable order of withdrawal accounts). The change in CDs is attributed to a $275.9

58

Table of Contents

million net decrease in our traditional CDs partially offset by a $120.0 million increase in brokered CDs acquired in the current period. We believe that our high-yield savings accounts as well as our high-yield checking accounts provide a stable source of funds. In addition, our high-yield savings accounts are expected to reprice in a manner similar to our home equity lending products, and, therefore, assist us in managing interest rate risk. The balance of brokered CDs at March 31, 2015 was $477.1 million.

Borrowed funds, all from the FHLB of Cincinnati, increased $529.1 million or 46%, to $1.67 billion at March 31, 2015 from $1.14 billion at September 30, 2014. The increase reflects an additional $300.3 million of mainly four- to five-year term advances and a $239.0 million increase in lower cost, short-term borrowings, offset by principal repayments on maturing term advances. The increase in advances, was used primarily to fund loan growth, increase liquidity, purchase FHLB stock and to supplement the decrease in deposits. Also, intra-quarter, overnight advances from the FHLB were used to fund the strategy to increase net income as described earlier in this section.

Total shareholders’ equity decreased $49.0 million, or 3%, to $1.79 billion at March 31, 2015 from $1.84 billion at September 30, 2014. This net decrease primarily reflected the effect of $82.0 million of repurchases of outstanding common stock and $9.3 million of dividend payments, which were partially offset by $32.3 million of net income and the positive impact related to awards under the stock-based compensation plan and the allocation of shares held by the ESOP. Refer to Item 2. Unregistered Sales of Equity Securities and Use of Proceeds for additional details regarding the repurchase of shares of common stock. As a result of a July 31, 2014 mutual member vote, Third Federal Savings, MHC, the mutual holding company that owns 77% of the outstanding stock of the Company, waived the receipt of its share of the dividend paid, and is expected to waive its right to receive up to a total of $0.07 per share of future quarterly dividends from the Company prior to July 31, 2015.

Table of Contents

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

Average balances and yields. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effects thereof were not material. Average balances are derived from daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	Three Months Ended March 31, 2015				Three Months Ended March 31, 2014			
	Average Balance	Interest Income/ Expense	Yield/ Cost (2)		Average Balance	Interest Income/ Expense	Yield/ Cost (2)	
	(Dollars in thousands)							
Interest-earning assets:								
Interest-earning cash equivalents	$1,071,959	$630	0.24	%	$235,718	$135	0.23	%
Investment securities	2,017	6	1.19	%	3,376	7	0.83	%
Mortgage-backed securities	577,978	2,542	1.76	%	481,224	2,298	1.91	%
Loans (1)	10,898,330	92,040	3.38	%	10,358,543	90,545	3.50	%
Federal Home Loan Bank stock	67,936	429	2.53	%	39,300	360	3.66	%
Total interest-earning assets	12,618,220	95,647	3.03	%	11,118,161	93,345	3.36	%
Noninterest-earning assets	320,737				306,437			
Total assets	$12,938,957				$11,424,598			
Interest-bearing liabilities:								
NOW accounts	$991,600	339	0.14	%	$1,027,358	359	0.14	%
Savings accounts	1,641,450	756	0.18	%	1,801,184	846	0.19	%
Certificates of deposit	5,835,997	22,327	1.53	%	5,488,318	20,757	1.51	%
Borrowed funds	2,497,977	4,803	0.77	%	1,070,017	2,349	0.88	%
Total interest-bearing liabilities	10,967,024	28,225	1.03	%	9,386,877	24,311	1.04	%
Noninterest-bearing liabilities	160,900				159,085			
Total liabilities	11,127,924				9,545,962			
Shareholders’ equity	1,811,033				1,878,636			
Total liabilities and shareholders’ equity	$12,938,957				$11,424,598			
Net interest income		$67,422				$69,034		
Interest rate spread (2)(3)(4)			2.00	%			2.32	%
Net interest-earning assets (5)	$1,651,196				$1,731,284			
Net interest margin (2)(6)		2.14 %				2.48 %		
Average interest-earning assets to average interest-bearing liabilities	115.06 %				118.44 %			
Selected performance ratios:								
Return on average assets (2)(4)		0.48 %				0.57 %		
Return on average equity (2)(4)		3.46 %				3.49 %		
Average equity to average assets		14.00 %				16.44 %		

(1) Loans include both mortgage loans held for sale and loans held for investment.
(2) Annualized.
(3) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) These performance ratios in fiscal 2015 are impacted by the intra-quarter strategy to increase net income as described earlier in this Item 2.
(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(6) Net interest margin represents net interest income divided by total interest-earning assets.

Table of Contents

General. Net income decreased $0.7 million, or 4%, to $15.7 million for the quarter ended March 31, 2015 from $16.4 million for the quarter ended March 31, 2014. The decrease in net income was attributable primarily to an increase in other non-interest expenses and a decrease in net interest income partially offset by a decrease in the provision for loan losses.

Interest and Dividend Income. Interest and dividend income increased $2.3 million, or 2% to $95.6 million during the current quarter compared to $93.3 million during the same quarter in the prior year. The increase in interest and dividend income resulted primarily from an increase in interest income from loans and interest earning cash equivalents.
Interest income on loans increased $1.5 million, or 2%, to $92.0 million during the current quarter compared to $90.5 million during the same quarter in the prior year. This change was attributed to a $539.8 million, or a 5%, increase in the average balance of loans to $10.90 billion for the quarter ended March 31, 2015 compared to $10.36 billion during the same quarter last year as new loan production exceeded repayments and loan sales. Partially offsetting the impact from the increase in the average balance was a 12 basis point decrease in the average yield on loans to 3.38% for the current quarter from 3.50% for the same quarter last year as historically low interest rates have kept the level of refinance activity relatively high resulting in new originations at lower rates compared to the rest of our portfolio. Additionally, our “SmartRate” adjustable-rate first mortgage loan originations and our 10-year fixed-rate mortgage loan originations for the quarter ended March 31, 2015, were originated at interest rates below rates offered on our longer-term, fixed-rate products and contributed to the lower average yield.
Interest income on interest-earning cash equivalents increased $0.5 million, or 500%, to $0.6 million during the current quarter compared to $0.1 million during the quarter ended March 31, 2014. The increase can be attributed to implementing a strategy to increase income, which involves borrowing, on an overnight basis, approximately $1.00 billion of additional funds from the FHLB at the beginning of the quarter and repaying it prior to the quarter end. The proceeds of the borrowing, net of the required investment in FHLB stock, are deposited at the Federal Reserve. Additionally, as a result of the additional required investment in FHLB stock, dividend income on FHLB stock increased during the current quarter compared to the same quarter last year.
Interest Expense. Interest expense increased $3.9 million, or 16%, to $28.2 million during the current quarter compared to $24.3 million during the quarter ended March 31, 2014. The increase resulted primarily from a increase in interest expense on borrowed funds and CDs partially offset by modest decreases in interest expense on NOW accounts and savings accounts.
Interest expense on CDs increased $1.5 million, or 7%, to $22.3 million during the current quarter compared to $20.8 million during the quarter ended March 31, 2014. The change was mainly attributable to a $347.7 million, or 6%, increase in the average balance of CDs to $5.84 billion during the current quarter from an average balance of $5.49 billion during the same quarter of the prior year combined with a two basis point increase in the average rate we paid on CDs to 1.53% for the current quarter from 1.51% for the same quarter last year. Rates were adjusted on deposits in response to changes in general market rates as well as to changes in the rates paid by our competition on short-term CDs. Additionally, to optimally manage our funding costs during the current quarter, many maturing, higher rate CDs that were not renewed were replaced with longer-term brokered CDs or lower rate borrowed funds.
Interest expense on borrowed funds increased $2.5 million, to $4.8 million during the current quarter compared to $2.3 million during the quarter ended March 31, 2014. The change was mainly attributable to an increase in the average balance of borrowed funds to $2.50 billion during the current quarter from an average balance of $1.07 billion during the same quarter of the prior year, and was partially offset by an 11 basis point decrease in the average rate we paid on borrowed funds to 0.77% for the current quarter from 0.88% for the same quarter last year. The increase in FHLB of Cincinnati borrowings and the lower average rate paid can be attributed primarily to implementing the strategy, using lower cost overnight borrowings, discussed earlier. The increase in the average balance of borrowed funds during the current quarter was also used to fund mortgage loan originations and purchases of investment securities.

Net Interest Income. Net interest income decreased $1.6 million, or 2%, to $67.4 million during the current quarter from $69.0 million during the quarter ended March 31, 2014. Our average interest earning assets during the current quarter increased $1.50 billion or 13% when compared to the quarter ended March 31, 2014. However, due to a greater increase in average interest-bearing liabilities, average net interest-earning assets decreased $80.1 million, to $1.65 billion during the current quarter from $1.73 billion during the quarter ended March 31, 2014. The change in average assets can be attributed primarily to the implementation of the net income strategy discussed earlier, which increased other interest-earning cash equivalents, while the change in average liabilities is due mainly to the same strategy, but also to the funds required for our loan growth and stock repurchase program. This strategy serves to increase net income slightly but also negatively impacts the interest rate spread and net interest margin due to the increase in the average balance of low yield interest-earning cash equivalents. Our interest rate spread decreased 32 basis points to 2.00% compared to 2.32% during the same quarter last year. Our net interest margin

decreased 34 basis points to 2.14% in the current quarter compared to 2.48% the same quarter last year. The Company expects to continue this essentially risk-free net income strategy as long as it is effective in increasing net income.
Provision for Loan Losses. We establish provisions for loan losses, which are charged to operations, in order to maintain the allowance for loan losses at a level we consider adequate to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. In determining the level of the allowance for loan losses, we consider past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay a loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates and the ultimate losses may vary from such estimates as more information becomes available or conditions change. We assess the allowance for loan losses on a quarterly basis and make provisions for loan losses in order to maintain the adequacy of the allowance as described in the next paragraph. Recently, improving regional employment levels, stabilization in residential real estate values in many markets, recovering capital and credit markets, and upturns in consumer confidence have resulted in better credit metrics for us. Nevertheless, the depth of the decline in housing values that accompanied the 2008 financial crisis still presents significant challenges for many of our borrowers who may attempt to sell their homes or refinance their loans as a means to self-cure a delinquency.
Based on our evaluation of the above factors, we recorded a provision for loan losses of $1.0 million during the quarter ended March 31, 2015 and a provision of $5.0 million during the quarter ended March 31, 2014. The provision recorded in the current quarter reflected reduced levels of loan delinquencies but was tempered by our awareness of the relative values of residential properties in comparison to their cyclical peaks as well as the uncertainty that persists in the current economic environment, which continues to challenge many of our loan customers. As delinquencies in the portfolio have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan, uncollected balances have been charged against the allowance for loan losses previously provided. The decreased level of charge-offs during the current quarter occurred throughout our entire loan portfolio. The net charge-offs of $3.7 million exceeded the loan loss provision of $1.0 million recorded for the current quarter. The loan loss provision of $5.0 million recorded for the quarter ended March 31, 2014 was also exceeded by net charge-offs of $6.9 million. The loan loss provisions were recorded with the objective of aligning our overall allowance for loan losses with our current estimates of loss in the portfolio. The allowance for loan losses was $77.1 million, or 0.70% of total recorded investment in loans receivable, at March 31, 2015, compared to $83.4 million or 0.80% of total recorded investment in loans receivable at March 31, 2014. Balances of recorded investments are net of deferred fees and any applicable loans-in-process.
In comparison to the balance at December 31, 2014, the total recorded investment in non-accrual loans decreased $4.5 million during the quarter ended March 31, 2015. Since March 31, 2014, the total recorded investment in non-accrual loans decreased $20.4 million. The recorded investment in non-accrual loans in our residential, Core portfolio decreased $2.4 million, or 3% during the current quarter, to $71.2 million at March 31, 2015, and decreased $9.7 million, or 12% since March 31, 2014. At March 31, 2015, the recorded investment in our Core portfolio was $9.13 billion, compared to $8.99 billion at December 31, 2014 and $8.48 billion at March 31, 2014. During the current quarter, Core net charge-offs were $1.5 million, as compared to net charge-offs of $0.6 million during the quarter ended December 31, 2014 and $2.7 million during the quarter ended March 31, 2014.
The recorded investment in non-accrual loans in our residential, Home Today portfolio decreased $1.8 million, or 6% during the current quarter, to $26.5 million at March 31, 2015, and decreased $5.0 million, or 16% since March 31, 2014. At March 31, 2015, the recorded investment in our Home Today portfolio was $143.4 million, compared to $147.5 million at December 31, 2014 and $162.7 million at March 31, 2014. During the current quarter, Home Today net charge-offs were $0.3 million as compared to net charge-offs of $0.9 million during the quarter ended December 31, 2014 and $1.1 million during the quarter ended March 31, 2014.
The recorded investment in non-accrual home equity loans and lines of credit decreased $0.3 million, or 1%, during the current quarter, to $24.7 million at March 31, 2015, and decreased $5.5 million, or 18% since March 31, 2014. The recorded investment in our home equity loans and lines of credit portfolio at March 31, 2015, was $1.66 billion, compared to $1.69 billion at December 31, 2014 and $1.77 billion at March 31, 2014. During the current quarter,

home equity loans and lines of credit net charge-offs were $1.8 million, as compared to net charge-offs of $2.2 million during the quarter ended December 31, 2014 and $3.1 million during the quarter ended March 31, 2014. We believe that non-performing home equity loans and lines of credit are, on a relative basis, of greater concern than Core loans as these home equity loans and lines of credits generally hold subordinated positions and accordingly, represent a higher level of risk. The non-performing balances of home equity loans and lines of credit were $24.7 million or 1% of the home equity loans and lines of credit portfolio at March 31, 2015 compared to $25.0 million, or 1% at December 31, 2014 and $30.2 million, or 2% at March 31, 2014.
Non-Interest Income. Non-interest income increased $0.4 million, or 7%, to $5.9 million during the current quarter compared to $5.5 million during the quarter ended March 31, 2014, mainly as a result of an increase in net gain on the sale of

Table of Contents

loans during the current quarter partially offset by a decrease in loan fees and service charges. The increase in the net gain on sales of loans primarily reflected a higher volume of loan sales in the current quarter, $32.1 million, as compared to $21.1 million during the quarter ended March 31, 2014. This increase was partially offset by a decrease in net loan servicing fees received in connection with the smaller portfolio of loans serviced for others.

Non-Interest Expense. Non-interest expense increased $3.9 million, or 9%, to $48.8 million during the current quarter compared to $44.9 million during the quarter ended March 31, 2014 primarily from higher marketing services expenditures incurred principally in support of our lending activities and an increase in salaries and employee benefits resulting from normal compensation increases and the effect of the Company's higher stock price on equity-based compensation and benefit plans.

Income Tax Expense. The provision for income taxes was $7.8 million during the current quarter compared to $8.3 million during the quarter ended March 31, 2014. The provision for the current quarter included $7.7 million of federal tax and $133 thousand of state income tax expense. The provision for the quarter ended March 31, 2014 included $8.2 million of federal tax and $36 thousand of state income tax expense. Our effective federal tax rate was 32.9% during the current quarter compared to a tax rate of 33.4% in the quarter ended March 31, 2014. Our provision for income taxes in the current quarter aligns our year-to-date provision with our expectations for the full fiscal year. Our expected effective income tax rate for this fiscal year is below the federal statutory rate because of our ownership of bank-owned life insurance.

Table of Contents

Comparison of Operating Results for the Six Months Ended March 31, 2015 and 2014

Average balances and yields. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effects thereof were not material. Average balances are derived from daily average balances. Non-accrual loans were included in the computation of loan average balances, and have been reflected in the table as carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or interest expense.

	Six Months Ended March 31, 2015			Six Months Ended March 31, 2014		
	Average Balance	Interest Income/ Expense	Yield/ Cost (2)	Average Balance	Interest Income/ Expense	Yield/ Cost (2)
	(Dollars in thousands)					
Interest-earning assets:						
Interest-earning cash equivalents	$1,116,561	$1,369	0.25 %	$236,200	$294	0.25 %
Investment securities	2,020	12	1.19 %	5,279	15	0.57 %
Mortgage-backed securities	573,168	5,091	1.78 %	477,507	4,390	1.84 %
Loans (1)	10,831,655	183,875	3.40 %	10,290,314	180,946	3.52 %
Federal Home Loan Bank stock	65,250	1,036	3.18 %	37,490	719	3.84 %
Total interest-earning assets	12,588,654	191,383	3.04 %	11,046,790	186,364	3.37 %
Noninterest-earning assets	316,740			301,898		
Total assets	$12,905,394			$11,348,688		
Interest-bearing liabilities:						
NOW accounts	$990,791	691	0.14 %	$1,026,252	724	0.14 %
Savings accounts	1,647,040	1,546	0.19 %	1,807,343	1,796	0.20 %
Certificates of deposit	5,883,369	45,661	1.55 %	5,507,419	42,704	1.55 %
Borrowed funds	2,377,009	8,927	0.75 %	943,852	4,311	0.91 %
Total interest-bearing liabilities	10,898,209	56,825	1.04 %	9,284,866	49,535	1.07 %
Noninterest-bearing liabilities	183,116			190,521		
Total liabilities	11,081,325			9,475,387		
Shareholders' equity	1,824,069			1,873,301		
Total liabilities and shareholders' equity	$12,905,394			$11,348,688		
Net interest income		$134,558			$136,829	
Interest rate spread (2)(3)(4)			2.00 %			2.30 %
Net interest-earning assets (5)	$1,690,445			$1,761,924		
Net interest margin (2)(6)		2.14 %			2.48 %	
Average interest-earning assets to average interest-bearing liabilities	115.51 %			118.98 %		
Selected performance ratios:						
Return on average assets (2)(4)		0.50 %			0.57 %	
Return on average equity (2)(4)		3.54 %			3.46 %	
Average equity to average assets		14.13 %			16.51 %	

(1) Loans include both mortgage loans held for sale and loans held for investment.
(2) Annualized.
(3) Interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.
(4) These performance ratios in fiscal 2015 are impacted by the intra-quarter strategy to increase net income as described earlier in this Item 2.
(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(6) Net interest margin represents net interest income divided by total interest-earning assets.

General. Net income was relatively unchanged at $32.3 million for the six months ended March 31, 2015 compared to $32.4 million for the six months ended March 31, 2014. The decrease in net income was attributable primarily to an increase in other non-interest expenses and a decrease in net interest income substantially offset by a decrease in the provision for loan losses.

Interest and Dividend Income. Interest and dividend income increased $5.0 million, or 3%, to $191.4 million during the six months ended March 31, 2015 compared to $186.4 million during the same six months in the prior year. The increase in interest and dividend income resulted primarily from an increase in interest income from loans combined with increases in income on interest earning cash equivalents and mortgage-backed securities.

Interest income on loans increased $3.0 million, or 2%, to $183.9 million for the six months ended March 31, 2015 compared to $180.9 million for the six months ended March 31, 2014. This increase was attributed primarily to a $541.3 million increase in the average balance of loans to $10.83 billion in the current six month period compared to $10.29 billion during the same six months in the prior year as new loan production exceeded repayments and loan sales. The impact from the increase in the average balance of loans was partially offset by a 12 basis point decrease in the average yield on loans to 3.40% for the six months ended March 31, 2015 from 3.52% for the same six months in the prior year as historically low interest rates have kept the level of refinance activity relatively high resulting in new originations at lower rates compared to the rest of our portfolio. Additionally, both our “Smart Rate” adjustable-rate first mortgage loan and our 10-year, fixed-rate first mortgage loan originations for the six months ended March 31, 2015, were originated at interest rates below rates offered on our traditional 15- and 30-year fixed-rate products and contributed to the lower average yield. During the six months ended March 31, 2015, loan sales totaled $56.1 million while during the six months ended March 31, 2014, loan sales totaled $42.0 million.

Interest income on interest-earning cash equivalents increased $1.1 million, or 367%, to $1.4 million for the six months ended March 31, 2015 compared to $0.3 million during the same six months in the prior year. The increase can be attributed to implementing a strategy to increase income, which involves borrowing, on an overnight basis, approximately $1.00 billion of additional funds from the FHLB at the beginning of the quarter and paying it off prior to the quarter end. The proceeds of the borrowing, net of the required investment in FHLB stock, are deposited at the Federal Reserve. Additionally, as a result of the additional required investment in FHLB stock, dividend income on FHLB stock increased $0.3 million, or 43%, to $1.0 million for the six months ended March 31, 2015 compared to $0.7 million during the same six months in the prior year.

Interest income on mortgage-backed securities increased $0.7 million, or 16%, to $5.1 million for the six months ended March 31, 2015 compared to $4.4 million during the same six months in the prior year. This increase was attributed to a $95.7 million, or 20%, increase in the average balance of mortgage-backed securities to $573.2 million for the six months ended March 31, 2015 compared to $477.5 million during the same six months last year. The impact from the increase in average balance was partially offset by a six basis point decrease in the average yield on mortgage-backed securities to 1.78% for the six months in the current year from 1.84% for the same six months in the prior year.

Interest Expense. Interest expense increased $7.3 million, or 15%, to $56.8 million during the current six months compared to $49.5 million during the six months ended March 31, 2014. The change resulted primarily from an increase in interest expense on borrowed funds combined with an increase in interest expense on CDs.

Interest expense on borrowed funds increased $4.6 million, or 107%, to $8.9 million during the six months ended March 31, 2015 from $4.3 million during the six months ended March 31, 2014. The increase was attributed to a $1.43 billion increase in the average balance of borrowed funds, all from the FHLB of Cincinnati, to $2.38 billion during the current six months from $943.9 million during the same six months of the prior year. Partially offsetting the impact of the increased volume in borrowed funds is a 16 basis point decrease in the average rate paid for these funds, to 0.75% during the six months ended March 31, 2015 from 0.91% during the six months ended March 31, 2014. The increase in FHLB of Cincinnati borrowings and the lower average rate paid can be attributed to implementing the strategy, using lower cost overnight borrowings, discussed earlier. To better manage funding costs, longer term borrowed funds from the FHLB of Cincinnati were also used to fund mortgage loan originations and purchases of

investment securities.

Interest expense on CDs increased $3.0 million, or 7%, to $45.7 million during the six months ended March 31, 2015 compared to $42.7 million during the six months ended March 31, 2014. The increase was attributed to a $376.0 million, or 7%, increase in the average balance of CDs to $5.88 billion during the current six months from $5.51 billion during the same six months of the prior year. The average rate paid on CDs was the same at 1.55% for the same six months in the current and prior year. Rates were adjusted on deposits in response to changes in general market rates as well as to changes in the rates paid by our competition on short-term CDs. Additionally, to optimally manage our funding costs during the current six month period, many maturing, higher rate CDs that were not renewed were replaced with longer-term brokered CDs or lower rate borrowed funds.

Table of Contents

Net Interest Income. Net interest income decreased $2.2 million, or 2%, to $134.6 million during the six months ended March 31, 2015 from $136.8 million during the six months ended March 31, 2014. Average interest-earning assets increased during the current six months by $1.54 billion or 14% when compared to the six months ended March 31, 2014. However, due to a greater increase in average interest-bearing liabilities, average net interest-earning assets decreased $71.5 million, to $1.69 billion during the current six months from $1.76 billion during the six months ended March 31, 2014. The change in average assets can be attributed primarily to the implementation of the strategy discussed earlier, which increased other interest-earning cash equivalents, while the change in average liabilities is due mainly to that same net income strategy, but also to the funds required for our stock repurchase program. The net income strategy serves to increase net income slightly but also negatively impacts the interest rate spread and net interest margin due to the increase in the average balance of low yield interest-earning cash equivalents. Our interest rate spread decreased 30 basis points to 2.00% compared to 2.30% during the same six months last year. Our net interest margin was 2.14% for the current six month period and 2.48% for the same six months in the prior period. The Company expects to continue this strategy as long as it is effective in increasing net income.

Provision for Loan Losses. Based on our evaluation of the factors described earlier, we recorded a provision for loan losses of $3.0 million during the six months ended March 31, 2015 and a provision of $11.0 million during the six months ended March 31, 2014. The level of net charge-offs decreased during the current six months to $7.3 million from $20.1 million during the six months ended March 31, 2014. The current provision reflected reduced levels of loan delinquencies but was tempered by our awareness of the relative values of residential properties in comparison to their cyclical peaks as well as the uncertainty that persists in the current economic environment, which continues to challenge many of our loan customers. As delinquencies in the portfolio have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan, uncollected balances have been charged against the allowance for loan losses previously provided. The net charge-offs of $20.1 million during the six months ended March 31, 2014 included $5.3 million of loans charged-off due to a new practice, instituted in that year, of fully charging off loans that had not been resolved due to prolonged foreclosure proceedings and had remained delinquent for more than 1,500 days. These loans previously were recorded at estimated net realizable value, with the potential for additional loss recognized within the allowance for loan losses. Any future foreclosure proceeds on these loans will result in recoveries of prior charge-offs. Net charge-offs exceeded the $3.0 million loan loss provision recorded for the current six months and resulted in a decrease in the balance of the allowance for loan losses. Net charge-offs of $20.1 million recorded for the six months ended March 31, 2014 exceeded the loan loss provision of $11.0 million. The allowance for loan losses was $77.1 million, or 0.70% of the total recorded investment in loans receivable, at March 31, 2015, compared to $83.4 million, or 0.80% of the total recorded investment in loans receivable, at March 31, 2014. Balances of recorded investments are net of deferred fees and any applicable loans-in-process.

The total recorded investment in non-accrual loans decreased $13.2 million during the six month period ended March 31, 2015 compared to a $13.1 million decrease during the six month period ended March 31, 2014. The recorded investment in non-accrual loans in our residential, core portfolio decreased $8.2 million, or 10%, during the current six month period, to $71.2 million at March 31, 2015, compared to a $10.1 million decrease during the six month period ended March 31, 2014. At March 31, 2015, the recorded investment in our core portfolio was $9.13 billion, compared to $8.82 billion at September 30, 2014. During the current six month period, core portfolio net charge-offs were $2.2 million, as compared to net charge-offs of $9.7 million, which included $4.4 million of charge-offs related to loans delinquent more than 1,500 days during the six months ended March 31, 2014.

The recorded investment in non-accrual loans in our residential, Home Today portfolio decreased $3.5 million, or 12% during the current six month period, to $26.5 million at March 31, 2015 compared to a $3.3 million decrease during the six month period ended March 31, 2014. At March 31, 2015, the recorded investment in our Home Today portfolio was $143.4 million, compared to $152.0 million at September 30, 2014. During the current six month period, Home Today net charge-offs were $1.2 million, as compared to net charge-offs of $4.0 million, which included $0.9 million of charge-offs related to loans delinquent more than 1,500 days during the six months ended March 31, 2014.

The recorded investment in non-accrual home equity loans and lines of credit decreased $1.5 million, or 6%, during the current six month period, to $24.7 million at March 31, 2015 compared to a $0.2 million increase during the six month period ended March 31, 2014. The recorded investment in our home equity loans and lines of credit portfolio at March 31, 2015, was $1.66 billion, compared to $1.70 billion at September 30, 2014. During the current six month period, home equity loans and lines of credit net charge-offs were $4.0 million as compared to net charge-offs of $6.4 million, of which there were no charge-offs related to loans delinquent more than 1,500 days, during the six months ended March 31, 2014. We believe that non-performing home equity loans and lines of credit, on a relative basis, represent a higher level of credit risk than core loans as these home equity loans and lines of credit generally hold subordinated positions.

Non-Interest Income. Non-interest income increased $1.2 million, or 11%, to $11.8 million during the six months ended March 31, 2015 compared to $10.6 million during the six months ended March 31, 2014, mainly as a result of an increase in

net gain on the sale of loans partially offset by a decrease in loan fees and service charges. The increase in the net gain on sales of loans primarily reflected a higher volume of loan sales in the current six months, $56.1 million, as compared to $42.0 million during the six months ended March 31, 2014. This increase was partially offset by a decrease in net loan servicing fees received in connection with the smaller portfolio of loans serviced for others.
Non-Interest Expense. Non-interest expense increased $7.0 million, or 8%, to $94.8 million during the six months ended March 31, 2015 when compared to $87.8 million during the six months ended March 31, 2014. This net increase resulted primarily from higher salaries and employee benefits, and higher marketing services expenditures incurred primarily in support of our lending activities. Salaries and employee benefits increased $2.5 million, or 6%, to $47.9 million during the current six month period compared to $45.4 million during the six month period ended March 31, 2014. This increase was primarily due to a $0.7 million increase in associate compensation costs, a $0.6 million increase in expenses related to the ESOP plan, a $0.3 million increase in compensation costs related to equity awards, and a $0.3 million increase in payroll taxes.
Income Tax Expense. The provision for income taxes was $16.3 million during the current six month period compared to $16.2 million during the six months ended March 31, 2014. The provision for the current six month period included $16.1 million of federal income tax provision and $224 thousand of state income tax provision. The provision for the six months ended March 31, 2014 included $16.2 million of federal income tax provision and $69 thousand of state income tax provision. Our effective federal tax rate was 33.2% during the current six months compared to 33.3% during the six months ended March 31, 2014. Our provision for income taxes in the current six months is aligned with our expectations for the full fiscal year. Our expected effective income tax rates are below the federal statutory rate because of our ownership of bank-owned life insurance.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB of Cincinnati, borrowings from the FRB-Cleveland Discount Window, proceeds from brokered CDs transactions, principal repayments and maturities of securities, and sales of loans. As described below, the available liquidity from loan sales has decreased significantly from pre-June 2010 levels.
In addition to the primary sources of funds described above, we have the ability to obtain funds through the use of collateralized borrowings in the wholesale markets, and from sales of securities. Also, access to the equity capital markets via a supplemental minority stock offering or a full (second step) transaction remain as other potential sources of liquidity, although these channels generally require six to nine months of lead time.
While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition. The Association’s Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We generally seek to maintain a minimum liquidity ratio of 5% (which we compute as the sum of cash and cash equivalents plus unpledged investment securities for which ready markets exist, divided by total assets). For the three months ended March 31, 2015, our liquidity ratio averaged 10.75%, which exceeded the averages of the last several years. The increase in the current average liquidity ratio reflects the impact of a strategy to increase net income that was implemented effective October 1, 2014. This strategy involves borrowing, on an overnight basis, approximately $1.00 billion of additional funds from the FHLB at the beginning of the quarter and paying it off prior to the quarter end. The proceeds of the borrowing, net of the required investment in FHLB stock, are deposited at the Federal Reserve. While the essentially risk-free strategy serves to increase our average liquidity ratio and our net income, it also decreases our interest rate spread ratio and our net interest margin due to the increase in the average balance of low yield interest-earning cash equivalents. We expect to continue this strategy for as long as it is effective in increasing net income. We believe that we had sufficient sources of liquidity to satisfy our short- and long-term liquidity needs as of March 31, 2015.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our asset/liability management program. Excess liquid assets are generally invested in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At March 31, 2015, cash and cash equivalents totaled $220.7 million which represented an increase of 22% from September 30, 2014. The increase reflects the replenishment of cash equivalents to a level that is more comparable to quarter ends prior to September 30, 2014.

Table of Contents

Investment securities classified as available-for-sale, which provide additional sources of liquidity, totaled $586.1 million at March 31, 2015.

Between July 1, 2010 and May 2013, our traditional mortgage loan processing did not comply with Fannie Mae's standard requirements and accordingly, during that time, and until Fannie Mae reinstated the Association as an approved seller on November 15, 2013, our ability to meaningfully manage liquidity through the use of loan sales was limited. In response to this limitation and the accompanying interest rate risk management implications, the following steps were taken:

- during the quarter ended June 30, 2012, the Association implemented the procedures necessary for participation in Fannie Mae's HARP II program;
- during the fiscal year ended September 30, 2013, the Association negotiated several loan sales with private investors; and
- in May 2013, the Association adopted the loan origination process changes required by Fannie Mae. These loan origination process changes are applied to a portion of its fixed-rate loan originations. Subsequent to the Association's November 15, 2013 reinstatement as an approved seller by Fannie Mae, the Association is able to securitize and sell those loans that are originated using the Fannie Mae compliant procedures, in the secondary market.

During the six month period ended March 31, 2015, loan sales totaled $56.1 million, which included $10.9 million of loans that qualified under Fannie Mae's HARP II initiative with the remainder comprised of long-term, fixed-rate residential, non-HARP II first mortgage loans, which were sold to Fannie Mae subsequent to the Association's reinstatement as an approved seller. Loans originated under the HARP II initiative are classified as "held for sale" at origination. Loans originated under non-HARP II Fannie Mae compliant procedures are classified as "held for investment" until they are specifically identified for sale. At March 31, 2015, $1.1 million of long-term, fixed-rate residential first mortgage loans were classified as "held for sale", all of which qualified under Fannie Mae's HARP II initiative. There were $1.1 million of loan sale commitments outstanding at March 31, 2015.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows (unaudited) included in the unaudited interim Consolidated Financial Statements.

At March 31, 2015, we had $606.6 million in loan commitments outstanding. In addition to commitments to originate loans, we had $1.17 billion in undisbursed home equity lines of credit to borrowers. CDs due within one year of March 31, 2015 totaled $2.07 billion, or 24.3% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, sales of investment securities, other deposit products, including new CDs, brokered CDs, FHLB advances, borrowings from the FRB-Cleveland Discount Window or other collateralized borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the CDs due on or before March 31, 2016. We believe, however, based on past experience, that a significant portion of such deposits will remain with us. Generally, we have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are originating residential mortgage loans and purchasing investments. During the six months ended March 31, 2015, we originated $1.01 billion of residential mortgage loans, and during the six months ended March 31, 2014, we originated $1.03 billion of residential mortgage loans. We purchased $83.0 million of securities during the six months ended March 31, 2015, and $71.3 million during the six months ended March 31, 2014.

Financing activities consist primarily of changes in deposit accounts, changes in the balances of principal and interest owed on loans serviced for others, FHLB advances and borrowings from the FRB-Cleveland Discount Window. We experienced a net decrease in total deposits of $153.0 million during the six months ended March 31, 2015, which reflected the active management of the offered rates on maturing CDs, and compared to a net decrease of $49.0 million during the six months ended March 31, 2014. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. The net decrease in total deposits during the six months ended March 31, 2015, was partially reduced by the $120.4 million increase in the balance of brokered CDs, to $477.1 million, from $356.7 million at September 30, 2014. During the six months ended

March 31, 2014 the balance of brokered CDs increased by $204.0 million. Principal and interest owed on loans serviced for others increased $5.7 million to $60.4 million during the six months ended March 31, 2015 compared to a net decrease of $22.3 million to $54.7 million during the six months ended March 31, 2014. During the six months ended March 31, 2015, we increased our advances from the FHLB of Cincinnati by $529.1 million, as we replaced our net savings outflow, funded new loan originations and actively managed our liquidity ratio. During the six months ended March 31, 2014, our advances from the FHLB of Cincinnati increased by $325.0 million.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB of Cincinnati and the FRB-Cleveland Discount

Table of Contents

Window, each of which provides an additional source of funds. Additionally, we may participate in the brokered CDs market. At March 31, 2015 we had $1.67 billion of FHLB of Cincinnati advances and no outstanding borrowings from the FRB-Cleveland Discount Window. Additionally, at March 31, 2015, we had $477.1 million of brokered CDs. During the six months ended March 31, 2015, we had average outstanding advances from the FHLB of Cincinnati of $2.38 billion as compared to average outstanding advances of $943.9 million during the six months ended March 31, 2014. The significant increase in average outstanding advances during the current period reflects the impact of the strategy to increase net income as described earlier in this section. At March 31, 2015, we had the ability to immediately borrow an additional $956.3 million from the FHLB of Cincinnati and $132.5 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for additional borrowings beyond the immediately available limits at March 31, 2015 was $3.48 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement. To satisfy the common stock ownership requirement, we would have to increase our ownership of FHLB of Cincinnati common stock by an additional $69.7 million. During the six months ended March 31, 2015, we purchased an additional $29.1 million of FHLB of Cincinnati common stock. Substantially all of the additional purchases arose in connection with the previously described strategy to increase net income. Additionally, we can consider the brokered CD market in evaluating funding alternatives.

The Association and the Company are subject to various regulatory capital requirements, including a risk-based capital measure. The Basel III capital framework for U.S. banking organizations' ("Basel III Rules") include both a revised definition of capital and guidelines for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. In July 2013, the OCC and the other federal bank regulatory agencies issued a final rule that, effective January 1, 2015 for the standardized approach, revised their leverage and risk-based capital requirements and the method for calculating risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the DFA and revised the definition of assets used in the Tier 1 (leverage) capital ratio from adjusted tangible assets (a measurement computed based on quarter-end asset balances) to net average assets (a measurement that captures the intra-quarter impact of our strategy to increase net income that was described earlier in this section). Among other things, the rule established a new common equity Tier 1 minimum capital requirement (4.5% of risk-weighted assets) and increased the minimum Tier 1 capital to risk-based assets requirement (from 4% to 6% of risk-weighted assets). The final rule also requires unrealized gains and losses on certain "available-for-sale" security holdings and change in defined benefit plan to be included for purposes of calculating regulatory capital requirements unless a one-time opt-in or opt-out is exercised. The Association exercised its one time opt-out election with the filing of its March 31, 2015 regulatory call report. The rule limits a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets in addition to the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement will be phased in beginning January 1, 2016 and ending January 1, 2019, when the full capital conservation buffer requirement will be effective. Effective January 1, 2015, the Association implemented the new capital requirements for the standardized approach to the Basel III Rules, subject to transitional provisions extending through the end of 2018. The final rule also implemented consolidated capital requirements for savings and loan holding companies effective January 1, 2015.

As of March 31, 2015 the Association exceeded all regulatory requirements to be considered “Well Capitalized” as presented in the table below (dollar amounts in thousands).

	Actual		Required	
	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	$1,636,950	22.53 %	$726,494	10.00 %
Tier 1 (leverage) Capital to Net Average Assets	1,559,857	12.09 %	645,135	5.00 %
Tier 1 Capital to Risk-Weighted Assets	1,559,857	21.47 %	581,196	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	1,559,699	21.47 %	472,221	6.50 %

The capital ratios of the Company as of March 31, 2015 are presented in the table below (dollar amounts in thousands).

	Actual Amount	Ratio	
Total Capital to Risk-Weighted Assets	$1,865,836	25.57	%
Tier 1 (leverage) Capital to Net Average Assets	1,788,743	13.83	%
Tier 1 Capital to Risk-Weighted Assets	1,788,743	24.52	%
Common Equity Tier 1 Capital to Risk-Weighted Assets	1,788,743	24.52	%

69

Prior to its July 21, 2011 merger into the OCC, the OTS issued, effective February 7, 2011, memoranda of understanding covering the Association, Third Federal Savings, MHC and the Company. On December 22, 2012, the Association's primary regulator terminated the MOU applicable to the Association. On April 1, 2014, the FRS, the primary regulator for Third Federal Savings, MHC and the Company, terminated the MOUs applicable to Third Federal Savings, MHC and the Company. The items in the MOUs applicable to Third Federal Savings, MHC and the Company during the year ended September 30, 2014, pertained to plans for new debt, dividends or stock repurchases and the further refinement and enhancement of our enterprise risk management processes. Specifically, the Company was required to submit a written request for non-objection to the FRS at least 45 days prior to the anticipated date of proposed debt, dividend or capital distribution (e.g. stock repurchase) transactions and without the receipt of a written non-objection from the FRS, was prohibited from consummating any such proposed transaction. On September 26, 2013, the Company announced that it had received the FRS's written non-objection to the resumption of its fourth stock repurchase plan that, at that time, had 2,156,250 shares of its outstanding common stock remaining to be purchased under the terms of the plan. Repurchases of those shares were completed during the quarter ended December 31, 2013. Concurrently with the April 4, 2014 announcement of the termination of the MOUs enforced by the FRS, the Company announced its fifth stock repurchase plan, covering 5,000,000 shares. The fifth repurchase plan was completed on September 17, 2014. On September 9, 2014, the Company announced its sixth stock repurchase program, covering 10,000,000 shares. There were 6,236,550 shares repurchased under the sixth authorized program between September 17, 2014, when it began, and March 31, 2015.

In addition to the operational liquidity considerations described above, which are primarily those of the Association, the Company, as a separate legal entity, also monitors and manages its own, parent company only liquidity which provides the source of funds necessary to support all of the parent company's stand-alone operations, including its capital distribution strategies which encompass its share repurchase and dividend payment programs. The Company's primary source of liquidity is dividends received from the Association. The amount of dividends that the Association may declare and pay to the Company in any calendar year, without the receipt of prior approval from the OCC but with prior notice to the FRB-Cleveland, cannot exceed net income for the current calendar year-to-date period plus retained net income (as defined) for the preceding two calendar years, reduced by prior dividend payments made during those periods. During the six months ended March 31, 2015 the Company received a $66 million dividend from the Association and repurchased $81.6 million of common stock. On August 28, 2014, November 21, 2014 and February 26, 2015, the Company's Board of Directors declared $0.07 per share dividends, payable on September 26, 2014, December 19, 2014 and March 23, 2015, respectively. Also on August 28, 2014, the Company announced that on July 31, 2014, Third Federal Savings, MHC had received the approval of its members (depositors and certain loan customers of the Association) with respect to the waiver of dividends, and subsequently received the non-objection of the FRB-Cleveland, to waive receipt of dividends on the Company’s common stock that Third Federal Savings, MHC owned, up to $0.28 per share during the 12 months ending July 31, 2015. Third Federal Savings, MHC waived its right to receive each of the three $0.07 per share dividend payments. During the six months ended March 31, 2015, common stock dividends paid by the Company totaled $9.3 million.

At March 31, 2015, the Company had, in the form of cash and a demand loan from the Association, $137.1 million of funds readily available to support its stand-alone operations. Additionally, the Company has received the non-objection of its regulators for the Association to pay a special dividend of $150 million to the Company. This amount is equal to the voluntary contribution of capital that the Company made to the Association in October 2010. Payment of this special dividend will be made in the future as funds are needed by the Company. Because of its intercompany nature, this future dividend payment will have no impact on the Company's capital ratios or its consolidated statement of condition but will reduce the Association's reported capital ratios.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk has historically been interest rate risk. In general, our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits. As a result, a principal part of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest

rates. Accordingly, our Board of Directors has established risk parameter limits deemed appropriate given our business strategy, operating environment, capital, liquidity and performance objectives. Additionally, our Board of Directors has also authorized the formation of an Asset/Liability Management Committee comprised of key operating personnel which is responsible for managing this risk consistent with the guidelines and risk limits approved by the Board of Directors. Further, the Board has established the Directors Risk Committee which, among other responsibilities, conducts regular oversight and review of the guidelines, policies and deliberations of the Asset/Liability Management Committee. We have sought to manage our interest rate risk in order to control the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we have historically used the following strategies to manage our interest rate risk:

(i) marketing adjustable-rate and shorter-maturity (10-year, fixed-rate mortgage) loan products;

(ii) lengthening the weighted average remaining term of major funding sources, primarily by offering attractive interest rates on deposit products, particularly longer-term certificates of deposit, and through the use of longer-term advances from the FHLB of Cincinnati and longer-term brokered certificates of deposit;
(iii) investing in shorter- to medium-term investments and mortgage-backed securities;
(iv) maintaining high levels of capital; and
(v) securitizing and/or selling long-term, fixed-rate residential real estate mortgage loans.

During the six months ended March 31, 2015, $56.1 million of agency-compliant, long-term, fixed-rate mortgage loans were sold, all on a servicing retained basis, and, at March 31, 2015, $1.1 million of agency-compliant, long-term, fixed-rate residential first mortgage loans were classified as “held for sale”. Of the loan sales during the six months ended March 31, 2015, $10.9 million was comprised of long-term (15 to 30 years), fixed-rate first mortgage loans which were sold under Fannie Mae's HARP II program, and $45.2 million was comprised of long-term (15 to 30 years), fixed-rate first mortgage loans which had been originated under our revised procedures and were sold to Fannie Mae after November 15, 2013 under our re-instated seller contract, as described in the next paragraph. At March 31, 2015, we had $1.1 million of outstanding loan sales commitments.

Fannie Mae, historically the Association’s primary loan investor, implemented, effective July 1, 2010, certain loan origination requirement changes affecting loan eligibility that we chose not to adopt until May 2013. Subsequent to the May 2013 implementation date of our revised procedures, and, upon review and validation by Fannie Mae which was received on November 15, 2013, fixed-rate, first mortgage loans (primarily fixed-rate, mortgage refinances with terms of 15 years or more and HARP II loans) that were originated under the revised procedures were eligible for sale to Fannie Mae either as whole loans or as mortgage-backed securities. We expect that certain loan types (i.e. our Smart Rate adjustable-rate loans, purchase fixed-rate loans and 10-year fixed-rate loans) will continue to be originated under our legacy procedures. For loans originated prior to May 2013 and for those loans originated subsequent to April 2013 that are not originated under the revised (Fannie Mae) procedures, the Association’s ability to reduce interest rate risk via loan sales is limited to those loans that have established payment histories, strong borrower credit profiles and are supported by adequate collateral values that meet the requirements of private third-party investors similar to the four transactions that were completed during fiscal 2013.

In response to the evolving secondary market environment, since July 2010, we have actively marketed an adjustable-rate mortgage loan product and since fiscal 2012, have promoted a 10-year fixed-rate mortgage loan product. Each of these products provides us with improved interest rate risk characteristics when compared to longer-term, fixed-rate mortgage loans. Shortening the average duration of our interest-earning assets by increasing our investments in shorter-term loans and investments, as well as loans and investments with variable rates of interest, helps to better match the maturities and interest rate repricing of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates. By following these strategies, we believe that we are better positioned to react to increases in market interest rates.

Economic Value of Equity. Using customized modeling software, the Association prepares periodic estimates of the amounts by which the net present value of its cash flows from assets, liabilities and off-balance sheet items (the institution’s economic value of equity or EVE) would change in the event of a range of assumed changes in market interest rates. The simulation model uses a discounted cash flow analysis and an option-based pricing approach in measuring the interest rate sensitivity of EVE. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumption that instantaneous changes (measured in basis points) occur at all maturities along the United States Treasury yield curve and other relevant market interest rates. A basis point equals one, one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 2% to 3% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below. The model is tailored specifically to our organization, which, we believe, improves its predictive accuracy. The following table presents the estimated changes in the Association’s EVE at March 31, 2015 that would result from the indicated instantaneous changes in the United States Treasury yield curve and other relevant market interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of

actual results.

Table of Contents

Change in Interest Rates (basis points) (1)	Estimated EVE (2)	Estimated Increase (Decrease) in EVE		EVE as a Percentage of Present Value of Assets (3)	
		Amount	Percent	EVE Ratio (4)	Increase (Decrease) (basis points)
	(Dollars in thousands)				
+300	$1,625,995	$(511,884)	(23.94)%	14.43%	(272)
+200	1,845,710	(292,169)	(13.67)%	15.80%	(135)
+100	2,028,928	(108,951)	(5.10)%	16.77%	(38)
0	2,137,879	—	—	17.15%	—
-100	2,084,405	(53,474)	(2.50)%	16.41%	(74)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at March 31, 2015, in the event of an increase of 200 basis points in all interest rates, the Association would experience a 13.67% decrease in EVE. In the event of a 100 basis point decrease in interest rates, the Association would experience a 2.50% decrease in EVE.

The following table is based on the calculations contained in the previous table, and sets forth the change in the EVE at a +200 basis point rate of shock at March 31, 2015, with comparative information as of September 30, 2014. By regulation, the Association must measure and manage its interest rate risk for interest rate shocks relative to established risk tolerances in EVE.

Risk Measure (+200 bps Rate Shock)

	At March 31, 2015	At September 30, 2014
Pre-Shock EVE Ratio	17.15%	18.46%
Post-Shock EVE Ratio	15.80%	16.37%
Sensitivity Measure in basis points	(135)	(209)
Percentage Change in EVE Ratio	(13.67)%	(17.36)%

Certain shortcomings are inherent in the methodologies used in measuring interest rate risk through changes in EVE. Modeling changes in EVE require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE tables presented above assume:

- no new growth or business volumes;
- that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, except for reductions to reflect mortgage loan principal repayments along with modeled prepayments and defaults; and
- that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities.

Accordingly, although the EVE tables provide an indication of our interest rate risk exposure as of the indicated dates, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and will differ from actual results. In addition to our core business activities, which primarily sought to originate Smart Rate (adjustable) and 10 year fixed-rate loans funded by borrowings from the FHLB and intermediate term CDs (including brokered CDs), and which generally had a favorable impact on our IRR profile, the impact of three other items resulted in the 3.69% improvement in the Percentage Change in EVE Ratio measure at March 31, 2015 when compared to the measure at September 30, 2014. While our core business activities, as described earlier in this paragraph, improved our Percentage Change in EVE Ratio by 0.62%, the most significant

factor contributing to the overall improvement was the change in market interest rates. Since September 30, 2014, the change in market interest rates ranged from a decrease of 1 basis point for the two year term to a decrease of 39 basis points for the five year term and a decrease of 57 basis points for the ten year term. The changes in interest rates resulted in an improvement of 4.81% in the Percentage Change in EVE Ratio. Partially offsetting the beneficial impacts of the changes in market interest rates and the balance sheet repositioning was the impact of

72

the $66 million cash dividend that the Association paid to the Company. Because of its intercompany nature, this payment had no impact on the Company's capital position, or the Company's overall IRR profile but reduced the Association's regulatory capital and regulatory capital ratios and negatively impacted the Association's Percentage Change in EVE Ratio by approximately 0.41%. Additionally, numerous modifications and enhancements to our modeling assumptions and methodologies, which are continually challenged and evaluated, have been implemented since September 30, 2014 and, on a net basis, negatively impacted the Association's Percentage Change in EVE Ratio by 1.33%. These changes primarily impacted the estimated timing of cash flows related to our Smart Rate portfolio of adjustable rate, first mortgage loans, and attempt to more closely align the model’s projections with our historical experience for those products. The IRR simulation results presented above were in line with management's expectations and were within the risk limits established by our Board of Directors.

Our simulation model possesses random patterning capabilities and accommodates extensive regression analytics applicable to the prepayment and decay profiles of our borrower and depositor portfolios. The model facilitates the generation of alternative modeling scenarios and provides us with timely decision making data that is integral to our IRR management processes. Modeling our IRR profile and measuring our IRR exposure are processes that are subject to continuous revision, refinement, modification, enhancement, back testing and validation. We continually evaluate, challenge and update the methodology and assumptions used in our IRR model, including behavioral equations that have been derived based on third-party studies of our customer historical performance patterns. Changes to the methodology and/or assumptions used in the model will result in reported IRR profiles and reported IRR exposures that will be different, and perhaps significantly, from the results reported above.

Earnings at Risk. In addition to EVE calculations, we use our simulation model to analyze the sensitivity of our net interest income to changes in interest rates (the institution’s EaR). Net interest income is the difference between the interest income that we earn on our interest-earning assets, such as loans and securities, and the interest that we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for prospective 12 and 24 month periods using customized (based on our portfolio characteristics) assumptions with respect to loan prepayment rates, default rates and deposit decay rates, and the implied forward yield curve as of the market date for assumptions as to projected interest rates. We then calculate what the net interest income would be for the same period in the event of instantaneous changes in market interest rates. The simulation process is subject to continual enhancement, modification, refinement and adaptation in order that it might most accurately reflect our current circumstances, factors and expectations. As of March 31, 2015, we estimated that our EaR for the 12 months ending March 31, 2016 would decrease by 1.1% in the event of an instantaneous 200 basis point increase in market interest rates. At March 31, 2015, the IRR simulations results were in line with management's expectations and were within the risk limits established by our Board of Directors.

Certain shortcomings are also inherent in the methodologies used in determining interest rate risk through changes in EaR. Modeling changes in EaR require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the interest rate risk information presented above assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although interest rate risk calculations provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results. In addition to the preparation of computations as described above, we also formulate simulations based on a variety of non-linear changes in interest rates and a variety of non-constant balance sheet composition scenarios.

Other Considerations. The EVE and EaR analyses are similar in that they both start with the same month end balance sheet amounts, weighted average coupon and maturity. The underlying prepayment, decay and default assumptions are also the same and they both start with the same month end "markets" (Treasury and Libor yield curves, etc.). From that similar starting point, the models follow divergent paths. EVE is a stochastic model using 300 different interest rate paths to compute market value at the cohorted transaction level for each of the categories on the balance sheet whereas EaR uses the implied forward curve to compute interest income/expense at the cohorted transaction level for

each of the categories on the balance sheet.
EVE is considered as a point in time calculation with a "liquidation" view of the Association where all the cash flows (including interest, principal and prepayments) are modeled and discounted using discount factors derived from the current market yield curves. It provides a long term view and helps to define changes in equity and duration as a result of changes in interest rates. On the other hand, EaR is based on balance sheet projections going one year and two years forward and assumes new business volume and pricing to calculate net interest income under different interest rate environments. EaR is calculated to determine the sensitivity of net interest income under different interest rate scenarios. With each of these models specific policy limits have been established that are compared with the actual month end results. These limits have been approved by the Association's Board of Directors and are used as benchmarks to evaluate and moderate interest rate risk. In the event that there is a breach of policy limits, management is responsible for taking such action, similar to those described under the

Table of Contents

preceding heading of General, as may be necessary in order to return the Association's interest rate risk profile to a position that is in compliance with the policy. At March 31, 2015 the IRR profile as disclosed above did not breach our internal limits.

Item 4. Controls and Procedures

Under the supervision of and with the participation of the Company’s management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated
and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company’s financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the “Risk Factors” disclosed in the Annual Report on Form 10-K, filed with the SEC on November 26, 2014 (File No. 001-33390).

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

(a) Not applicable

(b) Not applicable

(c) The following table summarizes our stock repurchase activity during the quarter ended March 31, 2015 and the stock repurchase plan approved by our Board of Directors.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans
January 1, 2015 through January 31, 2015	800,000	$14.30	800,000	5,783,450
February 1, 2015 through February 28, 2015	940,000	14.20	940,000	4,843,450
March 1, 2015 through March 31, 2015	1,080,000	14.54	1,080,000	3,763,450
	2,820,000	14.36	2,820,000	

(1) On September 9, 2014, the Company announced its sixth stock repurchase program, which authorized the repurchase of up to an additional 10,000,000 shares of the Company’s outstanding common stock. Purchases under the program will be on an ongoing basis and subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses of capital, and our financial performance. Repurchased shares will be held as treasury stock and be available for general corporate use. The program has 3,763,450 shares yet to be purchased as of March 31, 2015.

Table of Contents

Item 3. Defaults Upon Senior Securities
Not applicable
Item 4. Mine Safety Disclosures
Not applicable
Item 5. Other Information
Not applicable
Item 6.
(a) Exhibits

31.1	Certification of chief executive officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification of chief financial officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32	Certification of chief executive officer and chief financial officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350
101	The following unaudited financial statements from TFS Financial Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed on May 7, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Equity, (v) Consolidated Statements of Cash Flows, (vi) the Notes to Consolidated Financial Statements.

101.INS	Interactive datafile	XBRL Instance Document
101.SCH	Interactive datafile	XBRL Taxonomy Extension Schema Document
101.CAL	Interactive datafile Document	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Interactive datafile	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Interactive datafile	XBRL Taxonomy Extension Label Linkbase
101.PRE	Interactive datafile Document	XBRL Taxonomy Extension Presentation Linkbase

Table of Contents

SIGNATURES

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

	TFS Financial Corporation
Dated: May 7, 2015	/s/ Marc A. Stefanski Marc A. Stefanski Chairman of the Board, President and Chief Executive Officer
Dated: May 7, 2015	/s/ David S. Huffman David S. Huffman Chief Financial Officer and Secretary