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

Form 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2019

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: 001-34814

Capitol Federal Financial, Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

27-2631712

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

700 South Kansas Avenue, Topeka, Kansas

(Address of principal executive offices)

66603

(Zip Code)

(785) 235-1341

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	CFFN	The NASDAQ Stock Market LLC

As of May 3, 2019, there were 141,371,539 shares of Capitol Federal Financial, Inc. common stock outstanding.

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PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands, except per share amounts)

	March 31, 2019	September 30, 2018
	2019	2018
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of \$199,476 and \$122,733)	\$ 218,051	\$ 139,055
Securities:		
Available-for-sale ("AFS"), at estimated fair value (amortized cost of \$741,975 and \$718,564)	746,728	714,614
Held-to-maturity ("HTM"), at amortized cost (estimated fair value of \$526,099 and \$601,071)	527,460	612,318
Loans receivable, net (allowance for credit losses ("ACL") of \$8,619 and \$8,463)	7,570,806	7,514,485
Federal Home Loan Bank Topeka ("FHLB") stock, at cost	102,631	99,726
Premises and equipment, net	96,492	96,005
Income taxes receivable, net	—	2,177
Other assets	272,383	271,167
TOTAL ASSETS	\$ 9,534,551	\$ 9,449,547
LIABILITIES:		
Deposits	\$ 5,701,111	\$ 5,603,354
FHLB borrowings	2,239,985	2,174,981
Other borrowings	100,000	110,052
Advance payments by borrowers for taxes and insurance	48,301	65,264
Income taxes payable, net	115	—
Deferred income tax liabilities, net	17,375	21,253
Accounts payable and accrued expenses	71,681	83,021
Total liabilities	8,178,568	8,057,925
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value; 100,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$.01 par value; 1,400,000,000 shares authorized, 141,279,239 and 141,225,516 shares issued and outstanding as of March 31, 2019 and September 30, 2018, respectively	1,413	1,412
Additional paid-in capital	1,208,665	1,207,644
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(35,517)	(36,343)
Retained earnings	186,838	214,569
Accumulated other comprehensive (loss) income ("AOCI"), net of tax	(5,416)	4,340
Total stockholders' equity	1,355,983	1,391,622
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,534,551	\$ 9,449,547

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 71,657	\$ 64,194	\$ 142,429	\$ 128,383
Mortgage-backed securities ("MBS")	6,301	5,390	12,824	10,642
FHLB stock	1,831	3,201	3,802	6,296
Investment securities	1,505	1,094	2,946	2,088
Cash and cash equivalents	743	7,895	2,457	15,009
Total interest and dividend income	<u>82,037</u>	<u>81,774</u>	<u>164,458</u>	<u>162,418</u>
INTEREST EXPENSE:				
Deposits	16,096	12,480	31,821	24,441
FHLB borrowings	12,525	18,772	26,055	36,689
Other borrowings	819	633	1,684	2,025
Total interest expense	<u>29,440</u>	<u>31,885</u>	<u>59,560</u>	<u>63,155</u>
NET INTEREST INCOME	<u>52,597</u>	<u>49,889</u>	<u>104,898</u>	<u>99,263</u>
PROVISION FOR CREDIT LOSSES	—	—	—	—
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	52,597	49,889	104,898	99,263
NON-INTEREST INCOME:				
Deposit service fees	3,091	3,670	6,443	7,635
Income from bank-owned life insurance ("BOLI")	587	276	1,222	810
Other non-interest income	1,323	1,487	2,760	2,346
Total non-interest income	<u>5,001</u>	<u>5,433</u>	<u>10,425</u>	<u>10,791</u>
NON-INTEREST EXPENSE:				
Salaries and employee benefits	12,789	11,167	25,751	21,695
Information technology and related expense	4,284	3,622	8,883	6,953
Occupancy, net	3,292	2,839	6,544	5,604
Regulatory and outside services	1,056	1,151	2,822	2,291
Advertising and promotional	1,390	1,337	2,150	2,022
Deposit and loan transaction costs	465	1,313	1,201	2,720
Office supplies and related expense	736	442	1,195	884
Federal insurance premium	659	847	1,187	1,699
Other non-interest expense	1,470	880	3,190	1,766
Total non-interest expense	<u>26,141</u>	<u>23,598</u>	<u>52,923</u>	<u>45,634</u>
INCOME BEFORE INCOME TAX EXPENSE	<u>31,457</u>	<u>31,724</u>	<u>62,400</u>	<u>64,420</u>
INCOME TAX EXPENSE	6,903	8,394	13,463	9,254
NET INCOME	<u>\$ 24,554</u>	<u>\$ 23,330</u>	<u>\$ 48,937</u>	<u>\$ 55,166</u>
Basic earnings per share ("EPS")	\$ 0.18	\$ 0.17	\$ 0.36	\$ 0.41
Diluted EPS	\$ 0.18	\$ 0.17	\$ 0.36	\$ 0.41
Basic weighted average common shares	137,634,820	134,428,227	137,592,409	134,400,300
Diluted weighted average common shares	137,690,717	134,475,228	137,641,126	134,471,259

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)

	For the Three Months Ended March 31,		For the Six Months Ended March 31,	
	2019	2018	2019	2018
Net income	\$ 24,554	\$ 23,330	\$ 48,937	\$ 55,166
Other comprehensive income (loss), net of tax:				
Changes in unrealized gains (losses) on AFS securities, net of taxes of \$(982), \$610, \$(2,115) and \$1,319	3,061	(1,898)	6,588	(3,064)
Changes in unrealized gains (losses) on cash flow hedges, net of taxes of \$2,118, \$(1,063), \$5,246 and \$(1,867)	(6,600)	3,316	(16,344)	4,638
Comprehensive income	<u>\$ 21,015</u>	<u>\$ 24,748</u>	<u>\$ 39,181</u>	<u>\$ 56,740</u>

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands, except per share amounts)

For the Six Months Ended March 31, 2019

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at September 30, 2018	\$ 1,412	\$ 1,207,644	\$ (36,343)	\$ 214,569	\$ 4,340	\$ 1,391,622
Net income				24,383		24,383
Other comprehensive loss, net of tax					(6,217)	(6,217)
Cumulative effect of adopting Accounting Standards Update ("ASU") 2014-09				394		394
ESOP activity		118	413			531
Stock-based compensation		95				95
Stock options exercised	1	466				467
Cash dividends to stockholders (\$0.475 per share)				(65,362)		(65,362)
Balance at December 31, 2018	<u>1,413</u>	<u>1,208,323</u>	<u>(35,930)</u>	<u>173,984</u>	<u>(1,877)</u>	<u>1,345,913</u>
Net income				24,554		24,554
Other comprehensive loss, net of tax					(3,539)	(3,539)
ESOP activity		134	413			547
Stock-based compensation		90				90
Stock options exercised	—	118				118
Cash dividends to stockholders (\$0.085 per share)				(11,700)		(11,700)
Balance at March 31, 2019	<u>\$ 1,413</u>	<u>\$ 1,208,665</u>	<u>\$ (35,517)</u>	<u>\$ 186,838</u>	<u>\$(5,416)</u>	<u>\$ 1,355,983</u>

For the Six Months Ended March 31, 2018

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at September 30, 2017	\$ 1,382	\$ 1,167,368	\$ (37,995)	\$ 234,640	\$ 2,918	\$ 1,368,313
Net income				31,836		31,836
Other comprehensive income, net of tax					156	156
Cumulative effect of adopting ASU 2016-09		19		(19)		—
ESOP activity		165	413			578
Stock-based compensation		94				94
Stock options exercised	—	46				46
Cash dividends to stockholders (\$0.375 per share)				(50,412)		(50,412)
Balance at December 31, 2017	<u>1,382</u>	<u>1,167,692</u>	<u>(37,582)</u>	<u>216,045</u>	<u>3,074</u>	<u>1,350,611</u>
Net income				23,330		23,330
Other comprehensive income, net of tax					1,418	1,418
Reclassification of certain tax effects related to adopting ASU 2018-02				(667)	667	—
ESOP activity		123	413			536
Stock-based compensation		93				93
Stock options exercised		179				179
Cash dividends to stockholders (\$0.085 per share)				(11,427)		(11,427)
Balance at March 31, 2018	<u>\$ 1,382</u>	<u>\$ 1,168,087</u>	<u>\$ (37,169)</u>	<u>\$ 227,281</u>	<u>\$ 5,159</u>	<u>\$ 1,364,740</u>

See accompanying notes to consolidated financial statements.

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

	For the Six Months Ended March 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 48,937	\$ 55,166
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(3,802)	(6,296)
Originations of loans receivable held-for-sale ("LHFS")	—	(390)
Proceeds from sales of LHFS	—	16,035
Amortization and accretion of premiums and discounts on securities	737	1,733
Depreciation and amortization of premises and equipment	4,710	4,180
Amortization of intangible assets	1,189	—
Amortization of deferred amounts related to FHLB advances, net	4	670
Common stock committed to be released for allocation - ESOP	1,078	1,114
Stock-based compensation	185	187
Changes in:		
Unrestricted cash collateral (provided to)/received from derivative counterparties, net	(9,970)	6,711
Other assets, net	1,418	2,257
Income taxes payable, net	2,291	138
Deferred income tax liabilities, net	(745)	(6,396)
Accounts payable and accrued expenses	(13,894)	(8,350)
Net cash provided by operating activities	32,138	66,759
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(172,506)	(223,829)
Proceeds from calls, maturities and principal reductions of AFS securities	149,524	73,993
Proceeds from calls, maturities and principal reductions of HTM securities	83,692	109,702
Proceeds from sale of AFS securities	—	2,078
Proceeds from the redemption of FHLB stock	97,096	3,045
Purchase of FHLB stock	(96,199)	(91,421)
Net increase in loans receivable	(57,073)	(22,437)
Purchase of premises and equipment	(4,583)	(4,214)
Proceeds from sale of other real estate owned ("OREO")	1,062	1,587
Net cash provided by (used in) investing activities	1,013	(151,496)

(Continued)

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

	For the Six Months Ended	
	March 31,	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(77,062)	(61,839)
Net change in deposits	97,757	44,325
Proceeds from borrowings	2,680,000	8,500,000
Repayments on borrowings	(2,625,052)	(8,600,000)
Change in advance payments by borrowers for taxes and insurance	(16,963)	(9,053)
Stock options exercised	585	225
Net cash provided by (used in) financing activities	<u>59,265</u>	<u>(126,342)</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	<u>92,416</u>	<u>(211,079)</u>
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS:		
Beginning of period	139,055	351,659
End of period	<u>\$ 231,471</u>	<u>\$ 140,580</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to LHFS	<u>\$ —</u>	<u>\$ 15,814</u>

See accompanying notes to consolidated financial statements.

(Concluded)

Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of Capitol Federal® Financial, Inc. (the "Company") and its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank has two wholly-owned subsidiaries, Capitol Funds, Inc. and Capital City Investments, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. Capital City Investments, Inc. is a real estate and investment holding company. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

Cash, Cash Equivalents, Restricted Cash and Restricted Cash Equivalents - Cash, cash equivalents, restricted cash and restricted cash equivalents reported in the statement of cash flows include cash and cash equivalents of \$218.1 million and \$139.1 million at March 31, 2019 and September 30, 2018 and restricted cash and cash equivalents of \$13.4 million at March 31, 2019, which was included in other assets on the consolidated balance sheet. There was no restricted cash and cash equivalents at September 30, 2018. The restricted cash and cash equivalents relate to the collateral postings to/from the Bank's derivative counterparties associated with the Bank's interest rate swaps. See additional discussion regarding the interest rate swaps in Note 5. Borrowed Funds.

Net Presentation of Cash Flows Related to Borrowings - At times, the Bank enters into certain FHLB advances with contractual maturities of 90 days or less. Cash flows related to these advances are reported on a net basis in the consolidated statements of cash flows.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU, as amended, implements a common revenue standard that clarifies the principles for recognizing revenue included in Accounting Standards Codification ("ASC") Topic 606. The core principle of the amended guidance is that an entity should recognize revenue to depict the transfer of 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. The majority of the Company's revenue is composed of interest income from loans and securities which are explicitly excluded from the amended ASU. The Company elected to implement the amended ASU using the modified retrospective application with a cumulative adjustment to opening retained earnings at October 1, 2018. Upon adoption of the amended ASU, the Company recorded a cumulative adjustment, which increased opening retained earnings by \$394 thousand related to contracts that were not complete upon adoption. The amount was related to the change in the recognition of revenue related to certain insurance commissions. Additionally, effective October 1, 2018, interchange network charges are reported as a reduction in deposit service fees. Previously, these charges were reported as expense in deposit and loan transaction costs in the consolidated statements of income. The Company concluded the ASU did not significantly change the Company's revenue recognition methods. This ASU did not have a material impact on the Company's consolidated financial condition or results of operations at the time of adoption. The new disclosure requirements of the ASU are included in Note 8. Revenue Recognition.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU supersedes certain accounting guidance related to equity securities with readily determinable fair values and the related impairment assessment. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this ASU. The ASU requires public business entities to utilize the exit price notion when determining fair value for financial instruments measured at amortized cost on the balance sheet. The ASU also requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the notes to the financial statements. ASU 2016-01 became effective for the Company on October 1, 2018. The adoption of this ASU did not have a material impact on the Company's consolidated financial condition or results of operations. The new disclosure requirements of the ASU are included in Note 6. Fair Value of Financial Instruments.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The ASU, as amended, revises lease accounting guidance by requiring that lessees recognize the assets and liabilities arising from leases on the balance sheet. Additionally, the ASU requires entities to disclose both quantitative and qualitative information regarding their leasing activities. The accounting applied by a lessor is largely unchanged from that applied under the previous guidance. ASU 2016-02 will become effective for the Company on October 1, 2019. In July 2018, the FASB issued ASU 2018-11, *Leases*, which provides entities with relief from the costs of implementation by allowing the option to not restate comparative periods as part of the transition. The Company expects to select the transition relief provisions.

The Company has completed its development of a lease inventory and an internal lease data collection, organization, and computing platform for compliance with this ASU. The Company is continuing to evaluate the impact this ASU may have on the Company's consolidated financial condition and results of operations. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of the minimum commitments under non-cancellable leases as of the date of adoption. The Company is continuing to evaluate the impact this ASU may have to the Company's disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU, as amended, replaces the incurred loss impairment methodology in current GAAP, which requires credit losses to be recognized when it is probable that a loss has been incurred, with a new impairment methodology. The new impairment methodology requires an entity to measure, at each reporting date, the expected credit losses of financial assets not measured at fair value, such as loans, HTM debt securities, and loan commitments, over their contractual lives. Under the new impairment methodology, expected credit losses will be measured at each reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends the current credit loss measurements for AFS debt securities. Credit losses related to AFS debt securities will be recorded through the ACL rather than as a direct write-down as per current GAAP. The ASU also requires enhanced disclosures related to credit quality and significant estimates and judgments used by management when estimating credit losses. The ASU will become effective for the Company on October 1, 2020. The Company has selected a third-party vendor solution to assist in the application and implementation of the new accounting guidance and will begin loading historical loan and loss data into the third-party software during the third quarter of fiscal year 2019. While we are currently unable to reasonably estimate the impact of adopting this ASU, we expect the impact of adoption will be influenced by the composition of our loan and securities portfolios as well as the economic conditions and forecasts at the time of adoption.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. The ASU addresses diversity in the classification and presentation of changes in restricted cash and cash equivalents on the statement of cash flows. The ASU requires that amounts described as restricted cash and cash equivalents be included with cash and cash equivalents when reconciling the beginning and ending amounts presented on the statement of cash flows, requires disclosures on the nature of restrictions on cash and cash equivalents, and the amount and financial statement line presentation of restricted cash and cash equivalents. The Company adopted this ASU on October 1, 2018 and it did not have a material impact on the Company's consolidated financial condition or results of operations at the time of adoption.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. The ASU amends the hedge accounting recognition and presentation requirements in current GAAP. The purpose of the ASU was to improve transparency of hedging relationships in the financial statements and to reduce the complexity of applying hedge accounting for preparers. The ASU will become effective for the Company on October 1, 2019. The Company is currently evaluating the effect of the ASU on the Company's consolidated financial condition, results of operations and disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement: Disclosure Framework - Changes to the Disclosures Requirements for Fair Value Measurement*. This ASU eliminates, modifies and adds certain disclosure requirements for fair value measurements. The ASU adds disclosure requirements for the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The effective date of this ASU for the Company is October 1, 2020, with early adoption permitted. Entities are allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. Since this ASU only requires disclosure changes, it will not have a significant impact on the Company's consolidated financial condition and results of operations.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include internal-use software license). The effective date of this ASU for the Company is October 1, 2020, with early adoption permitted. The Company is currently evaluating the effect of the ASU on the Company's consolidated financial condition, results of operations and disclosures.

2. EARNINGS PER SHARE

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

	For the Three Months Ended		For the Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
	(Dollars in thousands, except per share amounts)			
Net income	\$ 24,554	\$ 23,330	\$ 48,937	\$ 55,166
Income allocated to participating securities	(10)	(10)	(19)	(23)
Net income available to common stockholders	<u>\$ 24,544</u>	<u>\$ 23,320</u>	<u>\$ 48,918</u>	<u>\$ 55,143</u>
Average common shares outstanding	137,593,062	134,386,469	137,571,533	134,379,424
Average committed ESOP shares outstanding	<u>41,758</u>	<u>41,758</u>	<u>20,876</u>	<u>20,876</u>
Total basic average common shares outstanding	137,634,820	134,428,227	137,592,409	134,400,300
Effect of dilutive stock options	<u>55,897</u>	<u>47,001</u>	<u>48,717</u>	<u>70,959</u>
Total diluted average common shares outstanding	<u>137,690,717</u>	<u>134,475,228</u>	<u>137,641,126</u>	<u>134,471,259</u>
Net EPS:				
Basic	<u>\$ 0.18</u>	<u>\$ 0.17</u>	<u>\$ 0.36</u>	<u>\$ 0.41</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.17</u>	<u>\$ 0.36</u>	<u>\$ 0.41</u>
Antidilutive stock options, excluded from the diluted average common shares outstanding calculation	<u>494,395</u>	<u>598,195</u>	<u>529,261</u>	<u>527,642</u>

3. SECURITIES

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

March 31, 2019				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
(Dollars in thousands)				
AFS:				
MBS	\$ 469,455	\$ 5,995	\$ 606	\$ 474,844
GSE debentures	268,375	274	908	267,741
Municipal bonds	4,145	3	5	4,143
	<u>\$ 741,975</u>	<u>\$ 6,272</u>	<u>\$ 1,519</u>	<u>\$ 746,728</u>
HTM:				
MBS	\$ 510,450	\$ 5,107	\$ 6,461	\$ 509,096
Municipal bonds	17,010	19	26	17,003
	<u>\$ 527,460</u>	<u>\$ 5,126</u>	<u>\$ 6,487</u>	<u>\$ 526,099</u>
September 30, 2018				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	
(Dollars in thousands)				
AFS:				
MBS	\$ 445,883	\$ 3,270	\$ 4,063	\$ 445,090
GSE debentures	268,525	30	3,157	265,398
Municipal bonds	4,156	—	30	4,126
	<u>\$ 718,564</u>	<u>\$ 3,300</u>	<u>\$ 7,250</u>	<u>\$ 714,614</u>
HTM:				
MBS	\$ 591,900	\$ 4,514	\$ 15,589	\$ 580,825
Municipal bonds	20,418	—	172	20,246
	<u>\$ 612,318</u>	<u>\$ 4,514</u>	<u>\$ 15,761</u>	<u>\$ 601,071</u>

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

March 31, 2019

	Less Than 12 Months		Equal to or Greater Than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)			
AFS:				
MBS	\$ 11,197	\$ 55	\$ 67,001	\$ 551
GSE debentures	27,776	3	99,077	905
Municipal bonds	—	—	1,510	5
	\$ 38,973	\$ 58	\$ 167,588	\$ 1,461

HTM:

MBS	\$ 1,551	\$ 2	\$ 331,809	\$ 6,459
Municipal bonds	330	2	7,977	24
	\$ 1,881	\$ 4	\$ 339,786	\$ 6,483

September 30, 2018

	Less Than 12 Months		Equal to or Greater Than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)			
AFS:				
MBS	\$ 324,563	\$ 3,797	\$ 8,129	\$ 266
GSE debentures	101,735	1,231	148,049	1,926
Municipal bonds	4,126	30	—	—
	\$ 430,424	\$ 5,058	\$ 156,178	\$ 2,192

HTM:

MBS	\$ 58,233	\$ 904	\$ 362,806	\$ 14,685
Municipal bonds	18,345	171	685	1
	\$ 76,578	\$ 1,075	\$ 363,491	\$ 14,686

The unrealized losses at March 31, 2019 and September 30, 2018 were primarily a result of an increase in market yields from the time the securities were purchased. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary. Therefore, these securities have not been classified as other-than-temporarily impaired. The impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities, before the recovery of the remaining amortized cost amount, which could be at maturity. As a result of the analysis, management has concluded that no other-than-temporary impairments existed at March 31, 2019 or September 30, 2018.

The amortized cost and estimated fair value of debt securities as of March 31, 2019, by contractual maturity, are shown below. Actual principal repayments may differ from contractual maturities due to prepayment or early call privileges by the issuer. In the case of MBS, borrowers on the underlying loans generally have the right to prepay their loans without prepayment penalty. For this reason, MBS are not included in the maturity categories.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	\$ 5,400	\$ 5,398	\$ 3,842	\$ 3,837
One year through five years	267,120	266,486	13,168	13,166
	272,520	271,884	17,010	17,003
MBS	469,455	474,844	510,450	509,096
	<u>\$ 741,975</u>	<u>\$ 746,728</u>	<u>\$ 527,460</u>	<u>\$ 526,099</u>

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

	For the Three Months Ended		For the Six Months Ended	
	March 31,		March 31,	
	2019	2018	2019	2018
	(Dollars in thousands)			
Taxable	\$ 1,419	\$ 998	\$ 2,767	\$ 1,878
Non-taxable	86	96	179	210
	<u>\$ 1,505</u>	<u>\$ 1,094</u>	<u>\$ 2,946</u>	<u>\$ 2,088</u>

The following table summarizes the carrying value of securities pledged as collateral for the obligations indicated below as of the dates presented.

	March 31, 2019	September 30, 2018
	(Dollars in thousands)	
Public unit deposits	\$ 467,812	\$ 515,553
Repurchase agreements	107,862	108,360
Federal Reserve Bank of Kansas City ("FRB of Kansas City")	7,979	9,529
	<u>\$ 583,653</u>	<u>\$ 633,442</u>

4. LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

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

	<u>March 31, 2019</u>	<u>September 30, 2018</u>
	(Dollars in thousands)	
One- to four-family:		
Originated	\$ 3,922,565	\$ 3,965,692
Correspondent purchased	2,470,619	2,505,987
Bulk purchased	272,575	293,607
Construction	33,525	33,149
Total	<u>6,699,284</u>	<u>6,798,435</u>
Commercial:		
Commercial real estate	547,202	426,243
Commercial and industrial	73,852	62,869
Construction	108,649	80,498
Total	<u>729,703</u>	<u>569,610</u>
Consumer:		
Home equity	125,176	129,588
Other	9,913	10,012
Total	<u>135,089</u>	<u>139,600</u>
Total loans receivable	7,564,076	7,507,645
Less:		
ACL	8,619	8,463
Discounts/unearned loan fees	32,582	33,933
Premiums/deferred costs	(47,931)	(49,236)
	<u>\$ 7,570,806</u>	<u>\$ 7,514,485</u>

Lending Practices and Underwriting Standards - Originating and purchasing one- to four-family loans is the Bank's primary lending business. The Bank also originates consumer loans primarily secured by one- to four-family residential properties and originates and participates in commercial loans. The Bank has a loan concentration in one- to four-family loans and a geographic concentration of these loans in Kansas and Missouri.

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

The underwriting standards for loans purchased from correspondent lenders are generally similar to the Bank's internal underwriting standards. The underwriting of loans purchased from correspondent lenders on a loan-by-loan basis is performed by the Bank's underwriters.

The Bank also originates construction and owner-occupied construction-to-permanent loans secured by one- to four-family residential real estate. Construction draw requests and the supporting documentation are reviewed and approved by designated personnel. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

Commercial loans - The Bank's commercial real estate loans are originated by the Bank or are in participation with a lead bank. When underwriting a commercial real estate loan, several factors are considered, such as the income producing potential of the property, cash equity provided by the borrower, the financial strength of the borrower, managerial expertise of the borrower or tenant, feasibility studies, lending experience with the borrower and the marketability of the property. For commercial real estate participation loans, the

Bank performs the same underwriting procedures as if the loan was being originated by the Bank. At the time of origination, loan-to-value ("LTV") ratios on commercial real estate loans generally do not exceed 80% of the appraised value of the property securing the loans and the minimum debt service coverage ratio is generally 1.20. Appraisals on properties securing these loans are performed by independent state certified fee appraisers.

The Bank's commercial and industrial loans are generally made in the Bank's market areas and are underwritten on the basis of the borrower's ability to service the debt from income. Working capital loans are primarily collateralized by short-term assets whereas term loans are primarily collateralized by long-term assets. In general, commercial and industrial loans involve more credit risk than commercial real estate loans due to the type of collateral securing these loans, as well as the expectation that commercial and industrial loans generally will be serviced principally from the operations of the business, and those operations may not be successful. As a result of these additional complexities, variables and risks, these loans require more thorough underwriting and servicing than other types of loans.

Consumer loans - The Bank offers a variety of secured consumer loans, including home equity loans and lines of credit, home improvement loans, vehicle loans, and loans secured by deposits. The Bank also originates a very limited amount of unsecured loans. The majority of the consumer loan portfolio is comprised of home equity lines of credit for which the Bank also has the first mortgage or the home equity line of credit is in the first lien position.

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

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

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

The following tables present the recorded investment, by class, in loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, current loans, and total recorded investment at the dates presented. The recorded investment in loans is defined as the unpaid principal balance of a loan, less charge-offs and inclusive of unearned loan fees and deferred costs. At March 31, 2019 and September 30, 2018, all loans 90 or more days delinquent were on nonaccrual status.

March 31, 2019

	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
(Dollars in thousands)					
One- to four-family:					
Originated	\$ 8,665	\$ 5,158	\$ 13,823	\$ 3,927,534	\$ 3,941,357
Correspondent purchased	4,186	932	5,118	2,499,826	2,504,944
Bulk purchased	2,764	2,799	5,563	268,267	273,830
Commercial:					
Commercial real estate	64	—	64	651,373	651,437
Commercial and industrial	1,303	—	1,303	71,741	73,044
Consumer:					
Home equity	430	514	944	123,999	124,943
Other	51	14	65	9,805	9,870
	<u>\$ 17,463</u>	<u>\$ 9,417</u>	<u>\$ 26,880</u>	<u>\$ 7,552,545</u>	<u>\$ 7,579,425</u>

September 30, 2018

	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
(Dollars in thousands)					
One- to four-family:					
Originated	\$ 10,613	\$ 5,025	\$ 15,638	\$ 3,968,362	\$ 3,984,000
Correspondent purchased	3,846	458	4,304	2,536,913	2,541,217
Bulk purchased	3,521	3,063	6,584	288,386	294,970
Commercial:					
Commercial real estate	76	—	76	501,932	502,008
Commercial and industrial	250	—	250	61,255	61,505
Consumer:					
Home equity	472	521	993	128,351	129,344
Other	61	10	71	9,833	9,904
	<u>\$ 18,839</u>	<u>\$ 9,077</u>	<u>\$ 27,916</u>	<u>\$ 7,495,032</u>	<u>\$ 7,522,948</u>

The recorded investment in mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of March 31, 2019 and September 30, 2018 was \$3.1 million and \$2.9 million, respectively, which is included in loans 90 or more days delinquent or in foreclosure in the table above. The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure was \$871 thousand at March 31, 2019 and \$1.3 million at September 30, 2018.

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

	<u>March 31, 2019</u>		<u>September 30, 2018</u>
	(Dollars in thousands)		
One- to four-family:			
Originated	\$ 6,872	\$	6,503
Correspondent purchased	932		863
Bulk purchased	2,799		3,063
Commercial:			
Commercial real estate	1,288		—
Commercial and industrial	—		—
Consumer:			
Home equity	517		530
Other	20		10
	<u>\$ 12,428</u>	<u>\$</u>	<u>10,969</u>

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

- Special mention - These loans are performing loans on which known information about the collateral pledged or the possible credit problems of the borrower(s) have caused management to have doubts as to the ability of the borrower(s) to comply with present loan repayment terms and which may result in the future inclusion of such loans in the non-performing loan categories.
- Substandard - A loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans include those characterized by the distinct possibility the Bank will sustain some loss if the deficiencies are not corrected.
- Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts and conditions and values highly questionable and improbable.
- Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as assets on the books is not warranted.

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

	<u>March 31, 2019</u>		<u>September 30, 2018</u>	
	<u>Special Mention</u>	<u>Substandard</u>	<u>Special Mention</u>	<u>Substandard</u>
	(Dollars in thousands)			
One- to four-family:				
Originated	\$ 9,522	\$ 19,247	\$ 8,660	\$ 22,409
Correspondent purchased	2,312	3,101	997	3,126
Bulk purchased	69	6,208	—	7,195
Commercial:				
Commercial real estate	3,675	1,288	1,251	1,368
Commercial and industrial	1,641	—	1,126	—
Consumer:				
Home equity	110	834	298	894
Other	15	3	—	10
	<u>\$ 17,344</u>	<u>\$ 30,681</u>	<u>\$ 12,332</u>	<u>\$ 35,002</u>

The following table shows the weighted average credit score and weighted average LTV for one- to four-family loans and consumer home equity loans at the dates presented. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are updated at least semiannually, with the last update in March 2019, from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The consumer - home equity LTV does not take into account the first lien position, if applicable. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	March 31, 2019		September 30, 2018	
	Credit Score	LTV	Credit Score	LTV
One- to four-family - originated	768	62%	767	63%
One- to four-family - correspondent	764	66	764	67
One- to four-family - bulk purchased	761	61	758	62
Consumer - home equity	754	21	750	22
	766	63	765	63

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

	For the Three Months Ended March 31, 2019			For the Six Months Ended March 31, 2019		
	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding
	(Dollars in thousands)					
One- to four-family:						
Originated	—	\$ —	\$ —	1	\$ 117	\$ 117
Correspondent purchased	—	—	—	—	—	—
Bulk purchased	1	308	308	1	308	308
Commercial:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer:						
Home equity	—	—	—	—	—	—
Other	—	—	—	—	—	—
	<u>1</u>	<u>\$ 308</u>	<u>\$ 308</u>	<u>2</u>	<u>\$ 425</u>	<u>\$ 425</u>

	For the Three Months Ended March 31, 2018			For the Six Months Ended March 31, 2018		
	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding	Number of Contracts	Pre- Restructured Outstanding	Post- Restructured Outstanding
	(Dollars in thousands)					
One- to four-family:						
Originated	2	\$ 93	\$ 94	3	\$ 167	\$ 176
Correspondent purchased	—	—	—	—	—	—
Bulk purchased	—	—	—	—	—	—
Commercial:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer:						
Home equity	—	—	—	—	—	—
Other	—	—	—	—	—	—
	<u>2</u>	<u>\$ 93</u>	<u>\$ 94</u>	<u>3</u>	<u>\$ 167</u>	<u>\$ 176</u>

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

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2019		March 31, 2018		March 31, 2019		March 31, 2018	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)							
One- to four-family:								
Originated	1	\$ 45	7	\$ 434	1	\$ 45	19	\$ 1,254
Correspondent purchased	—	—	1	124	—	—	1	124
Bulk purchased	—	—	—	—	—	—	3	1,040
Commercial:								
Commercial real estate	—	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—	—	—
Consumer:								
Home equity	—	—	—	—	—	—	4	133
Other	—	—	—	—	—	—	—	—
	<u>1</u>	<u>\$ 45</u>	<u>8</u>	<u>\$ 558</u>	<u>1</u>	<u>\$ 45</u>	<u>27</u>	<u>\$ 2,551</u>

Impaired loans - The following information pertains to impaired loans, by class, as of the dates presented. All impaired loans were individually evaluated for loss and all losses were charged-off, resulting in no related ACL for these loans.

	March 31, 2019		September 30, 2018	
	Unpaid		Unpaid	
	Recorded Investment	Principal Balance	Recorded Investment	Principal Balance
	(Dollars in thousands)			
One- to four-family:				
Originated	\$ 15,299	\$ 15,826	\$ 18,857	\$ 19,388
Correspondent purchased	2,170	2,274	2,668	2,768
Bulk purchased	5,131	5,849	6,011	6,976
Commercial:				
Commercial real estate	—	—	—	—
Commercial and industrial	—	—	—	—
Consumer:				
Home equity	398	548	504	720
Other	—	30	—	25
	<u>\$ 22,998</u>	<u>\$ 24,527</u>	<u>\$ 28,040</u>	<u>\$ 29,877</u>

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

	For the Three Months Ended				For the Six Months Ended			
	March 31, 2019		March 31, 2018		March 31, 2019		March 31, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)							
One- to four-family:								
Originated	\$ 15,928	\$ 167	\$ 25,398	\$ 251	16,980	352	26,896	548
Correspondent purchased	2,177	23	3,362	31	2,251	45	3,530	64
Bulk purchased	5,230	43	6,319	42	5,453	86	6,761	95
Commercial:								
Commercial real estate	—	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—	—	—
Consumer:								
Home equity	436	7	606	9	461	16	637	19
Other	—	—	—	—	—	—	—	—
	<u>\$ 23,771</u>	<u>\$ 240</u>	<u>\$ 35,685</u>	<u>\$ 333</u>	<u>\$ 25,145</u>	<u>\$ 499</u>	<u>\$ 37,824</u>	<u>\$ 726</u>

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

For the Three Months Ended March 31, 2019

	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Beginning balance	\$ 2,761	\$ 1,748	\$ 836	\$ 5,345	\$ 3,034	\$ 179	\$ 8,558
Charge-offs	(10)	—	—	(10)	—	(2)	(12)
Recoveries	2	—	17	19	25	29	73
Provision for credit losses	(580)	(356)	(51)	(987)	1,029	(42)	—
Ending balance	<u>\$ 2,173</u>	<u>\$ 1,392</u>	<u>\$ 802</u>	<u>\$ 4,367</u>	<u>\$ 4,088</u>	<u>\$ 164</u>	<u>\$ 8,619</u>

For the Six Months Ended March 31, 2019

	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Beginning balance	\$ 2,953	\$ 1,861	\$ 925	\$ 5,739	\$ 2,556	\$ 168	\$ 8,463
Charge-offs	(30)	—	(26)	(56)	—	(12)	(68)
Recoveries	5	—	106	111	27	86	224
Provision for credit losses	(755)	(469)	(203)	(1,427)	1,505	(78)	—
Ending balance	<u>\$ 2,173</u>	<u>\$ 1,392</u>	<u>\$ 802</u>	<u>\$ 4,367</u>	<u>\$ 4,088</u>	<u>\$ 164</u>	<u>\$ 8,619</u>

For the Three Months Ended March 31, 2018

	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Beginning balance	\$ 3,115	\$ 1,902	\$ 1,000	\$ 6,017	\$ 2,157	\$ 196	\$ 8,370
Charge-offs	(68)	(128)	—	(196)	—	(4)	(200)
Recoveries	17	—	196	213	—	7	220
Provision for credit losses	92	260	(196)	156	(119)	(37)	—
Ending balance	<u>\$ 3,156</u>	<u>\$ 2,034</u>	<u>\$ 1,000</u>	<u>\$ 6,190</u>	<u>\$ 2,038</u>	<u>\$ 162</u>	<u>\$ 8,390</u>

For the Six Months Ended March 31, 2018

	One- to Four-Family							
	Originated	Correspondent		Bulk	Total	Commercial	Consumer	Total
		Purchased	Purchased					
	(Dollars in thousands)							
Beginning balance	\$ 3,173	\$ 1,922	\$ 1,000	\$ 6,095	\$ 2,112	\$ 191	\$ 8,398	
Charge-offs	(71)	(128)	—	(199)	—	(35)	(234)	
Recoveries	17	—	196	213	—	13	226	
Provision for credit losses	37	240	(196)	81	(74)	(7)	—	
Ending balance	<u>\$ 3,156</u>	<u>\$ 2,034</u>	<u>\$ 1,000</u>	<u>\$ 6,190</u>	<u>\$ 2,038</u>	<u>\$ 162</u>	<u>\$ 8,390</u>	

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

	March 31, 2019						
	One- to Four-Family						
	Originated	Correspondent		Bulk	Total	Commercial	Consumer
Purchased		Purchased					
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	\$ 3,926,057	\$ 2,502,775	\$ 268,699	\$ 6,697,531	\$ 724,481	\$ 134,415	\$ 7,556,427
Recorded investment in loans individually evaluated for impairment	15,300	2,169	5,131	22,600	—	398	22,998
	<u>\$ 3,941,357</u>	<u>\$ 2,504,944</u>	<u>\$ 273,830</u>	<u>\$ 6,720,131</u>	<u>\$ 724,481</u>	<u>\$ 134,813</u>	<u>\$ 7,579,425</u>
ACL for loans collectively evaluated for impairment	\$ 2,173	\$ 1,392	\$ 802	\$ 4,367	\$ 4,088	\$ 164	\$ 8,619

	September 30, 2018						
	One- to Four-Family						
	Originated	Correspondent		Bulk	Total	Commercial	Consumer
Purchased		Purchased					
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	\$ 3,965,143	\$ 2,538,549	\$ 288,959	\$ 6,792,651	\$ 563,513	\$ 138,744	\$ 7,494,908
Recorded investment in loans individually evaluated for impairment	18,857	2,668	6,011	27,536	—	504	28,040
	<u>\$ 3,984,000</u>	<u>\$ 2,541,217</u>	<u>\$ 294,970</u>	<u>\$ 6,820,187</u>	<u>\$ 563,513</u>	<u>\$ 139,248</u>	<u>\$ 7,522,948</u>
ACL for loans collectively evaluated for impairment	\$ 2,953	\$ 1,861	\$ 925	\$ 5,739	\$ 2,556	\$ 168	\$ 8,463

5. BORROWED FUNDS

FHLB Borrowings and Interest Rate Swaps - At March 31, 2019 and September 30, 2018, the Bank had interest rate swap agreements with a total notional amount of \$640.0 million and \$475.0 million, respectively, in order to hedge the variable cash flows associated with \$640.0 million and \$475.0 million, respectively, of adjustable-rate FHLB advances. At March 31, 2019 and September 30, 2018, the interest rate swap agreements had an average remaining term to maturity of 4.9 years and 5.8 years, respectively. The interest rate swaps were designated as cash flow hedges and involve the receipt of variable amounts from a counterparty in exchange for the Bank making fixed-rate payments over the life of the interest rate swap agreements. At March 31, 2019, the interest rate swaps were in a loss position with a total fair value of \$11.9 million, which was reported in accounts payable and accrued expenses on the consolidated balance sheet. At September 30, 2018, the interest rate swaps were in a gain position with a total fair value of \$9.7 million, which was reported in other assets on the consolidated balance sheet. During the three months ended March 31, 2019, \$100 thousand was reclassified from AOCI as a decrease to interest expense. During the six months ended March 31, 2019, \$51 thousand was reclassified from AOCI as an increase to interest expense. During the three and six months ended March 31, 2018, \$140 thousand and \$414 thousand, respectively, were reclassified from AOCI as a decrease to interest expense. There was no hedge ineffectiveness recognized in the consolidated statements of income during either period. At March 31, 2019, the Company estimates that \$888 thousand will be reclassified as an increase to interest expense during the next 12 months. The Bank has minimum collateral posting thresholds with its derivative counterparties and posts collateral on a daily basis. The Bank posted cash collateral of \$13.4 million at March 31, 2019 and held cash collateral of \$10.0 million at September 30, 2018.

Junior Subordinated Debentures and Trust Preferred Securities - In conjunction with the Capital City Bancshares, Inc. ("CCB") acquisition, the Company assumed \$10.1 million of junior subordinated debentures relating to mandatorily redeemable capital trust preferred securities that were previously issued by CCB-sponsored trusts to third party investors. The proceeds from the trust preferred securities were invested in the related junior subordinated debentures issued by CCB. The junior subordinated debentures were redeemed during the six months ended March 31, 2019.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurements - The Company uses fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures in accordance with ASC 820 and ASC 825. The Company's AFS securities and interest rate swaps are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other financial instruments on a non-recurring basis, such as OREO and loans individually evaluated for impairment. These non-recurring fair value adjustments involve the application of lower of cost or fair value accounting or write-downs of individual financial instruments.

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

- Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the financial instrument. Valuation techniques include the use of option pricing models, discounted cash flow models, and similar techniques. The results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the financial instrument.

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

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

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value. The majority of the securities within the AFS portfolio were issued by GSEs. The Company primarily uses prices obtained from third party pricing services to determine the fair value of its securities. On a quarterly basis, management corroborates a sample of prices obtained from the third party pricing service for Level 2 securities by comparing them to an independent source. If the price provided by the independent source varies by more than a predetermined percentage from the price received from the third party pricing service, then the variance is researched by management. The Company did not have to adjust prices obtained from the third party pricing service when determining the fair value of its securities during the six months ended March 31, 2019 or during fiscal year 2018. The Company's major security types, based on the nature and risks of the securities, are:

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

Interest Rate Swaps - The Company's interest rate swaps are designated as cash flow hedges and are reported at fair value in other assets on the consolidated balance sheet if in a gain position, and in accounts payable and accrued expenses if in a loss position, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. See "Note 5. Borrowed Funds" for additional information. The estimated fair value of the interest rates swaps are obtained from the counterparty and are determined using a discounted cash flow analysis using observable market-based inputs. On a quarterly basis, management corroborates the estimated fair values by internally calculating the estimated fair value using a discounted cash flow analysis with independent observable market-based inputs from a third party. The Company did not make any adjustments to the estimated fair value during the six months ended March 31, 2019 or during fiscal year 2018. (Level 2)

The following tables provide the level of valuation assumption used to determine the carrying value of the Company's financial instruments measured at fair value on a recurring basis at the dates presented. The Company did not have any Level 3 financial instruments measured at fair value on a recurring basis at March 31, 2019 or September 30, 2018. The Company did not have any liabilities measured at fair value at September 30, 2018.

March 31, 2019					
Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(Dollars in thousands)					
<i>Assets:</i>					
AFS Securities:					
MBS	\$ 474,844	\$ —	\$ 474,844	\$ —	
GSE debentures	267,741	—	267,741	—	
Municipal bonds	4,143	—	4,143	—	
	<u>746,728</u>	<u>—</u>	<u>746,728</u>	<u>—</u>	
Interest rate swaps	—	—	—	—	
	<u>\$ 746,728</u>	<u>\$ —</u>	<u>\$ 746,728</u>	<u>\$ —</u>	
<i>Liabilities:</i>					
Interest rate swaps	\$ 11,907	\$ —	\$ 11,907	\$ —	

September 30, 2018					
Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
(Dollars in thousands)					
<i>Assets:</i>					
AFS Securities:					
MBS	\$ 445,090	\$ —	\$ 445,090	\$ —	
GSE debentures	265,398	—	265,398	—	
Municipal bonds	4,126	—	4,126	—	
	<u>714,614</u>	<u>—</u>	<u>714,614</u>	<u>—</u>	
Interest rate swaps	9,685	—	9,685	—	
	<u>\$ 724,299</u>	<u>\$ —</u>	<u>\$ 724,299</u>	<u>\$ —</u>	

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

Loans Receivable - The amount of loans individually evaluated for impairment on a non-recurring basis during the six months ended March 31, 2019 and 2018 that were still held in the portfolio as of March 31, 2019 and 2018 was \$2.8 million and \$4.6 million, respectively. All of these loans were secured by residential real estate and were individually evaluated to determine if the carrying value of the loan was in excess of the fair value of the collateral, less estimated selling costs of 10%. Fair values were estimated through current appraisals. Management does not adjust or apply a discount to the appraised value, except for the estimated sales cost noted above. The primary significant unobservable input for loans individually evaluated for impairment was the appraisal. Fair values of loans individually evaluated for impairment cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the loan and, as such, are classified as Level 3. Based on this evaluation, the Bank charged-off all loss amounts as of March 31, 2019 and 2018; therefore, the fair value was equal to the carrying value and there was no ACL related to these loans.

OREO - OREO primarily represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower of cost or fair value. The fair value for OREO is estimated through current appraisals or listing prices, less estimated selling costs of 10%. Management does not adjust or apply a discount to the appraised value or listing price, except for the estimated sales costs noted above. The primary significant unobservable input for OREO was the appraisal or listing price. Fair values of foreclosed property cannot be determined with precision and may not be realized in an actual sale of the property and, as such, are classified as Level 3. The fair value of OREO measured on a non-recurring basis during the six months ended March 31, 2019 and 2018 that was still held in the portfolio as of March 31, 2019 and 2018 was \$582 thousand and \$686 thousand, respectively. The carrying value of the properties equaled the fair value of the properties at March 31, 2019 and 2018.

Fair Value Disclosures - The Company determined estimated fair value amounts using available market information and a variety of valuation methodologies as of the dates presented. Considerable judgment is required to interpret market data to develop the estimates of fair value. The estimates presented are not necessarily indicative of amounts the Company would realize from a current market exchange at subsequent dates.

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

		March 31, 2019				
		Carrying	Estimated Fair Value			
		Amount	Total	Level 1	Level 2	Level 3
		(Dollars in thousands)				
Assets:						
Cash and cash equivalents	\$	218,051	\$ 218,051	\$ 218,051	\$ —	\$ —
AFS securities		746,728	746,728	—	746,728	—
HTM securities		527,460	526,099	—	526,099	—
Loans receivable		7,570,806	7,646,753	—	—	7,646,753
FHLB stock		102,631	102,631	102,631	—	—
Liabilities:						
Deposits		5,701,111	5,696,333	2,778,862	2,917,471	—
FHLB borrowings		2,239,985	2,214,700	100,001	2,114,699	—
Other borrowings		100,000	98,843	—	98,843	—
Interest rate swaps		11,907	11,907	—	11,907	—
		September 30, 2018				
		Carrying	Estimated Fair Value			
		Amount	Total	Level 1	Level 2	Level 3
		(Dollars in thousands)				
Assets:						
Cash and cash equivalents	\$	139,055	\$ 139,055	\$ 139,055	\$ —	\$ —
AFS securities		714,614	714,614	—	714,614	—
HTM securities		612,318	601,071	—	601,071	—
Loans receivable		7,514,485	7,418,026	—	—	7,418,026
FHLB stock		99,726	99,726	99,726	—	—
Interest rate swaps		9,685	9,685	—	9,685	—
Liabilities:						
Deposits		5,603,354	5,569,591	2,666,297	2,903,294	—
FHLB borrowings		2,174,981	2,145,477	100,000	2,045,477	—
Other borrowings		110,052	109,465	10,503	98,962	—

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following is a summary of changes in the components of AOCI, net of tax, for the periods presented.

	For the Three Months Ended March 31, 2019		
	Unrealized Gains (Losses) on AFS Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total AOCI
	(Dollars in thousands)		
Beginning balance	\$ 537	\$ (2,414)	\$ (1,877)
Other comprehensive income (loss), before reclassifications	3,061	(6,500)	(3,439)
Amount reclassified from AOCI	—	(100)	(100)
Other comprehensive income (loss)	3,061	(6,600)	(3,539)
Ending balance	\$ 3,598	\$ (9,014)	\$ (5,416)

	For the Six Months Ended March 31, 2019		
	Unrealized Gains (Losses) on AFS Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total AOCI
	(Dollars in thousands)		
Beginning balance	\$ (2,990)	\$ 7,330	\$ 4,340
Other comprehensive income (loss), before reclassifications	6,588	(16,395)	(9,807)
Amount reclassified from AOCI	—	51	51
Other comprehensive income (loss)	6,588	(16,344)	(9,756)
Ending balance	\$ 3,598	\$ (9,014)	\$ (5,416)

	For the Three Months Ended March 31, 2018		
	Unrealized Gains (Losses) on AFS Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total AOCI
	(Dollars in thousands)		
Beginning balance	\$ 2,124	\$ 950	\$ 3,074
Other comprehensive income (loss), before reclassifications	(1,898)	3,456	1,558
Amount reclassified from AOCI	—	(140)	(140)
Other comprehensive income (loss)	(1,898)	3,316	1,418
Reclassification of certain income tax effects related to adoption of ASU 2018-02	461	206	667
Ending balance	\$ 687	\$ 4,472	\$ 5,159

For the Six Months Ended March 31, 2018

	Unrealized Gains (Losses) on AFS Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total AOCI
	(Dollars in thousands)		
Beginning balance	\$ 3,290	\$ (372)	\$ 2,918
Other comprehensive income (loss), before reclassifications	(3,064)	5,052	1,988
Amount reclassified from AOCI	—	(414)	(414)
Other comprehensive income (loss)	(3,064)	4,638	1,574
Reclassification of certain income tax effects related to adoption of ASU 2018-02	461	206	667
Ending balance	<u>\$ 687</u>	<u>\$ 4,472</u>	<u>\$ 5,159</u>

8. REVENUE RECOGNITION

On October 1, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers*, and all subsequent ASUs that modified the principles for recognizing revenue. The Company's primary sources of revenue consist of net interest income on financial assets and liabilities, which are not within the scope of the amended ASU. In addition, certain non-interest income revenue streams, such as loan servicing fees, derivatives, and BOLI, are not in-scope of the amended ASU. Based on an assessment of non-interest income revenue streams and a review of the related contracts with customers, the Company concluded the amended ASU did not significantly change the Company's revenue recognition methods. The Company elected to implement the amended ASU using the modified retrospective application with a cumulative adjustment, which increased opening retained earnings at October 1, 2018 by \$394 thousand related to contracts that were not complete upon adoption. The amount was related to the change in the recognition of revenue related to certain insurance commissions.

Details of the Company's primary types of non-interest income revenue streams by financial statement line reported in the consolidated statements of income that are within the scope of the amended ASU and ASC Topic 606 are below. During the current year six month period, revenue from contracts with customers totaled \$8.1 million.

Deposit Service Fees

Interchange Transaction Fees - Interchange transaction fee income primarily consists of interchange fees earned on a transactional basis through card payment networks. The performance obligation for these types of transactions is satisfied as services are rendered for each transaction and revenue is recognized daily concurrently with the transaction processing services provided to the cardholder.

In order to participate in the card payment networks, the Company must pay various transaction related costs established by the networks ("interchange network charges"), including membership fees and a per unit charge for each transaction. The Company determined it is acting as an agent for its debit card customers when they are utilizing the card payment networks; therefore, upon adoption of the amended ASU, interchange transaction fee income is reported net of interchange network charges. Previously, interchange network charges were reported in deposit and loan expense. Interchange network charges totaled \$1.7 million and \$1.5 million for the six months ended March 31, 2019 and 2018, respectively.

Service Charges on Deposit Accounts - Service charges on deposit accounts consist of account maintenance and transaction-based fees such as overdrafts, insufficient funds, wire transfers and the use of out-of-network ATMs. The Company's performance obligation is satisfied over a period of time, generally a month, for account maintenance and at the time of service for transaction-based fees. Revenue is recognized after the performance obligation is satisfied. Payments are typically collected from the customer's deposit account at the time the transaction is processed and/or at the end of the customer's statement cycle (typically monthly).

Other Non-Interest Income

Trust Asset Management Income - The Company provides trust asset management services to customers. The Company primarily earns fees for these services over time as the monthly services are provided and the Company assesses revenue at each month end. Fees are charged based on a tiered scale of the market value of the individual trust asset accounts at the end of the month.

Insurance Commissions - Commissions are received on insurance product sales. The Company acts in the capacity of an agent between the Company's customer and the insurance carrier. The Company's performance obligation is satisfied when the terms of the policy have been agreed upon and the insurance policy becomes effective. Additionally, the Company earns performance-based incentives ("contingent insurance commissions") based on certain criteria established by the insurance carriers. Upon adoption of the amended ASU, contingent insurance commissions are accrued based upon management's expectations. Previously, contingent insurance commissions were recognized when the funds were received.

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

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

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

- our ability to maintain overhead costs at reasonable levels;
- our ability to originate and purchase a sufficient volume of one- to four-family loans in order to maintain the balance of that portfolio at a level desired by management;
- our ability to invest funds in wholesale or secondary markets at favorable yields compared to the related funding source;
- our ability to access cost-effective funding;
- the expected cost savings, synergies and other benefits from the acquisition of CCB might not be realized within the anticipated time frames or at all, and costs or difficulties relating to integration matters might be greater than expected;
- our ability to extend the commercial banking and trust asset management expertise acquired from CCB through our existing branch footprint;
- fluctuations in deposit flows;
- the future earnings and capital levels of the Bank and the continued non-objection by our primary federal banking regulators, to the extent required, to distribute capital from the Bank to the Company, which could affect the ability of the Company to pay dividends in accordance with its dividend policy;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations, including areas where we have purchased large amounts of correspondent loans;
- changes in real estate values, unemployment levels, and the level and direction of loan delinquencies and charge-offs may require changes in the estimates of the adequacy of the ACL, which may adversely affect our business;
- increases in non-performing assets, which may require the Bank to increase the ACL, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets;
- results of examinations of the Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our ACL;
- changes in accounting principles, policies, or guidelines;
- the effects of, and changes in, monetary and interest rate policies of the Board of Governors of the Federal Reserve System ("FRB");
- the effects of, and changes in, trade and fiscal policies and laws of the United States government;
- the effects of, and changes in, foreign and military policies of the United States government;
- inflation, interest rate, market, monetary, and currency fluctuations;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by users, including the features, pricing, and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services and branching locations, when required;
- the impact of interpretations of, and changes in, financial services laws and regulations, including laws concerning taxes, banking, securities, consumer protection, trust and insurance and the impact of other governmental initiatives affecting the financial services industry;
- implementing business initiatives may be more difficult or expensive than anticipated;
- significant litigation;
- technological changes;
- our ability to maintain the security of our financial, accounting, technology, and other operating systems and facilities, including the ability to withstand cyber-attacks;
- acquisitions and dispositions;
- changes in consumer spending, borrowing and saving habits; and
- our success at managing the risks involved in our business.

This list of important factors is not all inclusive. For a discussion of risks and uncertainties related to our business that could adversely impact our operations and/or financial results, see "Part I, Item 1A. Risk Factors" in the Company's Annual Report on [Form](#)

[10-K](#) for the fiscal year ended September 30, 2018. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

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

The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity, and capital resources of the Company. The Bank comprises almost all of the consolidated assets and liabilities of the Company and the Company is dependent primarily upon the performance of the Bank for the results of its operations. Because of this relationship, references to management actions, strategies and results of actions apply to both the Bank and the Company. This discussion and analysis should be read in conjunction with Management's Discussion and Analysis included in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018, filed with the SEC.

Executive Summary

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

The Company provides a full range of banking services through the Bank, which is a wholly-owned subsidiary of the Company, headquartered in Topeka, Kansas. The Bank has 44 traditional and 10 in-store banking offices serving primarily the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and portions of the Kansas City metropolitan area. We have been, and intend to continue to be, a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve.

During April 2019, the Bank completed the integration of the operations of Capital City Bank into the Bank's operations. The Company completed its acquisition of Capital City Bank and its parent company, CCB, on August 31, 2018. The acquisition of Capital City Bank, a commercial bank with \$450 million in assets, allows us to advance our commercial banking strategy through enhanced commercial deposit and lending products while managing to stay under \$10 billion in assets. The acquisition allows the Bank to compete for commercial banking business through a wide variety of commercial deposit services and expanded commercial lending products, as well as trust and brokerage services. A few of the potential benefits of expanding the commercial banking business include the following:

- the ability to reinvest correspondent loan repayments into higher yielding commercial loans;
- the ability to reduce the cost of funds by replacing FHLB borrowings and wholesale deposits with lower-costing commercial deposits;
- the ability to reduce the Bank's loans-to-deposits ratio as a result of an increase in commercial deposits;
- the ability to diversify the Bank's revenue streams and increase cross-selling opportunities by leveraging access to new products for existing customers and expanding our new customer base; and
- the ability to increase earnings through a remix of assets, diversified revenue sources and lower cost funding.

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

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

Local economic conditions have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. The industries in the Bank's local market areas, where the properties securing approximately 66% of the Bank's one- to four-family loans are located, are diversified, especially in the Kansas City metropolitan statistical area, which comprises the largest segment of our one- to four-family loan portfolio and deposit base. As of March 2019, the unemployment rate was 3.5% for Kansas

and 3.3% for Missouri, compared to the national average of 3.8%, based on information from the Bureau of Labor Statistics. The Kansas City market area has an average household income of approximately \$87 thousand per annum, based on 2018 estimates from Claritas Pop-Facts Premier. The average household income in our combined local market areas is approximately \$81 thousand per annum, with 91% of the population at or above the poverty level, based on 2018 estimates from Claritas Pop-Facts Premier. The Federal Housing Finance Agency price index for Kansas and Missouri continues to indicate relative stability in property values in our local market areas. Management also monitors broad industry and economic indicators and trends in the states and/or metropolitan statistical areas with the highest concentrations of correspondent purchased loans and commercial real estate loans.

For the quarter ended March 31, 2019, the Company recognized net income of \$24.6 million, or \$0.18 per share, compared to net income of \$23.3 million, or \$0.17 per share for the quarter ended March 31, 2018. The \$1.2 million increase in net income was due primarily to an increase in net interest income and a decrease in income tax expense, partially offset by an increase in non-interest expense.

For the six month period ended March 31, 2019, the Company recognized net income of \$48.9 million, or \$0.36 per share, a decrease of \$6.2 million, or 11.3%, from the six month period ended March 31, 2018. The decrease in net income was due primarily to the prior year six month period including the impact of the enactment of the Tax Cuts and Jobs Act (the "Tax Act"), as well as an increase in non-interest expense during the current year six month period. These changes were partially offset by an increase in net interest income due primarily to the higher yielding loans added in the CCB acquisition. The Tax Act reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. In accordance with GAAP, the Company revalued its deferred tax assets and liabilities in December 2017 to account for the lower corporate income tax rate. The revaluation reduced income tax expense by \$7.5 million.

The net interest margin increased 45 basis points, from 1.85% for the prior year six month period to 2.30% for the current year six month period. When the leverage strategy is in place, it reduces the net interest margin due to the amount of earnings from the transaction in comparison to the size of the transaction. The leverage strategy was suspended at certain times during the current year six month period due to the negative interest rate spreads between the related FHLB borrowings and cash held at the FRB of Kansas City, making the transaction unprofitable. Excluding the effects of the leverage strategy, the net interest margin would have increased 11 basis points, from 2.22% for the prior year six month period to 2.33% for the current year six month period. The increase in the net interest margin, excluding the effects of the leverage strategy, was due mainly to the addition of higher yielding commercial loans in the CCB acquisition.

The loans receivable portfolio, net, totaled \$7.57 billion at March 31, 2019 compared to \$7.51 billion at September 30, 2018. During the current year six month period, the Bank originated and refinanced \$268.8 million of one- to four-family and consumer loans with a weighted average rate of 4.63% and purchased \$88.9 million of one- to four-family loans from correspondent lenders with a weighted average rate of 4.32%. The Bank also originated \$122.7 million of commercial loans with a weighted average rate of 4.94% and entered into commercial real estate loan participations totaling \$72.6 million, of which \$37.9 million had not yet been funded as of March 31, 2019, at a weighted average rate of 5.44%.

The Bank is continuing to manage the size and mix of its loan portfolio, while managing liquidity levels as measured by the ratio of securities and cash to total assets, to a target level of approximately 15%. The ratio of securities and cash to total assets was 15.7% at March 31, 2019. Management intends to continue to manage the size and mix of the loan portfolio by utilizing cash flows from the correspondent one- to four-family loan portfolio to fund commercial loan growth. Given the balance of total assets, it is unlikely that net loan growth will substantially increase in the current environment. Generally, over the past few years, cash flows from the securities portfolio have been used primarily to purchase loans and in part to pay down FHLB advances. By moving cash from lower yielding assets to higher yielding assets and repaying higher costing liabilities, we have been able to maintain our net interest margin. In addition to the repayment of securities, the Bank has emphasized growth in the deposit portfolio in part to pay down term borrowings.

At times, the Bank has utilized a leverage strategy to increase earnings. The leverage strategy during the current year six month period involved borrowing up to \$2.10 billion either on the Bank's FHLB line of credit or by entering into short-term FHLB advances, depending on the rates offered by FHLB. The borrowings were repaid prior to quarter end, or earlier if the strategy was suspended. The proceeds from the borrowings, net of the required FHLB stock holdings which yielded 7.3% during the current year six month period, were deposited at the FRB of Kansas City. Net income attributable to the leverage strategy is largely derived from the dividends received on FHLB stock holdings, plus the net interest rate spread between the yield on the cash at the FRB of Kansas City and the rate paid on the related FHLB borrowings, less applicable federal insurance premiums and estimated taxes. Net income attributable to the leverage strategy was \$14 thousand during the current year six month period, compared to \$1.5 million during the prior year six month period. The decrease was due mainly to the strategy being suspended for the majority of the current year six month period due to the large negative interest rate spread making the strategy unprofitable. Management continues to monitor the net interest rate spread and overall profitability of the strategy. It is expected that the strategy will be reimplemented if it reaches a position that is profitable.

Stockholders' equity was \$1.36 billion at March 31, 2019 compared to \$1.39 billion at September 30, 2018. The \$35.6 million decrease was due primarily to the payment of \$77.1 million in cash dividends, partially offset by net income of \$48.9 million. In the long run, management considers a ratio of stockholders' equity to total assets at the Bank of at least 10% an appropriate level of capital. At March 31, 2019, this ratio was 12.8%.

Available Information

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

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could affect reported results materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. For a full discussion of our critical accounting policies, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018.

Financial Condition

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

	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(Dollars in thousands)				
Total assets	\$ 9,534,551	\$ 9,303,782	\$ 9,449,547	\$ 9,048,737	\$ 9,116,461
Cash and cash equivalents	218,051	81,713	139,055	182,078	140,580
AFS securities	746,728	668,487	714,614	555,361	559,146
HTM securities	527,460	568,838	612,318	664,522	716,372
Loans receivable, net	7,570,806	7,525,780	7,514,485	7,239,384	7,200,663
FHLB stock, at cost	102,631	100,521	99,726	100,694	195,626
Deposits	5,701,111	5,557,864	5,603,354	5,323,083	5,354,193
Borrowings	2,339,985	2,281,169	2,285,033	2,274,816	2,274,478
Stockholders' equity	1,355,983	1,345,913	1,391,622	1,341,325	1,364,740
Equity to total assets at end of period	14.2%	14.5%	14.7%	14.8%	15.0%

Loans Receivable. The following table presents the balance and weighted average rate of our loan portfolio as of the dates indicated. Approximately 64% of the loans in the one- to four-family loan portfolio at March 31, 2019 had a balance of \$484 thousand or less at the time of origination.

	March 31, 2019		September 30, 2018	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
One- to four-family:				
Originated	\$ 3,922,565	3.78%	\$ 3,965,692	3.74%
Correspondent purchased	2,470,619	3.63	2,505,987	3.59
Bulk purchased	272,575	2.77	293,607	2.60
Construction	33,525	4.38	33,149	4.03
Total	<u>6,699,284</u>	<u>3.68</u>	<u>6,798,435</u>	<u>3.64</u>
Commercial:				
Commercial real estate	547,202	4.48	426,243	4.33
Commercial and industrial	73,852	5.25	62,869	5.00
Construction	108,649	4.76	80,498	4.59
Total	<u>729,703</u>	<u>4.60</u>	<u>569,610</u>	<u>4.44</u>
Consumer loans:				
Home equity	125,176	6.38	129,588	5.97
Other	9,913	4.52	10,012	4.59
Total	<u>135,089</u>	<u>6.24</u>	<u>139,600</u>	<u>5.87</u>
Total loans receivable	<u>7,564,076</u>	<u>3.82</u>	<u>7,507,645</u>	<u>3.74</u>
Less:				
ACL	8,619		8,463	
Discounts/unearned loan fees	32,582		33,933	
Premiums/deferred costs	(47,931)		(49,236)	
Total loans receivable, net	<u>\$ 7,570,806</u>		<u>\$ 7,514,485</u>	

Loan Activity - The following table summarizes activity in the loan portfolio, along with weighted average rates where applicable, for the periods indicated, excluding changes in ACL, discounts/unearned loan fees, and premiums/deferred costs. Loans that were paid-off as a result of refinances and loans that were sold are included in repayments. Loan endorsements are not included in the activity in the following table because a new loan is not generated at the time of the endorsement. The endorsed balance and rate are included in the ending loan portfolio balance and rate. Commercial loan renewals are not included in the activity in the following table unless new funds are disbursed at the time of renewal.

	For the Three Months Ended							
	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	\$ 7,518,887	3.78%	\$ 7,507,645	3.74%	\$ 7,226,169	3.66%	\$ 7,187,742	3.63%
Originated and refinanced:								
Fixed	78,678	4.58	116,032	4.59	117,904	4.44	143,059	4.21
Adjustable	123,006	4.80	73,711	4.98	56,996	4.55	54,385	4.42
Purchased and participations:								
Fixed	35,387	5.46	72,140	4.60	80,138	4.40	78,650	4.04
Adjustable	11,331	4.01	42,651	4.88	20,105	3.92	30,017	3.49
Loans added in CCB acquisition, net	—	—	—	—	299,659	4.77	—	—
Change in undisbursed loan funds	30,500		(25,315)		(8,104)		19,808	
Repayments	(233,625)		(267,469)		(284,927)		(286,923)	
Principal recoveries (charge-offs), net	61		95		119		(46)	
Other	(149)		(603)		(414)		(523)	
Ending balance	<u>\$ 7,564,076</u>	3.82	<u>\$ 7,518,887</u>	3.78	<u>\$ 7,507,645</u>	3.74	<u>\$ 7,226,169</u>	3.66
	For the Six Months Ended							
	March 31, 2019		March 31, 2018					
	Amount	Rate	Amount	Rate				
	(Dollars in thousands)							
Beginning balance	\$ 7,507,645	3.74%	\$ 7,182,751	3.61%				
Originations and refinances:								
Fixed	194,710	4.58	186,927	3.74				
Adjustable	196,717	4.87	74,114	4.27				
Purchases and participations:								
Fixed	107,527	4.88	205,720	3.80				
Adjustable	53,982	4.70	112,751	3.76				
Change in undisbursed loan funds	5,185		(42,708)					
Repayments	(501,094)		(530,774)					
Principal recoveries (charge-offs), net	156		(8)					
Other	(752)		(1,031)					
Ending balance	<u>\$ 7,564,076</u>	3.82	<u>\$ 7,187,742</u>	3.63				

The following table presents loan origination, refinance, and purchase activity for the periods indicated, excluding endorsement activity, along with associated weighted average rates and percent of total. Commercial loan renewals are not included in the activity in the following table except to the extent new funds are disbursed at the time of renewal. Loan originations, purchases, and refinances are reported together. The fixed-rate one- to four-family loans less than or equal to 15 years have an original maturity at origination of less than or equal to 15 years, while fixed-rate one- to four-family loans greater than 15 years have an original maturity at origination of greater than 15 years. The adjustable-rate one- to four-family loans less than or equal to 36 months have a term to first reset of less than or equal to 36 months at origination, and adjustable-rate one- to four-family loans greater than 36 months have a term to first reset of greater than 36 months at origination.

	For the Three Months Ended					
	March 31, 2019			March 31, 2018		
	Amount	Rate	% of Total	Amount	Rate	% of Total
	(Dollars in thousands)					
Fixed-rate:						
One- to four-family:						
<= 15 years	\$ 13,873	4.25%	5.5%	\$ 41,484	3.29%	14.6%
> 15 years	66,993	4.45	27.0	116,571	3.92	41.2
One- to four-family construction	11,801	4.56	4.8	5,835	3.84	2.1
Commercial:						
Commercial real estate	15,027	7.23	6.0	156	5.50	0.1
Commercial and industrial	3,956	5.29	1.6	—	—	—
Commercial construction	—	—	—	33,101	4.13	11.7
Home equity	1,189	5.83	0.5	669	6.03	0.2
Other	1,226	4.67	0.5	164	7.58	0.1
Total fixed-rate	114,065	4.85	45.9	197,980	3.83	70.0
Adjustable-rate:						
One- to four-family:						
<= 36 months	2,459	3.83	1.0	1,776	2.87	0.6
> 36 months	30,068	4.03	12.1	38,723	3.20	13.7
One- to four-family construction	3,467	3.87	1.4	3,923	3.48	1.4
Commercial:						
Commercial real estate	72,879	4.69	29.3	—	—	—
Commercial and industrial	11,615	5.35	4.7	—	—	—
Commercial construction	—	—	—	23,893	4.10	8.5
Home equity	13,450	6.42	5.4	15,793	5.53	5.6
Other	399	3.50	0.2	566	3.52	0.2
Total adjustable-rate	134,337	4.73	54.1	84,674	3.90	30.0
Total originated, refinanced and purchased	\$ 248,402	4.79	100.0%	\$ 282,654	3.85	100.0%
Purchased and participation loans included above:						
Fixed-rate:						
Correspondent - one- to four-family	\$ 24,611	4.35		\$ 86,938	3.74	
Participations - commercial	10,776	8.00		33,217	4.13	
Total fixed-rate purchased/participations	35,387	5.46		120,155	3.85	
Adjustable-rate:						
Correspondent - one- to four-family	11,331	4.01		24,169	3.12	
Participations - commercial	—	—		23,893	4.10	
Total adjustable-rate purchased/participations	11,331	4.01		48,062	3.61	
Total purchased/participation loans	\$ 46,718	5.11		\$ 168,217	3.78	

For the Six Months Ended

	March 31, 2019			March 31, 2018		
	Amount	Rate	% of Total	Amount	Rate	% of Total
	(Dollars in thousands)					
Fixed-rate:						
One- to four-family:						
<= 15 years	\$ 36,928	4.21%	6.7%	\$ 77,219	3.23%	13.3%
> 15 years	173,127	4.53	31.3	260,520	3.86	45.0
One- to four-family construction	28,279	4.53	5.1	14,973	3.75	2.6
Commercial:						
Commercial real estate	22,829	6.40	4.1	4,948	4.17	0.9
Commercial and industrial	6,358	5.31	1.2	—	—	—
Commercial construction	29,919	4.78	5.4	33,101	4.13	5.7
Home equity	2,383	6.16	0.4	1,619	5.98	0.3
Other	2,414	4.68	0.5	267	8.27	—
Total fixed-rate	302,237	4.69	54.7	392,647	3.77	67.8
Adjustable-rate:						
One- to four-family:						
<= 36 months	7,687	3.76	1.4	2,543	2.84	0.4
> 36 months	63,147	4.03	11.4	70,657	3.17	12.1
One- to four-family construction	11,712	4.23	2.1	7,959	3.39	1.4
Commercial:						
Commercial real estate	93,583	4.79	16.9	—	—	—
Commercial and industrial	13,950	5.46	2.5	—	—	—
Commercial construction	28,650	5.35	5.2	69,543	4.16	12.0
Home equity	30,876	6.36	5.6	34,619	5.41	6.0
Other	1,094	3.15	0.2	1,544	3.69	0.3
Total adjustable-rate	250,699	4.83	45.3	186,865	3.96	32.2
Total originated, refinanced and purchased	\$ 552,936	4.75	100.0%	\$ 579,512	3.83	100.0%
Purchased and participation loans included above:						
Fixed-rate:						
Correspondent - one- to four-family	\$ 63,550	4.46		\$ 167,711	3.72	
Participations - commercial	43,977	5.49		38,009	4.13	
Total fixed-rate purchased/participations	107,527	4.88		205,720	3.80	
Adjustable-rate:						
Correspondent - one- to four-family	25,332	3.97		43,208	3.11	
Participations - commercial	28,650	5.35		69,543	4.16	
Total adjustable-rate purchased/participations	53,982	4.70		112,751	3.76	
Total purchased/participation loans	\$ 161,509	4.82		\$ 318,471	3.79	

One- to Four-Family Loans - The following table presents, for our portfolio of one- to four-family loans, the amount, percent of total, weighted average credit score, weighted average LTV ratio, and average balance per loan as of the dates presented. Credit scores are updated at least semiannually, with the latest update in March 2019, from a nationally recognized consumer rating agency. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	March 31, 2019					September 30, 2018				
	Amount	% of Total	Credit Score	LTV	Average Balance	Amount	% of Total	Credit Score	LTV	Average Balance
	(Dollars in thousands)									
Originated	\$3,922,565	58.8%	768	62%	\$ 138	\$3,965,692	58.6%	767	62%	\$ 138
Correspondent purchased	2,470,619	37.1	764	66	375	2,505,987	37.1	764	67	378
Bulk purchased	272,575	4.1	761	61	303	293,607	4.3	758	62	304
	<u>\$6,665,759</u>	<u>100.0%</u>	766	64	186	<u>\$6,765,286</u>	<u>100.0%</u>	765	64	186

The following table presents originated, refinanced, and correspondent purchased activity in our one- to four-family loan portfolio, excluding endorsement activity, along with associated weighted average LTVs and weighted average credit scores for the periods indicated. Of the loans originated during the current quarter and current year six month period, \$9.5 million and \$24.9 million, respectively, were refinanced from other lenders. Of the loans originated and refinanced during the current year six month period, 76% had loan values of \$484 thousand or less. Of the correspondent loans purchased during the current year six month period, 31% had loan values of \$484 thousand or less.

	For the Three Months Ended					
	March 31, 2019			March 31, 2018		
	Amount	LTV	Credit Score	Amount	LTV	Credit Score
	(Dollars in thousands)					
Originated	\$ 83,101	77%	755	\$ 80,216	76%	760
Refinanced by Bank customers	9,618	67	749	16,989	70	751
Correspondent purchased	35,942	74	761	111,107	72	764
	<u>\$ 128,661</u>	76	756	<u>\$ 208,312</u>	74	761

	For the Six Months Ended					
	March 31, 2019			March 31, 2018		
	Amount	LTV	Credit Score	Amount	LTV	Credit Score
	(Dollars in thousands)					
Originated	\$ 209,426	77%	755	\$ 181,636	77%	762
Refinanced by Bank customers	22,572	67	746	41,316	67	753
Correspondent purchased	88,882	74	762	210,919	74	765
	<u>\$ 320,880</u>	75	756	<u>\$ 433,871</u>	74	763

The following table presents the amount, percent of total, and weighted average rate, by state, of one- to four-family loan originations and correspondent purchases where originations and purchases in the state exceeded five percent of the total amount originated and purchased during the six month period ended March 31, 2019.

State	For the Three Months Ended			For the Six Months Ended		
	March 31, 2019			March 31, 2019		
	Amount	% of Total	Rate	Amount	% of Total	Rate
	(Dollars in thousands)					
Kansas	\$ 81,867	63.6%	4.34%	\$ 203,627	63.4%	4.39%
Missouri	17,106	13.3	4.34	49,314	15.4	4.40
Texas	21,913	17.0	4.14	39,434	12.3	4.18
Other states	7,775	6.1	4.44	28,505	8.9	4.38
	<u>\$ 128,661</u>	<u>100.0%</u>	4.31	<u>\$ 320,880</u>	<u>100.0%</u>	4.37

One- to Four-Family Loan Commitments - The following table summarizes our one- to four-family loan origination and refinance commitments and one- to four-family correspondent loan purchase commitments as of March 31, 2019, along with associated weighted average rates. Loan commitments generally have fixed expiration dates or other termination clauses and may require the payment of a rate lock fee. It is expected that some of the loan commitments will expire unfunded, so the amounts reflected in the table below are not necessarily indicative of future cash needs.

	Fixed-Rate			Total	
	15 years or less	More than 15 years	Adjustable- Rate	Amount	Rate
	(Dollars in thousands)				
Originate/refinance	\$ 6,346	\$ 27,123	\$ 15,135	\$ 48,604	4.07%
Correspondent	805	45,730	5,475	52,010	4.51
	<u>\$ 7,151</u>	<u>\$ 72,853</u>	<u>\$ 20,610</u>	<u>\$ 100,614</u>	4.30
Rate	3.86%	4.48%	3.81%		

Commercial Loans - During the current year six month period, the Bank originated \$122.7 million of commercial loans and entered into commercial real estate loan participations totaling \$72.6 million, which included \$58.6 million of commercial real estate construction loans. The majority of the \$58.6 million of commercial real estate construction loans had not yet been funded as of March 31, 2019. During the current year six month period, the Bank funded \$62.1 million of commercial real estate construction participation loans.

The following table presents the Bank's commercial real estate loans and loan commitments by industry classification, as defined by the North American Industry Classification System, as of March 31, 2019. Based on the terms of the construction loans as of March 31, 2019, of the \$156.8 million of undisbursed amounts in the table, which does not include outstanding commitments, \$40.4 million is projected to be disbursed by June 30, 2019, and an additional \$80.9 million is projected to be disbursed by March 31, 2020. It is possible that not all of the funds will be disbursed due to the nature of the funding of construction projects. Included in the gross loan amounts in the table, which does not include outstanding commitments, are fixed-rate loans totaling \$439.0 million at a weighted average rate of 4.37% and adjustable-rate loans totaling \$373.6 million at a weighted average rate of 4.91%. The weighted average rate of fixed-rate loans is lower than that of adjustable-rate loans due primarily to the majority of the fixed-rate loans in the portfolio at March 31, 2019 having shorter terms to maturity.

	Unpaid Principal	Undisbursed Amount	Gross Loan Amount	Outstanding Commitments	Total	% of Total
(Dollars in thousands)						
Health care and social assistance	\$ 194,571	\$ 54,405	\$ 248,976	\$ —	\$ 248,976	30.4%
Real estate rental and leasing	144,881	43,160	188,041	40	188,081	23.0
Accommodation and food services	158,439	27,006	185,445	—	185,445	22.7
Multi-family	41,538	28,848	70,386	184	70,570	8.6
Retail trade	38,872	2,092	40,964	5,900	46,864	5.7
Arts, entertainment, and recreation	35,568	—	35,568	—	35,568	4.3
Other	41,982	1,257	43,239	—	43,239	5.3
	<u>\$ 655,851</u>	<u>\$ 156,768</u>	<u>\$ 812,619</u>	<u>\$ 6,124</u>	<u>\$ 818,743</u>	<u>100.0%</u>
Weighted average rate	4.53%	5.01%	4.62%	5.13%	4.63%	

The following table summarizes the Bank's commercial real estate loans and loan commitments by state as of March 31, 2019.

	Unpaid Principal	Undisbursed Amount	Gross Loan Amount	Outstanding Commitments	Total	% of Total
(Dollars in thousands)						
Kansas	\$ 251,540	\$ 18,188	\$ 269,728	\$ 164	\$ 269,892	33.0%
Missouri	184,615	52,014	236,629	60	236,689	28.9
Texas	148,354	56,981	205,335	5,900	211,235	25.8
Nebraska	22,295	11,604	33,899	—	33,899	4.1
Kentucky	9,167	16,392	25,559	—	25,559	3.1
Colorado	9,046	—	9,046	—	9,046	1.1
Other	30,834	1,589	32,423	—	32,423	4.0
	<u>\$ 655,851</u>	<u>\$ 156,768</u>	<u>\$ 812,619</u>	<u>\$ 6,124</u>	<u>\$ 818,743</u>	<u>100.0%</u>

The following table presents the Bank's commercial and industrial loans and loan commitments by business purpose, as of March 31, 2019.

	Unpaid Principal	Undisbursed Amount	Gross Loan Amount	Outstanding Commitments	Total	% of Total
(Dollars in thousands)						
Working capital	\$ 46,768	\$ 17,001	\$ 63,769	\$ 7,819	\$ 71,588	70.5%
Equipment	17,409	931	18,340	895	19,235	18.9
Small Business Administration	4,187	353	4,540	—	4,540	4.5
Auto lease	3,589	309	3,898	—	3,898	3.8
Other	1,899	399	2,298	—	2,298	2.3
	<u>\$ 73,852</u>	<u>\$ 18,993</u>	<u>\$ 92,845</u>	<u>\$ 8,714</u>	<u>\$ 101,559</u>	<u>100.0%</u>

The following table presents the Bank's commercial loan portfolio and outstanding loan commitments, categorized by gross loan amount (unpaid principal plus undisbursed amounts) or outstanding loan commitment amount, as of March 31, 2019.

	Amount
(Dollars in thousands)	
Greater than \$30 million	\$ 186,298
>\$15 to \$30 million	242,096
>\$10 to \$15 million	59,429
>\$5 to \$10 million	94,324
\$1 to \$5 million	188,600
Less than \$1 million	149,555
	<u>\$ 920,302</u>

Asset Quality. The Bank's traditional underwriting guidelines have provided the Bank with generally low delinquencies and low levels of non-performing assets compared to national levels. Of particular importance is the complete and full documentation required for each loan the Bank originates, participates in or purchases. Generally, one- to four-family owner occupied loans are underwritten according to the "ability to repay" and "qualified mortgage" standards, as issued by the CFPB. This allows the Bank to make an informed credit decision based upon a thorough assessment of the borrower's ability to repay the loan. See additional discussion regarding underwriting standards in "Part I, Item 1. Business - Lending Practices and Underwriting Standards" in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018.

Delinquent and non-performing loans and OREO - The following table presents the Company's 30 to 89 day delinquent loans at the dates indicated. Of the loans 30 to 89 days delinquent at March 31, 2019, approximately 67% were 59 days or less delinquent.

Loans Delinquent for 30 to 89 Days at:

	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
One- to four-family:										
Originated	79	\$ 8,694	118	\$ 9,765	129	\$ 10,647	104	\$ 7,639	106	\$ 8,476
Correspondent purchased	13	4,133	10	1,969	18	3,803	6	1,757	5	744
Bulk purchased	13	2,722	15	2,780	15	3,502	16	3,773	17	4,182
Commercial	13	1,361	2	64	6	322	1	40	—	—
Consumer	37	481	42	744	38	533	30	363	24	356
	<u>155</u>	<u>\$ 17,391</u>	<u>187</u>	<u>\$ 15,322</u>	<u>206</u>	<u>\$ 18,807</u>	<u>157</u>	<u>\$ 13,572</u>	<u>152</u>	<u>\$ 13,758</u>

Loans 30 to 89 days delinquent										
to total loans receivable, net		0.23%		0.20%		0.25%		0.19%		0.19%

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

Non-Performing Loans and OREO at:

	March 31, 2019		December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
<i>Loans 90 or More Days Delinquent or in Foreclosure:</i>										
One- to four-family:										
Originated	67	\$ 5,172	69	\$ 5,301	67	\$ 5,040	64	\$ 5,043	67	\$ 6,434
Correspondent purchased	3	918	5	1,093	1	449	4	863	4	1,151
Bulk purchased	10	2,782	10	3,137	11	3,045	8	2,597	12	3,325
Commercial	—	—	—	—	—	—	—	—	—	—
Consumer	27	567	28	513	30	569	27	425	28	428
	<u>107</u>	<u>9,439</u>	<u>112</u>	<u>10,044</u>	<u>109</u>	<u>9,103</u>	<u>103</u>	<u>8,928</u>	<u>111</u>	<u>11,338</u>
Loans 90 or more days delinquent or in foreclosure as a percentage of total loans		0.12%		0.13%		0.12%		0.12%		0.16%
<i>Nonaccrual loans less than 90 Days Delinquent:⁽¹⁾</i>										
One- to four-family:										
Originated	18	\$ 1,761	17	\$ 1,584	19	\$ 1,482	24	\$ 2,469	27	\$ 2,961
Correspondent purchased	—	—	1	298	2	396	1	95	—	—
Bulk purchased	—	—	—	—	—	—	1	340	1	342
Commercial	2	1,712	2	1,776	—	—	—	—	—	—
Consumer	3	14	3	13	2	9	4	68	3	55
	<u>23</u>	<u>3,487</u>	<u>23</u>	<u>3,671</u>	<u>23</u>	<u>1,887</u>	<u>30</u>	<u>2,972</u>	<u>31</u>	<u>3,358</u>
Total non-performing loans	130	12,926	135	13,715	132	10,990	133	11,900	142	14,696
Non-performing loans as a percentage of total loans		0.17%		0.18%		0.15%		0.16%		0.20%
<i>OREO:</i>										
One- to four-family:										
Originated ⁽²⁾	5	\$ 549	4	\$ 588	8	\$ 843	4	\$ 208	2	\$ 232
Bulk purchased	1	322	1	322	1	454	2	689	1	454
Commercial	1	600	1	600	1	600	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—	—
	<u>7</u>	<u>1,471</u>	<u>6</u>	<u>1,510</u>	<u>10</u>	<u>1,897</u>	<u>6</u>	<u>897</u>	<u>3</u>	<u>686</u>
Total non-performing assets	<u>137</u>	<u>\$ 14,397</u>	<u>141</u>	<u>\$ 15,225</u>	<u>142</u>	<u>\$ 12,887</u>	<u>139</u>	<u>\$ 12,797</u>	<u>145</u>	<u>\$ 15,382</u>
Non-performing assets as a percentage of total assets		0.15%		0.16%		0.14%		0.14%		0.17%

- (1) Includes loans required to be reported as nonaccrual pursuant to accounting and/or regulatory reporting requirements even if the loans are current.
- (2) Real estate-related consumer loans where we also hold the first mortgage are included in the one- to four-family category as the underlying collateral is one- to four-family property.

The following table presents the states where the properties securing one percent or more of the total amount of our one- to four-family loans are located and the corresponding balance of loans 30 to 89 days delinquent, 90 or more days delinquent or in foreclosure, and weighted average LTV ratios for loans 90 or more days delinquent or in foreclosure at March 31, 2019. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. At March 31, 2019, potential losses, after taking into consideration anticipated private mortgage insurance proceeds and estimated selling costs, have been charged-off.

State	One- to Four-Family		Loans 30 to 89 Days Delinquent		Loans 90 or More Days Delinquent or in Foreclosure		
	Amount	% of Total	Amount	% of Total	Amount	% of Total	LTV
	(Dollars in thousands)						
Kansas	\$ 3,589,476	53.8%	\$ 8,398	54.0%	\$ 4,420	49.8%	65%
Missouri	1,211,486	18.2	2,672	17.2	1,918	21.6	62
Texas	747,758	11.2	703	4.5	520	5.9	46
Tennessee	225,852	3.4	—	—	—	—	n/a
California	187,347	2.8	—	—	—	—	n/a
Pennsylvania	104,950	1.6	514	3.3	—	—	n/a
Georgia	92,203	1.4	—	—	383	4.3	42
Alabama	89,844	1.3	425	2.7	—	—	n/a
Other states	416,843	6.3	2,837	18.3	1,631	18.4	60
	<u>\$ 6,665,759</u>	<u>100.0%</u>	<u>\$ 15,549</u>	<u>100.0%</u>	<u>\$ 8,872</u>	<u>100.0%</u>	<u>61</u>

Allowance for credit losses and Provision for credit losses - Management maintains an ACL to absorb inherent losses in the loan portfolio based on quarterly assessments of the loan portfolio. The ACL is maintained through provisions for credit losses which are either charged to or credited to income. Each quarter, we prepare a formula analysis model which segregates the loan portfolio into categories based on certain risk characteristics. Historical loss factors and qualitative factors are applied to each loan category in the formula analysis model. The factors are reviewed by management quarterly to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. The historical loss factors and qualitative factors continue to improve for our one- to four-family portfolio. To the extent the commercial loan portfolio continues to grow and the inherent loss factors remain relatively constant, the related ACL amounts are expected to increase as well. In addition to the formula analysis model, management considers several other internal and external data elements when evaluating the overall adequacy of the ACL. Management considers the overall ACL to be adequate for the loan portfolio at March 31, 2019.

See "Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Allowance for Credit Losses" and "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies" in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018 for a full discussion of our ACL methodology. See "Note 4. Loans Receivable and Allowance for Credit Losses" for additional information on the ACL.

The Bank did not record a provision for credit losses during the six month period ended March 31, 2019. Based on management's assessment of the ACL formula analysis model and several other factors, management determined that no provision for credit losses was necessary. Net recoveries were \$156 thousand during the current year six month period. At March 31, 2019, loans 30 to 89 days delinquent were 0.23% of total loans and loans 90 or more days delinquent or in foreclosure were 0.12% of total loans. At September 30, 2018, loans 30 to 89 days delinquent were 0.25% of total loans and loans 90 or more days delinquent or in foreclosure were 0.12% of total loans.

The distribution of our ACL at the dates indicated is summarized below.

	At							
	March 31, 2019				September 30, 2018			
	Amount of ACL	% of ACL to Total ACL	Total Loans	% of Loans to Total Loans	Amount of ACL	% of ACL to Total ACL	Total Loans	% of Loans to Total Loans
(Dollars in thousands)								
One- to four-family:								
Originated	\$ 2,157	25.0%	\$ 3,922,565	51.9%	\$ 2,933	34.7%	\$ 3,965,692	52.8%
Correspondent purchased	1,392	16.2	2,470,619	32.7	1,861	22.0	2,505,987	33.4
Bulk purchased	802	9.3	272,575	3.6	925	10.9	293,607	3.9
Construction	16	0.2	33,525	0.4	20	0.2	33,149	0.4
Total	<u>4,367</u>	<u>50.7</u>	<u>6,699,284</u>	<u>88.6</u>	<u>5,739</u>	<u>67.8</u>	<u>6,798,435</u>	<u>90.5</u>
Commercial:								
Commercial real estate	2,783	32.3	547,202	7.2	1,801	21.3	426,243	5.7
Commercial and industrial	224	2.6	73,852	1.0	21	0.2	62,869	0.8
Construction	1,081	12.5	108,649	1.4	734	8.7	80,498	1.1
Total	<u>4,088</u>	<u>47.4</u>	<u>729,703</u>	<u>9.6</u>	<u>2,556</u>	<u>30.2</u>	<u>569,610</u>	<u>7.6</u>
Consumer loans:								
Home equity	104	1.2	125,176	1.7	129	1.5	129,588	1.8
Other consumer	60	0.7	9,913	0.1	39	0.5	10,012	0.1
Total consumer loans	<u>164</u>	<u>1.9</u>	<u>135,089</u>	<u>1.8</u>	<u>168</u>	<u>2.0</u>	<u>139,600</u>	<u>1.9</u>
	<u>\$ 8,619</u>	<u>100.0%</u>	<u>\$ 7,564,076</u>	<u>100.0%</u>	<u>\$ 8,463</u>	<u>100.0%</u>	<u>\$ 7,507,645</u>	<u>100.0%</u>

Loans added in the CCB acquisition are included in the table above. The majority of these loans were not deemed purchased credit impaired ("PCI") as of the acquisition date ("non-PCI loans"). The net purchase discounts associated with non-PCI loans were compared to the amount of hypothetical ACL estimated for these loans at March 31, 2019. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Allowance for Credit Losses" in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018 for additional information regarding management's estimation of the hypothetical ACL for non-PCI loans. As a result of this analysis, management determined the net purchase discounts were sufficient and no ACL was required on those loans at March 31, 2019.

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

	For the Three Months Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(Dollars in thousands)				
ACL beginning balance	\$ 8,558	\$ 8,463	\$ 8,344	\$ 8,390	\$ 8,370
Charge-offs	(12)	(56)	(14)	(54)	(200)
Recoveries	73	151	133	8	220
Provision for credit losses	—	—	—	—	—
ACL ending balance	<u>\$ 8,619</u>	<u>\$ 8,558</u>	<u>\$ 8,463</u>	<u>\$ 8,344</u>	<u>\$ 8,390</u>
ACL to loans receivable, net at end of period	0.11%	0.11%	0.11%	0.12%	0.12%
ACL to non-performing loans at end of period	66.68	62.40	77.01	70.12	57.09
Ratio of net charge-offs (recoveries) during the period to average loans outstanding	—	—	—	—	—
Ratio of net charge-offs (recoveries) during the period to average non-performing assets	(0.41)	(0.68)	(0.93)	0.33	(0.13)
ACL to net charge-offs (annualized)	N/M ⁽¹⁾	N/M ⁽¹⁾	N/M ⁽¹⁾	45.3x	N/M ⁽¹⁾
	For the Six Months Ended				
	March 31, 2019	March 31, 2018			
	(Dollars in thousands)				
ACL beginning balance	\$ 8,463	\$ 8,398			
Charge-offs	(68)	(234)			
Recoveries	224	226			
Provision for credit losses	—	—			
ACL ending balance	<u>\$ 8,619</u>	<u>\$ 8,390</u>			
Ratio of net charge-offs during the period to average loans outstanding during the period	—%	—%			
Ratio of net charge-offs during the period to average non-performing assets during the period	(1.14)	0.04			
ACL to net charge-offs (annualized)	N/M ⁽¹⁾	560.5x			

(1) This ratio is not presented for the time periods noted due to loan recoveries exceeding loan charge-offs during these periods.

Securities. The following table presents the distribution of our securities portfolio, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 76% of our securities portfolio at March 31, 2019. The weighted average life ("WAL") is the estimated remaining maturity (in years) after three-month historical prepayment speeds and projected call option assumptions have been applied. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

	March 31, 2019			December 31, 2018			September 30, 2018		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)								
Fixed-rate securities:									
MBS	\$ 671,771	2.47%	3.2	\$ 685,636	2.44%	3.1	\$ 732,095	2.43%	3.0
GSE debentures	268,375	2.44	1.0	243,550	2.20	1.8	268,525	2.09	2.3
Municipal bonds	21,155	1.61	1.3	22,845	1.57	1.6	24,574	1.56	1.8
Total fixed-rate securities	961,301	2.44	2.6	952,031	2.35	2.8	1,025,194	2.32	2.8
Adjustable-rate securities:									
MBS	308,134	3.12	4.9	284,584	3.07	4.9	305,688	2.89	4.5
Total securities portfolio	<u>\$ 1,269,435</u>	2.61	3.1	<u>\$ 1,236,615</u>	2.52	3.3	<u>\$ 1,330,882</u>	2.45	3.2

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

	March 31, 2019	December 31, 2018	September 30, 2018
		(Dollars in thousands)	
Federal National Mortgage Association ("FNMA")	\$ 675,220	\$ 640,760	\$ 680,717
Federal Home Loan Mortgage Corporation ("FHLMC")	228,990	245,796	265,441
Government National Mortgage Association	81,084	85,987	90,832
	<u>\$ 985,294</u>	<u>\$ 972,543</u>	<u>\$ 1,036,990</u>

Mortgage-Backed Securities - The balance of MBS, which primarily consists of securities of U.S. GSEs, decreased \$51.7 million, from \$1.04 billion at September 30, 2018, to \$985.3 million at March 31, 2019. The following table summarizes the activity in our portfolio of MBS for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The beginning and ending WAL is the estimated remaining principal repayment term (in years) after three-month historical prepayment speeds have been applied.

	For the Three Months Ended											
	March 31, 2019			December 31, 2018			September 30, 2018			June 30, 2018		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)											
Beginning balance - carrying value	\$ 972,543	2.62%	3.6	\$ 1,036,990	2.57%	3.4	\$ 958,269	2.46%	3.7	\$ 982,405	2.39%	3.8
Maturities and repayments	(62,702)			(67,214)			(77,985)			(69,843)		
Net amortization of (premiums)/discounts	(310)			(349)			(624)			(702)		
Purchases:												
Fixed	28,921	2.89	5.1	—	—	—	74,178	3.11	3.7	24,348	2.90	3.7
Adjustable	43,776	2.69	4.3	—	—	—	—	—	—	23,544	2.35	3.0
Securities added in CCB acquisition, net	—	—	—	—	—	—	85,741	3.13	2.5	—	—	—
Change in valuation on AFS securities	3,066			3,116			(2,589)			(1,483)		
Ending balance - carrying value	<u>\$ 985,294</u>	<u>2.67</u>	<u>3.7</u>	<u>\$ 972,543</u>	<u>2.62</u>	<u>3.6</u>	<u>\$ 1,036,990</u>	<u>2.57</u>	<u>3.4</u>	<u>\$ 958,269</u>	<u>2.46</u>	<u>3.7</u>

	For the Six Months Ended					
	March 31, 2019			March 31, 2018		
	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)					
Beginning balance - carrying value	\$ 1,036,990	2.57%	3.4	\$ 942,447	2.28%	3.5
Maturities and repayments	(129,916)			(129,636)		
Net amortization of (premiums)/discounts	(659)			(1,642)		
Purchases:						
Fixed	28,921	2.89	5.1	103,345	2.80	4.5
Adjustable	43,776	2.69	4.3	70,484	2.44	4.6
Securities added in CCB acquisition, net	—	—	—	—	—	—
Change in valuation on AFS securities	6,182			(2,593)		
Ending balance - carrying value	<u>\$ 985,294</u>	<u>2.67</u>	<u>3.7</u>	<u>\$ 982,405</u>	<u>2.39</u>	<u>3.8</u>

Investment Securities - Investment securities, which consist of U.S. GSE debentures (primarily issued by FNMA, FHLMC, or Federal Home Loan Banks) and municipal investments, decreased \$1.0 million, from \$289.9 million at September 30, 2018, to \$288.9 million at March 31, 2019. The following table summarizes the activity of investment securities for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented. The beginning and ending WALs represent the estimated remaining principal repayment terms (in years) of the securities after projected call dates have been considered, based upon market rates at each date presented.

	For the Three Months Ended											
	March 31, 2019			December 31, 2018			September 30, 2018			June 30, 2018		
	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)											
Beginning balance - carrying value	\$ 264,782	2.14%	1.8	\$ 289,942	2.05%	2.2	\$ 261,614	1.95%	2.2	\$ 293,113	1.61%	1.5
Maturities, calls and sales	(76,635)			(26,665)			(2,010)			(71,700)		
Net amortization of (premiums)/discounts	(39)			(39)			(48)			(43)		
Purchases:												
Fixed	99,809	2.67	0.7	—	—	—	24,996	3.01	3.0	40,564	3.02	2.1
Securities added in CCB acquisition, net	—	—	—	—	—	—	5,855	2.12	1.0	—	—	—
Change in valuation on AFS securities	977			1,544			(465)			(320)		
Ending balance - carrying value	<u>\$ 288,894</u>	2.38	1.0	<u>\$ 264,782</u>	2.14	1.8	<u>\$ 289,942</u>	2.05	2.2	<u>\$ 261,614</u>	1.95	2.2

	For the Six Months Ended					
	March 31, 2019			March 31, 2018		
	Amount	Yield	WAL	Amount	Yield	WAL
	(Dollars in thousands)					
Beginning balance - carrying value	\$ 289,942	2.05%	2.2	\$ 301,122	1.33%	1.5
Maturities, calls and sales	(103,300)			(56,128)		
Net amortization of (premiums)/discounts	(78)			(91)		
Purchases:						
Fixed	99,809	2.67	0.7	50,000	2.63	1.0
Change in valuation on AFS securities	2,521			(1,790)		
Ending balance - carrying value	<u>\$ 288,894</u>	2.38	1.0	<u>\$ 293,113</u>	1.61	1.5

Liabilities

Deposits - Deposits were \$5.70 billion at March 31, 2019 compared to \$5.60 billion at September 30, 2018. We continue to be competitive on deposit rates, especially for longer-term certificates of deposit. Offering competitive rates on longer-term certificates of deposit has been an on-going balance sheet strategy by management to manage our interest rate risk profile. Additionally, as we expand the commercial banking business, we will have the ability to obtain lower-costing commercial deposits, which could be used to reduce the cost of funds by replacing FHLB borrowings and wholesale deposits.

The following table presents the amount, weighted average rate and percent of total for the components of our deposit portfolio at the dates presented. Total deposits increased \$143.2 million, or 2.6%, during the current quarter. The deposit growth during the current quarter was primarily in retail/business certificates of deposit, due mainly to the President's Day certificate of deposit campaign in February, along with increases in interest-bearing checking and money market accounts.

	March 31, 2019			December 31, 2018			September 30, 2018		
	Amount	Rate	% of Total	Amount	Rate	% of Total	Amount	Rate	% of Total
(Dollars in thousands)									
Non-interest-bearing checking	\$ 361,126	—%	6.3%	\$ 348,867	—%	6.3%	\$ 336,454	—%	6.0%
Interest-bearing checking	768,856	0.08	13.5	729,712	0.07	13.1	724,066	0.08	12.9
Savings	361,204	0.06	6.3	350,089	0.06	6.3	352,896	0.07	6.3
Money market	1,287,753	0.72	22.6	1,256,302	0.72	22.6	1,252,881	0.47	22.4
Retail/business certificates of deposit	2,522,044	1.93	44.3	2,479,614	1.86	44.6	2,529,368	1.79	45.1
Public unit certificates of deposit	400,128	2.22	7.0	393,280	2.07	7.1	407,689	1.89	7.3
	<u>\$ 5,701,111</u>	<u>1.19</u>	<u>100.0%</u>	<u>\$ 5,557,864</u>	<u>1.15</u>	<u>100.0%</u>	<u>\$ 5,603,354</u>	<u>1.06</u>	<u>100.0%</u>

The following tables set forth scheduled maturity information for our certificates of deposit, including public unit certificates of deposit, along with associated weighted average rates, as of March 31, 2019.

Rate range	Amount Due					Total	
	1 year or less	More than 1 year to 2 years	More than 2 years to 3 years	More than 3 years	Amount	Rate	
(Dollars in thousands)							
0.00 – 0.99%	\$ 87,392	\$ 2,760	\$ 1,782	\$ 14	\$ 91,948	0.71%	
1.00 – 1.99%	839,010	453,054	256,789	112,435	1,661,288	1.72	
2.00 – 2.99%	446,257	227,832	119,053	375,555	1,168,697	2.43	
3.00 – 3.99%	—	—	—	239	239	3.00	
	<u>\$1,372,659</u>	<u>\$ 683,646</u>	<u>\$ 377,624</u>	<u>\$ 488,243</u>	<u>\$ 2,922,172</u>	<u>1.97</u>	
Percent of total	47.0%	23.4%	12.9%	16.7%			
Weighted average rate	1.83	1.97	2.04	2.34			
Weighted average maturity (in years)	0.5	1.4	2.5	3.6	1.5		
Weighted average maturity for the retail/business certificate of deposit portfolio (in years)					1.6		

	Amount Due				
	3 months or less	Over 3 to 6 months	Over 6 to 12 months	Over 12 months	Total
(Dollars in thousands)					
Retail/business certificates of deposit less than \$100,000	\$ 150,213	\$ 160,371	\$ 314,935	\$ 866,864	\$ 1,492,383
Retail/business certificates of deposit of \$100,000 or more	87,265	117,275	218,656	606,465	1,029,661
Public unit certificates of deposit of \$100,000 or more	152,706	82,022	89,216	76,184	400,128
	<u>\$ 390,184</u>	<u>\$ 359,668</u>	<u>\$ 622,807</u>	<u>\$ 1,549,513</u>	<u>\$ 2,922,172</u>

Borrowings - The following tables present borrowing activity for the periods shown. The borrowings presented in the table have original contractual terms of one year or longer. FHLB advances are presented at par. The effective rate is shown as a weighted average and includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid. The weighted average maturity ("WAM") is the remaining weighted average contractual term in years. The beginning and ending WAMs represent the remaining maturity at each date presented. For new borrowings, the WAMs presented are as of the date of issue.

For the Three Months Ended

	March 31, 2019			December 31, 2018			September 30, 2018			June 30, 2018		
	Effective			Effective			Effective			Effective		
	Amount	Rate	WAM	Amount	Rate	WAM	Amount	Rate	WAM	Amount	Rate	WAM
	(Dollars in thousands)											
Beginning balance	\$ 2,181,186	2.31%	3.0	\$ 2,185,052	2.17%	2.9	\$ 2,175,000	2.10%	2.7	\$ 2,175,000	2.09%	2.4
Maturities:												
FHLB advances	—	—		(300,000)	1.73		(275,000)	2.17		(100,000)	2.82	
CCB acquisition - junior subordinated debentures assumed (redeemed)	(6,186)	10.60	11.5	(3,866)	5.82	13.5	10,052	8.75	12.7	—	—	—
New FHLB borrowings:												
Fixed-rate	—	—	—	100,000	3.39	5.0	—	—	—	—	—	—
Interest rate swaps ⁽¹⁾	65,000	2.57	5.0	200,000	2.46	3.5	275,000	2.53	5.6	100,000	2.92	10.0
Ending balance	<u>\$ 2,240,000</u>	<u>2.29</u>	<u>2.8</u>	<u>\$ 2,181,186</u>	<u>2.31</u>	<u>3.0</u>	<u>\$ 2,185,052</u>	<u>2.17</u>	<u>2.9</u>	<u>\$ 2,175,000</u>	<u>2.10</u>	<u>2.7</u>

For the Six Months Ended

	March 31, 2019			March 31, 2018		
	Effective			Effective		
	Amount	Rate	WAM	Amount	Rate	WAM
	(Dollars in thousands)					
Beginning balance	\$ 2,185,052	2.17%	2.9	\$ 2,375,000	2.16%	2.7
Maturities:						
FHLB advances	(300,000)	1.73		(100,000)	2.53	
Repurchase agreements	—	—		(100,000)	3.35	
CCB acquisition - junior subordinated debentures assumed (redeemed)	(10,052)	8.76	12.3	—	—	—
New FHLB borrowings:						
Fixed-rate	100,000	3.39	5.0	—	—	—
Interest rate swaps ⁽¹⁾	265,000	2.49	3.9	—	—	—
Ending balance	<u>\$ 2,240,000</u>	<u>2.29</u>	<u>2.8</u>	<u>\$ 2,175,000</u>	<u>2.09</u>	<u>2.4</u>

(1) Represents adjustable-rate FHLB advances for which the Bank has entered into interest rate swaps to hedge the variability in cash flows associated with the advances. The effective rate and WAM presented include the effect of the interest rate swaps.

Maturities - The following table presents the maturity of term borrowings (including FHLB advances, at par, and repurchase agreements), along with associated weighted average contractual and effective rates as of March 31, 2019.

Maturity by Fiscal Year	FHLB Advances Amount		Repurchase	Total Amount	Contractual Rate	Effective Rate ⁽²⁾
	Fixed-rate	Interest rate swaps ⁽¹⁾	Agreements Amount			
(Dollars in thousands)						
2019	\$ 200,000	\$ 375,000	\$ —	\$ 575,000	2.25	2.29
2020	350,000	265,000	100,000	715,000	2.32	2.25
2021	550,000	—	—	550,000	2.27	2.27
2022	200,000	—	—	200,000	2.23	2.23
2023	100,000	—	—	100,000	1.82	1.82
2024	100,000	—	—	100,000	3.39	3.39
	<u>\$ 1,500,000</u>	<u>\$ 640,000</u>	<u>\$ 100,000</u>	<u>\$ 2,240,000</u>	2.31	2.29

- (1) Represents 12-month adjustable-rate FHLB advances for which the Bank has entered into interest rate swaps with a notional amount of \$640.0 million to hedge the variability in cash flows associated with the advances. These advances are presented based on their contractual maturity dates and will be renewed each year until the maturity or termination of the interest rate swaps. The expected WAL of the interest rate swaps was 4.9 years at March 31, 2019.
- (2) The effective rate includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid.

As of March 31, 2019, the Bank had \$100.0 million outstanding on its FHLB line of credit, which was not related to the leverage strategy. The average rate paid on FHLB line of credit borrowings during the current year six month period was 2.55%.

The following table presents the maturity and weighted average repricing rate, which is also the weighted average effective rate, of certificates of deposit, split between retail/business and public unit amounts, and term borrowings for the next four quarters as of March 31, 2019.

Maturity by Quarter End	Retail/ Business		Public Unit		Term	Repricing Rate	Total	Repricing Rate
	Certificate Amount	Repricing Rate	Certificate Amount	Repricing Rate	Borrowings Amount			
(Dollars in thousands)								
June 30, 2019	\$ 237,478	1.36%	\$ 152,706	2.13%	\$ 200,000	2.11%	\$ 590,184	1.81%
September 30, 2019	277,646	1.71	82,022	2.00	375,000	2.38	734,668	2.09
December 31, 2019	321,600	1.91	59,450	2.23	350,000	2.40	731,050	2.17
March 31, 2020	211,991	1.84	29,766	2.71	65,000	2.57	306,757	2.08
	<u>\$ 1,048,715</u>	1.72	<u>\$ 323,944</u>	2.17	<u>\$ 990,000</u>	2.35	<u>\$ 2,362,659</u>	2.04

Stockholders' Equity. Stockholders' equity was \$1.36 billion at March 31, 2019 compared to \$1.39 billion at September 30, 2018. The \$35.6 million decrease was due primarily to the payment of \$77.1 million in cash dividends, partially offset by net income of \$48.9 million. The cash dividends paid during the current year six month period totaled \$0.56 per share and consisted of a \$0.39 per share cash true-up dividend related to fiscal year 2018 earnings per the Company's dividend policy, and two regular quarterly cash dividends totaling \$0.17 per share. On April 17, 2019, the Company announced a regular quarterly cash dividend of \$0.085 per share, or approximately \$11.7 million, payable on May 17, 2019 to stockholders of record as of the close of business on May 3, 2019.

At March 31, 2019, Capitol Federal Financial, Inc., at the holding company level, had \$102.7 million on deposit at the Bank. For fiscal year 2019, it is the intent of the Board of Directors to continue the payout of 100% of the Company's earnings to the Company's stockholders. Dividend payments depend upon a number of factors including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company.

The Company works to find multiple ways to provide stockholder value. Recently, this has primarily been through the payment of cash dividends and historically the Company has also utilized stock buybacks. The Company has maintained a dividend policy of paying out 100% of its earnings to stockholders in the form of quarterly cash dividends and an annual cash true-up dividend in December of each year. In order to provide additional stockholder value, the Company has paid a True Blue cash dividend of \$0.25 per share in June of each of the past five years, and in December prior to that. The Company has paid the True Blue dividend primarily due to excess capital levels at the Company and Bank. The Company considers various business strategies and their impact on capital and asset measures on both a current and future basis, as well as regulatory capital levels and requirements, in determining the amount, if any, and timing of the True Blue dividend.

The following table presents regular quarterly cash dividends and special cash dividends paid in calendar years 2019, 2018, and 2017. The amounts represent cash dividends paid during each period. For the quarter ending June 30, 2019, the amount presented represents the dividend payable on May 17, 2019 to stockholders of record as of May 3, 2019.

	Calendar Year					
	2019		2018		2017	
	Amount	Per Share	Amount	Per Share	Amount	Per Share
	(Dollars in thousands, except per share amounts)					
Regular quarterly dividends paid						
Quarter ended March 31	\$ 11,700	\$ 0.085	\$ 11,427	\$ 0.085	\$ 11,386	\$ 0.085
Quarter ended June 30	11,708	0.085	11,429	0.085	11,409	0.085
Quarter ended September 30			11,430	0.085	11,411	0.085
Quarter ended December 31			11,696	0.085	11,427	0.085
True-up dividends paid			53,666	0.390	38,985	0.290
True Blue dividends paid			33,614	0.250	33,559	0.250
Calendar year-to-date dividends paid	<u>\$ 23,408</u>	<u>\$ 0.170</u>	<u>\$ 133,262</u>	<u>\$ 0.980</u>	<u>\$ 118,177</u>	<u>\$ 0.880</u>

The Company has authorized the repurchase of up to \$70.0 million of its common stock under its stock repurchase plan. Shares may be repurchased from time to time based upon market conditions and available liquidity. There is no expiration for this repurchase plan and no shares have been repurchased under this repurchase plan.

Operating Results

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

	For the Three Months Ended				
	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
	(Dollars in thousands, except per share data)				
Interest and dividend income:					
Loans receivable	\$ 71,657	\$ 70,772	\$ 66,922	\$ 64,893	\$ 64,194
MBS	6,301	6,523	6,056	5,921	5,390
FHLB stock	1,831	1,971	1,847	2,819	3,201
Investment securities	1,505	1,441	1,275	1,307	1,094
Cash and cash equivalents	743	1,714	1,213	7,221	7,895
Total interest and dividend income	<u>82,037</u>	<u>82,421</u>	<u>77,313</u>	<u>82,161</u>	<u>81,774</u>
Interest expense:					
Deposits	16,096	15,725	14,597	13,587	12,480
FHLB borrowings	12,525	13,530	11,930	18,501	18,772
Other borrowings	819	865	709	640	633
Total interest expense	<u>29,440</u>	<u>30,120</u>	<u>27,236</u>	<u>32,728</u>	<u>31,885</u>
Net interest income	52,597	52,301	50,077	49,433	49,889
Provision for credit losses	—	—	—	—	—
Net interest income (after provision for credit losses)	52,597	52,301	50,077	49,433	49,889
Non-interest income	5,001	5,424	5,820	5,424	5,433
Non-interest expense	26,141	26,782	26,757	24,511	23,598
Income tax expense	6,903	6,560	7,751	7,974	8,394
Net income	<u>\$ 24,554</u>	<u>\$ 24,383</u>	<u>\$ 21,389</u>	<u>\$ 22,372</u>	<u>\$ 23,330</u>
Efficiency ratio	45.38%	46.40%	47.87%	44.68%	42.66%
Basic EPS	\$ 0.18	\$ 0.18	\$ 0.16	\$ 0.17	\$ 0.17
Diluted EPS	0.18	0.18	0.16	0.17	0.17

Comparison of Operating Results for the Six Months Ended March 31, 2019 and 2018

The Company recognized net income of \$48.9 million, or \$0.36 per share, for the six month period ended March 31, 2019 compared to net income of \$55.2 million, or \$0.41 per share, for the six month period ended March 31, 2018. The decrease in net income was due primarily to the prior year six month period including the impact of the enactment of the Tax Act as discussed below, as well as an increase in non-interest expense during the current year six month period. These changes were partially offset by an increase in net interest income due primarily to the higher yielding loans added in the CCB acquisition. The Tax Act reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. In accordance with GAAP, the Company revalued its deferred tax assets and liabilities in December 2017 to account for the lower corporate income tax rate. The revaluation reduced income tax expense by \$7.5 million.

The net interest margin increased 45 basis points, from 1.85% for the prior year six month period to 2.30% for the current year six month period. When the leverage strategy is in place, it reduces the net interest margin due to the amount of earnings from the transaction in comparison to the size of the transaction. The leverage strategy was suspended at certain times during the current year six month period due to the negative interest rate spreads between the related FHLB borrowings and cash held at the FRB of Kansas City making the transaction unprofitable. Excluding the effects of the leverage strategy, the net interest margin would have increased 11 basis points, from 2.22% for the prior year six month period to 2.33% for the current year six month period. The increase in the net interest margin excluding the effects of the leverage strategy was due mainly to the addition of higher yielding commercial loans in the CCB acquisition.

Interest and Dividend Income

The weighted average yield on total interest-earning assets increased 58 basis points, from 3.02% for the prior year six month period to 3.60% for the current year six month period, while the average balance of interest-earning assets decreased \$1.62 billion from the prior year six month period. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased 29 basis points, from 3.33% for the prior year six month period to 3.62% for the current year six month period, and the average balance of interest-earning assets would have increased \$272.1 million. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent.

	For the Six Months Ended		Change Expressed in:	
	March 31,		Dollars	Percent
	2019	2018		
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 142,429	\$ 128,383	\$ 14,046	10.9%
MBS	12,824	10,642	2,182	20.5
FHLB stock	3,802	6,296	(2,494)	(39.6)
Investment securities	2,946	2,088	858	41.1
Cash and cash equivalents	2,457	15,009	(12,552)	(83.6)
Total interest and dividend income	<u>\$ 164,458</u>	<u>\$ 162,418</u>	<u>\$ 2,040</u>	<u>1.3</u>

The increase in interest income on loans receivable was due to a \$347.4 million increase in the average balance of the portfolio, as well as a 20 basis point increase in the weighted average yield on the portfolio to 3.77% for the current year six month period. The increase in the average balance was due mainly to the acquisition of CCB. The increase in the weighted average yield was also due mainly to the addition of higher yielding loans associated with the CCB acquisition, as well as legacy adjustable-rate loans repricing to higher market rates and the origination and purchase of new loans at higher market rates.

The increase in interest income on the MBS portfolio was due to a 33 basis point increase in the weighted average yield on the portfolio to 2.61% for the current year six month period, along with a \$48.6 million increase in the average balance of the portfolio. The increase in the weighted average yield was due primarily to a decrease in the impact of net premium amortization, as well as adjustable-rate MBS repricing to higher market rates. Net premium amortization of \$659 thousand during the current year six month period decreased the weighted average yield on the portfolio by 13 basis points. During the prior year six month period, \$1.6 million of net premiums were amortized, which decreased the weighted average yield on the portfolio by 35 basis points. As of March 31, 2019, the remaining net balance of premiums on our portfolio of MBS was \$2.4 million.

The decrease in dividend income on FHLB stock was due to a decrease in the average balance of FHLB stock as a result of the leverage strategy not being in place as often during the current year six month period as compared to the prior year six month period. This was partially offset by a higher dividend rate on FHLB stock during the current year six month period.

The increase in interest income on the investment securities portfolio was due to a 75 basis point increase in the weighted average yield on the portfolio to 2.13%. The increase in the weighted average yield was primarily a result of replacing maturing securities at higher market rates.

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy decreased \$155 thousand from the prior year six month period due to a \$98.9 million decrease in the average balance, partially offset by a 97 basis point increase in the weighted average yield which was related to cash balances held at the FRB of Kansas City. Interest income on cash associated with the leverage strategy decreased \$12.4 million from the prior year six month period due to a \$1.80 billion decrease in the average balance, as the leverage strategy was in place less often during the current year six month period.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities increased 17 basis points, from 1.32% for the prior year six month period to 1.49% for the current year six month period, while the average balance of interest-bearing liabilities decreased \$1.58 billion from the prior year six month period. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have increased 19 basis points, from 1.29% for the prior year six month period to 1.48% for the current year six month period, and the average balance of interest-bearing liabilities would have increased \$315.2 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

	For the Six Months Ended		Change Expressed in:	
	March 31,		Dollars	Percent
	2019	2018		
	(Dollars in thousands)			
INTEREST EXPENSE:				
Deposits	\$ 31,821	\$ 24,441	\$ 7,380	30.2%
FHLB borrowings	26,055	36,689	(10,634)	(29.0)
Other borrowings	1,684	2,025	(341)	(16.8)
Total interest expense	<u>\$ 59,560</u>	<u>\$ 63,155</u>	<u>\$ (3,595)</u>	<u>(5.7)</u>

The increase in interest expense on deposits was due primarily to a 22 basis point increase in the weighted average rate, to 1.15% for the current year six month period. The deposit accounts assumed in the CCB acquisition were at a lower average rate than our legacy deposit portfolio rate and our overall deposit portfolio rate, which partially offset the increase in the deposit portfolio rate in the current year six month period. The increase in the weighted average rate was due primarily to increases in the average retail/business certificate of deposit portfolio rate and wholesale certificate of deposit portfolio rate, which increased 28 basis points and 68 basis points, respectively.

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy increased \$2.5 million from the prior year six month period due to a 19 basis point increase in the weighted average rate paid on the portfolio, to 2.25% for the current year six month period, and a \$33.5 million increase in the average balance of the portfolio. The increase in the weighted average rate paid was due primarily to certain maturing advances being replaced at higher effective interest rates. Interest expense on FHLB borrowings associated with the leverage strategy decreased \$13.1 million from the prior year six month period due to the leverage strategy not being in place as often during the current year six month period.

The decrease in interest expense on other borrowings was due mainly to the maturity of a \$100.0 million repurchase agreement during the prior fiscal year, which was not replaced with a new repurchase agreement.

Provision for Credit Losses

The Bank did not record a provision for credit losses during the current year six month period or the prior year six month period. Based on management's assessment of the ACL formula analysis model and several other factors, it was determined that no provision for credit losses was necessary. Net loan recoveries were \$156 thousand during the current year six month period and net charge-offs were \$8 thousand in the prior year six month period. At March 31, 2019, loans 30 to 89 days delinquent were 0.23% of total loans and loans 90 or more days delinquent or in foreclosure were 0.12% of total loans. At March 31, 2018, loans 30 to 89 days delinquent were 0.19% of total loans and loans 90 or more days delinquent or in foreclosure were 0.16% of total loans.

Non-Interest Income

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

	For the Six Months Ended		Change Expressed in:	
	2019	2018	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Deposit service fees	\$ 6,443	\$ 7,635	\$ (1,192)	(15.6)%
Income from BOLI	1,222	810	412	50.9
Other non-interest income	2,760	2,346	414	17.6
Total non-interest income	<u>\$ 10,425</u>	<u>\$ 10,791</u>	<u>\$ (366)</u>	<u>(3.4)</u>

The decrease in deposit service fees was due mainly to a change in the presentation of interchange network charges related to the adoption of a new revenue recognition accounting standard during the current year six month period. Previously, interchange network charges were reported in deposit and loan expense. Upon adoption of the new revenue recognition accounting standard on October 1, 2018, interchange transaction fee income is reported net of interchange network charges, which totaled \$1.7 million during the current year six month period and \$1.5 million during the prior year six month period.

The increase in income from BOLI was due primarily to a one-time adjustment during the prior year six month period to the benchmark rate associated with one of the policies which reduced income from BOLI during that period, as well as to an increase in income related to policies acquired in the CCB acquisition.

The increase in other non-interest income was due mainly to revenues from the trust asset management operations acquired in the CCB acquisition. Additionally, the prior year six month period included a loss on the sale of loans as management tested loan sale processes for liquidity purposes, and there were no loan sales in the current year six month period.

Non-Interest Expense

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

	For the Six Months Ended		Change Expressed in:	
	2019	2018	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	\$ 25,751	\$ 21,695	\$ 4,056	18.7%
Information technology and related expense	8,883	6,953	1,930	27.8
Occupancy, net	6,544	5,604	940	16.8
Regulatory and outside services	2,822	2,291	531	23.2
Advertising and promotional	2,150	2,022	128	6.3
Deposit and loan transaction costs	1,201	2,720	(1,519)	(55.8)
Office supplies and related expense	1,195	884	311	35.2
Federal insurance premium	1,187	1,699	(512)	(30.1)
Other non-interest expense	3,190	1,766	1,424	80.6
Total non-interest expense	<u>\$ 52,923</u>	<u>\$ 45,634</u>	<u>\$ 7,289</u>	<u>16.0</u>

The increase in salaries and employee benefits was due primarily to \$3.2 million of expense related to former CCB employees during the current year six month period, as well as an increase due to salary adjustments. The increase in information technology and related expense was due mainly to an increase in software licensing, costs related to the integration of CCB operations, and accelerated depreciation related to the implementation of enhancements to the Bank's information technology infrastructure. The increase in occupancy, net was due primarily to expenses related to properties acquired in the CCB acquisition. The increase in regulatory and outside services was due mainly to an increase in consulting expenses as well as expenses related to the acquisition of CCB. The

decrease in deposit and loan transaction costs was due mainly to the adoption of the new revenue recognition standard discussed above. The decrease in federal insurance premium was due primarily to a decrease in average assets as a result of a reduction in the usage of the leverage strategy in the current year six month period. The increase in other non-interest expense was due primarily to amortization of deposit intangibles associated with the acquisition of CCB.

The Company's efficiency ratio was 45.89% for the current year six month period compared to 41.47% for the prior year six month period. The change in the efficiency ratio was due to higher non-interest expense in the current year six month period compared to the prior year six month period. The efficiency ratio is a measure of a financial institution's total non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income. A lower value indicates that the financial institution is generating revenue with a proportionally lower level of expense.

Income Tax Expense

Income tax expense was \$13.5 million for the current year six month period compared to \$9.3 million for the prior year six month period. The effective tax rate was 21.6% for the current year six month period compared to 14.4% for the prior year six month period. The increase in the effective tax rate compared to the prior year six month period was due mainly to the Tax Act being signed into law in December 2017. In accordance with GAAP, the Company revalued its deferred tax assets and liabilities in December 2017 to account for the lower corporate tax rate which reduced income tax expenses by \$7.5 million. Management estimates the effective income tax rate for fiscal year 2019 will be approximately 22%.

Average Balance Sheet

The following table presents the average balances of our assets, liabilities, and stockholders' equity, and the related annualized weighted average yields and rates on our interest-earning assets and interest-bearing liabilities for the periods indicated, along with the ending balances of our assets, liabilities, and stockholders' equity at March 31, 2019 and the weighted average yield/rate on our interest-earning assets and interest-bearing liabilities at March 31, 2019, as well as selected performance ratios and other information as of the dates and for the periods shown. The leverage strategy was not in place at March 31, 2019, so the end of period information presented at March 31, 2019 in the table below does not reflect this strategy. Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yields/rates. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

	For the Six Months Ended							
	At March 31, 2019		March 31, 2019			March 31, 2018		
	Amount	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
(Dollars in thousands)								
Assets:								
Interest-earning assets:								
One- to four-family loans	\$ 6,720,131	3.66%	\$ 6,770,175	\$122,309	3.61%	\$ 6,787,491	\$119,006	3.51%
Commercial loans	724,481	4.88	634,229	15,787	4.92	282,730	5,973	4.18
Consumer loans	134,813	6.30	138,369	4,333	6.28	125,182	3,404	5.45
Total loans receivable ⁽¹⁾	<u>7,579,425</u>	<u>3.82</u>	<u>7,542,773</u>	<u>142,429</u>	<u>3.77</u>	<u>7,195,403</u>	<u>128,383</u>	<u>3.57</u>
MBS ⁽²⁾	985,294	2.67	984,033	12,824	2.61	935,442	10,642	2.28
Investment securities ⁽²⁾⁽³⁾	288,894	2.38	277,292	2,946	2.13	302,669	2,088	1.38
FHLB stock	102,631	7.47	104,023	3,802	7.33	192,469	6,296	6.56
Cash and cash equivalents ⁽⁴⁾	218,051	2.39	215,660	2,457	2.25	2,118,019	15,009	1.40
Total interest-earning assets ⁽¹⁾⁽²⁾	<u>9,174,295</u>	<u>3.66</u>	<u>9,123,781</u>	<u>164,458</u>	<u>3.60</u>	<u>10,744,002</u>	<u>162,418</u>	<u>3.02</u>
Other non-interest-earning assets	<u>360,256</u>		<u>368,864</u>			<u>307,596</u>		
Total assets	<u>\$ 9,534,551</u>		<u>\$ 9,492,645</u>			<u>\$ 11,051,598</u>		
Liabilities and stockholders' equity:								
Interest-bearing liabilities:								
Checking	\$ 1,129,982	0.06	\$ 1,063,346	294	0.06	\$ 856,773	153	0.04
Savings	361,204	0.06	357,243	113	0.06	354,457	569	0.32
Money market	1,287,753	0.72	1,260,999	4,441	0.71	1,192,571	1,897	0.32
Retail/business certificates	2,522,044	1.93	2,495,475	22,947	1.84	2,431,173	18,954	1.56
Wholesale certificates	400,128	2.22	392,693	4,026	2.06	415,907	2,868	1.38
Total deposits	<u>5,701,111</u>	<u>1.19</u>	<u>5,569,756</u>	<u>31,821</u>	<u>1.15</u>	<u>5,250,881</u>	<u>24,441</u>	<u>0.93</u>
FHLB borrowings ⁽⁵⁾	2,239,985	2.30	2,304,818	26,055	2.26	4,163,650	36,689	1.75
Other borrowings	100,000	2.53	107,087	1,684	3.11	144,242	2,025	2.78
Total borrowings	<u>2,339,985</u>	<u>2.31</u>	<u>2,411,905</u>	<u>27,739</u>	<u>2.29</u>	<u>4,307,892</u>	<u>38,714</u>	<u>1.79</u>
Total interest-bearing liabilities	<u>8,041,096</u>	<u>1.51</u>	<u>7,981,661</u>	<u>59,560</u>	<u>1.49</u>	<u>9,558,773</u>	<u>63,155</u>	<u>1.32</u>
Other non-interest-bearing liabilities	<u>137,472</u>		<u>142,060</u>			<u>130,219</u>		
Stockholders' equity	<u>1,355,983</u>		<u>1,368,924</u>			<u>1,362,606</u>		
Total liabilities and stockholders' equity	<u>\$ 9,534,551</u>		<u>\$ 9,492,645</u>			<u>\$ 11,051,598</u>		

(Continued)

	For the Six Months Ended						
	March 31, 2019			March 31, 2018			
	At March 31, 2019	Average	Interest	Average	Interest	Yield/	
Amount	Outstanding	Earned/	Outstanding	Earned/	Rate	Rate	
	Yield/	Amount	Paid	Amount	Paid	Rate	Rate
	Rate						
Net interest income ⁽⁶⁾			<u>\$104,898</u>		<u>\$ 99,263</u>		
Net interest rate spread ⁽⁷⁾⁽⁸⁾	2.15%					2.11%	1.70%
Net interest-earning assets	<u>\$ 1,133,199</u>	<u>\$ 1,142,120</u>		<u>\$ 1,185,229</u>			
Net interest margin ⁽⁸⁾⁽⁹⁾					2.30		1.85
Ratio of interest-earning assets to interest-bearing liabilities					1.14x		1.12x

(Dollars in thousands)

Selected performance ratios:

Return on average assets (annualized) ⁽⁸⁾		1.03%	1.00%
Return on average equity (annualized) ⁽⁸⁾		7.15	8.10
Average equity to average assets		14.42	12.33
Operating expense ratio ⁽¹⁰⁾		1.12	0.83
Efficiency ratio ⁽⁸⁾⁽¹¹⁾		45.89	41.47
Pre-tax yield on leverage strategy ⁽¹²⁾		0.03	0.19

(Concluded)

- (1) Balances are adjusted for unearned loan fees and deferred costs. Loans that are 90 or more days delinquent are included in the loans receivable balance with a yield of zero percent.
- (2) Average balances of AFS securities are adjusted for unamortized purchase premiums or discounts. Ending balances of AFS securities are adjusted for unamortized purchase premiums or discounts and unrealized gains/losses.
- (3) The average balance of investment securities includes an average balance of nontaxable securities of \$22.8 million and \$26.1 million for the six months ended March 31, 2019 and March 31, 2018, respectively.
- (4) The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of \$110.2 million and \$1.91 billion for the six months ended March 31, 2019 and March 31, 2018, respectively.
- (5) Included in this line, for the six months ended March 31, 2019 and March 31, 2018, are FHLB borrowings related to the leverage strategy with an average outstanding balance of \$115.4 million and \$2.01 billion, respectively, and interest paid of \$1.4 million and \$14.5 million, respectively, at a weighted average rate of 2.36% and 1.43%, respectively, and FHLB borrowings not related to the leverage strategy with an average outstanding balance of \$2.19 billion and \$2.16 billion, respectively, and interest paid of \$24.7 million and \$22.2 million, respectively, at a weighted average rate of 2.25% and 2.06%, respectively. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.
- (6) Net interest income represents the difference between interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income depends on the average balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (7) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (8) The table below provides a reconciliation between certain performance ratios presented in accordance with GAAP and the performance ratios excluding the effects of the leverage strategy, which are not presented in accordance with GAAP. Management believes it is important for comparability purposes to provide the performance ratios without the leverage strategy because of the unique nature of the leverage strategy. The leverage strategy reduces some of our performance ratios due to the amount of earnings associated with the transaction in comparison to the size of the transaction, while increasing our net income.

	For the Six Months Ended					
	March 31, 2019			March 31, 2018		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	1.03%	(0.01)%	1.04%	1.00%	(0.19)%	1.19%
Return on average equity (annualized)	7.15	—	7.15	8.10	0.22	7.88
Net interest margin	2.30	(0.03)	2.33	1.85	(0.37)	2.22
Net interest rate spread	2.11	(0.03)	2.14	1.70	(0.34)	2.04
Efficiency Ratio	45.89	—	45.89	41.47	(0.52)	41.99

- (9) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.
- (10) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.
- (11) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.
- (12) The pre-tax yield on the leverage strategy represents annualized pre-tax income resulting from the transaction as a percentage of the average interest-earning assets associated with the transaction.

Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the six months ended March 31, 2019 to the six months ended March 31, 2018. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate, and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

	For the Six Months Ended		
	March 31, 2019 vs. March 31, 2018		
	Increase (Decrease) Due to		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	\$ 8,381	\$ 5,665	\$ 14,046
MBS	574	1,608	2,182
Investment securities	(188)	1,046	858
FHLB stock	(3,164)	670	(2,494)
Cash and cash equivalents	(18,367)	5,815	(12,552)
Total interest-earning assets	(12,764)	14,804	2,040
Interest-bearing liabilities:			
Checking	43	98	141
Savings	5	(461)	(456)
Money market	115	2,429	2,544
Certificates of deposit	319	4,832	5,151
FHLB borrowings	(18,570)	7,936	(10,634)
Other borrowings	(188)	(153)	(341)
Total interest-bearing liabilities	(18,276)	14,681	(3,595)
Net change in net interest income	<u>\$ 5,512</u>	<u>\$ 123</u>	<u>\$ 5,635</u>

Comparison of Operating Results for the Three Months Ended March 31, 2019 and 2018

For the quarter ended March 31, 2019, the Company recognized net income of \$24.6 million, or \$0.18 per share, compared to net income of \$23.3 million, or \$0.17 per share for the quarter ended March 31, 2018. The \$1.2 million increase in net income was due primarily to an increase in net interest income and a decrease in income tax expense, partially offset by an increase in non-interest expense.

The net interest margin increased 47 basis points, from 1.86% for the prior year quarter to 2.33% for the current year quarter. The leverage strategy was in place at certain times during the prior year quarter, but was not utilized during the current quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased nine basis points, from 2.24% for the prior year quarter to 2.33% for the current year quarter. The increase in the net interest margin excluding the effects of the leverage strategy was due mainly to the addition of higher yielding commercial loans in the CCB acquisition.

Interest and Dividend Income

The weighted average yield on total interest-earning assets increased 58 basis points, from 3.06% for the prior year quarter to 3.64% for the current quarter, while the average balance of interest-earning assets decreased \$1.69 billion from the prior year quarter. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased 29 basis points, from 3.35% for the prior year quarter to 3.64% for the current quarter, and the average balance of interest-earning assets would have increased \$319.1 million. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31,		Dollars	Percent
	2019	2018		
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 71,657	\$ 64,194	\$ 7,463	11.6%
MBS	6,301	5,390	911	16.9
FHLB stock	1,831	3,201	(1,370)	(42.8)
Investment securities	1,505	1,094	411	37.6
Cash and cash equivalents	743	7,895	(7,152)	(90.6)
Total interest and dividend income	<u>\$ 82,037</u>	<u>\$ 81,774</u>	<u>\$ 263</u>	0.3

The increase in interest income on loans receivable was due to a \$369.2 million increase in the average balance of the portfolio, as well as a 22 basis point increase in the weighted average yield on the portfolio to 3.79% for the current quarter. The increase in the average balance was due mainly to the acquisition of CCB. The increase in the weighted average yield was also due mainly to the addition of higher yielding loans associated with the CCB acquisition, as well as legacy adjustable-rate loans repricing to higher market rates and the origination and purchase of new loans at higher market rates.

The increase in interest income on the MBS portfolio was due to a 33 basis point increase in the weighted average yield on the portfolio to 2.63% for the current quarter, along with a \$21.8 million increase in the average balance of the portfolio. The increase in the weighted average yield was due primarily to a decrease in the impact of net premium amortization, as well as adjustable-rate MBS repricing to higher market rates. Net premium amortization of \$309 thousand during the current quarter decreased the weighted average yield on the portfolio by 12 basis points. During the prior year quarter, \$788 thousand of net premiums were amortized, which decreased the weighted average yield on the portfolio by 33 basis points.

The decrease in dividend income on FHLB stock was due to a decrease in the average balance of FHLB stock as a result of the leverage strategy not being in place during the current quarter. This was partially offset by a higher dividend rate on FHLB stock during the current quarter.

The increase in interest income on the investment securities portfolio was due to a 78 basis point increase in the weighted average yield on the portfolio to 2.21%. The increase in the weighted average yield was primarily a result of replacing maturing securities at higher market rates.

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy increased \$132 thousand from the prior year quarter due to a 90 basis point increase in the weighted average yield, which was related to balances held at the FRB of Kansas City. Interest income on cash associated with the leverage strategy decreased \$7.3 million from the prior year quarter due to the leverage strategy not being in place during the current quarter.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities increased 16 basis points, from 1.35% for the prior year quarter to 1.51% for the current quarter, while the average balance of interest-bearing liabilities decreased \$1.63 billion. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have increased 21 basis points, from 1.30% for the prior year quarter to 1.51% for the current quarter, and the average balance of interest-bearing liabilities would have increased \$377.3 million. The following table presents the components of interest expense for the periods presented, along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31,		Dollars	Percent
	2019	2018		
	(Dollars in thousands)			
INTEREST EXPENSE:				
Deposits	\$ 16,096	\$ 12,480	\$ 3,616	29.0%
FHLB borrowings	12,525	18,772	(6,247)	(33.3)
Other borrowings	819	633	186	29.4
Total interest expense	<u>\$ 29,440</u>	<u>\$ 31,885</u>	<u>\$ (2,445)</u>	<u>(7.7)</u>

The increase in interest expense on deposits was due primarily to a 20 basis point increase in the weighted average rate, to 1.16% for the current quarter. The deposit accounts assumed in the CCB acquisition were at a lower average rate than our legacy deposit portfolio rate and our overall deposit portfolio rate, which partially offset the increase in the deposit portfolio rate in the current quarter. The increase in the weighted average rate was due primarily to increases in the average retail/business certificate of deposit portfolio rate and money market portfolio rate, which increased 28 basis points and 34 basis points, respectively.

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy increased \$1.5 million from the prior year quarter due to a 25 basis point increase in the weighted average rate paid, to 2.30% for the current quarter. The increase in the weighted average rate paid was due mainly to advances that matured between periods being replaced at higher market rates. Interest expense on FHLB borrowings associated with the leverage strategy decreased \$7.8 million from the prior year quarter due to the leverage strategy not being in place during the current quarter.

Non-Interest Income

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

	For the Three Months Ended		Change Expressed in:	
	March 31,		Dollars	Percent
	2019	2018		
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Deposit service fees	\$ 3,091	\$ 3,670	\$ (579)	(15.8)%
Income from BOLI	587	276	311	112.7
Other non-interest income	1,323	1,487	(164)	(11.0)
Total non-interest income	<u>\$ 5,001</u>	<u>\$ 5,433</u>	<u>\$ (432)</u>	<u>(8.0)</u>

The decrease in deposit service fees was due primarily to a change in the presentation of interchange network charges related to the adoption of a new revenue recognition accounting standard during the current fiscal year, as discussed above. Interchange network charges totaled \$787 thousand for the current quarter and \$708 thousand for the prior year quarter. The increase in income from BOLI was due mainly to a one-time adjustment during the prior year quarter to the benchmark rate associated with one of the policies, which reduced income from BOLI during that period, as well as to an increase in income related to policies acquired in the CCB acquisition.

Non-Interest Expense

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

	For the Three Months Ended		Change Expressed in:	
	2019	2018	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	\$ 12,789	\$ 11,167	\$ 1,622	14.5%
Information technology and related expense	4,284	3,622	662	18.3
Occupancy, net	3,292	2,839	453	16.0
Regulatory and outside services	1,056	1,151	(95)	(8.3)
Advertising and promotional	1,390	1,337	53	4.0
Deposit and loan transaction costs	465	1,313	(848)	(64.6)
Office supplies and related expense	736	442	294	66.5
Federal insurance premium	659	847	(188)	(22.2)
Other non-interest expense	1,470	880	590	67.0
Total non-interest expense	<u>\$ 26,141</u>	<u>\$ 23,598</u>	<u>\$ 2,543</u>	<u>10.8</u>

The increase in salaries and employee benefits was due primarily to expenses related to former CCB employees. The increase in information technology and related expense was due mainly to an increase in software licensing expense. The increase in occupancy, net was due primarily to expenses related to properties acquired in the CCB acquisition. The decrease in deposit and loan transaction costs was due mainly to the adoption of the new revenue recognition standard discussed above. The increase in office supplies and related expense was due mainly to the timing of such expenses. The increase in other non-interest expense was due primarily to amortization of deposit intangibles associated with the acquisition of CCB.

The Company's efficiency ratio was 45.38% for the current quarter compared to 42.66% for the prior year quarter. The change in the efficiency ratio was due mainly to an increase in non-interest expense.

Income Tax Expense

Income tax expense was \$6.9 million for the current quarter compared to \$8.4 million for the prior year quarter. The effective tax rate for the current quarter was 21.9% compared to 26.5% for the prior year quarter. The difference in the effective tax rates between periods was due mainly to the Tax Act being signed into law in December 2017, which resulted in the Company using a blended statutory income tax rate of 24.5% for fiscal year 2018 compared to the current fiscal year statutory income tax rate of 21%.

Average Balance Sheet

Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yields/rates. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

	For the Three Months Ended					
	March 31, 2019			March 31, 2018		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
Assets:	(Dollars in thousands)					
Interest-earning assets:						
One- to four-family loans	\$ 6,746,611	\$ 61,325	3.64%	\$ 6,782,122	\$ 59,469	3.51%
Commercial loans	680,110	8,186	4.80	288,956	3,033	4.20
Consumer loans	137,342	2,146	6.33	123,778	1,692	5.54
Total loans receivable ⁽¹⁾	<u>7,564,063</u>	<u>71,657</u>	<u>3.79</u>	<u>7,194,856</u>	<u>64,194</u>	<u>3.57</u>
MBS ⁽²⁾	959,897	6,301	2.63	938,143	5,390	2.30
Investment securities ⁽²⁾⁽³⁾	272,218	1,505	2.21	305,285	1,094	1.43
FHLB stock	99,725	1,831	7.45	193,477	3,201	6.71
Cash and cash equivalents ⁽⁴⁾	124,444	743	2.39	2,076,109	7,895	1.52
Total interest-earning assets ⁽¹⁾⁽²⁾	<u>9,020,347</u>	<u>82,037</u>	<u>3.64</u>	<u>10,707,870</u>	<u>81,774</u>	<u>3.06</u>
Other non-interest-earning assets	370,396			310,401		
Total assets	<u>\$ 9,390,743</u>			<u>\$ 11,018,271</u>		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Checking	\$ 1,076,504	149	0.06	\$ 868,878	76	0.04
Savings	358,733	56	0.06	360,471	321	0.36
Money market	1,275,504	2,269	0.72	1,195,699	1,106	0.38
Retail/business certificates	2,491,814	11,492	1.87	2,432,667	9,541	1.59
Wholesale certificates	401,722	2,130	2.15	403,293	1,436	1.44
Total deposits	<u>5,604,277</u>	<u>16,096</u>	<u>1.16</u>	<u>5,261,008</u>	<u>12,480</u>	<u>0.96</u>
FHLB borrowings ⁽⁵⁾	2,203,872	12,525	2.30	4,180,927	18,772	1.81
Other borrowings	104,399	819	3.14	100,000	633	2.53
Total borrowings	<u>2,308,271</u>	<u>13,344</u>	<u>2.33</u>	<u>4,280,927</u>	<u>19,405</u>	<u>1.83</u>
Total interest-bearing liabilities	<u>7,912,548</u>	<u>29,440</u>	<u>1.51</u>	<u>9,541,935</u>	<u>31,885</u>	<u>1.35</u>
Other non-interest-bearing liabilities	123,280			115,505		
Stockholders' equity	1,354,915			1,360,831		
Total liabilities and stockholders' equity	<u>\$ 9,390,743</u>			<u>\$ 11,018,271</u>		

(Continued)

For the Three Months Ended

	March 31, 2019			March 31, 2018		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					

Net interest income ⁽⁶⁾		<u>\$ 52,597</u>		<u>\$ 49,889</u>	
Net interest rate spread ⁽⁷⁾⁽⁸⁾			2.13%		1.71%
Net interest-earning assets	<u>\$ 1,107,799</u>			<u>\$ 1,165,935</u>	
Net interest margin ⁽⁸⁾⁽⁹⁾			2.33		1.86
Ratio of interest-earning assets to interest-bearing liabilities			1.14x		1.12x
Selected performance ratios:					
Return on average assets (annualized) ⁽⁸⁾			1.05%		0.85%
Return on average equity (annualized) ⁽⁸⁾			7.25		6.86
Average equity to average assets			14.43		12.35
Operating expense ratio ⁽¹⁰⁾			1.11		0.86
Efficiency ratio ⁽⁸⁾⁽¹¹⁾			45.38		42.66
Pre-tax yield on leverage strategy ⁽¹²⁾			—		0.18

(Concluded)

- (1) Balances are adjusted for unearned loan fees and deferred costs. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent.
- (2) AFS securities are adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of nontaxable securities of \$22.0 million and \$24.8 million for the three months ended March 31, 2019 and March 31, 2018, respectively.
- (4) There were no cash and cash equivalents related to the leverage strategy during the quarter ended March 31, 2019. The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of \$1.91 billion for the three months ended March 31, 2018.
- (5) There were no FHLB borrowings related to the leverage strategy during the quarter ended March 31, 2019. Included in this line, for the quarter ended March 31, 2018, are FHLB borrowings related to the leverage strategy with an average outstanding balance of \$2.01 billion and interest paid of \$7.8 million, at a weighted average rate of 1.55%, and FHLB borrowings not related to the leverage strategy with an average outstanding balance of \$2.17 billion and interest paid of \$11.0 million, at a weighted average rate of 2.05%. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.
- (6) Net interest income represents the difference between interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income depends on the average balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (7) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (8) The table below provides a reconciliation between certain performance ratios presented in accordance with GAAP and the performance ratios excluding the effects of the leverage strategy, which are not presented in accordance with GAAP. Management believes it is important for comparability purposes to provide the performance ratios without the leverage strategy because of the unique nature of the leverage strategy. The leverage strategy reduces some of our performance ratios due to the amount of earnings associated with the transaction in comparison to the size of the transaction, while increasing our net income.

For the Three Months Ended

	March 31, 2019			March 31, 2018		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	1.05%	—%	1.05%	0.85%	(0.15)%	1.00%
Return on average equity (annualized)	7.25	—	7.25	6.86	0.21	6.65
Net interest margin	2.33	—	2.33	1.86	(0.38)	2.24
Net interest rate spread	2.13	—	2.13	1.71	(0.34)	2.05
Efficiency Ratio	45.38	—	45.38	42.66	(0.52)	43.18

- (9) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.
- (10) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.
- (11) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.
- (12) The pre-tax yield on the leverage strategy represents annualized pre-tax income resulting from the transaction as a percentage of the average interest-earning assets associated with the transaction.

Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended March 31, 2019 to the three months ended March 31, 2018. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

	For the Three Months Ended March 31, 2019 vs. 2018		
	Increase (Decrease) Due to		
	Volume	Rate	Total
	<small>(Dollars in thousands)</small>		
Interest-earning assets:			
Loans receivable	\$ 4,373	\$ 3,090	\$ 7,463
MBS	128	783	911
Investment securities	(129)	540	411
FHLB stock	(1,690)	320	(1,370)
Cash and cash equivalents	(10,058)	2,906	(7,152)
Total interest-earning assets	(7,376)	7,639	263
Interest-bearing liabilities:			
Checking	21	52	73
Savings	(1)	(264)	(265)
Money market	78	1,085	1,163
Certificates of deposit	227	2,418	2,645
FHLB borrowings	(7,636)	1,389	(6,247)
Other borrowings	186	—	186
Total interest-bearing liabilities	(7,125)	4,680	(2,445)
Net change in net interest income	<u>\$ (251)</u>	<u>\$ 2,959</u>	<u>\$ 2,708</u>

Comparison of Operating Results for the Three Months Ended March 31, 2019 and December 31, 2018

For the quarter ended March 31, 2019, the Company recognized net income of \$24.6 million, or \$0.18 per share, compared to net income of \$24.4 million, or \$0.18 per share, for the quarter ended December 31, 2018.

Net interest income increased \$296 thousand, or 0.6%, from the prior quarter to \$52.6 million for the current quarter. The net interest margin increased six basis points from 2.27% for the prior quarter to 2.33% for the current quarter. The leverage strategy was in place at certain times during the prior quarter, but was not utilized during the current quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased one basis point from 2.32% for the prior quarter to 2.33% for the current quarter.

Interest and Dividend Income

The weighted average yield on total interest-earning assets for the current quarter increased eight basis points, from 3.56% for the prior quarter to 3.64% for the current quarter, while the average balance of interest-earning assets decreased \$204.6 million between the two periods. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased five basis points, from 3.59% for the prior quarter to 3.64% for the current quarter, and the average balance of interest-earning assets would have increased \$23.6 million. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31, 2019	December 31, 2018	Dollars	Percent
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	\$ 71,657	\$ 70,772	\$ 885	1.3%
MBS	6,301	6,523	(222)	(3.4)
FHLB stock	1,831	1,971	(140)	(7.1)
Investment securities	1,505	1,441	64	4.4
Cash and cash equivalents	743	1,714	(971)	(56.7)
Total interest and dividend income	<u>\$ 82,037</u>	<u>\$ 82,421</u>	<u>\$ (384)</u>	<u>(0.5)</u>

The increase in interest income on loans receivable was due to a \$42.1 million increase in the average balance of the portfolio, as well as a four basis point increase in the weighted average yield on the portfolio to 3.79% for the current quarter. The increase in the weighted average yield was due primarily to the origination of loans at higher market rates and legacy adjustable-rate loans repricing to higher market rates.

The decrease in interest income on the MBS portfolio was due to a \$47.7 million decrease in the average balance of the portfolio, partially offset by a four basis point increase in the weighted average yield on the portfolio to 2.63% for the current quarter. The increase in the weighted average yield was due primarily to a decrease in net premium amortization in the current quarter, as well as adjustable-rate MBS repricing to higher market rates. Net premium amortization of \$309 thousand during the current quarter decreased the weighted average yield on the portfolio by 12 basis points. During the prior quarter, \$349 thousand of net premiums were amortized which decreased the weighted average yield on the portfolio by 14 basis points.

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy increased \$255 thousand from the prior quarter due to a \$37.5 million increase in the average balance, as well as a 19 basis point increase in the weighted average yield, which was related to balances held at the FRB of Kansas City. Interest income on cash associated with the leverage strategy decreased \$1.2 million from the prior quarter due to the leverage strategy not being in place during the current quarter.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities for the current quarter increased three basis points, from 1.48% for the prior quarter to 1.51% for the current quarter, while the average balance of interest-bearing liabilities decreased \$130.3 million between the two periods. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities for the current quarter would have increased five basis points, from 1.46% for the prior quarter to 1.51% for the current quarter, and the average balance of interest-bearing liabilities would have increased \$97.9 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31, 2019	December 31, 2018	Dollars	Percent
	(Dollars in thousands)			
INTEREST EXPENSE:				
Deposits	\$ 16,096	\$ 15,725	\$ 371	2.4%
FHLB borrowings	12,525	13,530	(1,005)	(7.4)
Other borrowings	819	865	(46)	(5.3)
Total interest expense	<u>\$ 29,440</u>	<u>\$ 30,120</u>	<u>\$ (680)</u>	<u>(2.3)</u>

The increase in interest expense on deposits was due primarily to a three basis point increase in the weighted average rate paid, to 1.16% for the current quarter, as well as a \$74.7 million increase in the average balance of the portfolio. The increase in the weighted average rate paid was due primarily to increases in the average retail/business certificate of deposit portfolio rate and wholesale certificate of deposit portfolio rate, which increased five basis points and 19 basis points, respectively.

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy increased \$372 thousand from the prior quarter due to a 10 basis point increase in the weighted average rate paid, to 2.30% for the current quarter. The increase in the weighted average rate paid was due mainly to a full quarter impact of advances that matured in the prior quarter being replaced at higher market rates. Interest expense on FHLB borrowings associated with the leverage strategy decreased \$1.4 million from the prior quarter due to the leverage strategy not being in place during the current quarter.

Non-Interest Income

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

	For the Three Months Ended		Change Expressed in:	
	March 31, 2019	December 31, 2018	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Deposit service fees	\$ 3,091	\$ 3,352	\$ (261)	(7.8)%
Income from BOLI	587	635	(48)	(7.6)
Other non-interest income	1,323	1,437	(114)	(7.9)
Total non-interest income	<u>\$ 5,001</u>	<u>\$ 5,424</u>	<u>\$ (423)</u>	<u>(7.8)</u>

The decrease in deposit service fees was due mainly to a decrease in debit card and service charge income resulting from a reduction in transaction volume due to the seasonality of such activity, partially offset by lower interchange network charges in the current quarter.

Non-Interest Expense

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

	For the Three Months Ended		Change Expressed in:	
	March 31, 2019	December 31, 2018	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	\$ 12,789	\$ 12,962	\$ (173)	(1.3)%
Information technology and related expense	4,284	4,599	(315)	(6.8)
Occupancy, net	3,292	3,252	40	1.2
Regulatory and outside services	1,056	1,766	(710)	(40.2)
Advertising and promotional	1,390	760	630	82.9
Deposit and loan transaction costs	465	736	(271)	(36.8)
Office supplies and related expense	736	459	277	60.3
Federal insurance premium	659	528	131	24.8
Other non-interest expense	1,470	1,720	(250)	(14.5)
Total non-interest expense	<u>\$ 26,141</u>	<u>\$ 26,782</u>	<u>\$ (641)</u>	<u>(2.4)</u>

The decrease in information technology and related expense was due primarily to the prior quarter including accelerated depreciation related to the implementation of enhancements in the Bank's information technology infrastructure. The decrease in regulatory and outside services was due mainly to a decrease in audit fees. The increase in advertising and promotional was due primarily to the timing of advertising campaigns and sponsorships. The decrease in deposit and loan transaction costs was due mainly to a reduction

in costs associated with the Bank's online banking services. The increase in office supplies and related expense was due mainly to the timing of such expenses. The decrease in other non-interest expense was due primarily to a decrease in OREO operations expense.

The Company's efficiency ratio was 45.38% for the current quarter compared to 46.40% for the prior quarter. The improvement in the efficiency ratio was due primarily to lower non-interest expense in the current quarter compared to the prior quarter.

Income Tax Expense

Income tax expense was \$6.9 million for the current quarter, compared to \$6.6 million for the prior quarter. The effective tax rate was 21.9% for the current quarter compared to 21.2% for the prior quarter.

Average Balance Sheet

Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yields/rates. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

	For the Three Months Ended					
	March 31, 2019			December 31, 2018		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
Assets:	(Dollars in thousands)					
Interest-earning assets:						
One- to four-family loans	\$ 6,746,611	\$ 61,325	3.64%	\$ 6,793,226	\$ 60,983	3.59%
Commercial loans	680,110	8,186	4.80	589,346	7,602	5.05
Consumer loans	137,342	2,146	6.33	139,373	2,187	6.23
Total loans receivable ⁽¹⁾	<u>7,564,063</u>	<u>71,657</u>	<u>3.79</u>	<u>7,521,945</u>	<u>70,772</u>	<u>3.75</u>
MBS ⁽²⁾	959,897	6,301	2.63	1,007,645	6,523	2.59
Investment securities ⁽²⁾⁽³⁾	272,218	1,505	2.21	282,256	1,441	2.04
FHLB stock	99,725	1,831	7.45	108,227	1,971	7.23
Cash and cash equivalents ⁽⁴⁾	124,444	743	2.39	304,893	1,714	2.20
Total interest-earning assets ⁽¹⁾⁽²⁾	<u>9,020,347</u>	<u>82,037</u>	<u>3.64</u>	<u>9,224,966</u>	<u>82,421</u>	<u>3.56</u>
Other non-interest-earning assets	370,396			367,755		
Total assets	<u>\$ 9,390,743</u>			<u>\$ 9,592,721</u>		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Checking	\$ 1,076,504	149	0.06	\$ 1,050,474	144	0.05
Savings	358,733	56	0.06	349,406	57	0.06
Money market	1,275,504	2,269	0.72	1,246,809	2,172	0.69
Retail/business certificates	2,491,814	11,492	1.87	2,499,056	11,455	1.82
Wholesale certificates	401,722	2,130	2.15	383,860	1,897	1.96
Total deposits	<u>5,604,277</u>	<u>16,096</u>	<u>1.16</u>	<u>5,529,605</u>	<u>15,725</u>	<u>1.13</u>
FHLB borrowings ⁽⁵⁾	2,203,872	12,525	2.30	2,403,568	13,530	2.22
Other borrowings	104,399	819	3.14	109,716	865	3.08
Total borrowings	<u>2,308,271</u>	<u>13,344</u>	<u>2.33</u>	<u>2,513,284</u>	<u>14,395</u>	<u>2.26</u>
Total interest-bearing liabilities	<u>7,912,548</u>	<u>29,440</u>	<u>1.51</u>	<u>8,042,889</u>	<u>30,120</u>	<u>1.48</u>
Other non-interest-bearing liabilities	123,280			167,205		
Stockholders' equity	1,354,915			1,382,627		
Total liabilities and stockholders' equity	<u>\$ 9,390,743</u>			<u>\$ 9,592,721</u>		

(Continued)

For the Three Months Ended

	March 31, 2019			December 31, 2018		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
			(Dollars in thousands)			

Net interest income ⁽⁶⁾		\$	52,597		\$	52,301
Net interest rate spread ⁽⁷⁾⁽⁸⁾				2.13%		2.08%
Net interest-earning assets	\$		1,107,799		\$	1,182,077
Net interest margin ⁽⁸⁾⁽⁹⁾				2.33		2.27
Ratio of interest-earning assets to interest-bearing liabilities				1.14x		1.15x
Selected performance ratios:						
Return on average assets (annualized) ⁽⁸⁾				1.05%		1.02%
Return on average equity (annualized) ⁽⁸⁾				7.25		7.05
Average equity to average assets				14.43		14.41
Operating expense ratio ⁽¹⁰⁾				1.11		1.12
Efficiency ratio ⁽⁸⁾⁽¹¹⁾				45.38		46.40
Pre-tax yield on leverage strategy ⁽¹²⁾				—		0.03

(Concluded)

- (1) Balances are adjusted for unearned loan fees and deferred costs. Loans that are 90 or more days delinquent are included in the loans receivable average balance with a yield of zero percent.
- (2) AFS securities are adjusted for unamortized purchase premiums or discounts.
- (3) The average balance of investment securities includes an average balance of nontaxable securities of \$22.0 million and \$23.5 million for the three months ended March 31, 2019 and December 31, 2018, respectively.
- (4) There were no cash and cash equivalents related to the leverage strategy during the quarter ended March 31, 2019. The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of \$218.0 million for the quarter ended December 31, 2018.
- (5) There were no FHLB borrowings related to the leverage strategy during the quarter ended March 31, 2019. Included in this line, for the quarter ended December 31, 2018, are FHLB borrowings related to the leverage strategy with an average outstanding balance of \$228.3 million and interest paid of \$1.4 million, at a weighted average rate of 2.36%, and FHLB borrowings not related to the leverage strategy with an average outstanding balance of \$2.18 billion and interest paid of \$12.2 million, at a weighted average rate of 2.20%. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.
- (6) Net interest income represents the difference between interest income earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income depends on the average balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.
- (7) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
- (8) The table below provides a reconciliation between certain performance ratios presented in accordance with GAAP and the performance ratios excluding the effects of the leverage strategy, which are not presented in accordance with GAAP. Management believes it is important for comparability purposes to provide the performance ratios without the leverage strategy because of the unique nature of the leverage strategy. The leverage strategy reduces some of our performance ratios due to the amount of earnings associated with the transaction in comparison to the size of the transaction, while increasing our net income.

For the Three Months Ended

	March 31, 2019			December 31, 2018		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	1.05%	—%	1.05%	1.02%	(0.02)%	1.04%
Return on average equity (annualized)	7.25	—	7.25	7.05	—	7.05
Net interest margin	2.33	—	2.33	2.27	(0.05)	2.32
Net interest rate spread	2.13	—	2.13	2.08	(0.05)	2.13
Efficiency Ratio	45.38	—	45.38	46.40	0.01	46.39

- (9) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.
- (10) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.
- (11) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.
- (12) The pre-tax yield on the leverage strategy represents annualized pre-tax income resulting from the transaction as a percentage of the average interest-earning assets associated with the transaction.

Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended March 31, 2019 to the three months ended December 31, 2018. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

	For the Three Months Ended		
	March 31, 2019 vs. December 31, 2018		
	Increase (Decrease) Due to		
Volume	Rate	Total	
(Dollars in thousands)			
Interest-earning assets:			
Loans receivable	\$ 536	\$ 349	\$ 885
MBS	(312)	90	(222)
Investment securities	(53)	117	64
FHLB stock	(186)	46	(140)
Cash and cash equivalents	(1,100)	129	(971)
Total interest-earning assets	(1,115)	731	(384)
Interest-bearing liabilities:			
Checking	2	4	6
Savings	1	(2)	(1)
Money market	34	63	97
Certificates of deposit	23	246	269
FHLB borrowings	(1,320)	315	(1,005)
Other borrowings	(164)	118	(46)
Total interest-bearing liabilities	(1,424)	744	(680)
Net change in net interest income	\$ 309	\$ (13)	\$ 296

Liquidity and Capital Resources

Liquidity refers to our ability to generate sufficient cash to fund ongoing operations, to repay maturing certificates of deposit and other deposit withdrawals, to repay maturing borrowings, and to fund loan commitments. Liquidity management is both a daily and long-term function of our business management. The Company's most available liquid assets are represented by cash and cash equivalents, AFS securities, and short-term investment securities. The Bank's primary sources of funds are deposits, FHLB borrowings, repurchase agreements, repayments and maturities of outstanding loans and MBS and other short-term investments, and funds provided by operations. The Bank's long-term borrowings primarily have been used to manage the Bank's interest rate risk with the intent to improve the earnings of the Bank while maintaining capital ratios in excess of regulatory standards for well-capitalized financial institutions. In addition, the Bank's focus on managing risk has provided additional liquidity capacity by maintaining a balance of MBS and investment securities available as collateral for borrowings.

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

In the event short-term liquidity needs exceed available cash, the Bank has access to a line of credit at FHLB and the FRB of Kansas City's discount window. Per FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of regulatory total assets without the pre-approval of FHLB senior management. The president of FHLB has approved an increase, through July 2019, in the Bank's borrowing limit to 55% of Bank Call Report total assets. When the leverage strategy is in place, the Bank maintains the resulting excess cash reserves from the FHLB borrowings at the FRB of Kansas City, which can be used to meet any short-term liquidity needs.

The amount that can be borrowed from the FRB of Kansas City's discount window is based upon the fair value of securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. Management tests the Bank's access to the FRB of Kansas City's discount window annually with a nominal, overnight borrowing.

If management observes a trend in the amount and frequency of line of credit utilization and/or short-term borrowings that is not in conjunction with a planned strategy, such as the leverage strategy, the Bank will likely utilize long-term wholesale borrowing sources such as FHLB advances and/or repurchase agreements to provide long-term, fixed-rate funding. The maturities of these long-term borrowings are generally staggered in order to mitigate the risk of a highly negative cash flow position at maturity. The Bank's internal policy limits total borrowings to 55% of total assets. At March 31, 2019, the Bank had total borrowings, at par, of \$2.34 billion, or approximately 25% of total assets.

The amount of FHLB advances outstanding at March 31, 2019 was \$2.14 billion, of which \$990.0 million was scheduled to mature in the next 12 months, including \$640.0 million of FHLB advances tied to interest rate swaps. All FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with FHLB. At March 31, 2019, the ratio of the par value of the Bank's FHLB borrowings to Call Report total assets was 23%. When the full leverage strategy is in place, FHLB borrowings may be in excess of 40% of the Bank's Call Report total assets, and may be in excess of 40% as long as the Bank continues its leverage strategy and FHLB senior management continues to approve the Bank's borrowing limit being in excess of 40% of Call Report total assets. All or a portion of the FHLB borrowings in conjunction with the leverage strategy can be repaid at any point in time while the strategy is in effect, if necessary or desired.

At March 31, 2019, the Bank had repurchase agreements of \$100.0 million, or approximately 1% of total assets, none of which were scheduled to mature in the next 12 months. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets, and subject to the total borrowings limit of 55% as discussed above. The Bank has pledged securities with an estimated fair value of \$108.7 million as collateral for repurchase agreements as of March 31, 2019. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

The Bank could utilize the repayment and maturity of outstanding loans, MBS, and other investments for liquidity needs rather than reinvesting such funds into the related portfolios. At March 31, 2019, the Bank had \$668.6 million of securities that were eligible but unused as collateral for borrowing or other liquidity needs.

The Bank has access to other sources of funds for liquidity purposes, such as brokered and public unit deposits. As of March 31, 2019, the Bank's policy allowed for combined brokered and public unit deposits up to 15% of total deposits. At March 31, 2019, the Bank did not have any brokered deposits and public unit deposits were approximately 7% of total deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain funds at attractive rates. The Bank had pledged securities with an estimated fair value of \$465.2 million as collateral for public unit deposits at March 31, 2019. The securities pledged as collateral for public unit deposits are held under joint custody with FHLB and generally will be released upon deposit maturity.

At March 31, 2019, \$1.37 billion of the Bank's certificate of deposit portfolio was scheduled to mature within one year, including \$324.9 million of public unit certificates of deposit. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products of the Bank at the prevailing rate, although no assurance can be given in this regard. We also anticipate the majority of the maturing public unit certificates of deposit will be replaced with similar wholesale funding products.

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

The following table presents the contractual maturities of our loan, MBS, and investment securities portfolios at March 31, 2019, along with associated weighted average yields. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses. As of March 31, 2019, the amortized cost of investment securities in our portfolio which are callable or have pre-refunding dates within one year was \$245.4 million.

	<u>Loans⁽¹⁾</u>		<u>MBS</u>		<u>Investment Securities</u>		<u>Total</u>	
	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>	<u>Amount</u>	<u>Yield</u>
	(Dollars in thousands)							
Amounts due:								
Within one year	\$ 213,027	5.18%	\$ 565	4.19%	\$ 9,240	1.79%	\$ 222,832	5.04%
After one year:								
Over one to two years	133,741	4.65	13,813	2.79	81,813	1.58	229,367	3.44
Over two to three years	62,944	4.88	10,364	2.62	79,664	2.70	152,972	3.59
Over three to five years	103,163	4.87	87,536	1.72	118,177	2.76	308,876	3.17
Over five to ten years	692,187	3.74	329,638	2.35	—	—	1,021,825	3.29
Over ten to fifteen years	1,251,826	3.61	232,856	3.06	—	—	1,484,682	3.52
After fifteen years	5,107,188	3.77	310,522	2.99	—	—	5,417,710	3.73
Total due after one year	<u>7,351,049</u>	<u>3.78</u>	<u>984,729</u>	<u>2.67</u>	<u>279,654</u>	<u>2.40</u>	<u>8,615,432</u>	<u>3.61</u>
	<u>\$ 7,564,076</u>	<u>3.82</u>	<u>\$ 985,294</u>	<u>2.67</u>	<u>\$ 288,894</u>	<u>2.38</u>	<u>\$ 8,838,264</u>	<u>3.65</u>

(1) Demand loans, loans having no stated maturity, and overdraft loans are included in the amounts due within one year. Construction loans are presented based on the estimated term to complete construction. The maturity date for home equity loans that were not added in the CCB acquisition assumes the customer always makes the required minimum payment. For home equity loans acquired in the CCB acquisition, the maturity date is based on the contractual maturity date.

Limitations on Dividends and Other Capital Distributions

Office of the Comptroller of the Currency ("OCC") regulations impose restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Under FRB and OCC safe harbor regulations, savings institutions generally may make capital distributions during any calendar year equal to earnings of the previous two calendar years and current year-to-date earnings. Savings institutions must also maintain an applicable capital conservation buffer above minimum risk-based capital requirements in order to avoid restrictions on capital distributions, including dividends. A savings institution that is a subsidiary of a savings and loan holding company, such as the Company, that proposes to make a capital distribution must submit written notice to the OCC and FRB 30 days prior to such distribution. The OCC and FRB may object to the distribution during that 30-day period based on safety and soundness or other concerns. Savings institutions that desire to make a larger capital distribution, are under special restrictions, or are not, or would not be, sufficiently capitalized following a proposed capital distribution must obtain regulatory non-objection prior to making such a distribution.

The long-term ability of the Company to pay dividends to its stockholders is based primarily upon the ability of the Bank to make capital distributions to the Company. So long as the Bank remains well capitalized after each capital distribution, operates in a safe and sound manner, and maintains an applicable capital conservation buffer above its minimum risk-based capital requirements, it is management's belief that the OCC and FRB will continue to allow the Bank to distribute its earnings to the Company, although no assurance can be given in this regard.

Off-Balance Sheet Arrangements, Commitments and Contractual Obligations

The Company, in the normal course of business, makes commitments to buy or sell assets, extend credit, or to incur or fund liabilities. There have been no material changes in commitments, contractual obligations or off-balance sheet arrangements from September 30, 2018. For additional information, see "Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Off-Balance Sheet Arrangements, Commitments and Contractual Obligations" in the Company's Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018. We anticipate we will continue to have sufficient funds, through repayments and maturities of loans and securities, deposits and borrowings, to meet our current commitments.

The maximum balance of short-term FHLB borrowings outstanding at any month-end during the six months ended March 31, 2019 was \$1.09 billion, and the average balance of short-term FHLB borrowings outstanding during this period was \$1.11 billion at a weighted average contractual rate of 2.31%. Short-term FHLB borrowings for this disclosure are defined as those with maturity dates within the next 12 months. This compares to a balance of short-term FHLB borrowings outstanding at March 31, 2019 of \$1.09 billion at a weighted average contractual rate of 2.40%.

Contingencies

In the normal course of business, the Company and its subsidiary are named defendants in various lawsuits and counter claims. In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a materially adverse effect on the Company's consolidated financial statements for the quarter ended March 31, 2019, or future periods.

Capital

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a well-capitalized status for the Bank per the regulatory framework for prompt corrective action ("PCA"). As of March 31, 2019, the Bank and Company exceeded all regulatory capital requirements. The following table presents the regulatory capital ratios of the Bank and the Company at March 31, 2019.

	Bank	Company	Minimum	Regulatory
	Ratios	Ratios	Regulatory	Requirement For
			Requirement	Well-Capitalized
				Status of Bank
				Under PCA Provisions
Tier 1 leverage ratio	12.9%	14.3%	4.0%	5.0%
Common Equity Tier 1 capital ratio	24.7	27.5	4.5	6.5
Tier 1 capital ratio	24.7	27.5	6.0	8.0
Total capital ratio	24.8	27.7	8.0	10.0

The following table presents a reconciliation of equity under GAAP to regulatory capital amounts, as of March 31, 2019, for the Bank and the Company (dollars in thousands):

	<u>Bank</u>	<u>Company</u>
Total equity as reported under GAAP	\$ 1,216,532	\$ 1,355,983
AOCI	5,416	5,415
Goodwill and other intangibles, net of deferred tax liabilities	(14,641)	(14,641)
Total tier 1 capital	<u>1,207,307</u>	<u>1,346,757</u>
ACL	8,619	8,619
Total capital	<u><u>\$ 1,215,926</u></u>	<u><u>\$ 1,355,376</u></u>

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Asset and Liability Management and Market Risk

For a complete discussion of the Bank's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Bank's portfolios, see "Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on [Form 10-K](#) for the year ended September 30, 2018. The analysis presented in the tables below reflects the level of market risk at the Bank, including the cash the holding company has on deposit at the Bank.

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

The general objective of our interest rate risk management program is to determine and manage an appropriate level of interest rate risk while maximizing net interest income in a manner consistent with our policy to manage, to the extent practicable, the exposure of net interest income to changes in market interest rates. The Board of Directors and Asset and Liability Management Committee ("ALCO") regularly review the Bank's interest rate risk exposure by forecasting the impact of hypothetical, alternative interest rate environments on net interest income and the market value of portfolio equity ("MVPE") at various dates. The MVPE is defined as the net of the present value of cash flows from existing assets, liabilities, and off-balance sheet instruments. The present values are determined based upon market conditions as of the date of the analysis, as well as in alternative interest rate environments providing potential changes in the MVPE under those alternative interest rate environments. Net interest income is projected in the same alternative interest rate environments with both a static balance sheet and management strategies considered. The MVPE and net interest income analyses are also conducted to estimate our sensitivity to rates for future time horizons based upon market conditions as of the date of the analysis. In addition to the interest rate environments presented below, management also reviews the impact of non-parallel rate shock scenarios on a quarterly basis. These scenarios consist of flattening and steepening the yield curve by changing short-term and long-term interest rates independent of each other, and simulating cash flows and determining valuations as a result of these hypothetical changes in interest rates to identify rate environments that pose the greatest risk to the Bank. This analysis helps management quantify the Bank's exposure to changes in the shape of the yield curve.

Qualitative Disclosure about Market Risk

At March 31, 2019, the Bank's gap between the amount of interest-earning assets and interest-bearing liabilities projected to reprice within one year was \$433.5 million, or 4.54% of total assets, compared to \$100.6 million, or 1.08% of total assets, at December 31, 2018. The increase in the one-year gap amount was due primarily to an expected increase in cash flows from mortgage-related assets compared to December 31, 2018 as a result of lower interest rates. As interest rates fall, borrowers have more economic incentive to refinance their mortgages and agency debt issuers have more economic incentive or opportunity to exercise their call options in order to issue new debt at lower interest rates, resulting in higher projected cash flows on these assets.

The majority of interest-earning assets anticipated to reprice in the coming year are repayments and prepayments on one- to four-family loans and MBS, both of which include the option to prepay without a fee being paid by the contract holder. The amount of interest-bearing liabilities expected to reprice in a given period is not typically impacted significantly by changes in interest rates because the Bank's borrowings and certificate of deposit portfolios have contractual maturities and generally cannot be terminated early without a prepayment penalty. If interest rates were to increase 200 basis points, as of March 31, 2019, the Bank's one-year gap is projected to be \$(271.1) million, or (2.84)% of total assets. This compares to a one-year gap of \$(419.2) million, or (4.51)% of total assets, if interest rates were to have increased 200 basis points as of December 31, 2018. The decrease in the gap compared to no change in rates is due to lower anticipated cash flows in the higher interest rate environment.

During the current quarter, loan repayments totaled \$233.6 million and cash flows from the securities portfolio totaled \$139.3 million. The majority of these cash flows were reinvested into new loans and securities at current market interest rates. Total cash flows from fixed-rate liabilities that matured and repriced into current market interest rates during the current quarter were \$293.8 million. These offsetting cash flows allow the Bank to manage its interest rate risk and gap position more precisely than if the Bank did not have offsetting cash flows due to its mix of assets or maturity structure of liabilities.

Other strategies include managing the Bank's wholesale assets and liabilities. The Bank primarily uses long-term fixed-rate borrowings with no embedded options to lengthen the average life of the Bank's liabilities. The fixed-rate characteristics of these borrowings lock-in the cost until maturity and thus decrease the amount of liabilities repricing as interest rates move higher compared to funding with lower-cost short-term borrowings. These borrowings are laddered in order to prevent large amounts of liabilities repricing in any one period. The WAL of the Bank's term borrowings as of March 31, 2019 was 1.5 years. However, including the

impact of interest rate swaps related to \$640.0 million of adjustable-rate FHLB advances, the WAL of the Bank's term borrowings as of March 31, 2019 was 2.8 years. The interest rate swaps effectively convert the adjustable-rate borrowings into long-term, fixed-rate liabilities.

The Bank uses the securities portfolio to shorten the average life of the Bank's assets. Security purchases over the past few years have primarily been focused on callable agency debentures with maturities no longer than five years, shorter duration MBS, and adjustable-rate MBS. These securities have a shorter average life and provide a steady source of cash flow that can be reinvested as interest rates rise into higher-yielding assets.

In addition to the wholesale strategies, the Bank has sought to increase non-maturity deposits and long-term certificates of deposit. Non-maturity deposits are expected to reduce the risk of higher interest rates because their interest rates are not expected to increase significantly as market interest rates rise. Specifically, checking accounts and savings accounts have had minimal interest rate fluctuations throughout historical interest rate cycles, though no assurance can be given that this will be the case in future interest rate cycles. The balances and rates of these accounts have historically tended to remain very stable over time, giving them the characteristic of long-term liabilities. The Bank uses historical data pertaining to these accounts to estimate their future balances.

Over the last few years, the Bank has priced long-term certificates of deposit more aggressively than short-term certificates of deposit with the goal of giving customers incentive to move funds into longer-term certificates of deposit when interest rates were lower. Since December 2015, when short-term interest rates began to rise, the Bank's portfolio of retail/business certificates of deposit with terms of four years or longer has increased approximately 25%, while the Bank's portfolio of retail/business certificates of deposit with terms of one year to four years has decreased approximately 15%. Long-term certificates of deposit reduce the amount of liabilities repricing as interest rates rise in a given time period.

Gap Table. The following gap table summarizes the anticipated maturities or repricing periods of the Bank's interest-earning assets and interest-bearing liabilities based on the information and assumptions set forth in the notes below. Cash flow projections for mortgage-related assets are calculated based in part on prepayment assumptions at current and projected interest rates. Prepayment projections are subjective in nature, involve uncertainties and assumptions and, therefore, cannot be determined with a high degree of accuracy. Although certain assets and liabilities may have similar maturities or periods to repricing, they may react differently to changes in market interest rates. Assumptions may not reflect how actual yields and costs respond to market interest rate changes. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types of assets and liabilities may lag behind changes in market interest rates. Certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. In the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in calculating the gap table below. A positive gap indicates more cash flows from assets are expected to reprice than cash flows from liabilities and would indicate, in a rising rate environment, that earnings should increase. A negative gap indicates more cash flows from liabilities are expected to reprice than cash flows from assets and would indicate, in a rising rate environment, that earnings should decrease. For additional information regarding the impact of changes in interest rates, see the following Change in Net Interest Income and Change in MVPE discussions and tables.

	Within One Year	More Than One Year to Three Years	More Than Three Years to Five Years	Over Five Years	Total
Interest-earning assets:					
					(Dollars in thousands)
Loans receivable ⁽¹⁾	\$ 1,763,040	\$ 2,010,180	\$ 1,281,935	\$ 2,491,673	\$ 7,546,828
Securities ⁽²⁾	539,720	432,531	161,623	135,561	1,269,435
Other interest-earning assets	196,112	—	—	—	196,112
Total interest-earning assets	<u>2,498,872</u>	<u>2,442,711</u>	<u>1,443,558</u>	<u>2,627,234</u>	<u>9,012,375</u>
Interest-bearing liabilities:					
Non-maturity deposits ⁽³⁾	241,981	359,654	287,723	1,945,412	2,834,770
Certificates of deposit	1,373,243	1,060,054	487,107	494	2,920,898
Borrowings ⁽⁴⁾	450,000	1,125,000	465,000	341,285	2,381,285
Total interest-bearing liabilities	<u>2,065,224</u>	<u>2,544,708</u>	<u>1,239,830</u>	<u>2,287,191</u>	<u>8,136,953</u>
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	<u>\$ 433,648</u>	<u>\$ (101,997)</u>	<u>\$ 203,728</u>	<u>\$ 340,043</u>	<u>\$ 875,422</u>
Cumulative excess of interest-earning assets over interest-bearing liabilities	<u>\$ 433,648</u>	<u>\$ 331,651</u>	<u>\$ 535,379</u>	<u>\$ 875,422</u>	
Cumulative (deficiency) excess of interest-earning assets over interest-bearing liabilities as a percent of total Bank assets at:					
March 31, 2019	4.54%	3.48%	5.61%	9.17%	
September 30, 2018	(0.16)				
Cumulative one-year gap - interest rates +200 bps at:					
March 31, 2019	(2.84)				
September 30, 2018	(4.18)				

- (1) Adjustable-rate loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur, or prepayments are expected to be received, prior to their next rate adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances are net of undisbursed amounts and deferred fees and exclude loans 90 or more days delinquent or in foreclosure.
- (2) MBS reflect projected prepayments at amortized cost. Investment securities are presented based on contractual maturities, term to call dates or pre-refunding dates as of March 31, 2019, at amortized cost.
- (3) Although the Bank's checking, savings, and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rates at which the balances of existing accounts decline) used on these accounts is based on assumptions developed from our actual experiences with these accounts. If all of the Bank's checking, savings, and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$2.16 billion, for a cumulative one-year gap of (22.6)% of total assets.
- (4) Borrowings exclude deferred prepayment penalty costs. Included in this line are \$640.0 million of FHLB adjustable-rate advances tied to interest rate swaps. The repricing for these liabilities is projected to occur at the maturity date of each interest rate swap.

Change in Net Interest Income. For each date presented in the following table, the estimated change in the Bank's net interest income is based on the indicated instantaneous, parallel and permanent change in interest rates is presented. The change in each interest rate environment represents the difference between estimated net interest income in the 0 basis point interest rate environment ("base case," assumes the forward market and product interest rates implied by the yield curve are realized) and the estimated net interest income in each alternative interest rate environment (assumes market and product interest rates have a parallel shift in rates across all maturities by the indicated change in rates). Projected cash flows for each scenario are based upon varying prepayment assumptions to model likely customer behavior changes as market rates change. Estimations of net interest income used in preparing the table below were based upon the assumptions that the total composition of interest-earning assets and interest-bearing liabilities does not change materially and that any repricing of assets or liabilities occurs at anticipated product and market rates for the alternative rate environments as of the dates presented. The estimation of net interest income does not include any projected gains or losses related to the sale of loans or securities, or income derived from non-interest income sources, but does include the use of different prepayment assumptions in the alternative interest rate environments. It is important to consider that estimated changes in net interest income are for a cumulative four-quarter period. These do not reflect the earnings expectations of management.

Change (in Basis Points) in Interest Rates ⁽¹⁾	Net Interest Income At					
	March 31, 2019			September 30, 2018		
	Amount (\$)	Change (\$)	Change (%)	Amount (\$)	Change (\$)	Change (%)
	(Dollars in thousands)					
-100 bp	\$ 198,623	\$ (2,761)	(1.37)%	\$ 201,434	\$ 1,221	0.61%
000 bp	201,384	—	—	200,213	—	—
+100 bp	199,036	(2,348)	(1.17)	196,272	(3,941)	(1.97)
+200 bp	194,681	(6,703)	(3.33)	190,872	(9,341)	(4.67)
+300 bp	188,820	(12,564)	(6.24)	184,603	(15,610)	(7.80)

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

The net interest income projection was higher in the base case scenario at March 31, 2019 compared to September 30, 2018 due mainly to an increase in the loan portfolio yield at March 31, 2019. The net interest income projections decreased from the base case in all rising rate scenarios at March 31, 2019 and September 30, 2018. The net interest income projection was less adversely impacted in the rising interest rate scenarios at March 31, 2019 compared to September 30, 2018, due primarily to lower interest rates at March 31, 2019. Lower interest rates increased the projected cash flows from the Bank's mortgage-related assets, thus reducing the negative impact of rising interest rates. At March 31, 2019, the net interest income was also negatively impacted in the decreasing interest rate scenario. In this scenario, as interest rates decrease, asset cash flows increase to such a point that assets reprice at a faster pace than liabilities.

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

Change (in Basis Points) in Interest Rates ⁽¹⁾	Market Value of Portfolio Equity At					
	March 31, 2019			September 30, 2018		
	Amount (\$)	Change (\$)	Change (%)	Amount (\$)	Change (\$)	Change (%)
	(Dollars in thousands)					
-100 bp	\$ 1,460,906	\$ (11,582)	(0.79)%	\$ 1,498,631	\$ 53,683	3.72%
000 bp	1,472,488	—	—	1,444,948	—	—
+100 bp	1,378,492	(93,996)	(6.38)	1,281,910	(163,038)	(11.28)
+200 bp	1,201,896	(270,592)	(18.38)	1,087,644	(357,304)	(24.73)
+300 bp	1,004,144	(468,344)	(31.81)	888,611	(556,337)	(38.50)

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

The percentage change in the Bank's MVPE at March 31, 2019 was less adversely impacted in the increasing interest rate scenarios than at September 30, 2018. This was due primarily to a decrease in interest rates between the two periods. As interest rates fall, borrowers have more economic incentive to refinance their mortgages and agency debt issuers have more economic incentive or opportunity to exercise their call options in order to issue new debt at lower interest rates, resulting in higher projected cash flows on these assets. As interest rates increase in the rising rate scenarios, repayments on mortgage-related assets are more likely to decrease and only be realized through significant changes in borrowers' lives such as divorce, death, job-related relocations, or other events as there is less economic incentive for borrowers to prepay their debt, resulting in an increase in the average life of mortgage-related assets. Similarly, call projections for the Bank's callable agency debentures decrease as interest rates rise, which results in cash flows related to these assets moving closer to the contractual maturity dates. The higher expected average lives of these assets, relative to the assumptions in the base case interest rate environment, increases the sensitivity of their market value to changes in interest rates. At March 31, 2019, the MVPE was also negatively impacted in the decreasing interest rate scenario. In this scenario, as interest rates decrease, the market value of liabilities increases at a faster pace than the market value of assets.

The following table presents the weighted average yields/rates and WALs (in years), after applying prepayment, call assumptions, and decay rates for our interest-earning assets and interest-bearing liabilities as of March 31, 2019. Yields presented for interest-earning assets include the amortization of fees, costs, premiums and discounts, which are considered adjustments to the yield. The interest rate presented for term borrowings is the effective rate, which includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid. The WAL presented for term borrowings includes the effect of interest rate swaps. The maturity and repricing terms presented for one- to four-family loans represent the contractual terms of the loan.

	<u>Amount</u>	<u>Yield/Rate</u>	<u>WAL</u>	<u>% of Category</u>	<u>% of Total</u>
	(Dollars in thousands)				
Investment securities	\$ 288,894	2.38%	0.8	22.7%	3.2%
MBS - fixed	674,696	2.47	3.2	52.9	7.4
MBS - adjustable	310,598	3.12	2.7	24.4	3.4
Total securities	<u>1,274,188</u>	<u>2.61</u>	<u>2.5</u>	<u>100.0%</u>	<u>14.0</u>
Loans receivable:					
Fixed-rate one- to four-family:					
<= 15 years	1,087,536	3.16	3.8	14.4%	11.9
> 15 years	4,475,937	3.89	6.1	59.2	48.9
Fixed-rate commercial	398,455	4.61	6.2	5.3	4.4
All other fixed-rate loans	49,927	5.38	3.2	0.6	0.4
Total fixed-rate loans	<u>6,011,855</u>	<u>3.82</u>	<u>5.6</u>	<u>79.5</u>	<u>65.6</u>
Adjustable-rate one- to four-family:					
<= 36 months	238,789	2.37	3.1	3.1	2.6
> 36 months	863,497	3.40	2.4	11.4	9.4
Adjustable-rate commercial	331,248	5.20	6.4	4.4	3.6
All other adjustable-rate loans	118,687	6.16	1.5	1.6	1.3
Total adjustable-rate loans	<u>1,552,221</u>	<u>3.84</u>	<u>3.3</u>	<u>20.5</u>	<u>16.9</u>
Total loans receivable	<u>7,564,076</u>	<u>3.82</u>	<u>5.2</u>	<u>100.0%</u>	<u>82.5</u>
FHLB stock	102,631	7.47	1.5		1.1
Cash and cash equivalents	218,051	2.39	—		2.4
Total interest-earning assets	<u>\$ 9,158,946</u>	<u>3.66</u>	<u>4.6</u>		<u>100.0%</u>
Non-maturity deposits	\$ 2,778,939	0.36	13.6	48.8%	34.6%
Retail/business certificates of deposit	2,522,044	1.93	1.6	44.2	31.4
Public unit certificates of deposit	400,128	2.22	0.6	7.0	5.0
Total deposits	<u>5,701,111</u>	<u>1.19</u>	<u>7.4</u>	<u>100.0%</u>	<u>71.0</u>
Term borrowings	2,240,000	2.29	2.8	95.7%	27.8
FHLB line of credit	100,000	2.64	—	4.3	1.2
Total borrowings	<u>2,340,000</u>	<u>2.31</u>	<u>2.6</u>	<u>100.0%</u>	<u>29.0</u>
Total interest-bearing liabilities	<u>\$ 8,041,111</u>	<u>1.51</u>	<u>6.0</u>		<u>100.0%</u>

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Act") as of March 31, 2019. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of March 31, 2019, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Act is accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Act) that occurred during the Company's quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes to our risk factors disclosed in our Annual Report on [Form 10-K](#) for the fiscal year ended September 30, 2018.

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

See "Liquidity and Capital Resources - Capital" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding OCC restrictions on dividends from the Bank to the Company.

The following table summarizes our stock repurchase activity during the three months ended March 31, 2019 and additional information regarding our stock repurchase program. The Company has \$70.0 million of common stock authorized under its stock repurchase plan. There is no expiration for this repurchase plan. Shares may be repurchased from time to time in the open-market based upon market conditions and available liquidity.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
January 1, 2019 through January 31, 2019	—	\$ —	—	\$ 70,000,000
February 1, 2019 through February 28, 2019	—	—	—	70,000,000
March 1, 2019 through March 31, 2019	—	—	—	70,000,000
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>70,000,000</u>

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Index to Exhibits.

INDEX TO EXHIBITS

Exhibit Number	Document
3(i)	Charter of Capitol Federal Financial, Inc., as filed on May 6, 2010, as Exhibit 3(i) to Capitol Federal Financial, Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference
3(ii)	Bylaws of Capitol Federal Financial, Inc., as amended, filed on September 30, 2016, as Exhibit 3.2 to Form 8-K for Capitol Federal Financial Inc. and incorporated herein by reference
10.1(i)	Form of Change of Control Agreement with each of John B. Dicus, Kent G. Townsend, and Rick C. Jackson filed on January 20, 2011 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference
10.1(ii)	Form of Change of Control Agreement with each of Natalie G. Haag and Carlton A. Ricketts filed on November 29, 2012 as Exhibit 10.1(iv) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.1(iii)	Form of Change of Control Agreement with Daniel L. Lehman filed on November 29, 2016 as Exhibit 10.1 (v) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.1(iv)	Form of Change of Control Agreement with Robert D. Kobbeman filed on November 29, 2018 as Exhibit 10.1(iv) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.1(v)	Employment Agreement with Robert D. Kobbeman filed on November 29, 2018 as Exhibit 10.1(v) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.1(vi)	Form of Change of Control Agreement with Anthony S. Barry
10.2	Capitol Federal Financial's 2000 Stock Option and Incentive Plan (the "Stock Option Plan") filed on April 13, 2000 as Appendix A to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference
10.3	Capitol Federal Financial Deferred Incentive Bonus Plan, as amended, filed on November 29, 2018 as Exhibit 10.3 to the Registrant's September 30, 2018 Form 10-K and incorporated herein by reference
10.4	Form of Incentive Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.5 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference
10.5	Form of Non-Qualified Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.6 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference
10.6	Description of Director Fee Arrangements filed on November 29, 2018 as Exhibit 10.6 to the Registrant's September 30, 2018 Form 10-K and incorporated herein by reference
10.7	Short-term Performance Plan filed on August 4, 2015 as Exhibit 10.10 to the Registrant's June 30, 2015 Form 10-Q and incorporated herein by reference
10.8	Capitol Federal Financial, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") filed on December 22, 2011 as Appendix A to Capitol Federal Financial, Inc.'s Proxy Statement (File No. 001-34814) and incorporated herein by reference
10.9	Form of Incentive Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.12 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.10	Form of Non-Qualified Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.13 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.11	Form of Stock Appreciation Right Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.14 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.12	Form of Restricted Stock Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.15 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer
31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

101 The following information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, filed with the Securities and Exchange Commission on May 10, 2019, has been formatted in eXtensible Business Reporting Language ("XBRL"): (i) Consolidated Balance Sheets at March 31, 2019 and September 30, 2018, (ii) Consolidated Statements of Income for the three and six months ended March 31, 2019 and 2018, (iii) Consolidated Statements of Comprehensive Income for the three and six months ended March 31, 2019 and 2018, (iv) Consolidated Statements of Stockholders' Equity for the three and six months ended March 31, 2019 and 2018, (v) Consolidated Statements of Cash Flows for the six months ended March 31, 2019 and 2018, and (vi) Notes to the Unaudited Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

SIGNATURES

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

CAPITOL FEDERAL FINANCIAL, INC.

Date: May 10, 2019

By: /s/ John B. Dicus

John B. Dicus, Chairman, President and Chief Executive Officer

Date: May 10, 2019

By: /s/ Kent G. Townsend

Kent G. Townsend, Executive Vice President,
Chief Financial Officer and Treasurer