Capitol Federal Financial, Inc.
Form 10-Q
February 08, 2019

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

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
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	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 South Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(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 þ 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 þ 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 þ	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 þ

As of February 1, 2019, there were 141,279,239 shares of Capitol Federal Financial, Inc. common stock outstanding.

		Page Number
PART I - FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	3
	Consolidated Balance Sheets at December 31, 2018 and September 30, 2018	3
	Consolidated Statements of Income for the three months ended December 31, 2018 and 2017	4
	Consolidated Statements of Comprehensive Income for the three months ended December 31, 2018 and 2017	5
	Consolidated Statements of Stockholders' Equity for the three months ended December 31, 2018 and 2017	6
	Consolidated Statements of Cash Flows for the three months ended December 31, 2018 and 2017	7
	Notes to Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
	Financial Condition - Loans Receivable	35
	Financial Condition - Asset Quality	41
	Financial Condition - Liabilities	49
	Financial Condition - Stockholders' Equity	52
	Operating Results	53
	Comparison of Operating Results for the three months ended December 31, 2018 and 2017	56
	Comparison of Operating Results for the three months ended December 31, 2018 and September 30, 2018	60
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	68
Item 4.	Controls and Procedures	73
PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	74
Item 1A.	Risk Factors	74
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	74
Item 3.	Defaults Upon Senior Securities	74
Item 4.	Mine Safety Disclosures	74
Item 5.	Other Information	74
Item 6.	Exhibits	74
INDEX TO EXHIBITS		75
SIGNATURES		77

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)

	December 31, 2018	September 30, 2018
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $44,027 and $122,733)	$81,713	$139,055
Securities:		
Available-for-sale ("AFS"), at estimated fair value (amortized cost of $667,777 and $718,564)	668,487	714,614
Held-to-maturity ("HTM"), at amortized cost (estimated fair value of $563,771 and $601,071)	568,838	612,318
Loans receivable, net (allowance for credit losses ("ACL") of $8,558 and $8,463)	7,525,780	7,514,485
Federal Home Loan Bank Topeka ("FHLB") stock, at cost	100,521	99,726
Premises and equipment, net	96,109	96,005
Income taxes receivable, net	—	2,177
Other assets	262,334	271,167
TOTAL ASSETS	$9,303,782	$9,449,547
LIABILITIES:		
Deposits	$5,557,864	$5,603,354
FHLB borrowings	2,174,983	2,174,981
Other borrowings	106,186	110,052
Advance payments by borrowers for taxes and insurance	28,406	65,264
Income taxes payable, net	3,413	—
Deferred income tax liabilities, net	18,510	21,253
Accounts payable and accrued expenses	68,507	83,021
Total liabilities	7,957,869	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, 141,269,239 and 141,225,516 shares issued and outstanding as of December 31, 2018 and September 30, 2018, respectively	1,413	1,412
Additional paid-in capital	1,208,323	1,207,644
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(35,930)	(36,343)
Retained earnings	173,984	214,569
Accumulated other comprehensive (loss) income ("AOCI"), net of tax	(1,877)	4,340
Total stockholders' equity	1,345,913	1,391,622
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,303,782	$9,449,547

See accompanying notes to consolidated financial statements.

3

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share amounts)

	For the Three Months Ended December 31,	
	2018	2017
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$70,772	$ 64,189
Mortgage-backed securities ("MBS")	6,523	5,252
FHLB stock	1,971	3,095
Cash and cash equivalents	1,714	7,114
Investment securities	1,441	994
Total interest and dividend income	82,421	80,644
INTEREST EXPENSE:		
Deposits	15,725	11,961
FHLB borrowings	13,530	17,917
Other borrowings	865	1,392
Total interest expense	30,120	31,270
NET INTEREST INCOME	52,301	49,374
PROVISION FOR CREDIT LOSSES	—	—
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	52,301	49,374
NON-INTEREST INCOME:		
Deposit service fees	3,352	3,965
Income from bank-owned life insurance ("BOLI")	635	534
Other non-interest income	1,437	859
Total non-interest income	5,424	5,358
NON-INTEREST EXPENSE:		
Salaries and employee benefits	12,962	10,528
Information technology and related expense	4,599	3,331
Occupancy, net	3,252	2,765
Regulatory and outside services	1,766	1,140
Advertising and promotional	760	685
Deposit and loan transaction costs	736	1,407
Federal insurance premium	528	852
Office supplies and related expense	459	442
Other non-interest expense	1,720	886
Total non-interest expense	26,782	22,036
INCOME BEFORE INCOME TAX EXPENSE	30,943	32,696
INCOME TAX EXPENSE	6,560	860
NET INCOME	$24,383	$ 31,836
Basic earnings per share ("EPS")	$0.18	$ 0.24
Diluted EPS	$0.18	$ 0.24
Basic weighted average common shares	137,550,920	134,372,980
Diluted weighted average common shares	137,592,379	134,467,309

See accompanying notes to consolidated financial statements.

4

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

	For the Three Months Ended December 31,	
	2018	2017
Net income	$24,383	$31,836
Other comprehensive income (loss), net of tax:		
Changes in unrealized gains (losses) on AFS securities, net of taxes of $(1,133) and $709	3,527	(1,166)
Changes in unrealized gains (losses) on cash flow hedges, net of taxes of $3,128 and $(804)	(9,744)	1,322
Comprehensive income	$18,166	$31,992

See accompanying notes to consolidated financial statements.

CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)
(Dollars in thousands, except per share amounts)

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at 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 Accounting Standards Update ("ASU") 2016-09		19		(19)		—
ESOP activity		165	413			578
Stock-based compensation		94				94
Stock options exercised	—	46				46
Cash dividends to stockholders ($0.38 per share)				(50,412)		(50,412)
Balance at December 31, 2017	$ 1,382	$ 1,167,692	$ (37,582)	$ 216,045	$ 3,074	$ 1,350,611
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 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 ($0.48 per share)				(65,362)		(65,362)
Balance at December 31, 2018	$ 1,413	$ 1,208,323	$ (35,930)	$ 173,984	$ (1,877)	$ 1,345,913

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$24,383	$ 31,836
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(1,971)	(3,095)
Proceeds from sales of loans receivable held-for-sale ("LHFS")	—	15,642
Amortization and accretion of premiums and discounts on securities	388	902
Depreciation and amortization of premises and equipment	2,518	2,058
Amortization of intangible assets	608	—
Amortization of deferred amounts related to FHLB advances, net	2	338
Common stock committed to be released for allocation - ESOP	531	578
Stock-based compensation	95	94
Changes in:		
Unrestricted cash collateral (provided to)/received from derivative counterparties, net	(9,970)	2,211
Other assets, net	1,050	(680)
Income taxes payable, net	5,589	5,909
Deferred income tax liabilities, net	(746)	(6,572)
Accounts payable and accrued expenses	(8,175)	(5,909)
Net cash provided by operating activities	14,302	43,312
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	—	(101,782)
Proceeds from calls, maturities and principal reductions of AFS securities	51,003	11,760
Proceeds from calls, maturities and principal reductions of HTM securities	42,876	56,055
Proceeds from sale of AFS securities	—	2,078
Proceeds from the redemption of FHLB stock	94,500	—
Purchase of FHLB stock	(93,324)	(91,421)
Net increase in loans receivable	(11,898)	(10,979)
Purchase of premises and equipment	(2,183)	(2,034)
Proceeds from sale of other real estate owned ("OREO")	631	434
Net cash provided by (used in) investing activities	81,605	(135,889)

(Continued)

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

	For the Three Months Ended December 31, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(65,362)	(50,412)
Net change in deposits	(45,490)	(43,651)
Proceeds from borrowings	2,615,000	4,300,000
Repayments on borrowings	(2,618,866)	(4,400,000)
Change in advance payments by borrowers for taxes and insurance	(36,858)	(35,945)
Stock options exercised	467	46
Net cash used in financing activities	(151,109)	(229,962)
NET DECREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS	(55,202)	(322,539)
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS:		
Beginning of period	139,055	351,659
End of period	$83,853	$ 29,120
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to LHFS	$—	$ 15,814

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 $81.7 million and $139.1 million at December 31, 2018 and September 30, 2018 and restricted cash and cash equivalents of $2.1 million at December 31, 2018, 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 the Borrowed Funds footnote.

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 to opening retained earnings of $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 amends 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 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 of this ASU and will begin implementation procedures in the first half of calendar 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 considered in the 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 December 31,	
	2018	2017
	(Dollars in thousands, except per share amounts)	
Net income	$24,383	$ 31,836
Income allocated to participating securities	(9)	(13)
Net income available to common stockholders	$24,374	$ 31,823
Average common shares outstanding	137,550,471	134,372,531
Average committed ESOP shares outstanding	449	449
Total basic average common shares outstanding	137,550,920	134,372,980
Effect of dilutive stock options	41,459	94,329
Total diluted average common shares outstanding	137,592,379	134,467,309
Net EPS:		
Basic	$0.18	$ 0.24
Diluted	$0.18	$ 0.24
Antidilutive stock options, excluded from the diluted average common shares outstanding calculation	550,021	498,900

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").

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
MBS	$420,077	$ 3,792	$ 1,469	$422,400
GSE debentures	243,550	181	1,778	241,953
Municipal bonds	4,150	—	16	4,134
	$667,777	$ 3,973	$ 3,263	$668,487
HTM:				
MBS	$550,143	$ 4,769	$ 9,744	$545,168
Municipal bonds	18,695	2	94	18,603
	$568,838	$ 4,771	$ 9,838	$563,771

	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
	$718,564	$ 3,300	$ 7,250	$714,614
HTM:				
MBS	$591,900	$ 4,514	$ 15,589	$580,825
Municipal bonds	20,418	—	172	20,246
	$612,318	$ 4,514	$ 15,761	$601,071

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.

	December 31, 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	$82,110	$ 319	$69,586	$ 1,150
GSE debentures	52,822	158	148,358	1,620
Municipal bonds	2,429	3	1,503	13
	$137,361	$ 480	$219,447	$ 2,783
HTM:				
MBS	$25,997	$ 81	$368,581	$ 9,663
Municipal bonds	5,445	28	11,498	66
	$31,442	$ 109	$380,079	$ 9,729

	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 December 31, 2018 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 December 31, 2018 or

September 30, 2018.

The amortized cost and estimated fair value of debt securities as of December 31, 2018, 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	$29,636	$29,590	$2,480	$2,476
One year through five years	218,064	216,497	16,215	16,127
	247,700	246,087	18,695	18,603
MBS	420,077	422,400	550,143	545,168
	$667,777	$668,487	$568,838	$563,771

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 December 31,	
	2018	2017
	(Dollars in thousands)	
Taxable	$1,348	$881
Non-taxable	93	113
	$1,441	$994

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

	December 31, 2018	September 30, 2018
	(Dollars in thousands)	
Public unit deposits	$460,260	$515,553
Repurchase agreements	105,960	108,360
Federal Reserve Bank of Kansas City ("FRB of Kansas City")	8,768	9,529
	$574,988	$633,442

4. LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31, 2018	September 30, 2018
	(Dollars in thousands)	
One- to four-family:		
Originated	$3,955,975	$3,965,692
Correspondent purchased	2,491,692	2,505,987
Bulk purchased	279,719	293,607
Construction	33,443	33,149
Total	6,760,829	6,798,435
Commercial:		
Commercial real estate	463,317	426,243
Commercial and industrial	61,221	62,869
Construction	93,244	80,498
Total	617,782	569,610
Consumer:		
Home equity	129,795	129,588
Other	10,481	10,012
Total	140,276	139,600
Total loans receivable	7,518,887	7,507,645
Less:		
ACL	8,558	8,463
Discounts/unearned loan fees	33,139	33,933
Premiums/deferred costs	(48,590)	(49,236)
	$7,525,780	$7,514,485

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 December 31, 2018 and September 30, 2018, all loans 90 or more days delinquent were on nonaccrual status.

	December 31, 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	$9,720	$ 5,285	$ 15,005	$3,959,520	$3,974,525
Correspondent purchased	1,992	1,109	3,101	2,523,416	2,526,517
Bulk purchased	2,810	3,154	5,964	275,042	281,006
Commercial:					
Commercial real estate	64	—	64	551,997	552,061
Commercial and industrial	—	—	—	60,244	60,244
Consumer:					
Home equity	651	472	1,123	128,458	129,581
Other	92	3	95	10,309	10,404
	$15,329	$ 10,023	$ 25,352	$7,508,986	$7,534,338

	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
	$18,839	$ 9,077	$ 27,916	$7,495,032	$7,522,948

The recorded investment in mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2018 and September 30, 2018 was $2.9 million, 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 $910 thousand at December 31, 2018 and $1.3 million at September 30, 2018.

17

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

	December 31, 2018	September 30, 2018
	(Dollars in thousands)	
One- to four-family:		
Originated	$6,822	$ 6,503
Correspondent purchased	1,415	863
Bulk purchased	3,154	3,063
Commercial:		
Commercial real estate	1,351	—
Commercial and industrial	—	—
Consumer:		
Home equity	480	530
Other	3	10
	$13,225	$ 10,969

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.

	December 31, 2018		September 30, 2018	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family:				
Originated	$9,089	$ 20,244	$8,660	$ 22,409
Correspondent purchased	1,287	3,292	997	3,126
Bulk purchased	70	7,009	—	7,195
Commercial:				
Commercial real estate	3,824	1,351	1,251	1,368
Commercial and industrial	1,801	—	1,126	—

Consumer:				
Home equity	194	805	298	894
Other	17	4	—	10
	$16,282	$ 32,705	$12,332	$ 35,002

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 September 2018, 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.

	December 31, 2018		September 30, 2018	
	Credit Score	LTV	Credit Score	LTV
One- to four-family - originated	767	62%	767	63%
One- to four-family - correspondent	764	66	764	67
One- to four-family - bulk purchased	758	62	758	62
Consumer - home equity	753	21	750	22
	765	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 December 31, 2018		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family:			
Originated	1	$ 117	$ 117
Correspondent purchased	—	—	—
Bulk purchased	—	—	—
Commercial:			
Commercial real estate	—	—	—
Commercial and industrial	—	—	—
Consumer:			
Home equity	—	—	—
Other	—	—	—
	1	$ 117	$ 117

	For the Three Months Ended December 31, 2017		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family:			
Originated	1	$ 74	$ 82
Correspondent purchased	—	—	—
Bulk purchased	—	—	—
Commercial:			
Commercial real estate	—	—	—
Commercial and industrial	—	—	—
Consumer:			
Home equity	—	—	—
Other	—	—	—
	1	$ 74	$ 82

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			
	December 31, 2018		December 31, 2017	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
One- to four-family:				
Originated	—	$ —	12	$ 820
Correspondent purchased	—	—	—	—
Bulk purchased	—	—	3	1,040
Commercial:				
Commercial real estate	—	—	—	—
Commercial and industrial	—	—	—	—
Consumer:				
Home equity	—	—	4	133
Other	—	—	—	—
	—	$ —	19	$ 1,993

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.

	December 31, 2018		September 30, 2018	
	Recorded Investment	Unpaid Principal Balance	Recorded Investment	Unpaid Principal Balance
	(Dollars in thousands)			
One- to four-family:				
Originated	$ 17,051	$ 17,576	$ 18,857	$ 19,388
Correspondent purchased	2,184	2,288	2,668	2,768
Bulk purchased	5,277	6,012	6,011	6,976
Commercial:				
Commercial real estate	—	—	—	—
Commercial and industrial	—	—	—	—
Consumer:				
Home equity	474	638	504	720
Other	—	32	—	25
	$ 24,986	$ 26,546	$ 28,040	$ 29,877

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

	For the Three Months Ended			
	December 31, 2018		December 31, 2017	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
One- to four-family:				
Originated	$18,049	$ 185	$28,461	$ 297
Correspondent purchased	2,309	22	3,717	33
Bulk purchased	5,632	43	7,210	53
Commercial:				
Commercial real estate	—	—	—	—
Commercial and industrial	—	—	—	—
Consumer:				
Home equity	489	9	668	10
Other	—	—	—	—
	$26,479	$ 259	$40,056	$ 393

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 December 31, 2018						
	One- to Four-Family						
		Correspondent	Bulk				
	Originated	Purchased	Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Beginning balance	$2,953	$ 1,861	$ 925	$5,739	$ 2,556	$ 168	$8,463
Charge-offs	(20)	—	(26)	(46)	—	(10)	(56)
Recoveries	3	—	89	92	2	57	151
Provision for credit losses	(175)	(113)	(152)	(440)	476	(36)	—
Ending balance	$2,761	$ 1,748	$ 836	$5,345	$ 3,034	$ 179	$8,558

	For the Three Months Ended December 31, 2017						
	One- to Four-Family						
		Correspondent	Bulk				
	Originated	Purchased	Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Beginning balance	$3,173	$ 1,922	$ 1,000	$6,095	$ 2,112	$ 191	$8,398
Charge-offs	(3)	—	—	(3)	—	(31)	(34)
Recoveries	—	—	—	—	—	6	6
Provision for credit losses	(55)	(20)	—	(75)	45	30	—
Ending balance	$3,115	$ 1,902	$ 1,000	$6,017	$ 2,157	$ 196	$8,370

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.

	December 31, 2018						
	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial	Consumer	Total
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	$3,957,474	$ 2,524,333	$275,729	$6,757,536	$ 612,305	$139,511	$7,509,352
Recorded investment in loans individually evaluated for impairment	17,051	2,184	5,277	24,512	—	474	24,986
	$3,974,525	$ 2,526,517	$281,006	$6,782,048	$ 612,305	$139,985	$7,534,338
ACL for loans collectively evaluated for impairment	$2,761	$ 1,748	$836	$5,345	$ 3,034	$179	$8,558

	September 30, 2018						
	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial	Consumer	Total
	(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
	$3,984,000	$ 2,541,217	$294,970	$6,820,187	$ 563,513	$139,248	$7,522,948
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 December 31, 2018 and September 30, 2018, the Bank had interest rate swap agreements with a total notional amount of $575.0 million and $475.0 million, respectively, in order to hedge the variable cash flows associated with $575.0 million and $475.0 million, respectively, of adjustable-rate FHLB advances. At December 31, 2018 and September 30, 2018, the interest rate swap agreements had an average remaining term to maturity of 5.1 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 December 31, 2018, the interest rate swaps were in a loss position with a total fair value of $3.2 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 December 31, 2018 and 2017, $151 thousand and $274 thousand, respectively, were reclassified from AOCI as an increase to interest expense and no hedge ineffectiveness was recognized in the consolidated statements of income during either period. At December 31, 2018, the Company estimates that $300 thousand will be reclassified as a decrease 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 $2.1 million at December 31, 2018 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 are included in other borrowings on the Company's consolidated balance sheet. The Company redeemed $3.9 million of junior subordinated debentures during the three months ended December 31, 2018, which resulted in the redemption of a like amount of trust preferred securities. The Company intends to redeem the remaining amount of trust-preferred securities and related junior subordinated debentures during the first half of fiscal year 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 three months ended December 31, 2018 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 using independent observable market-based inputs from a third party. The Company did not make any adjustments to the estimated fair value during the three months ended December 31, 2018 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 December 31, 2018 or September 30, 2018. The Company did not have any liabilities measured at fair value at September 30, 2018.

	December 31, 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)			
Assets:				
AFS Securities:				
MBS	$422,400	$ —	$ 422,400	$ —
GSE debentures	241,953	—	241,953	—
Municipal bonds	4,134	—	4,134	—
	668,487	—	668,487	—
Interest rate swaps	—	—	—	—
	$668,487	$ —	$ 668,487	$ —
Liabilities:				
Interest rate swaps	$3,189	$ —	$ 3,189	$ —

	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)			
Assets:				
AFS Securities:				
MBS	$445,090	$ —	$ 445,090	$ —
GSE debentures	265,398	—	265,398	—
Municipal bonds	4,126	—	4,126	—
	714,614	—	714,614	—
Interest rate swaps	9,685	—	9,685	—
	$724,299	$ —	$ 724,299	$ —

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 three months ended December 31, 2018 and 2017 that were still held in the portfolio as of December 31, 2018 and

2017 was $1.8 million and $1.9 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 December 31, 2018 and 2017; 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 three months ended December 31, 2018 and 2017 that was still held in the portfolio as of December 31, 2018 and 2017 was $192 thousand and $313 thousand, respectively. The carrying value of the properties equaled the fair value of the properties at December 31, 2018 and 2017.

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:

	December 31, 2018				
	Carrying	Estimated Fair Value			
	Amount	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Cash and cash equivalents	$81,713	$81,713	$81,713	$ —	$ —
AFS securities	668,487	668,487	—	668,487	—
HTM securities	568,838	563,771	—	563,771	—
Loans receivable	7,525,780	7,509,214	—	—	7,509,214
FHLB stock	100,521	100,521	100,521	—	—
Liabilities:					
Deposits	5,557,864	5,538,841	2,684,905	2,853,936	—
FHLB borrowings	2,174,983	2,149,149	100,001	2,049,148	—
Other borrowings	106,186	105,471	6,580	98,891	—
Interest rate swaps	3,189	3,189	—	3,189	—

	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 December 31, 2018		
	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	3,527	(9,895)	(6,368)
Amount reclassified from AOCI	—	151	151
Other comprehensive income (loss)	3,527	(9,744)	(6,217)
Ending balance	$537	$ (2,414)	$(1,877)

	For the Three Months Ended December 31, 2017		
	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	(1,166)	1,596	430
Amount reclassified from AOCI	—	(274)	(274)
Other comprehensive income (loss)	(1,166)	1,322	156
Ending balance	$2,124	$ 950	$3,074

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 also 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 to opening retained earnings at October 1, 2018. Upon adoption of the amended ASU, the Company recorded a cumulative adjustment to opening retained earnings of $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 quarter, revenue from contracts with customers totaled $4.3 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 $944 thousand and $742 thousand for the three months ended December 31, 2018 and 2017, 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 - Insurance 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 48 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.

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 loan portfolio and deposit base. As of December 2018, the unemployment rate was 3.3% for Kansas and 3.1% for Missouri, compared to the national average of 3.9%, 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.

For the quarter ended December 31, 2018, the Company recognized net income of $24.4 million, or $0.18 per share, a decrease of $7.5 million, or 23.4%, from the quarter ended December 31, 2017. The decrease in net income was due primarily to the prior year quarter including the impact of the enactment of the Tax Cuts and Jobs Act (the "Tax Act"), as well as to an increase in non-interest expense in the current quarter. These changes were partially offset by an increase in net interest income in the current quarter due primarily to the higher yielding loans added in the CCB acquisition.

The net interest margin increased 44 basis points, from 1.83% for the prior year quarter to 2.27% for the current quarter. 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 quarter 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 12 basis points, from 2.20% for the prior year quarter to 2.32% for the current 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.

Total assets were $9.30 billion at December 31, 2018 compared to $9.45 billion at September 30, 2018. The $145.8 million decrease was due primarily to decreases in securities and cash and cash equivalents. The cash flows were used primarily to pay dividends to stockholders, fund certificate of deposit maturities, and pay borrowers' real estate taxes.

The loan receivable portfolio was $7.53 billion at December 31, 2018 compared to $7.51 billion at September 30, 2018. During the current year quarter, the Bank originated and refinanced $189.7 million of loans with a weighted average rate of 4.74% and purchased $52.9 million of one- to four-family loans from correspondent lenders with a weighted average rate of 4.37%. The Bank also entered into commercial real estate loan participations totaling $61.9 million with a weighted average rate of 4.99%, of which $45.3 million had not yet been funded as of December 31, 2018.

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 14.2% at December 31, 2018. The size of the loan portfolio has been managed by controlling correspondent loan volume primarily through the rates offered to correspondent lenders. Management intends to continue to manage the size and mix of the loan portfolio by utilizing cash flows from the correspondent loan portfolio to fund commercial loan growth. During the current quarter, the commercial loan portfolio grew by $48.2 million, or 8%, while the correspondent one-to four-family loan portfolio decreased by $14.3 million, or 1%, and the bulk purchased one-to four-family loan portfolio decreased by $13.9 million, or 5%. 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.

Total liabilities were $7.96 billion at December 31, 2018 compared to $8.06 billion at September 30, 2018. The $100.1 million decrease was due mainly to decreases in deposits, primarily the certificate of deposit portfolio, and advance payments by borrowers for taxes and insurance due to the timing of payments.

Stockholders' equity was $1.35 billion at December 31, 2018 compared to $1.39 billion at September 30, 2018. The $45.7 million decrease was due primarily to the payment of $65.4 million in cash dividends, partially offset by net income of $24.4 million. In the long run, management considers a 10% ratio of stockholders' equity to total assets at the Bank an appropriate level of capital. At December 31, 2018, this ratio was 13.1%.

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

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL 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.

	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
	(Dollars in thousands)				
Total assets	$9,303,782	$9,449,547	$9,048,737	$9,116,461	$8,990,159
Cash and cash equivalents	81,713	139,055	182,078	140,580	29,120
AFS securities	668,487	714,614	555,361	559,146	501,884
HTM securities	568,838	612,318	664,522	716,372	770,806
Loans receivable, net	7,525,780	7,514,485	7,239,384	7,200,663	7,189,744
FHLB stock, at cost	100,521	99,726	100,694	195,626	195,470
Deposits	5,557,864	5,603,354	5,323,083	5,354,193	5,266,217
Borrowings	2,281,169	2,285,033	2,274,816	2,274,478	2,274,146
Stockholders' equity	1,345,913	1,391,622	1,341,325	1,364,740	1,350,611
Equity to total assets at end of period	14.5 %	14.7 %	14.8 %	15.0 %	15.0 %

Loans Receivable. The following table presents the balance and weighted average rate of our loan portfolio as of the dates indicated. Approximately 59% of the loans in the one- to four-family loan portfolio at December 31, 2018 had a balance of $453 thousand or less at the time of origination.

	December 31, 2018		September 30, 2018	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
One- to four-family:				
Originated	$3,955,975	3.77%	$3,965,692	3.74%
Correspondent purchased	2,491,692	3.61	2,505,987	3.59
Bulk purchased	279,719	2.67	293,607	2.60
Construction	33,443	4.08	33,149	4.03
Total	6,760,829	3.67	6,798,435	3.64
Commercial:				
Commercial real estate	463,317	4.36	426,243	4.33
Commercial and industrial	61,221	5.19	62,869	5.00
Construction	93,244	4.74	80,498	4.59
Total	617,782	4.50	569,610	4.44
Consumer loans:				
Home equity	129,795	6.20	129,588	5.97
Other	10,481	4.51	10,012	4.59
Total	140,276	6.07	139,600	5.87
Total loans receivable	7,518,887	3.78	7,507,645	3.74
Less:				
ACL	8,558		8,463	
Discounts/unearned loan fees	33,139		33,933	
Premiums/deferred costs	(48,590)		(49,236)	
Total loans receivable, net	$7,525,780		$7,514,485	

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 are 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							
	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in thousands)							
Beginning balance	$7,507,645	3.74%	$7,226,169	3.66%	$7,187,742	3.63%	$7,177,504	3.62%
Originated and refinanced:								
Fixed	116,032	4.59	117,904	4.44	143,059	4.21	77,825	3.80
Adjustable	73,711	4.98	56,996	4.55	54,385	4.42	36,612	4.28
Purchased and participations:								
Fixed	72,140	4.60	80,138	4.40	78,650	4.04	120,155	3.85
Adjustable	42,651	4.88	20,105	3.92	30,017	3.49	48,062	3.61
Loans added in CCB acquisition, net	—	—	299,659	4.77	—	—	—	—
Change in undisbursed loan funds	(25,315)		(8,104)		19,808		(25,002)	
Repayments	(267,469)		(284,927)		(286,923)		(246,894)	
Principal recoveries (charge-offs), net	95		119		(46)		20	
Other	(603)		(414)		(523)		(540)	
Ending balance	$7,518,887	3.78	$7,507,645	3.74	$7,226,169	3.66	$7,187,742	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 unless 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					
	December 31, 2018			December 31, 2017		
	Amount	Rate	% of Total	Amount	Rate	% of Total
	(Dollars in thousands)					
Fixed-rate:						
One- to four-family:						
<= 15 years	$23,055	4.19%	7.6 %	$35,734	3.16%	12.1 %
> 15 years	106,134	4.58	34.9	143,949	3.82	48.5
One- to four-family construction	16,478	4.51	5.4	9,139	3.70	3.1
Commercial:						
Commercial real estate	7,802	4.78	2.5	4,792	4.13	1.6
Commercial and industrial	2,402	5.34	0.8	—	—	—
Commercial construction	29,919	4.78	9.8	—	—	—
Home equity	1,194	6.50	0.4	950	5.94	0.3
Other	1,188	4.69	0.4	103	9.36	—
Total fixed-rate	188,172	4.59	61.8	194,667	3.71	65.6
Adjustable-rate:						
One- to four-family:						
<= 36 months	5,228	3.72	1.7	767	2.75	0.3
> 36 months	33,079	4.04	10.9	31,935	3.12	10.7
One- to four-family construction	8,245	4.38	2.7	4,035	3.30	1.4
Commercial:						
Commercial real estate	20,704	5.16	6.8	—	—	—
Commercial and industrial	2,335	5.98	0.8	—	—	—
Commercial construction	28,650	5.35	9.4	45,650	4.20	15.4
Home equity	17,426	6.32	5.7	18,826	5.31	6.3
Other	695	2.94	0.2	978	3.79	0.3
Total adjustable-rate	116,362	4.95	38.2	102,191	4.02	34.4
Total originated, refinanced and purchased	$304,534	4.73	100.0%	$296,858	3.82	100.0%
Purchased and participation loans included above:						
Fixed-rate:						
Correspondent - one- to four-family	$38,939	4.53		$80,773	3.71	
Participations - commercial	33,201	4.68		4,792	4.13	
Total fixed-rate purchased/participations	72,140	4.60		85,565	3.73	
Adjustable-rate:						
Correspondent - one- to four-family	14,001	3.93		19,039	3.10	

Participations - commercial	28,650	5.35	45,650	4.20
Total adjustable-rate purchased/participations	42,651	4.88	64,689	3.87
Total purchased/participation loans	$114,791	4.70	$150,254	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 September 2018, 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.

	December 31, 2018					September 30, 2018				
	Amount	% of Total	Credit Score	LTV	Average Balance	Amount	% of Total	Credit Score	LTV	Average Balance
	(Dollars in thousands)									
Originated	$3,955,975	58.8 %	767	62%	$ 139	$3,965,692	58.6 %	767	62%	$ 138
Correspondent purchased	2,491,692	37.0	764	66	377	2,505,987	37.1	764	67	378
Bulk purchased	279,719	4.2	758	62	304	293,607	4.3	758	62	304
	$6,727,386	100.0%	765	64	186	$6,765,286	100.0%	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, $15.4 million were refinanced from other lenders. Of the loans originated and refinanced during the current quarter, 73% had loan values of $453 thousand or less. Of the correspondent loans purchased during the current quarter, 22% had loan values of $453 thousand or less.

	For the Three Months Ended					
	December 31, 2018			December 31, 2017		
	Amount	LTV	Credit Score	Amount	LTV	Credit Score
	(Dollars in thousands)					
Originated	$126,325	77%	754	$101,420	77%	763
Refinanced by Bank customers	12,954	67	743	24,327	66	754
Correspondent purchased	52,940	74	763	99,812	75	766
	$192,219	75	756	$225,559	75	764

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 quarter ended December 31, 2018.

	For the Three Months Ended December 31, 2018		
State	Amount	% of Total	Rate
	(Dollars in thousands)		
Kansas	$121,760	63.3 %	4.43%
Missouri	32,208	16.8	4.44
Texas	17,521	9.1	4.22
Other states	20,730	10.8	4.35
	$192,219	100.0%	4.40

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 December 31, 2018, 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				
	15 years or less	More than 15 years	Adjustable-Rate	Total Amount	Rate
	(Dollars in thousands)				
Originate/refinance	$5,186	$28,271	$11,413	$44,870	4.47%
Correspondent	2,002	56,991	10,167	69,160	4.43
	$7,188	$85,262	$21,580	$114,030	4.45
Rate	4.19 %	4.57 %	4.05 %		

Commercial Loans - During the current quarter, the Bank entered into commercial real estate loan participations of $61.9 million, which included $58.6 million of commercial real estate construction loans. The majority of the $58.6 of commercial real estate construction loans had not yet been funded as of December 31, 2018. During the current quarter, the Bank funded $35.4 million of commercial real estate construction participation loans. The Bank also originated $30.0 million of commercial loans during the current quarter.

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 December 31, 2018. Based on the terms of the construction loans as of December 31, 2018, of the $182.9 million of undisbursed amounts in the table, which does not include outstanding commitments, $44.7 million is projected to be disbursed by March 31, 2019, and an additional $99.1 million is projected to be disbursed by December 31, 2019. 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 $434.1 million at a weighted average rate of 4.26% and adjustable-rate loans totaling $305.4 million at a weighted average rate of 4.95%. 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 December 31, 2018 having shorter terms to maturity. Additionally, the credit risk for most of the Bank's commercial real estate borrowing relationships is mitigated due to the amount of borrower equity injected into the projects, strong debt service coverage ratios, and the liquidity, personal cash flow and net worth of the guarantors. Several of these borrowing relationships have a preference for fixed-rate loans and the market interest rates are typically lower for these types of borrowers.

	Unpaid Principal	Undisbursed Amount	Gross Loan Amount	Outstanding Commitments	Total	% of Total
	(Dollars in thousands)					
Health care and social assistance	$117,621	$65,002	$182,623	$ 71,069	$253,692	30.9 %
Accommodation and food services	150,446	29,565	180,011	—	180,011	21.9
Real estate rental and leasing	130,905	22,521	153,426	435	153,861	18.7
Retail trade	45,208	25,478	70,686	9,186	79,872	9.7
Multi-family	33,208	37,141	70,349	—	70,349	8.6
Arts, entertainment, and recreation	36,934	597	37,531	—	37,531	4.6
Other	42,239	2,625	44,864	900	45,764	5.6
	$556,561	$182,929	$739,490	$ 81,590	$821,080	100.0%
Weighted average rate	4.42 %	4.92 %	4.54 %	4.72 %	4.56 %	

39

The following table summarizes the Bank's commercial real estate loans and loan commitments by state as of December 31, 2018.

	Unpaid	Undisbursed	Gross Loan	Outstanding		% of
	Principal	Amount	Amount	Commitments	Total	Total
	(Dollars in thousands)					
Kansas	$211,272	$ 17,692	$228,964	$ 72,404	$301,368	36.7 %
Missouri	171,458	65,447	236,905	3,286	240,191	29.3
Texas	137,594	61,902	199,496	5,900	205,396	25.0
Kentucky	4,317	21,242	25,559	—	25,559	3.1
Nebraska	6,995	15,146	22,141	—	22,141	2.7
Colorado	9,130	—	9,130	—	9,130	1.1
Other	15,795	1,500	17,295	—	17,295	2.1
	$556,561	$ 182,929	$739,490	$ 81,590	$821,080	100.0%

The following table presents the Bank's commercial and industrial loans and loan commitments by business purpose, as of December 31, 2018.

	Unpaid	Undisbursed	Gross Loan	Outstanding		% of
	Principal	Amount	Amount	Commitments	Total	Total
	(Dollars in thousands)					
Working capital	$35,487	$ 18,212	$53,699	$ —	$53,699	63.1 %
Equipment	16,420	577	16,997	—	16,997	20.0
Auto lease	3,983	234	4,217	1,139	5,356	6.3
Small Business Administration	4,226	391	4,617	—	4,617	5.4
Other	1,105	406	1,511	2,932	4,443	5.2
	$61,221	$ 19,820	$81,041	$ 4,071	$85,112	100.0%

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 December 31, 2018.

	Amount
	(Dollars in thousands)
Greater than $30 million	$ 257,944
>$15 to $30 million	242,259
>$10 to $15 million	36,925
>$5 to $10 million	43,775
$1 to $5 million	178,411
Less than $1 million	146,878
	$ 906,192

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 December 31, 2018, approximately 78% were 59 days or less delinquent.

	Loans Delinquent for 30 to 89 Days at:									
	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018		December 31, 2017	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
One- to four-family:										
Originated	118	$9,765	129	$10,647	104	$7,639	106	$8,476	129	$11,435
Correspondent purchased	10	1,969	18	3,803	6	1,757	5	744	4	1,118
Bulk purchased	15	2,780	15	3,502	16	3,773	17	4,182	21	4,691
Commercial	2	64	6	322	1	40	—	—	—	—
Consumer	42	744	38	533	30	363	24	356	38	637
	187	$15,322	206	$18,807	157	$13,572	152	$13,758	192	$17,881
Loans 30 to 89 days delinquent to total loans receivable, net		0.20 %		0.25 %		0.19 %		0.19 %		0.25 %

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 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 loans were owned by the Bank, on average, for approximately four months before the properties were sold.

	Non-Performing Loans and OREO at:									
	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018		December 31, 2017	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)									
Loans 90 or More Days Delinquent or in Foreclosure:										
One- to four-family:										
Originated	69	$ 5,301	67	$ 5,040	64	$ 5,043	67	$ 6,434	67	$ 5,981
Correspondent purchased	5	1,093	1	449	4	863	4	1,151	2	553
Bulk purchased	10	3,137	11	3,045	8	2,597	12	3,325	14	3,693
Commercial	—	—	—	—	—	—				