

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

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

Form 10-Q

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(Mark One)

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  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated  
filer   
Emerging  
Smaller Reporting Company  Growth  
Company

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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 p

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

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## PART I -- FINANCIAL INFORMATION

## Item 1. Financial Statements

## CAPITOL FEDERAL FINANCIAL, INC. AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands, except per share amounts)

|  | December<br>31,<br>2018 | September<br>30,<br>2018 |
|--|-------------------------|--------------------------|
| <b>ASSETS:</b>   |                         |                          |
| 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                  |
| <b>TOTAL ASSETS</b>  | <b>\$9,303,782</b>      | <b>\$9,449,547</b>       |
| <b>LIABILITIES:</b>  |                         |                          |
| 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                |
| <b>STOCKHOLDERS' EQUITY:</b>   |                         |                          |
| Preferred stock, \$.01 par value; 100,000,000 shares authorized, no shares issued or outstanding   | —                       | —                        |
| Common stock, \$.01 par value; 1,400,000,000 shares authorized, 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                |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$9,303,782</b>      | <b>\$9,449,547</b>       |

See accompanying notes to consolidated financial statements.



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

(Dollars in thousands, except per share amounts)

|   | For the Three Months<br>Ended<br>December 31, |             |
|---|---|-------------|
|   | 2018  | 2017        |
| <b>INTEREST AND DIVIDEND INCOME:</b>                  |   |             |
| 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      |
| <b>INTEREST EXPENSE:</b>                              |   |             |
| 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      |
| <b>NON-INTEREST INCOME:</b>                           |   |             |
| 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       |
| <b>NON-INTEREST EXPENSE:</b>                          |   |             |
| 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                                   | 137,372,980 |
| Diluted weighted average common shares                | 137,592,373                                   | 137,467,309 |

See accompanying notes to consolidated financial statements.



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

(Unaudited)

(Dollars in thousands)

|  | For the Three<br>Months Ended<br>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,<br>net of taxes of \$(1,133) and \$709   | 3,527   | (1,166 ) |
| Changes in unrealized gains (losses) on cash flow hedges,<br>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<br>Stock | Additional<br>Paid-In<br>Capital | Unearned<br>Compensation<br>ESOP | Retained<br>Earnings | AOCI       | Total<br>Stockholders'<br>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<br>Ended<br>December 31, |            |
|---|---|------------|
|   | 2018  | 2017       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |            |
| 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     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |            |
| 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<br>Ended<br>December 31, |                   |
|--|---|-------------------|
|  | 2018  | 2017              |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |   |                   |
| 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 )        |
| <br>   |   |                   |
| <b>NET DECREASE IN CASH, CASH EQUIVALENTS, RESTRICTED CASH AND<br/>RESTRICTED CASH EQUIVALENTS</b> | <b>(55,202 )</b>                              | <b>(322,539 )</b> |
| <br>   |   |                   |
| <b>CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS:</b>                    |   |                   |
| Beginning of period  | 139,055                                       | 351,659           |
| End of period  | \$83,853                                      | \$ 29,120         |
| <br>   |   |                   |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND<br/>FINANCING ACTIVITIES:</b>                  |   |                   |
| Loans transferred to LHFS  | \$—   | \$ 15,814         |
| <br>   |   |                   |
| 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<br>Ended<br>December 31,<br>2018      2017<br>(Dollars in thousands,<br>except per share<br>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<br>average<br>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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>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                  |

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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 Unrealized Fair Value | Estimated Unrealized Losses | Estimated Unrealized Fair Value    | Estimated 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 Unrealized Fair Value | Estimated Unrealized Losses | Estimated Unrealized Fair Value    | Estimated 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.

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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<br>31, 2018 | September<br>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               |
| <br>Total loans receivable   | <br>7,518,887        | <br>7,507,645         |
| <br>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

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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.

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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         |                 |                              |                  |               |                     |
|---------------------------|-----------------|------------------------------|------------------|---------------|---------------------|
|                           | 90 or More Days |                              | Total            | Total         |                     |
|                           | 30 to 89 Days   | Delinquent or in Foreclosure | Delinquent Loans | Current Loans | 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        |                 |                              |                  |               |                     |
|                           | 90 or More Days |                              | Total            | Total         |                     |
|                           | 30 to 89 Days   | Delinquent or in Foreclosure | Delinquent Loans | Current Loans | 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.





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

|                           | December<br>31,<br>2018 | September<br>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<br>Mention | Substandard | Special<br>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 |

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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,<br>2018 |      | September 30,<br>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<br>of Restructured<br>Contracts<br>(Dollars in thousands) | Post-<br>Restructured<br>Outstanding |
|--|--|--------------------------------------|
|--|--|--------------------------------------|

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<br>of Restructured<br>Contracts<br>(Dollars in thousands) | Post-<br>Restructured<br>Outstanding |
|--|--|--------------------------------------|
|--|--|--------------------------------------|

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 Recorded of Investment Contracts | Number Recorded of Investment Contracts |
|                           | (Dollars in thousands)                  |   |
| One- to four-family:      |   |   |
| Originated                | \$ —                                    | \$ 820                                  |
| Correspondent purchased   | —                                       | —                                       |
| Bulk purchased            | —                                       | 1,040                                   |
| Commercial:               |   |   |
| Commercial real estate    | —                                       | —                                       |
| Commercial and industrial | —                                       | —                                       |
| Consumer:                 |   |   |
| Home equity               | —                                       | 133                                     |
| Other                     | —                                       | —                                       |
|                           | \$ —                                    | \$ 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 Interest    Average Interest

Recorded Income    Recorded Income

Investment Recognized    Investment 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      |         | Commercial | Consumer | Total   |
|-----------------------------|------------------------|-----------|-----------|---------|------------|----------|---------|
|                             | Originated             | Purchased | Purchased | 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      |         | Commercial | Consumer | Total   |
|-----------------------------|------------------------|-----------|-----------|---------|------------|----------|---------|
|                             | Originated             | Purchased | Purchased | 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 |              |                              | Commercial Consumer |            |            |              |
|  | Originated          | Purchased    | Correspondent Bulk Purchased | Total               |            |            | 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       |
| 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 |              |                              | Commercial Consumer |            |            |              |
|  | Originated          | Purchased    | Correspondent Bulk Purchased | Total               |            |            | 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       |
| 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)

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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

|                     | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Carrying<br>Value<br>(Dollars in thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------|--|---|--|
| 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

|                     | Quoted<br>Prices<br>in Active<br>Markets<br>for<br>Carrying<br>Value<br>(Dollars in thousands) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------|--|---|--|
| 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 Amount        | Estimated Fair Value 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 Amount        | Estimated Fair Value 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                 | Unrealized  |            |
|   | Gains                      | Gains       |            |
|   | (Losses)                   | (Losses)    |            |
|   | on AFS                     | on Cash     | Total      |
|   | Securities                 | Hedges      | 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                 | Unrealized |          |
|   | Gains                      | Gains      |          |
|   | (Losses)                   | (Losses)   |          |
|   | on AFS                     | on Cash    | Total    |
|   | Securities                 | Hedges     | 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.caped.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](http://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<br>31,<br>2018 | September<br>30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 | December<br>31,<br>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  |

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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  |            |

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|  |           |      |           |      |
|--|-----------|------|-----------|------|
| 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 |

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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 | Average LTV | Average Balance | Amount             | % of Total | Credit Score | Average 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.

| State        | For the Three Months Ended |            |        |
|--------------|----------------------------|------------|--------|
|              | Amount                     | % of Total | Rate   |
|              | December 31, 2018          |            |        |
|              | (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             |                       | Adjustable-<br>Rate | Total<br>Amount | Rate  |
|---------------------|------------------------|-----------------------|---------------------|-----------------|-------|
|                     | 15 years<br>or less    | More than<br>15 years |                     |                 |       |
|                     | (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 million 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<br>Principal    | Undisbursed<br>Amount | Gross Loan<br>Amount | Outstanding<br>Commitments | Total     | % of<br>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    | %             |





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

|          | Unpaid<br>Principal<br>(Dollars in thousands) | Undisbursed<br>Amount | Gross<br>Loan<br>Amount | Outstanding<br>Commitments | Total     | % of<br>Total |
|----------|---|-----------------------|-------------------------|----------------------------|-----------|---------------|
| 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<br>Principal<br>(Dollars in thousands) | Undisbursed<br>Amount | Gross<br>Loan<br>Amount | Outstanding<br>Commitments | Total    | % of<br>Total |
|-------------------------------|---|-----------------------|-------------------------|----------------------------|----------|---------------|
| 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<br>(Dollars in<br>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              | —   | —       | —   | —       | —   | —       | —   | —       | —   | —       |
| Consumer                | 28  | 513     | 30  | 569     | 27  | 425     | 28  | 428     | 26  | 514     |
|                         | 112 | 10,044  | 109 | 9,103   | 103 | 8,928   | 111 | 11,338  | 109 | 10,741  |

Loans 90 or more days delinquent or in foreclosure

|                                |      |   |      |   |      |   |      |   |      |   |
|--------------------------------|------|---|------|---|------|---|------|---|------|---|
| as a percentage of total loans | 0.13 | % | 0.12 | % | 0.12 | % | 0.16 | % | 0.15 | % |
|--------------------------------|------|---|------|---|------|---|------|---|------|---|

Nonaccrual loans less than 90 Days

Delinquent:<sup>(1)</sup>

One- to four-family:

|                            |     |         |     |         |     |         |     |         |     |         |
|----------------------------|-----|---------|-----|---------|-----|---------|-----|---------|-----|---------|
| Originated                 | 17  | \$1,584 | 19  | \$1,482 | 24  | \$2,469 | 27  | \$2,961 | 32  | \$3,385 |
| Correspondent purchased    | 1   | 298     | 2   | 396     | 1   | 95      | —   | —       | 3   | 768     |
| Bulk purchased             | —   | —       | —   | —       | 1   | 340     | 1   | 342     | 2   | 442     |
| Commercial                 | 2   | 1,776   | —   | —       | —   | —       | —   | —       | —   | —       |
| Consumer                   | 3   | 13      | 2   | 9       | 4   | 68      | 3   | 55      | 5   | 86      |
|                            | 23  | 3,671   | 23  | 1,887   | 30  | 2,972   | 31  | 3,358   | 42  | 4,681   |
| Total non-performing loans | 135 | 13,715  | 132 | 10,990  | 133 | 11,900  | 142 | 14,696  | 151 | 15,422  |

Non-performing loans as a percentage of total loans

|  |      |   |      |   |      |   |      |   |      |   |
|--|------|---|------|---|------|---|------|---|------|---|
|  | 0.18 | % | 0.15 | % | 0.16 | % | 0.20 | % | 0.21 | % |
|--|------|---|------|---|------|---|------|---|------|---|

OREO:

One- to four-family:

|                             |     |          |     |          |     |          |     |          |     |          |
|-----------------------------|-----|----------|-----|----------|-----|----------|-----|----------|-----|----------|
| Originated <sup>(2)</sup>   | 4   | \$588    | 8   | \$843    | 4   | \$208    | 2   | \$232    | 2   | \$40     |
| Bulk purchased              | 1   | 322      | 1   | 454      | 2   | 689      | 1   | 454      | 2   | 768      |
| Commercial                  | 1   | 600      | 1   | 600      | —   | —        | —   | —        | —   | —        |
| Consumer                    | —   | —        | —   | —        | —   | —        | —   | —        | 1   | 67       |
|                             | 6   | 1,510    | 10  | 1,897    | 6   | 897      | 3   | 686      | 5   | 875      |
| Total non-performing assets | 141 | \$15,225 | 142 | \$12,887 | 139 | \$12,797 | 145 | \$15,382 | 156 | \$16,297 |

Non-performing assets as a percentage of total assets

|  |      |   |      |   |      |   |      |   |      |   |
|--|------|---|------|---|------|---|------|---|------|---|
|  | 0.16 | % | 0.14 | % | 0.14 | % | 0.17 | % | 0.18 | % |
|--|------|---|------|---|------|---|------|---|------|---|

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

The following table presents the states where the properties securing one percent or more of the total amount of our one- to four-family loans are located and the corresponding balance of loans 30 to 89 days delinquent, 90 or more days delinquent or in foreclosure, and weighted average LTV ratios for loans 90 or more days delinquent or in foreclosure at December 31, 2018. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. At December 31, 2018, potential losses, after taking into consideration anticipated private mortgage insurance proceeds and estimated selling costs, have been charged-off.

| State        | One- to Four-Family    |            | Loans 30 to 89 Days Delinquent |            | Loans 90 or More Days Delinquent or in Foreclosure |            | LTV  |
|--------------|------------------------|------------|--------------------------------|------------|--|------------|------|
|              | Amount                 | % of Total | Amount                         | % of Total | Amount   | % of Total |      |
|              | (Dollars in thousands) |            |                                |            |  |            |      |
| Kansas       | \$3,624,660            | 53.9 %     | \$8,446                        | 58.2 %     | \$4,531  | 47.5 %     | 62 % |
| Missouri     | 1,230,330              | 18.3       | 2,689                          | 18.5       | 2,191  | 23.0       | 64   |
| Texas        | 740,361                | 11.0       | 487                            | 3.4        | 450  | 4.7        | 45   |
| Tennessee    | 228,227                | 3.4        | —                              | —          | —  | —          | n/a  |
| California   | 190,796                | 2.8        | —                              | —          | —  | —          | n/a  |
| Pennsylvania | 108,031                | 1.6        | 296                            | 2.0        | —  | —          | n/a  |
| Georgia      | 94,811                 | 1.4        | —                              | —          | 387  | 4.1        | 49   |
| Alabama      | 91,639                 | 1.4        | —                              | —          | —  | —          | n/a  |
| Other states | 418,531                | 6.2        | 2,596                          | 17.9       | 1,972  | 20.7       | 65   |
|              | \$6,727,386            | 100.0 %    | \$14,514                       | 100.0 %    | \$9,531  | 100.0 %    | 62   |

Allowance for credit losses and Provision for credit losses - Management maintains an ACL to absorb inherent losses in the loan portfolio based on quarterly assessments of the loan portfolio. The ACL is maintained through provisions for credit losses which are either charged to or credited to income. Each quarter, we prepare a formula analysis model which segregates the loan portfolio into categories based on certain risk characteristics. Historical loss factors and qualitative factors are applied to each loan category in the formula analysis model. The factors are reviewed by management quarterly to assess whether the factors adequately cover probable and estimable losses inherent in the loan portfolio. The historical loss factors and qualitative factors have continued to improve for our one-to four-family portfolio. To the extent the commercial loan portfolio continues to grow and the inherent loss factors remain relatively constant, the related ACL amounts are expected to increase as well. In addition to the formula analysis model, management considers several other relevant internal and external data elements when evaluating the overall adequacy of the ACL. Management considers the overall ACL to be adequate for the loan portfolio at December 31, 2018.

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



The Bank did not record a provision for credit losses during the quarter ended December 31, 2018. Based on management's assessment of the ACL formula analysis model and several other factors, management determined that no provision for credit losses was necessary. Net recoveries were \$95 thousand during the current quarter. At December 31, 2018, loans 30 to 89 days delinquent were 0.20% of total loans and loans 90 or more days delinquent or in foreclosure were 0.13% of total loans. At September 30, 2018, loans 30 to 89 days delinquent were 0.25% of total loans and loans 90 or more days delinquent or in foreclosure were 0.12% of total loans.

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

|                           | At<br>December 31, 2018 |             |                | September 30, 2018  |             |                | % of<br>Loans<br>to<br>Total<br>Loans |
|---------------------------|-------------------------|-------------|----------------|---------------------|-------------|----------------|---------------------------------------|
|                           | Amount<br>of<br>ACL     | % of<br>ACL | Total<br>Loans | Amount<br>of<br>ACL | % of<br>ACL | Total<br>Loans |                                       |
|                           | (Dollars in thousands)  |             |                |                     |             |                |                                       |
| One- to four-family:      |                         |             |                |                     |             |                |                                       |
| Originated                | \$2,740                 | 32.0 %      | \$3,955,975    | 52.7 %              | \$2,933     | 34.7 %         | \$3,965,692 52.8 %                    |
| Correspondent purchased   | 1,748                   | 20.4        | 2,491,692      | 33.1                | 1,861       | 22.0           | 2,505,987 33.4                        |
| Bulk purchased            | 836                     | 9.8         | 279,719        | 3.7                 | 925         | 10.9           | 293,607 3.9                           |
| Construction              | 21                      | 0.3         | 33,443         | 0.4                 | 20          | 0.2            | 33,149 0.4                            |
| Total                     | 5,345                   | 62.5        | 6,760,829      | 89.9                | 5,739       | 67.8           | 6,798,435 90.5                        |
| Commercial:               |                         |             |                |                     |             |                |                                       |
| Commercial real estate    | 2,056                   | 24.0        | 463,317        | 6.2                 | 1,801       | 21.3           | 426,243 5.7                           |
| Commercial and industrial | 55                      | 0.6         | 61,221         | 0.8                 | 21          | 0.2            | 62,869 0.8                            |
| Construction              | 923                     | 10.8        | 93,244         | 1.2                 | 734         | 8.7            | 80,498 1.1                            |
| Total                     | 3,034                   | 35.4        | 617,782        | 8.2                 | 2,556       | 30.2           | 569,610 7.6                           |
| Consumer loans:           |                         |             |                |                     |             |                |                                       |
| Home equity               | 122                     | 1.4         | 129,795        | 1.8                 | 129         | 1.5            | 129,588 1.8                           |
| Other consumer            | 57                      | 0.7         | 10,481         | 0.1                 | 39          | 0.5            | 10,012 0.1                            |
| Total consumer loans      | 179                     | 2.1         | 140,276        | 1.9                 | 168         | 2.0            | 139,600 1.9                           |
|                           | \$8,558                 | 100.0 %     | \$7,518,887    | 100.0 %             | \$8,463     | 100.0 %        | \$7,507,645 100.0 %                   |

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

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

|  | For the Three Months Ended |                    |               |                    |                   |
|--|----------------------------|--------------------|---------------|--------------------|-------------------|
|  | December 31, 2018          | September 30, 2018 | June 30, 2018 | March 31, 2018     | December 31, 2017 |
|  | (Dollars in thousands)     |                    |               |                    |                   |
| ACL beginning balance  | \$8,463                    | \$ 8,344           | \$8,390       | \$8,370            | \$ 8,398          |
| Charge-offs  | (56 )                      | (14 )              | (54 )         | (200 )             | (34 )             |
| Recoveries   | 151                        | 133                | 8             | 220                | 6                 |
| Provision for credit losses  | —                          | —                  | —             | —                  | —                 |
| ACL ending balance   | \$8,558                    | \$ 8,463           | \$8,344       | \$8,390            | \$ 8,370          |
| ACL to loans receivable, net at end of period  | 0.11                       | % 0.11             | % 0.12        | % 0.12             | % 0.12            |
| ACL to non-performing loans at end of period   | 62.40                      | 77.01              | 70.12         | 57.09              | 54.27             |
| Ratio of net charge-offs (recoveries) during the period to average loans outstanding     | —                          | —                  | —             | —                  | —                 |
| Ratio of net charge-offs (recoveries) during the period to average non-performing assets | (0.68 )                    | (0.93 )            | 0.33          | (0.13 )            | 0.16              |
| ACL to net charge-offs (annualized)  | N/M <sup>(1)</sup>         | N/M <sup>(1)</sup> | 45.3x         | N/M <sup>(1)</sup> | 76.4x             |

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



Securities. The following table presents the distribution of our securities portfolio, at amortized cost, at the dates indicated. Overall, fixed-rate securities comprised 77% of our securities portfolio at December 31, 2018. The weighted average life ("WAL") is the estimated remaining maturity (in years) after three-month historical prepayment speeds and projected call option assumptions have been applied. Weighted average yields on tax-exempt securities are not calculated on a fully taxable equivalent basis.

|                             | December 31, 2018      |       |     | September 30, 2018 |       |     | December 31, 2017 |       |     |
|-----------------------------|------------------------|-------|-----|--------------------|-------|-----|-------------------|-------|-----|
|                             | Amount                 | Yield | WAL | Amount             | Yield | WAL | Amount            | Yield | WAL |
|                             | (Dollars in thousands) |       |     |                    |       |     |                   |       |     |
| Fixed-rate securities:      |                        |       |     |                    |       |     |                   |       |     |
| MBS                         | \$685,636              | 2.44% | 3.1 | \$732,095          | 2.43% | 3.0 | \$611,466         | 2.15% | 2.9 |
| GSE debentures              | 243,550                | 2.20  | 1.8 | 268,525            | 2.09  | 2.3 | 296,327           | 1.39  | 1.1 |
| Municipal bonds             | 22,845                 | 1.57  | 1.6 | 24,574             | 1.56  | 1.8 | 26,561            | 1.51  | 1.9 |
| Total fixed-rate securities | 952,031                | 2.35  | 2.8 | 1,025,194          | 2.32  | 2.8 | 934,354           | 1.89  | 2.3 |
| Adjustable-rate securities: |                        |       |     |                    |       |     |                   |       |     |
| MBS                         | 284,584                | 3.07  | 4.9 | 305,688            | 2.89  | 4.5 | 334,921           | 2.59  | 5.1 |
| Total securities portfolio  | \$1,236,615            | 2.52  | 3.3 | \$1,330,882        | 2.45  | 3.2 | \$1,269,275       | 2.07  | 3.0 |

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

|  | December 31, 2018      | September 30, 2018 | December 31, 2017 |
|--|------------------------|--------------------|-------------------|
|  | (Dollars in thousands) |                    |                   |
| Federal National Mortgage Association ("FNMA")   | \$640,760              | \$680,717          | \$584,298         |
| Federal Home Loan Mortgage Corporation ("FHLMC") | 245,796                | 265,441            | 309,223           |
| Government National Mortgage Association         | 85,987                 | 90,832             | 57,717            |
|  | \$972,543              | \$1,036,990        | \$951,238         |

Mortgage-Backed Securities - The balance of MBS, which primarily consists of securities of U.S. GSEs, decreased \$64.4 million, from \$1.04 billion at September 30, 2018, to \$972.5 million at December 31, 2018. The following table summarizes the activity in our portfolio of MBS for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented and are generally derived from recent prepayment activity on the securities in the portfolio as of the dates presented. The increase in the yield from September 30, 2018 to December 31, 2018 was due primarily to the repricing of adjustable-rate MBS to higher market interest rates. The beginning and ending WAL is the estimated remaining principal repayment term (in years) after three-month historical prepayment speeds have been applied.

|  | For the Three Months Ended |       |     |                    |       |     |               |       |     |                |       |     |
|--|----------------------------|-------|-----|--------------------|-------|-----|---------------|-------|-----|----------------|-------|-----|
|  | December 31, 2018          |       |     | September 30, 2018 |       |     | June 30, 2018 |       |     | March 31, 2018 |       |     |
|  | Amount                     | Yield | WAL | Amount             | Yield | WAL | Amount        | Yield | WAL | Amount         | Yield | WAL |
|  | (Dollars in thousands)     |       |     |                    |       |     |               |       |     |                |       |     |
| Beginning balance - carrying value       | \$1,036,990                | 2.57% | 3.4 | \$958,269          | 2.46% | 3.7 | \$982,405     | 2.39% | 3.8 | \$951,238      | 2.31% | 3.7 |
| Maturities and repayments                | (67,214)                   |       |     | (77,985)           |       |     | (69,843)      |       |     | (63,520)       |       |     |
| Net amortization of (premiums)/discounts | (349)                      |       |     | (624)              |       |     | (702)         |       |     | (788)          |       |     |
| Purchases:                               |                            |       |     |                    |       |     |               |       |     |                |       |     |
| Fixed                                    | —                          | —     | —   | 74,178             | 3.11  | 3.7 | 24,348        | 2.90  | 3.7 | 77,437         | 2.92  | 4.1 |
| Adjustable                               | —                          | —     | —   | —                  | —     | —   | 23,544        | 2.35  | 3.0 | 19,610         | 2.68  | 4.3 |
| Securities added in CCB acquisition, net | —                          | —     | —   | 85,741             | 3.13  | 2.5 | —             | —     | —   | —              | —     | —   |
| Change in valuation on AFS securities    | 3,116                      |       |     | (2,589)            |       |     | (1,483)       |       |     | (1,572)        |       |     |
| Ending balance - carrying value          | \$972,543                  | 2.62  | 3.6 | \$1,036,990        | 2.57  | 3.4 | \$958,269     | 2.46  | 3.7 | \$982,405      | 2.39  | 3.8 |

Investment Securities - Investment securities, which consist of U.S. GSE debentures (primarily issued by FNMA, FHLMC, or Federal Home Loan Banks) and municipal investments, decreased \$25.2 million, from \$289.9 million at September 30, 2018, to \$264.8 million at December 31, 2018. The following table summarizes the activity of investment securities for the periods presented. The weighted average yields and WALs for purchases are presented as recorded at the time of purchase. The weighted average yields for the beginning balances are as of the last day of the period previous to the period presented and the weighted average yields for the ending balances are as of the last day of the period presented. The increase in the yield from September 30, 2018 to December 31, 2018 was due primarily to maturities of securities at yields lower than the overall portfolio. The beginning and ending WALs represent the estimated remaining principal repayment terms (in years) of the securities after projected call dates have been considered, based upon market rates at each date presented.

|  | For the Three Months Ended |       |     |                    |       |     |               |       |     |                |       |     |
|--|----------------------------|-------|-----|--------------------|-------|-----|---------------|-------|-----|----------------|-------|-----|
|  | December 31, 2018          |       |     | September 30, 2018 |       |     | June 30, 2018 |       |     | March 31, 2018 |       |     |
|  | Amount                     | Yield | WAL | Amount             | Yield | WAL | Amount        | Yield | WAL | Amount         | Yield | WAL |
|  | (Dollars in thousands)     |       |     |                    |       |     |               |       |     |                |       |     |
| Beginning balance - carrying value       | \$289,942                  | 2.05% | 2.2 | \$261,614          | 1.95% | 2.2 | \$293,113     | 1.61% | 1.5 | \$321,452      | 1.40% | 1.2 |
| Maturities, calls and sales              | (26,665 )                  |       |     | (2,010 )           |       |     | (71,700 )     |       |     | (52,360 )      |       |     |
| Net amortization of (premiums)/discounts | (39 )                      |       |     | (48 )              |       |     | (43 )         |       |     | (43 )          |       |     |
| Purchases:                               |                            |       |     |                    |       |     |               |       |     |                |       |     |
| Fixed                                    | —                          | —     | —   | 24,996             | 3.01  | 3.0 | 40,564        | 3.02  | 2.1 | 25,000         | 2.81  | 1.0 |
| Adjustable                               | —                          | —     | —   | —                  | —     | —   | —             | —     | —   | —              | —     | —   |
| Securities added in CCB acquisition, net | —                          | —     | —   | 5,855              | 2.12  | 1.0 | —             | —     | —   | —              | —     | —   |
| Change in valuation on AFS securities    | 1,544                      |       |     | (465 )             |       |     | (320 )        |       |     | (936 )         |       |     |
| Ending balance - carrying value          | \$264,782                  | 2.14  | 1.8 | \$289,942          | 2.05  | 2.2 | \$261,614     | 1.95  | 2.2 | \$293,113      | 1.61  | 1.5 |

Liabilities. Total liabilities were \$7.96 billion at December 31, 2018 compared to \$8.06 billion at September 30, 2018. The 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.

Deposits - Deposits were \$5.56 billion at December 31, 2018 compared to \$5.60 billion at September 30, 2018. We continue to be competitive on deposit rates and, in some cases, our offer rates for longer-term certificates of deposit have been higher than peers. Offering competitive rates on longer-term certificates of deposit has been an on-going balance sheet strategy by management in anticipation of higher interest rates. If interest rates continue to rise, our customers may move funds from their checking, savings and money market accounts to higher yielding deposit products within the Bank or withdraw their funds from these accounts, including certificates of deposit, to invest in higher yielding investments outside of the Bank.

The following table presents the amount, weighted average rate and percent of total for the components of our deposit portfolio at the dates presented. The decrease in retail/business certificates of deposit at December 31, 2018 compared to September 30, 2018 was due mainly to seasonality.

|   | December 31, 2018      |      |            | September 30, 2018 |      |            | December 31, 2017 |      |            |
|---|------------------------|------|------------|--------------------|------|------------|-------------------|------|------------|
|   | Amount                 | Rate | % of Total | Amount             | Rate | % of Total | Amount            | Rate | % of Total |
|   | (Dollars in thousands) |      |            |                    |      |            |                   |      |            |
| Non-interest-bearing checking           | \$348,867              | —    | 6.3        | \$336,454          | —    | 6.0        | \$250,621         | —    | 4.8        |
| Interest-bearing checking               | 729,712                | 0.07 | 13.1       | 724,066            | 0.08 | 12.9       | 646,043           | 0.05 | 12.3       |
| Savings                                 | 350,089                | 0.06 | 6.3        | 352,896            | 0.07 | 6.3        | 352,051           | 0.31 | 6.7        |
| Money market                            | 1,256,302              | 0.72 | 22.6       | 1,252,881          | 0.47 | 22.4       | 1,195,530         | 0.38 | 22.7       |
| Retail/business certificates of deposit | 2,479,614              | 1.86 | 44.6       | 2,529,368          | 1.79 | 45.1       | 2,419,380         | 1.57 | 45.9       |
| Public unit certificates of deposit     | 393,280                | 2.07 | 7.1        | 407,689            | 1.89 | 7.3        | 402,592           | 1.37 | 7.6        |
|   | \$5,557,864            | 1.15 | 100.0%     | \$5,603,354        | 1.06 | 100.0%     | \$5,266,217       | 0.94 | 100.0%     |

The following tables set forth scheduled maturity information for our certificates of deposit, including public unit certificates of deposit, along with associated weighted average rates, as of December 31, 2018.

| Rate range  | Amount Due             |                   |                              |                   |                   | Total Amount | Rate |
|---|------------------------|-------------------|------------------------------|-------------------|-------------------|--------------|------|
|   | 1 year or less         | 1 year to 2 years | More than 2 years to 3 years | More than 3 years | More than 3 years |              |      |
|   | (Dollars in thousands) |                   |                              |                   |                   |              |      |
| 0.00 – 0.99%  | \$134,069              | \$3,423           | \$2,421                      | \$234             | \$140,147         | 0.72%        |      |
| 1.00 – 1.99%  | 829,500                | 485,108           | 300,292                      | 178,513           | 1,793,413         | 1.69         |      |
| 2.00 – 2.99%  | 376,887                | 191,399           | 78,987                       | 291,825           | 939,098           | 2.44         |      |
| 3.00 – 3.99%  | —                      | —                 | —                            | 236               | 236               | 3.00         |      |
|   | \$1,340,456            | \$679,930         | \$381,700                    | \$470,808         | \$2,872,894       | 1.89         |      |
| Percent of total  | 46.6                   | % 23.7            | % 13.3                       | % 16.4            | %                 |              |      |
| Weighted average rate   | 1.74                   | 1.93              | 1.95                         | 2.23              |                   |              |      |
| Weighted average maturity (in years)  | 0.5                    | 1.4               | 2.5                          | 3.7               | 1.5               |              |      |
| Weighted average maturity for the retail/business certificate of deposit portfolio (in years) |                        |                   |                              |                   | 1.7               |              |      |

|  | Amount Due       |                           |                            |                | Total |
|--|------------------|---------------------------|----------------------------|----------------|-------|
|  | 3 months or less | Over 3 months to 6 months | Over 6 months to 12 months | Over 12 months |       |
|  |                  |                           |                            |                |       |

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(Dollars in thousands)

|  |           |           |           |             |             |
|--|-----------|-----------|-----------|-------------|-------------|
| Retail/business certificates of deposit less than \$100,000  | \$125,153 | \$150,334 | \$341,892 | \$861,626   | \$1,479,005 |
| Retail/business certificates of deposit of \$100,000 or more | 57,146    | 85,998    | 255,404   | 602,061     | 1,000,609   |
| Public unit certificates of deposit of \$100,000 or more     | 111,480   | 101,113   | 111,936   | 68,751      | 393,280     |
|  | \$293,779 | \$337,445 | \$709,232 | \$1,532,438 | \$2,872,894 |

Borrowings - The following tables present borrowing activity for the periods shown. The borrowings presented in the table have original contractual terms of one year or longer. Management expects to redeem the remaining junior subordinated debentures assumed in the CCB acquisition during the first half of fiscal year 2019. FHLB advances are presented at par. The effective rate is shown as a weighted average and includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid. The weighted average maturity ("WAM") is the remaining weighted average contractual term in years. The beginning and ending WAMs represent the remaining maturity at each date presented. For new borrowings, the WAMs presented are as of the date of issue.

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

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

Maturities - The following table presents the maturity of term borrowings (including FHLB advances, at par, and repurchase agreements), along with associated weighted average contractual and effective rates as of December 31, 2018. Included in the table are \$575.0 million of 12-month adjustable-rate FHLB advances that are hedged with interest rate swaps with a notional amount of \$575.0 million. The 12-month adjustable-rate FHLB advances are presented in the table below based on their contractual maturity dates, including \$375.0 million in fiscal year 2019 and \$200.0 million in fiscal year 2020. These advances will be renewed each year until the maturity or termination of the swaps. The interest rate swaps had an expected WAL of 5.1 years at December 31, 2018.

| Maturity by Fiscal Year | FHLB Advances | Repurchase Agreements | Total Amount | Contractual Rate | Effective Rate <sup>(1)</sup> |
|-------------------------|---------------|-----------------------|--------------|------------------|-------------------------------|
|                         | Amount        | Amount                |              |                  |                               |
| (Dollars in thousands)  |               |                       |              |                  |                               |
| 2019                    | 575,000       | —                     | 575,000      | 2.23             | 2.29                          |
| 2020                    | 550,000       | 100,000               | 650,000      | 2.24             | 2.22                          |
| 2021                    | 550,000       | —                     | 550,000      | 2.27             | 2.27                          |
| 2022                    | 200,000       | —                     | 200,000      | 2.23             | 2.23                          |
| 2023                    | 100,000       | —                     | 100,000      | 1.82             | 1.82                          |
| 2024                    | 100,000       | —                     | 100,000      | 3.39             | 3.39                          |
|                         | \$2,075,000   | \$ 100,000            | \$2,175,000  | 2.28             | 2.28                          |

(1) The effective rate includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid.

As of December 31, 2018, the Bank had \$100.0 million outstanding on its FHLB line of credit, which was not related to the leverage strategy. The average rate paid on FHLB line of credit borrowings during the current quarter was 2.47%.

The following table presents the maturity and weighted average repricing rate, which is also the weighted average effective rate, of certificates of deposit, split between retail/business and public unit amounts, and term borrowings for the next four quarters as of December 31, 2018.

| Maturity by Quarter End | Retail/Business Certificate |                | Public Unit Certificate |                | Term Borrowings |                | Total       | Repricing Rate |
|-------------------------|-----------------------------|----------------|-------------------------|----------------|-----------------|----------------|-------------|----------------|
|                         | Amount                      | Repricing Rate | Amount                  | Repricing Rate | Amount          | Repricing Rate |             |                |
| (Dollars in thousands)  |                             |                |                         |                |                 |                |             |                |
| March 31, 2019          | \$182,299                   | 1.23 %         | \$ 111,480              | 1.95 %         | \$—             | — %            | \$293,779   | 1.50 %         |
| June 30, 2019           | 236,332                     | 1.38           | 101,113                 | 1.97           | 200,000         | 2.11           | 537,445     | 1.76           |
| September 30, 2019      | 278,441                     | 1.79           | 56,986                  | 1.88           | 375,000         | 2.38           | 710,427     | 2.11           |
| December 31, 2019       | 318,855                     | 1.99           | 54,950                  | 2.21           | 350,000         | 2.40           | 723,805     | 2.20           |
|                         | \$1,015,927                 | 1.65           | \$ 324,529              | 1.99           | \$ 925,000      | 2.33           | \$2,265,456 | 1.98           |

Stockholders' Equity. 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. The cash dividends paid during the current quarter totaled \$0.475 per share and consisted of a \$0.39 per share cash true-up dividend related to fiscal year 2018 earnings per the Company's dividend policy and a regular quarterly cash dividend of \$0.085 per share. On January 22, 2019, the Company announced a regular quarterly cash dividend of \$0.085 per share, or approximately \$11.7 million, payable on February 15, 2019 to stockholders of record as of the close of business on February 1, 2019.

At December 31, 2018, Capitol Federal Financial, Inc., at the holding company level, had \$90.4 million on deposit at the Bank. For fiscal year 2019, it is the intent of the Board of Directors and management to continue the payout of 100% of the Company's earnings to its stockholders. Dividend payments depend upon a number of factors including the Company's financial condition and results of operations, regulatory capital requirements, regulatory limitations on the Bank's ability to make capital distributions to the Company, and the amount of cash at the holding company.

The Company works to find multiple ways to provide stockholder value. Recently, this has primarily been through the payment of cash dividends and historically, the Company has also utilized stock buybacks. The Company has maintained a dividend policy of paying out 100% of its earnings to stockholders in the form of quarterly cash dividends and an annual cash true-up dividend in December of each year. In order to provide additional stockholder value, the Company has paid a True Blue cash dividend of \$0.25 per share in June of each of the past five years, including June 2018, and in December prior to that. The Company has paid the True Blue dividend primarily due to excess capital levels at the Company and Bank. The Company considers various business strategies and their impact on capital and asset measures on both a current and future basis, as well as regulatory capital levels and requirements, in determining the amount, if any, and timing of the True Blue dividend.

The following table presents regular quarterly cash dividends and special cash dividends paid in calendar years 2019, 2018, and 2017. The amounts represent cash dividends paid during each period. For the quarter ending March 31, 2019, the amount presented represents the dividend payable on February 15, 2019 to stockholders of record as of February 1, 2019.

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

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



## Operating Results

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

|   | For the Three Months Ended                    |                    |               |                |                   |   |
|---|---|--------------------|---------------|----------------|-------------------|---|
|   | December 31, 2018                             | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 |   |
|   | (Dollars in thousands, except per share data) |                    |               |                |                   |   |
| Interest and dividend income:                           |   |                    |               |                |                   |   |
| Loans receivable  | \$70,772                                      | \$66,922           | \$64,893      | \$64,194       | \$64,189          |   |
| MBS   | 6,523   | 6,056              | 5,921         | 5,390          | 5,252             |   |
| FHLB stock  | 1,971   | 1,847              | 2,819         | 3,201          | 3,095             |   |
| Cash and cash equivalents                               | 1,714   | 1,213              | 7,221         | 7,895          | 7,114             |   |
| Investment securities                                   | 1,441   | 1,275              | 1,307         | 1,094          | 994               |   |
| Total interest and dividend income                      | 82,421  | 77,313             | 82,161        | 81,774         | 80,644            |   |
| Interest expense:                                       |   |                    |               |                |                   |   |
| Deposits  | 15,725  | 14,597             | 13,587        | 12,480         | 11,961            |   |
| FHLB borrowings   | 13,530  | 11,930             | 18,501        | 18,772         | 17,917            |   |
| Other borrowings  | 865   | 709                | 640           | 633            | 1,392             |   |
| Total interest expense                                  | 30,120  | 27,236             | 32,728        | 31,885         | 31,270            |   |
| Net interest income                                     | 52,301  | 50,077             | 49,433        | 49,889         | 49,374            |   |
| Provision for credit losses                             | —   | —                  | —             | —              | —                 |   |
| Net interest income (after provision for credit losses) | 52,301  | 50,077             | 49,433        | 49,889         | 49,374            |   |
| Non-interest income                                     | 5,424   | 5,820              | 5,424         | 5,433          | 5,358             |   |
| Non-interest expense                                    | 26,782  | 26,757             | 24,511        | 23,598         | 22,036            |   |
| Income tax expense                                      | 6,560   | 7,751              | 7,974         | 8,394          | 860               |   |
| Net income  | \$24,383                                      | \$21,389           | \$22,372      | \$23,330       | \$31,836          |   |
| Efficiency ratio  | 46.40   | % 47.87            | % 44.68       | % 42.66        | % 40.26           | % |
| Basic EPS   | \$0.18  | \$0.16             | \$0.17        | \$0.17         | \$0.24            |   |
| Diluted EPS   | 0.18  | 0.16               | 0.17          | 0.17           | 0.24              |   |

## Average Balance Sheet

The following table presents the average balances of our assets, liabilities, and stockholders' equity, and the related annualized weighted average yields and rates on our interest-earning assets and interest-bearing liabilities for the periods indicated, along with the ending balances of our assets, liabilities, and stockholders' equity at December 31, 2018 and the weighted average yield/rate on our interest-earning assets and interest-bearing liabilities at December 31, 2018, as well as selected performance ratios and other information as of the dates and for the periods shown. The leverage strategy was not in place at December 31, 2018, so the end of period information presented at December 31, 2018 in the table below does not reflect this strategy. Weighted average yields are derived by dividing annualized income by the average balance of the related assets, and weighted average rates are derived by dividing annualized expense by the average balance of the related liabilities, for the periods shown. Average outstanding balances are derived from average daily balances. The weighted average yields and rates include amortization of fees, costs, premiums and discounts, which are considered adjustments to yields/rates. Weighted average yields on tax-exempt

securities are not calculated on a fully taxable equivalent basis.

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|   | For the Three Months Ended |                           |                                   |                 |                |                           |                                   |                 |                     |                           |                                   |                 |
|---|----------------------------|---------------------------|-----------------------------------|-----------------|----------------|---------------------------|-----------------------------------|-----------------|---------------------|---------------------------|-----------------------------------|-----------------|
|   | December 31, 2018          |                           |                                   |                 |                | September 30, 2018        |                                   |                 | December 31, 2017   |                           |                                   |                 |
|   | At December 31,<br>2018    | Average<br>Yield/<br>Rate | Interest<br>Outstanding<br>Amount | Earned/<br>Paid | Yield/<br>Rate | Average<br>Yield/<br>Rate | Interest<br>Outstanding<br>Amount | Earned/<br>Paid | Yield/<br>Rate      | Average<br>Yield/<br>Rate | Interest<br>Outstanding<br>Amount | Earned/<br>Paid |
| <b>Assets:</b>  |                            |                           |                                   |                 |                |                           |                                   |                 |                     |                           |                                   |                 |
| <b>Interest-earning assets:</b>                       |                            |                           |                                   |                 |                |                           |                                   |                 |                     |                           |                                   |                 |
| One- to four-family loans                             | \$6,782,048                | 3.62 %                    | \$6,793,226                       | \$60,983        | 3.59 %         | \$6,795,316               | \$60,388                          | 3.55 %          | \$6,792,743         | \$59,537                  |                                   |                 |
| Commercial loans                                      | 612,305                    | 4.92                      | 589,346                           | 7,602           | 5.05           | 403,229                   | 4,622                             | 4.49            | 276,640             | 2,941                     |                                   |                 |
| Consumer loans  | 139,985                    | 6.17                      | 139,373                           | 2,187           | 6.23           | 128,000                   | 1,912                             | 5.93            | 126,555             | 1,711                     |                                   |                 |
| Total loans receivable <sup>(1)</sup>                 | 7,534,338                  | 3.78                      | 7,521,945                         | 70,772          | 3.75           | 7,326,545                 | 66,922                            | 3.65            | 7,195,938           | 64,189                    |                                   |                 |
| MBS <sup>(2)</sup>                                    | 972,543                    | 2.62                      | 1,007,645                         | 6,523           | 2.59           | 987,993                   | 6,056                             | 2.45            | 932,801             | 5,252                     |                                   |                 |
| Investment securities <sup>(2)(3)</sup>               | 264,782                    | 2.14                      | 282,256                           | 1,441           | 2.04           | 266,143                   | 1,275                             | 1.92            | 300,110             | 994                       |                                   |                 |
| FHLB stock  | 100,521                    | 7.22                      | 108,227                           | 1,971           | 7.23           | 101,084                   | 1,847                             | 7.25            | 191,482             | 3,095                     |                                   |                 |
| Cash and cash equivalents <sup>(4)</sup>              | 81,713                     | 2.39                      | 304,893                           | 1,714           | 2.20           | 242,376                   | 1,213                             | 1.96            | 2,159,019           | 7,114                     |                                   |                 |
| <b>Total interest-earning assets<sup>(1)(2)</sup></b> | <b>8,953,897</b>           | <b>3.64</b>               | <b>9,224,966</b>                  | <b>82,421</b>   | <b>3.56</b>    | <b>8,924,141</b>          | <b>77,313</b>                     | <b>3.46</b>     | <b>10,779,350</b>   | <b>80,644</b>             |                                   |                 |
| <b>Other non-interest-earning assets</b>              | <b>349,885</b>             |                           | <b>367,755</b>                    |                 |                | <b>335,576</b>            |                                   |                 | <b>304,850</b>      |                           |                                   |                 |
| <b>Total assets</b>                                   | <b>\$9,303,782</b>         |                           | <b>\$9,592,721</b>                |                 |                | <b>\$9,259,717</b>        |                                   |                 | <b>\$11,084,200</b> |                           |                                   |                 |
| <b>Liabilities and stockholders' equity:</b>          |                            |                           |                                   |                 |                |                           |                                   |                 |                     |                           |                                   |                 |
| <b>Interest-bearing liabilities:</b>                  |                            |                           |                                   |                 |                |                           |                                   |                 |                     |                           |                                   |                 |
| Checking  | \$1,078,579                | 0.05                      | \$1,050,474                       | 144             | 0.05           | \$945,759                 | 102                               | 0.04            | \$844,932           | 77                        |                                   |                 |
| Savings   | 350,089                    | 0.06                      | 349,406                           | 57              | 0.06           | 387,711                   | 438                               | 0.45            | 348,573             | 248                       |                                   |                 |
| Money market  | 1,256,302                  | 0.72                      | 1,246,809                         | 2,172           | 0.69           | 1,196,837                 | 1,429                             | 0.47            | 1,189,511           | 791                       |                                   |                 |
| Retail/business certificates                          | 2,479,614                  | 1.86                      | 2,499,056                         | 11,455          | 1.82           | 2,458,703                 | 10,695                            | 1.73            | 2,429,711           | 9,413                     |                                   |                 |
| Wholesale certificates                                | 393,280                    | 2.07                      | 383,860                           | 1,897           | 1.96           | 414,954                   | 1,933                             | 1.85            | 428,246             | 1,432                     |                                   |                 |
| Total deposits  | 5,557,864                  | 1.15                      | 5,529,605                         | 15,725          | 1.13           | 5,403,964                 | 14,597                            | 1.07            | 5,240,973           | 11,961                    |                                   |                 |
| FHLB borrowings <sup>(5)</sup>                        | 2,174,983                  | 2.29                      | 2,403,568                         | 13,530          | 2.22           | 2,244,663                 | 11,930                            | 2.10            | 4,146,750           | 17,917                    |                                   |                 |
| Other borrowings                                      | 106,186                    | 3.00                      | 109,716                           | 865             | 3.08           | 103,278                   | 709                               | 2.68            | 187,522             | 1,392                     |                                   |                 |
| Total borrowings                                      | 2,281,169                  | 2.32                      | 2,513,284                         | 14,395          | 2.26           | 2,347,941                 | 12,639                            | 2.13            | 4,334,272           | 19,309                    |                                   |                 |
| <b>Total interest-bearing liabilities</b>             | <b>7,839,033</b>           | <b>1.50</b>               | <b>8,042,889</b>                  | <b>30,120</b>   | <b>1.48</b>    | <b>7,751,905</b>          | <b>27,236</b>                     | <b>1.39</b>     | <b>9,575,245</b>    | <b>31,270</b>             |                                   |                 |
| <b>Other non-interest-bearing liabilities</b>         | <b>118,836</b>             |                           | <b>167,205</b>                    |                 |                | <b>145,173</b>            |                                   |                 | <b>144,613</b>      |                           |                                   |                 |

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|  |             |             |             |              |
|--|-------------|-------------|-------------|--------------|
| Stockholders' equity   | 1,345,913   | 1,382,627   | 1,362,639   | 1,364,342    |
| Total liabilities and stockholders' equity                       | \$9,303,782 | \$9,592,721 | \$9,259,717 | \$11,084,200 |
| Net interest income <sup>(6)</sup>                               |             | \$52,301    | \$50,077    | \$49,374     |
| Net interest rate spread <sup>(7)(8)</sup>                       | 2.14%       |             | 2.08%       | 2.07%        |
| Net interest-earning assets                                      | \$1,114,864 | \$1,182,077 | \$1,172,236 | \$1,204,105  |
| Net interest margin <sup>(8)(9)</sup>                            |             | 2.27        |             | 2.24         |
| Ratio of interest-earning assets to interest-bearing liabilities |             | 1.15x       |             | 1.15x        |
| Selected performance ratios:                                     |             |             |             |              |
| Return on average assets (annualized) <sup>(8)</sup>             |             | 1.02%       |             | 0.92%        |
| Return on average equity (annualized) <sup>(8)</sup>             |             | 7.05        |             | 6.28         |
| Average equity to average assets                                 |             | 14.41       |             | 14.72        |
| Operating expense ratio <sup>(10)</sup>                          |             | 1.12        |             | 1.16         |
| Efficiency ratio <sup>(8)(11)</sup>                              |             | 46.40       |             | 47.87        |
| Pre-tax yield on leverage strategy <sup>(12)</sup>               |             | 0.03        |             | 0.06         |

(1) Balances are adjusted for unearned loan fees and deferred costs. Loans that are 90 or more days delinquent are included in the loans receivable balance with a yield of zero percent.

(2) Average balances of AFS securities are adjusted for unamortized purchase premiums or discounts. Ending balances of AFS securities are adjusted for unamortized purchase premiums or discounts and unrealized gains/losses.

The average balance of investment securities includes an average balance of nontaxable securities of \$23.5 million, (3) \$23.5 million and \$27.5 million for the three months ended December 31, 2018, September 30, 2018 and December 31, 2017, respectively.

The average balance of cash and cash equivalents includes an average balance of cash related to the leverage (4) strategy of \$218.0 million, \$65.4 million, and \$1.92 billion for the three months ended December 31, 2018, September 30, 2018 and December 31, 2017, respectively.

Included in this line, for the three months ended December 31, 2018, September 30, 2018 and December 31, 2017, (5) respectively, are FHLB borrowings related to the leverage strategy with an average outstanding amount of \$228.3 million, \$68.5 million and \$2.01 billion, respectively, and interest paid of \$1.4 million, \$369 thousand and \$6.7 million, respectively, at a rate of 2.36%, 2.11% and 1.31%, respectively, and FHLB borrowings not related to the leverage strategy with an average outstanding amount of \$2.18 billion, \$2.18 billion and \$2.14 billion, respectively, and interest paid of \$12.2 million, \$11.6 million and \$11.2 million, respectively, at a rate of 2.20%, 2.10% and 2.08%, respectively. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.

Net interest income represents the difference between interest income earned on interest-earning assets and interest (6) paid on interest-bearing liabilities. Net interest income depends on the balance of interest-earning assets and interest-bearing liabilities, and the interest rates earned or paid on them.

(7) Net interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.

The table below provides a reconciliation between certain performance ratios presented in accordance with GAAP (8) and the performance ratios excluding the effects of the leverage strategy, which are not presented in accordance with GAAP. Management believes it is important for comparability purposes to provide the performance ratios without the leverage strategy because of the unique nature of the leverage strategy. The leverage strategy reduces some of our performance ratios due to the amount of earnings associated with the transaction in comparison to the size of the transaction, while increasing our net income.

|                                       | For the Three Months Ended |                   |                     |                    |                   |                     |                   |                   |                     |
|---------------------------------------|----------------------------|-------------------|---------------------|--------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
|                                       | December 31, 2018          |                   |                     | September 30, 2018 |                   |                     | December 31, 2017 |                   |                     |
|                                       | Actual (GAAP)              | Leverage Strategy | Adjusted (Non-GAAP) | Actual (GAAP)      | Leverage Strategy | Adjusted (Non-GAAP) | Actual (GAAP)     | Leverage Strategy | Adjusted (Non-GAAP) |
| Return on average assets (annualized) | 1.02 %                     | (0.02) %          | 1.04 %              | 0.92 %             | (0.01) %          | 0.93 %              | 1.15 %            | (0.22) %          | 1.37 %              |
| Return on average equity (annualized) | 7.05                       | —                 | 7.05                | 6.28               | —                 | 6.28                | 9.33              | 0.22              | 9.11                |
| Net interest margin                   | 2.27                       | (0.05)            | 2.32                | 2.24               | (0.02)            | 2.26                | 1.83              | (0.37)            | 2.20                |
| Net interest rate spread              | 2.08                       | (0.05)            | 2.13                | 2.07               | (0.02)            | 2.09                | 1.69              | (0.33)            | 2.02                |
| Efficiency Ratio                      | 46.40                      | 0.01              | 46.39               | 47.87              | —                 | 47.87               | 40.26             | (0.53)            | 40.79               |

(9) Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.

(10) The operating expense ratio represents annualized non-interest expense as a percentage of average assets.

(11) The efficiency ratio represents non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income.

(12) The pre-tax yield on the leverage strategy represents annualized pre-tax income resulting from the transaction as a percentage of the average interest-earning assets associated with the transaction.

## Rate/Volume Analysis

The table below presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities, comparing the three months ended December 31, 2018 to the three months ended December 31, 2017 and September 30, 2018. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in the average balance multiplied by the previous year's average rate, and (2) changes in rate, which are changes in the average rate multiplied by the average balance from the previous year period. The net changes attributable to the combined impact of both rate and volume have been allocated proportionately to the changes due to volume and the changes due to rate.

|                                    | For the Three Months Ended                 |         |          |   |         |         |
|------------------------------------|--|---------|----------|---|---------|---------|
|                                    | December 31, 2018 vs.<br>December 31, 2017 |         |          | December 31, 2018 vs.<br>September 30, 2018 |         |         |
|                                    | Increase (Decrease) Due<br>to              |         |          | Increase (Decrease) Due<br>to               |         |         |
|                                    | Volume                                     | Rate    | Total    | Volume                                      | Rate    | Total   |
|                                    | (Dollars in thousands)                     |         |          |   |         |         |
| Interest-earning assets:           |  |         |          |   |         |         |
| Loans receivable                   | \$4,008                                    | \$2,575 | \$6,583  | \$2,420                                     | \$1,430 | \$3,850 |
| MBS                                | 443  | 828     | 1,271    | 122   | 345     | 467     |
| Investment securities              | (62 )                                      | 509     | 447      | 80  | 86      | 166     |
| FHLB stock                         | (1,478 )                                   | 354     | (1,124 ) | 130   | (6 )    | 124     |
| Cash and cash equivalents          | (8,476 )                                   | 3,076   | (5,400 ) | 339   | 162     | 501     |
| Total interest-earning assets      | (5,565 )                                   | 7,342   | 1,777    | 3,091                                       | 2,017   | 5,108   |
| Interest-bearing liabilities:      |  |         |          |   |         |         |
| Checking                           | 21   | 46      | 67       | 12  | 30      | 42      |
| Savings                            | 1  | (192 )  | (191 )   | (39 )                                       | (342 )  | (381 )  |
| Money market                       | 40   | 1,341   | 1,381    | 62  | 681     | 743     |
| Certificates of deposit            | 96   | 2,411   | 2,507    | 41  | 683     | 724     |
| FHLB borrowings                    | (8,182 )                                   | 3,795   | (4,387 ) | 956   | 644     | 1,600   |
| Other borrowings                   | (373 )                                     | (154 )  | (527 )   | 142   | 14      | 156     |
| Total interest-bearing liabilities | (8,397 )                                   | 7,247   | (1,150 ) | 1,174                                       | 1,710   | 2,884   |
| Net change in net interest income  | \$2,832                                    | \$95    | \$2,927  | \$1,917                                     | \$307   | \$2,224 |

## Comparison of Operating Results for the Three Months Ended December 31, 2018 and 2017

The Company recognized net income of \$24.4 million, or \$0.18 per share, for the quarter ended December 31, 2018 compared to net income of \$31.8 million, or \$0.24 per share, for 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 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. See additional discussion regarding the leverage strategy in the Financial Condition section below. 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.

## Interest and Dividend Income

The weighted average yield on total interest-earning assets increased 58 basis points, from 2.98% for the prior year quarter to 3.56% for the current quarter, while the average balance of interest-earning assets decreased \$1.55 billion from the prior year quarter. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased 28 basis points, from 3.31% for the prior year quarter to 3.59% for the current quarter, and the average balance of interest-earning assets would have increased \$226.1 million. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent.

|                                      | For the Three<br>Months Ended |          | Change        |         |
|--------------------------------------|-------------------------------|----------|---------------|---------|
|                                      | December 31,<br>2018          | 2017     | Expressed in: |         |
|                                      |                               |          | Dollars       | Percent |
|                                      | (Dollars in thousands)        |          |               |         |
| <b>INTEREST AND DIVIDEND INCOME:</b> |                               |          |               |         |
| Loans receivable                     | \$70,772                      | \$64,189 | \$6,583       | 10.3 %  |
| MBS                                  | 6,523                         | 5,252    | 1,271         | 24.2    |
| FHLB stock                           | 1,971                         | 3,095    | (1,124 )      | (36.3)  |
| Cash and cash equivalents            | 1,714                         | 7,114    | (5,400 )      | (75.9)  |
| Investment securities                | 1,441                         | 994      | 447           | 45.0    |
| Total interest and dividend income   | \$82,421                      | \$80,644 | \$1,777       | 2.2     |

The increase in interest income on loans receivable was due to a \$326.0 million increase in the average balance of the portfolio, as well as a 19 basis point increase in the weighted average yield on the portfolio to 3.75% for the current quarter. The increase in the average balance was due mainly to the acquisition of CCB. The increase in the weighted average yield was also due mainly to the addition of higher yielding loans in the CCB acquisition, as well as adjustable-rate loans repricing to higher market rates and the origination and purchase of new loans at higher market rates.

The increase in interest income on the MBS portfolio was due to a 34 basis point increase in the weighted average yield on the portfolio to 2.59% for the current quarter, along with a \$74.8 million increase in the average balance of the portfolio. The increase in the weighted average yield was due primarily to a decrease in the impact of net premium amortization, as well as adjustable-rate MBS repricing to higher market rates. Net premium amortization of \$349 thousand during the current quarter decreased the weighted average yield on the portfolio by 14 basis points. During the prior year quarter, \$854 thousand of net premiums were amortized, which decreased the weighted average yield on the portfolio by 37 basis points.

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

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy decreased \$287 thousand from the prior year quarter due to a \$156.9 million decrease in the average balance, partially offset by a 96 basis point increase in the weighted average yield which was related to cash balances held at the FRB of Kansas City. Interest income on cash associated with the leverage strategy decreased \$5.1 million from the prior year quarter due to a \$1.70 billion decrease in the average balance, as the leverage strategy was in place less often during the current quarter.

The increase in interest income on the investment securities portfolio was due to a 72 basis point increase in the weighted average yield on the portfolio to 2.04%. The increase in the weighted average yield was primarily a result of



replacing maturing securities at higher market rates.

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### Interest Expense

The weighted average rate paid on total interest-bearing liabilities increased 19 basis points, from 1.29% for the prior year quarter to 1.48% for the current quarter, while the average balance of interest-bearing liabilities decreased \$1.53 billion from the prior year quarter. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have increased 17 basis points, from 1.29% for the prior year quarter to 1.46% for the current quarter, and the average balance of interest-bearing liabilities would have increased \$248.1 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

|                          | For the Three<br>Months Ended |          | Change        |         |
|--------------------------|-------------------------------|----------|---------------|---------|
|                          | December 31,                  |          | Expressed in: |         |
|                          | 2018                          | 2017     | Dollars       | Percent |
|                          | (Dollars in thousands)        |          |               |         |
| <b>INTEREST EXPENSE:</b> |                               |          |               |         |
| Deposits                 | \$15,725                      | \$11,961 | \$3,764       | 31.5 %  |
| FHLB borrowings          | 13,530                        | 17,917   | (4,387 )      | (24.5)  |
| Other borrowings         | 865                           | 1,392    | (527 )        | (37.9)  |
| Total interest expense   | \$30,120                      | \$31,270 | \$(1,150)     | (3.7 )  |

The increase in interest expense on deposits was due primarily to a 22 basis point increase in the weighted average rate, to 1.13% for the current quarter. The deposit accounts assumed in the CCB acquisition were at a lower average rate than our overall deposit portfolio rate, which partially offset the increase in the deposit portfolio rate in the current quarter. The increase in the weighted average rate was primarily related to the certificate of deposit portfolio, which increased 33 basis points to 1.84% for the current quarter. The weighted average rate paid on wholesale certificates increased 63 basis points, to 1.96% for the current quarter.

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy increased \$949 thousand from the prior year quarter due to a 12 basis point increase in the weighted average rate paid on the portfolio, to 2.20% for the current quarter, and a \$37.3 million increase in the average balance of the portfolio. The increase in the weighted average rate paid was due to certain maturing advances being replaced at higher effective interest rates. Interest expense on FHLB borrowings associated with the leverage strategy decreased \$5.3 million from the prior year quarter due to the strategy not being in place as often during the current quarter.

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

### Provision for Credit Losses

The Bank did not record a provision for credit losses during the current quarter or the prior year quarter. Based on management's assessment of the ACL formula analysis model and several other factors, it was determined that no provision for credit losses was necessary. Net loan recoveries were \$95 thousand during the current quarter and net charge-offs were \$28 thousand in the prior year quarter. At December 31, 2018, loans 30 to 89 days delinquent were 0.20% of total loans and loans 90 or more days delinquent or in foreclosure were 0.13% of total loans. At December 31, 2017, loans 30 to 89 days delinquent were 0.25% of total loans and loans 90 or more days delinquent or in foreclosure were 0.15% of total loans.

### Non-Interest Income

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

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For the Three  
Months Ended

December 31,      Change  
                         Expressed in:  
2018    2017    Dollars   Percent  
(Dollars in thousands)

NON-INTEREST INCOME:

|                           |         |         |         |         |
|---------------------------|---------|---------|---------|---------|
| Deposit service fees      | \$3,352 | \$3,965 | \$(613) | (15.5)% |
| Income from BOLI          | 635     | 534     | 101     | 18.9    |
| Other non-interest income | 1,437   | 859     | 578     | 67.3    |
| Total non-interest income | \$5,424 | \$5,358 | \$66    | 1.2     |

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The decrease in deposit service fees was due mainly to a change in the presentation of interchange network charges related to the adoption of a new revenue recognition accounting standard. Previously, interchange network charges were reported in deposit and loan expense. Upon adoption of the new revenue recognition accounting standard on October 1, 2018, interchange transaction fee income is reported net of interchange network charges, which totaled \$944 thousand during the current quarter and \$742 thousand during the prior year quarter. On a net basis, interchange fee income totaled \$1.4 million for the current quarter, compared to \$1.5 million for the prior year quarter. The increase in income from BOLI was primarily related to policies acquired in the CCB acquisition. The increase in other non-interest income was due mainly to revenues from the trust asset management operations added in the CCB acquisition and, as a result of adopting the new revenue recognition accounting standard discussed above, the Company also began recording an estimate for contingent insurance commissions it expects to receive from insurance carriers. Previously, the Company recorded contingent insurance commissions as revenue when the funds were received. Additionally, the prior year quarter included a loss on the sale of loans as management tested loan sale processes for liquidity purposes compared to no loan sales in the current quarter.

#### Non-Interest Expense

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

|  | For the Three<br>Months Ended |          | Change  |         |
|--|-------------------------------|----------|---------|---------|
|  | December 31,<br>2018          | 2017     | Dollars | Percent |
| (Dollars in thousands)                     |                               |          |         |         |
| <b>NON-INTEREST EXPENSE:</b>               |                               |          |         |         |
| Salaries and employee benefits             | \$12,962                      | \$10,528 | \$2,434 | 23.1 %  |
| Information technology and related expense | 4,599                         | 3,331    | 1,268   | 38.1    |
| Occupancy, net                             | 3,252                         | 2,765    | 487     | 17.6    |
| Regulatory and outside services            | 1,766                         | 1,140    | 626     | 54.9    |
| Advertising and promotional                | 760                           | 685      | 75      | 10.9    |
| Deposit and loan transaction costs         | 736                           | 1,407    | (671 )  | (47.7)  |
| Federal insurance premium                  | 528                           | 852      | (324 )  | (38.0)  |
| Office supplies and related expense        | 459                           | 442      | 17      | 3.8     |
| Other non-interest expense                 | 1,720                         | 886      | 834     | 94.1    |
| Total non-interest expense                 | \$26,782                      | \$22,036 | \$4,746 | 21.5    |

Salaries and employee benefits related to former CCB employees was approximately \$1.6 million in the current quarter. Excluding the impact of former CCB employees, salaries and employee benefits increased approximately \$830 thousand from the prior year quarter. The increase was primarily due to staff additions and salary adjustments during the prior fiscal year. The increase in information technology and related expense was due mainly to an increase in software licensing, depreciation related to the implementation of enhancements to the Bank's information technology infrastructure, and costs related to the integration of CCB operations. The increase in occupancy, net was due primarily to expenses related to properties acquired in the CCB acquisition. The increase in regulatory and outside services was due mainly to audit fees related to the acquisition of CCB as well as an increase in consulting expenses. The decrease in deposit and loan transaction costs was due mainly to the adoption of the new revenue recognition standard as discussed above. The decrease in federal insurance premium was due primarily to a decrease in average assets as a result of a reduction in the usage of the leverage strategy. The increase in other non-interest expense was due primarily to amortization of deposit intangibles associated with the acquisition of CCB.

The Company's efficiency ratio was 46.40% for the current quarter compared to 40.26% for the prior year quarter. The change in the efficiency ratio was due to higher non-interest expense in the current quarter compared to the prior year

quarter. The efficiency ratio is a measure of a financial institution's total non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income. A lower value indicates that the financial institution is generating revenue with a proportionally lower level of expense.

### Income Tax Expense

Income tax expense was \$6.6 million for the current quarter compared to \$860 thousand for the prior year quarter. The effective tax rate was 21.2% for the current quarter compared to 2.6% for the prior year quarter. The increase in the effective tax rate compared to the prior year quarter was due mainly to the Tax Act being signed into law in December 2017. In accordance with GAAP, the Company revalued its deferred tax assets and liabilities in December 2017 to account for the lower corporate tax rate. The revaluation reduced income tax expense by \$7.5 million in the prior year quarter, resulting in an effective tax rate of 2.6% for the prior year quarter.

### Fiscal Year 2019 Projections

**Non-Interest Income:** Based on current market conditions, management anticipates BOLI income will increase approximately \$450 thousand in fiscal year 2019 related to BOLI policies acquired in the CCB acquisition. Based on the current trust asset management services activities and the amount of assets under management, management anticipates trust asset management activities will increase non-interest income by approximately \$550 thousand in fiscal year 2019 compared to fiscal year 2018.

**Non-Interest Expense:** Taking into account salaries and benefits related to former CCB employees along with anticipated annual salary adjustments, management anticipates salaries and employee benefits will be approximately \$5.6 million higher in fiscal year 2019. Management anticipates information technology and related expenses will be approximately \$4.0 million higher in fiscal year 2019 due to integration costs associated with CCB, higher depreciation related to the continued enhancements to the Bank's information technology infrastructure, and an increase in software licensing. Management anticipates occupancy, net, will be approximately \$1.8 million higher in fiscal year 2019 due primarily to the properties acquired in the CCB acquisition. Management anticipates the deposit intangible amortization expense, which is included in other non-interest expense, will be approximately \$2.4 million in fiscal year 2019.

### Comparison of Operating Results for the Three Months Ended December 31, 2018 and September 30, 2018

For the quarter ended December 31, 2018, the Company recognized net income of \$24.4 million, or \$0.18 per share, compared to net income of \$21.4 million, or \$0.16 per share, for the quarter ended September 30, 2018. The increase in net income was due primarily to an increase in net interest income, which was mainly a result of a full quarter impact of the acquisition of CCB, which was completed on August 31, 2018.

Net interest income increased \$2.2 million, or 4.4%, from the prior quarter to \$52.3 million for the current quarter. The net interest margin increased three basis points from 2.24% for the prior quarter to 2.27% for the current quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased six basis points from 2.26% for the prior quarter to 2.32% for the current quarter. The increase in net interest margin excluding the effects of the leverage strategy was due mainly to the addition of higher yielding commercial loans from the CCB acquisition.

### Interest and Dividend Income

The weighted average yield on total interest-earning assets for the current quarter increased 10 basis points, from 3.46% for the prior quarter to 3.56% for the current quarter, and the average balance of interest-earning assets increased \$300.8 million between the two periods. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased 12 basis points, from 3.47% for the prior quarter to 3.59% for the current quarter, and the average balance of interest-earning assets would have increased \$141.0 million. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent.

For the Three  
Months Ended

|                                      | December<br>31,<br>2018 | September<br>30,<br>2018 | Change<br>Expressed in:<br>Dollars Percent |       |
|--------------------------------------|-------------------------|--------------------------|--|-------|
|                                      | (Dollars in thousands)  |                          |  |       |
| <b>INTEREST AND DIVIDEND INCOME:</b> |                         |                          |  |       |
| Loans receivable                     | \$70,772                | \$ 66,922                | \$3,850                                    | 5.8 % |
| MBS                                  | 6,523                   | 6,056                    | 467  | 7.7   |
| FHLB stock                           | 1,971                   | 1,847                    | 124  | 6.7   |
| Cash and cash equivalents            | 1,714                   | 1,213                    | 501  | 41.3  |
| Investment securities                | 1,441                   | 1,275                    | 166  | 13.0  |
| Total interest and dividend income   | \$82,421                | \$ 77,313                | \$5,108                                    | 6.6   |

The increase in interest income on loans receivable was due to a \$195.4 million increase in the average balance of the portfolio, as well as a 10 basis point increase in the weighted average yield on the portfolio to 3.75% for the current quarter. The increases in average balance and weighted average yield were due primarily to loans added in the CCB acquisition.

The increase in interest income on the MBS portfolio was due to a 14 basis point increase in the weighted average yield on the portfolio to 2.59% for the current quarter, as well as a \$19.7 million increase in the average balance of the portfolio. The increase in the weighted average yield was due primarily to a decrease in net premium amortization in the current quarter, due largely to the accretion of discounts on MBS added in the CCB acquisition. Net premium amortization of \$349 thousand during the current quarter decreased the weighted average yield on the portfolio by 14 basis points. During the prior quarter, \$624 thousand of net premiums were amortized which decreased the weighted average yield on the portfolio by 25 basis points. As of December 31, 2018, the remaining net balance of premiums on our portfolio of MBS was \$3.1 million.

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy decreased \$399 thousand from the prior quarter due to a \$90.1 million decrease in the average balance, partially offset by a 24 basis point increase in the weighted average yield, which was related to balances held at the FRB of Kansas City. Interest income on cash associated with the leverage strategy increased \$900 thousand from the prior quarter due to the leverage strategy being in place for more days in the current quarter compared to the prior quarter.

#### Interest Expense

The weighted average rate paid on total interest-bearing liabilities for the current quarter increased nine basis points, from 1.39% for the prior quarter to 1.48% for the current quarter, and the average balance of interest-bearing liabilities increased \$291.0 million between the two periods. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities for the current quarter would have increased eight basis points, from 1.38% for the prior quarter to 1.46% for the current quarter, and the average balance of interest-bearing liabilities would have increased \$139.0 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

For the Three  
Months Ended  
DecemberSeptember  
31, 30, Change  
2018 2018 Expressed in:  
Dollars Percent  
(Dollars in thousands)

| INTEREST EXPENSE:      |                   |                    |         |       |
|------------------------|-------------------|--------------------|---------|-------|
|                        | December 31, 2018 | September 30, 2018 | Change  |       |
| Deposits               | \$15,725          | \$14,597           | \$1,128 | 7.7 % |
| FHLB borrowings        | 13,530            | 11,930             | 1,600   | 13.4  |
| Other borrowings       | 865               | 709                | 156     | 22.0  |
| Total interest expense | \$30,120          | \$27,236           | \$2,884 | 10.6  |

The increase in interest expense on deposits was due primarily to a six basis point increase in the weighted average rate paid, to 1.13% for the current quarter. The increase in the weighted average rate paid was due primarily to increases in the average retail/business certificate of deposit portfolio rate and money market portfolio rate, which increased nine basis points and 22 basis points, respectively. The weighted average interest rate on deposit accounts assumed in the CCB acquisition was lower than the overall deposit portfolio rate, which partially offset the increase in the weighted average rate paid on the rest of the deposit portfolio in the current quarter.

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy increased \$593 thousand from the



prior quarter due to a 10 basis point increase in the weighted average rate paid, to 2.20% for the current quarter, as maturing advances were replaced at higher current market rates. Interest expense on FHLB borrowings associated with the leverage strategy increased \$1.0 million from the prior quarter due to the leverage strategy being in place for more days in the current quarter compared to the prior quarter.

## Non-Interest Income

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

|                             | For the Three<br>Months Ended |                          | Change                           |         |
|-----------------------------|-------------------------------|--------------------------|----------------------------------|---------|
|                             | December<br>31,<br>2018       | September<br>30,<br>2018 | Expressed in:<br>Dollars Percent |         |
| (Dollars in thousands)      |                               |                          |                                  |         |
| <b>NON-INTEREST INCOME:</b> |                               |                          |                                  |         |
| Deposit service fees        | \$3,352                       | \$ 4,086                 | \$(734)                          | (18.0)% |
| Income from BOLI            | 635                           | 555                      | 80                               | 14.4    |
| Other non-interest income   | 1,437                         | 1,179                    | 258                              | 21.9    |
| Total non-interest income   | \$5,424                       | \$ 5,820                 | \$(396)                          | (6.8 )  |

The decrease in deposit service fees was due mainly to a change in the presentation of interchange network charges related to the adoption of a new revenue recognition accounting standard as discussed in the Comparison of Operating Results for the Three Months Ended December 31, 2018 and 2017 above. The increase in other non-interest income was due mainly to an increase in insurance commissions recorded and trust asset management fees recorded. As a result of adopting the new revenue recognition accounting standard discussed above, the Company also began recording an estimate for contingent insurance commissions it expects to receive from insurance carriers. In addition, as part of the acquisition of CCB, the Company began offering trust asset management services. The current quarter included a full quarter of revenue from those activities.

## Non-Interest Expense

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

|  | For the Three<br>Months Ended |                          | Change                         |        |
|--|-------------------------------|--------------------------|--------------------------------|--------|
|  | December<br>31,<br>2018       | September<br>30,<br>2018 | Expressed in:<br>DollarPercent |        |
| (Dollars in thousands)                     |                               |                          |                                |        |
| <b>NON-INTEREST EXPENSE:</b>               |                               |                          |                                |        |
| Salaries and employee benefits             | \$12,962                      | \$ 12,932                | \$30                           | 0.2 %  |
| Information technology and related expense | 4,599                         | 3,683                    | 916                            | 24.9   |
| Occupancy, net                             | 3,252                         | 3,064                    | 188                            | 6.1    |
| Regulatory and outside services            | 1,766                         | 1,790                    | (24 )                          | (1.3 ) |
| Advertising and promotional                | 760                           | 1,522                    | (762)                          | (50.1) |
| Deposit and loan transaction costs         | 736                           | 1,464                    | (728)                          | (49.7) |
| Federal insurance premium                  | 528                           | 765                      | (237)                          | (31.0) |
| Office supplies and related expense        | 459                           | 549                      | (90 )                          | (16.4) |
| Other non-interest expense                 | 1,720                         | 988                      | 732                            | 74.1   |
| Total non-interest expense                 | \$26,782                      | \$ 26,757                | \$25                           | 0.1    |

Salaries and employee benefits related to former CCB employees was approximately \$1.6 million in the current quarter compared to approximately \$730 thousand in the prior quarter. Excluding the impact of former CCB employees, salaries and employee benefits decreased approximately \$840 thousand from the prior quarter. The decrease was due primarily to the prior quarter including compensation expense on unallocated ESOP shares related to the True Blue Capitol dividend paid during the prior fiscal year, along with expense related to the 2018 Tax Savings

Bonus Plan. Approximately half of the increase in information technology and related expenses was due to costs related to the integration of CCB operations. The remaining increase was due to depreciation related to the implementation of enhancements in the Bank's information technology infrastructure and an increase in software licensing. The increase in occupancy, net was due primarily to a full quarter of expense related to properties acquired in the CCB acquisition. The decrease in advertising and promotional was due primarily to the timing of advertising campaigns and sponsorships. The decrease in deposit and loan transaction costs was due mainly to the adoption of the new revenue recognition accounting standard discussed above. The decrease in federal insurance premium was due primarily to a decrease in average assets resulting from a reduction in the usage of the leverage strategy during the prior quarter, as federal insurance premiums are billed and paid on a quarter lag. The

increase in other non-interest expense was due primarily to amortization of deposit intangibles associated with the acquisition of CCB, along with an increase in OREO operations expense.

The Company's efficiency ratio was 46.40% for the current quarter compared to 47.87% for the prior quarter. The change in the efficiency ratio was due primarily to higher net interest income in the current quarter compared to the prior quarter.

#### Income Tax Expense

Income tax expense was \$6.6 million for the current quarter, compared to \$7.8 million for the prior quarter. The effective tax rate was 21.2% for the current quarter compared to 26.6% for the prior quarter. In December 2017, the Tax Act was enacted, which reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Company has a September 30th year end, resulting in a requirement to use a blended statutory income tax rate of 24.5% for fiscal year 2018. In accordance with GAAP, the Company revalued its deferred tax assets and liabilities in December 2017 to account for the lower corporate income tax rate. The revaluation was a discrete item in the December 31, 2017 quarter and reduced income tax expense by \$7.5 million, resulting in an effective income tax rate of 2.6% for that quarter. The effective income tax rate for fiscal year 2018 was 20.2%. The Company's statutory income tax rate for fiscal year 2019 will be 21%, but the Company does not anticipate the same level of discrete items reducing the statutory income tax rate as in fiscal year 2018. Management estimates the effective income tax rate for fiscal year 2019 will be approximately 22%.

#### Liquidity and Capital Resources

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

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

In the event short-term liquidity needs exceed available cash, the Bank has access to a line of credit at FHLB and the FRB of Kansas City's discount window. Per FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of regulatory total assets without the pre-approval of FHLB senior management. The president of FHLB has approved an increase, through July 2019, in the Bank's borrowing limit to 55% of Bank Call Report total assets. When the leverage strategy is in place, the Bank maintains the resulting excess cash reserves from the FHLB borrowings at the FRB of Kansas City, which can be used to meet any short-term liquidity needs. The amount that can be borrowed from the FRB of Kansas City's discount window is based upon the fair value of securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. Management tests the Bank's access to the FRB of Kansas City's discount window annually with a nominal, overnight borrowing.

If management observes a trend in the amount and frequency of line of credit utilization and/or short-term borrowings that is not in conjunction with a planned strategy, such as the leverage strategy, the Bank will likely utilize long-term wholesale borrowing sources such as FHLB advances and/or repurchase agreements to provide long-term, fixed-rate funding. The maturities of these long-term borrowings are generally staggered in order to mitigate the risk of a highly negative cash flow position at maturity. The Bank's internal policy limits total borrowings to 55% of total assets. At December 31, 2018, the Bank had total borrowings, at par, of \$2.18 billion, or approximately 23% of total assets.

The amount of FHLB advances outstanding at December 31, 2018 was \$2.08 billion, of which \$925.0 million was scheduled to mature in the next 12 months, including \$575.0 million of FHLB advances tied to interest rate swaps. All FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with FHLB. At December 31, 2018, the Bank's ratio of the par value of FHLB borrowings to Call Report total assets was 23%. When the full leverage strategy is in place, FHLB borrowings may be in excess of 40% of the Bank's Call Report total assets, and may be in excess of 40% as long as the Bank continues its leverage strategy and FHLB senior management continues to approve the Bank's borrowing limit being in excess of 40% of Call Report total assets. All or a portion of the FHLB borrowings in conjunction with the leverage strategy can be repaid at any point in time while the strategy is in effect, if necessary or desired.

At December 31, 2018, the Bank had repurchase agreements of \$100.0 million, or approximately 1% of total assets, none of which were scheduled to mature in the next 12 months. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets, and subject to the total borrowings limit of 55% as discussed above. The Bank has pledged securities with an estimated fair value of \$106.1 million as collateral for repurchase agreements as of December 31, 2018. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

The Bank could utilize the repayment and maturity of outstanding loans, MBS, and other investments for liquidity needs rather than reinvesting such funds into the related portfolios. At December 31, 2018, the Bank had \$642.0 million of securities that were eligible but unused as collateral for borrowing or other liquidity needs.

The Bank has access to other sources of funds for liquidity purposes, such as brokered and public unit deposits. As of December 31, 2018, the Bank's policy allowed for combined brokered and public unit deposits up to 15% of total deposits. At December 31, 2018, the Bank did not have any brokered deposits and public unit deposits were approximately 7% of total deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain funds at attractive rates. The Bank had pledged securities with an estimated fair value of \$455.1 million as collateral for public unit deposits at December 31, 2018. The securities pledged as collateral for public unit deposits are held under joint custody with FHLB and generally will be released upon deposit maturity.

At December 31, 2018, \$1.34 billion of the Bank's certificate of deposit portfolio was scheduled to mature within one year, including \$325.5 million of public unit certificates of deposit. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products of the Bank at the prevailing rate, although no assurance can be given in this regard. We also anticipate the majority of the maturing public unit certificates of deposit will be replaced with similar wholesale funding products.

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

The following table presents the contractual maturities of our loan, MBS, and investment securities portfolios at December 31, 2018, along with associated weighted average yields. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses. As of December 31, 2018, the amortized cost of investment securities in our portfolio which are callable or have pre-refunding dates within one year was \$194.6 million.

|                           | Loans <sup>(1)</sup>   |       | MBS       |       | Investment Securities |       | Total       |       |
|---------------------------|------------------------|-------|-----------|-------|-----------------------|-------|-------------|-------|
|                           | Amount                 | Yield | Amount    | Yield | Amount                | Yield | Amount      | Yield |
|                           | (Dollars in thousands) |       |           |       |                       |       |             |       |
| Amounts due:              |                        |       |           |       |                       |       |             |       |
| Within one year           | \$202,807              | 5.27% | \$676     | 3.49% | \$32,070              | 1.48% | \$235,553   | 4.75% |
| After one year:           |                        |       |           |       |                       |       |             |       |
| Over one to two years     | 36,801                 | 5.33  | 7,255     | 3.03  | 81,780                | 1.58  | 125,836     | 2.76  |
| Over two to three years   | 153,560                | 4.15  | 18,178    | 2.67  | 55,520                | 2.30  | 227,258     | 3.58  |
| Over three to five years  | 80,961                 | 5.05  | 90,722    | 1.71  | 95,412                | 2.77  | 267,095     | 3.10  |
| Over five to ten years    | 718,326                | 3.74  | 358,597   | 2.34  | —                     | —     | 1,076,923   | 3.27  |
| Over ten to fifteen years | 1,219,700              | 3.52  | 207,159   | 3.03  | —                     | —     | 1,426,859   | 3.45  |
| After fifteen years       | 5,106,732              | 3.75  | 289,956   | 2.95  | —                     | —     | 5,396,688   | 3.71  |
| Total due after one year  | 7,316,080              | 3.74  | 971,867   | 2.62  | 232,712               | 2.24  | 8,520,659   | 3.57  |
|                           | \$7,518,887            | 3.78  | \$972,543 | 2.62  | \$264,782             | 2.14  | \$8,756,212 | 3.60  |

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

### Limitations on Dividends and Other Capital Distributions

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

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

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

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

The maximum balance of short-term FHLB borrowings outstanding at any month-end during the three months ended December 31, 2018 was \$1.03 billion, and the average balance of short-term FHLB borrowings outstanding during this period was \$1.16 billion at a weighted average contractual rate of 2.21%. Short-term FHLB borrowings for this disclosure are defined as those with maturity dates within the next 12 months. This compares to a balance of short-term FHLB borrowings outstanding at December 31, 2018 of \$1.03 billion at a weighted average contractual rate of 2.35%.

### Contingencies

In the normal course of business, the Company and its subsidiary are named defendants in various lawsuits and counter claims. In the opinion of management, after consultation with legal counsel, none of the currently pending suits are expected to have a materially adverse effect on the Company's consolidated financial statements for the quarter ended December 31, 2018, or future periods.

### Capital

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a well-capitalized status for the Bank per the regulatory framework for prompt corrective action ("PCA"). As of December 31, 2018, the Bank and Company exceeded all regulatory capital requirements. The following table



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presents the regulatory capital ratios of the Bank and the Company at December 31, 2018.

|                                    | Bank   | Company | Minimum<br>Regulatory<br>Requirement | Regulatory<br>Requirement For<br>Well-Capitalized<br>Status of Bank<br>Under PCA<br>Provisions |
|------------------------------------|--------|---------|--------------------------------------|--|
|                                    | Ratios | Ratios  | Requirement                          |  |
| Tier 1 leverage ratio              | 12.6%  | 13.9 %  | 4.0 %                                | 5.0 %  |
| Common Equity Tier 1 capital ratio | 25.0   | 27.6    | 4.5                                  | 6.5  |
| Tier 1 capital ratio               | 25.0   | 27.7    | 6.0                                  | 8.0  |
| Total capital ratio                | 25.2   | 27.9    | 8.0                                  | 10.0   |

The following table presents a reconciliation of equity under GAAP to regulatory capital amounts, as of December 31, 2018, for the Bank and the Company (dollars in thousands):

|   | Bank        | Company     |
|---|-------------|-------------|
| Total equity as reported under GAAP                             | \$1,219,251 | \$1,345,913 |
| AOCI  | 1,877       | 1,877       |
| Goodwill and other intangibles, net of deferred tax liabilities | (15,222 )   | (15,222 )   |
| Additional tier 1 capital - trust preferred securities          | —           | 6,000       |
| Total tier 1 capital  | 1,205,906   | 1,338,568   |
| ACL   | 8,558       | 8,558       |
| Total capital   | \$1,214,464 | \$1,347,126 |

### Item 3. Quantitative and Qualitative Disclosure about Market Risk

#### Asset and Liability Management and Market Risk

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

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

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

#### Qualitative Disclosure about Market Risk

At December 31, 2018, the Bank's gap between the amount of interest-earning assets and interest-bearing liabilities projected to reprice within one year was \$100.6 million, or 1.08% of total assets, compared to \$(14.9) million, or (0.16)% of total assets, at September 30, 2018. The increase in the one-year gap amount was due primarily to an expected increase in cash flows from mortgage-related assets compared to September 30, 2018 as a result of lower interest rates. As interest rates fall, borrowers have more economic incentive to refinance their mortgages and agency debt issuers have more economic incentive or opportunity to exercise their call options in order to issue new debt at lower interest rates, resulting in higher projected cash flows on these assets.

The majority of interest-earning assets anticipated to reprice in the coming year are repayments and prepayments on one- to four-family loans and MBS, both of which include the option to prepay without a fee being paid by the contract holder. The amount of interest-bearing liabilities expected to reprice in a given period is not typically impacted significantly by changes in interest rates because the Bank's borrowings and certificate of deposit portfolios have contractual maturities and generally cannot be terminated early without a prepayment penalty. If interest rates were to increase 200 basis points, as of December 31, 2018, the Bank's one-year gap is projected to be \$(419.2) million, or (4.51)% of total assets. This compares to a one-year gap of \$(394.8) million, or (4.18)% of total assets, if

interest rates were to have increased 200 basis points as of September 30, 2018. The decrease in the gap compared to no change in rates is due to lower anticipated cash inflows from mortgage-related assets in the higher rate environment.

During the current quarter, loan repayments totaled \$267.5 million and cash flows from the securities portfolio totaled \$93.9 million. The majority of these cash flows were reinvested into new loans at current market interest rates. Total cash flows from fixed-rate liabilities that matured and repriced into current market interest rates during the current quarter were \$625.2 million, including \$300.0 million of term borrowings. These offsetting cash flows allow the Bank to manage its interest rate risk and gap position more precisely than if the Bank did not have offsetting cash flows due to its mix of assets or maturity structure of liabilities.

Other strategies include managing the Bank's wholesale assets and liabilities. The Bank primarily uses long-term fixed-rate borrowings with no embedded options to lengthen the average life of the Bank's liabilities. The fixed-rate characteristics of these borrowings lock-in the cost until maturity and thus decrease the amount of liabilities repricing as interest rates move higher compared to funding with lower-cost short-term borrowings. These borrowings are laddered in order to prevent large amounts of liabilities repricing in any one period. The WAL of the Bank's term borrowings as of December 31, 2018 was 1.7 years. However, including the

impact of interest rate swaps related to \$575.0 million of adjustable-rate FHLB advances, the WAL of the Bank's term borrowings as of December 31, 2018 was 3.0 years. The interest rate swaps effectively convert the adjustable-rate borrowings into long-term, fixed-rate liabilities.

The Bank uses the securities portfolio to shorten the average life of the Bank's assets. Purchases in the securities portfolio over the past few years have primarily been focused on callable agency debentures with maturities no longer than five years, shorter duration MBS, and adjustable-rate MBS. These securities have a shorter average life and provide a steady source of cash flow that can be reinvested as interest rates rise into higher-yielding assets. The WAL of the Bank's securities portfolio, which takes into account prepayment and call assumptions, as of December 31, 2018 was 2.7 years.

In addition to the wholesale strategies, the Bank has sought to increase non-maturity deposits and long-term certificates of deposit. Non-maturity deposits are expected to reduce the risk of higher interest rates because their interest rates are not expected to increase significantly as market interest rates rise. Specifically, checking accounts and savings accounts have had minimal interest rate fluctuations throughout historical interest rate cycles, though no assurance can be given that this will be the case in future interest rate cycles. The balances and rates of these accounts have historically tended to remain very stable over time, giving them the characteristic of long-term liabilities. The Bank uses historical data pertaining to these accounts to estimate their future balances. At December 31, 2018 the WAL of the Bank's non-maturity deposits was 12.9 years.

Over the last few years, the Bank has priced long-term certificates of deposit more aggressively than short-term certificates of deposit with the goal of giving customers incentive to move funds into longer-term certificates of deposit when interest rates were lower. Long-term certificates of deposit reduce the amount of liabilities repricing as interest rates rise in a given time period.

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

|   | Within<br>One Year | More Than<br>One Year to<br>Three Years | More Than<br>Three Years<br>to Five Years | Over<br>Five Years | Total       |
|---|--------------------|---|---|--------------------|-------------|
| Interest-earning assets:<br>(Dollars in thousands)  |                    |   |   |                    |             |
| Loans receivable <sup>(1)</sup>   | \$1,662,292        | \$2,030,793                             | \$1,195,537                               | \$2,612,422        | \$7,501,044 |
| Securities <sup>(2)</sup>   | 459,203            | 445,362                                 | 185,697                                   | 142,674            | 1,232,936   |
| Other interest-earning assets   | 48,431             | —                                       | —   | —                  | 48,431      |
| Total interest-earning assets   | 2,169,926          | 2,476,155                               | 1,381,234                                 | 2,755,096          | 8,782,411   |
| Interest-bearing liabilities:   |                    |   |   |                    |             |
| Non-maturity deposits <sup>(3)</sup>  | 251,172            | 362,258                                 | 287,734                                   | 1,876,664          | 2,777,828   |
| Certificates of deposit   | 1,368,145          | 1,032,578                               | 469,507                                   | 2,664              | 2,872,894   |
| Borrowings <sup>(4)</sup>   | 450,000            | 1,025,000                               | 500,000                                   | 341,285            | 2,316,285   |
| Total interest-bearing liabilities  | 2,069,317          | 2,419,836                               | 1,257,241                                 | 2,220,613          | 7,967,007   |
| Excess (deficiency) of interest-earning assets<br>over  |                    |   |   |                    |             |
| interest-bearing liabilities  | \$100,609          | \$56,319                                | \$123,993                                 | \$534,483          | \$815,404   |
| Cumulative (deficiency) excess of<br>interest-earning assets over   |                    |   |   |                    |             |
| interest-bearing liabilities  | \$100,609          | \$156,928                               | \$280,921                                 | \$815,404          |             |
| Cumulative (deficiency) excess of interest-earning assets<br>over interest-bearing<br>liabilities as a percent of total Bank assets at: |                    |   |   |                    |             |
| December 31, 2018   | 1.08               | % 1.69                                  | % 3.02                                    | % 8.77             | %           |
| September 30, 2018  | (0.16              | )                                       |   |                    |             |
| Cumulative one-year gap - interest rates +200<br>bps at:  |                    |   |   |                    |             |
| December 31, 2018   | (4.51              | )                                       |   |                    |             |
| September 30, 2018  | (4.18              | )                                       |   |                    |             |

- Adjustable-rate loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur, or prepayments are expected to be received, prior to their next rate
- (1) adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances are net of undisbursed amounts and deferred fees and exclude loans 90 or more days delinquent or in foreclosure.
  - (2) MBS reflect projected prepayments at amortized cost. Investment securities are presented based on contractual maturities, term to call dates or pre-refunding dates as of December 31, 2018, at amortized cost.  
Although the Bank's checking, savings, and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rates at which the balances of existing accounts decline) used on these accounts is based on assumptions developed from our actual experiences with these accounts.
  - (3) If all of the Bank's checking, savings, and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by \$2.43 billion, for a cumulative one-year gap of (26.1)% of total assets.  
Borrowings exclude deferred prepayment penalty costs. Included in this line are \$575.0 million of FHLB
  - (4) adjustable-rate advances tied to interest rate swaps. The repricing for these liabilities is projected to occur at the maturity date of each interest rate swap.

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

| Change<br>(in Basis Points)<br>in Interest Rates <sup>(1)</sup> | Net Interest Income At |                |               |                    |                |               |
|---|------------------------|----------------|---------------|--------------------|----------------|---------------|
|   | December 31, 2018      |                |               | September 30, 2018 |                |               |
|   | Amount<br>(\$)         | Change<br>(\$) | Change<br>(%) | Amount<br>(\$)     | Change<br>(\$) | Change<br>(%) |
|   | (Dollars in thousands) |                |               |                    |                |               |
| -100 bp   | \$200,923              | \$ 23          | 0.01 %        | \$201,434          | \$1,221        | 0.61 %        |
| 000 bp  | 200,900                | —              | —             | 200,213            | —              | —             |
| +100 bp   | 197,307                | (3,593)        | (1.79)        | 196,272            | (3,941 )       | (1.97)        |
| +200 bp   | 192,140                | (8,760)        | (4.36)        | 190,872            | (9,341 )       | (4.67)        |
| +300 bp   | 185,750                | (15,150)       | (7.54)        | 184,603            | (15,610)       | (7.80)        |

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

The net interest income projection was higher in the base case scenario at December 31, 2018 compared to September 30, 2018 due mainly to an increase in the loan portfolio yield and a lower balance of cash at December 31, 2018. The net interest income projections decreased from the base case in all rising rate scenarios at December 31, 2018 and September 30, 2018. The net interest income projection was less adversely impacted in the rising interest rate scenarios at December 31, 2018 compared to September 30, 2018, due primarily to lower interest rates at December 31, 2018. Lower interest rates increased the projected cash flows from the Bank's mortgage-related assets, thus reducing the negative impact of rising interest rates.



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

| Change<br>(in Basis Points)<br>in Interest Rates <sup>(1)</sup> | Market Value of Portfolio Equity At |                |               |                    |                |               |
|---|-------------------------------------|----------------|---------------|--------------------|----------------|---------------|
|   | December 31, 2018                   |                |               | September 30, 2018 |                |               |
|   | Amount<br>(\$)                      | Change<br>(\$) | Change<br>(%) | Amount<br>(\$)     | Change<br>(\$) | Change<br>(%) |
|   | (Dollars in thousands)              |                |               |                    |                |               |
| -100 bp   | \$1,464,438                         | \$22,836       | 1.58          | \$1,498,631        | \$53,683       | 3.72          |
| 000 bp  | 1,441,602                           | —              | —             | 1,444,948          | —              | —             |
| +100 bp   | 1,319,675                           | (121,927)      | (8.46)        | 1,281,910          | (163,038)      | (11.28)       |
| +200 bp   | 1,140,078                           | (301,524)      | (20.92)       | 1,087,644          | (357,304)      | (24.73)       |
| +300 bp   | 946,310                             | (495,292)      | (34.36)       | 888,611            | (556,337)      | (38.50)       |

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

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

The following table presents the weighted average yields/rates and WALs (in years), after applying prepayment, call assumptions, and decay rates for our interest-earning assets and interest-bearing liabilities as of December 31, 2018. Yields presented for interest-earning assets include the amortization of fees, costs, premiums and discounts, which are considered adjustments to the yield. The interest rate presented for term borrowings is the effective rate, which includes the impact of interest rate swaps and the amortization of deferred prepayment penalties resulting from FHLB advances previously prepaid. The WAL presented for term borrowings includes the effect of interest rate swaps. The maturity and repricing terms presented for one- to four-family loans represent the contractual terms of the loan.

|   | Amount                 | Yield/Rate | WAL  | % of Category | % of Total |
|---|------------------------|------------|------|---------------|------------|
|   | (Dollars in thousands) |            |      |               |            |
| Investment securities                   | \$264,782              | 2.14 %     | 1.1  | 21.4 %        | 3.0 %      |
| MBS - fixed                             | 685,902                | 2.44       | 3.3  | 55.4          | 7.7        |
| MBS - adjustable                        | 286,641                | 3.07       | 2.8  | 23.2          | 3.2        |
| Total securities                        | 1,237,325              | 2.52       | 2.7  | 100.0 %       | 13.9       |
| Loans receivable:                       |                        |            |      |               |            |
| Fixed-rate one- to four-family:         |                        |            |      |               |            |
| <= 15 years                             | 1,123,400              | 3.16       | 4.0  | 14.9 %        | 12.6       |
| > 15 years                              | 4,495,853              | 3.88       | 6.4  | 59.8          | 50.3       |
| Fixed-rate commercial                   | 378,717                | 4.55       | 3.6  | 5.1           | 4.2        |
| All other fixed-rate loans              | 46,280                 | 5.41       | 3.6  | 0.6           | 0.5        |
| Total fixed-rate loans                  | 6,044,250              | 3.80       | 5.8  | 80.4          | 67.6       |
| Adjustable-rate one- to four-family:    |                        |            |      |               |            |
| <= 36 months                            | 243,402                | 2.23       | 3.3  | 3.2           | 2.7        |
| > 36 months                             | 864,731                | 3.35       | 2.5  | 11.5          | 9.7        |
| Adjustable-rate commercial              | 239,065                | 5.40       | 7.7  | 3.2           | 2.7        |
| All other adjustable-rate loans         | 127,439                | 5.89       | 1.5  | 1.7           | 1.4        |
| Total adjustable-rate loans             | 1,474,637              | 3.72       | 3.4  | 19.6          | 16.5       |
| Total loans receivable                  | 7,518,887              | 3.78       | 5.3  | 100.0 %       | 84.1       |
| FHLB stock                              | 100,521                | 7.22       | 1.7  |               | 1.1        |
| Cash and cash equivalents               | 81,713                 | 2.39       | —    |               | 0.9        |
| Total interest-earning assets           | \$8,938,446            | 3.64       | 4.9  |               | 100.0%     |
| Non-maturity deposits                   | \$2,684,970            | 0.37       | 12.9 | 48.3 %        | 34.3 %     |
| Retail/business certificates of deposit | 2,479,614              | 1.86       | 1.7  | 44.6          | 31.6       |
| Public unit certificates of deposit     | 393,280                | 2.07       | 0.7  | 7.1           | 5.0        |
| Total deposits                          | 5,557,864              | 1.15       | 7.0  | 100.0 %       | 70.9       |
| Term borrowings                         | 2,181,186              | 2.31       | 3.0  | 95.6 %        | 27.8       |
| FHLB line of credit                     | 100,000                | 2.65       | —    | 4.4           | 1.3        |
| Total borrowings                        | 2,281,186              | 2.32       | 2.8  | 100.0 %       | 29.1       |
| Total interest-bearing liabilities      | \$7,839,050            | 1.50       | 5.8  |               | 100.0%     |

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, the "Act") as of December 31, 2018. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of December 31, 2018, such disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Act is accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding



required disclosure, and is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Act) that occurred during the Company's quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

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

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

The following table summarizes our share repurchase activity during the three months ended December 31, 2018 and additional information regarding our share repurchase program. In October 2015, the Company announced a stock repurchase plan for up to \$70.0 million of common stock. Shares may be repurchased from time to time in the open-market based upon market conditions and available liquidity. There is no expiration for this repurchase plan.

|   | Total<br>Number<br>of<br>Shares<br>Purchased | Average<br>Price<br>Paid<br>per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as<br>Part of<br>Publicly<br>Announced<br>Plans | Approximate<br>Dollar Value<br>of<br>Shares that<br>May<br>Yet Be<br>Purchased<br>Under the<br>Plan |
|---|--|--|--|---|
| October 1, 2018 through<br>October 31, 2018   | —  | \$ —                                     | —  | \$ 70,000,000   |
| November 1, 2018 through<br>November, 30 2018 | —  | —  | —  | 70,000,000  |
| December 1, 2018 through<br>December 31, 2018 | —  | —  | —  | 70,000,000  |
| Total   | —  | —  | —  | 70,000,000  |

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

Not applicable.  
Item 6. Exhibits  
See Index to Exhibits.

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INDEX TO EXHIBITS

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

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Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend,  
Executive Vice President, Chief Financial Officer and Treasurer

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Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G.  
Townsend, Executive Vice President, Chief Financial Officer and Treasurer

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101 The following information from the Company's Quarterly Report on Form 10-Q for the quarterly period ended December 31, 2018, filed with the Securities and Exchange Commission on February 8, 2019, has been formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets at December 31, 2018 and September 30, 2018, (ii) Consolidated Statements of Income for the three months ended December 31, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for the three months ended December 31, 2018 and 2017, (iv) Consolidated Statement of Stockholders' Equity for the three months ended December 31, 2018 and 2017, (v) Consolidated Statements of Cash Flows for the three months ended December 31, 2018 and 2017, and (vi) Notes to the Unaudited Consolidated Financial Statements



SIGNATURES

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

CAPITOL FEDERAL FINANCIAL, INC.

Date: February 8, 2019 By: /s/ John B. Dicus  
John B. Dicus, Chairman, President and Chief Executive Officer

Date: February 8, 2019 By: /s/ Kent G. Townsend  
Kent G. Townsend, Executive Vice President,  
Chief Financial Officer and Treasurer