Capitol Federal Financial, Inc.
Form 10-K
November 29, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 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) |

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

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

| | |
|---|---|
| Common Stock, par value $0.01 per share | The NASDAQ Stock Market LLC |
| (Title of Class) | (Name of Each Exchange on Which Registered) |

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer þ | Accelerated filer ¨ | Non-accelerated filer ¨ |
| Smaller Reporting Company ¨ | | Emerging Growth Company ¨ |

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the average of the closing bid and asked price of such stock on the NASDAQ Stock Market as of March 31, 2018, was $1.68 billion.

As of November 21, 2018, there were issued and outstanding 141,238,239 shares of the Registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K - Portions of the proxy statement for the Annual Meeting of Stockholders for the year ended September 30, 2018.

Private Securities Litigation Reform Act-Safe Harbor Statement

Capitol Federal Financial, Inc. (the "Company"), and Capitol Federal Savings Bank ("Capitol Federal Savings" or 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 Securities and Exchange Commission ("SEC"). These forward-looking statements may be included in this Annual Report on Form 10-K 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 Capital City Bancshares, Inc. ("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 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 allowance for credit losses ("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. See "Part I, Item 1A. Risk Factors" for a discussion of risks and uncertainties related to our business that could adversely impact our operations and/or financial results. 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.

PART I

As used in this Form 10-K, 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.

Item 1. Business

General

The Company is a Maryland corporation that was incorporated in April 2010. The Company's common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN."

The Bank is a wholly-owned subsidiary of the Company and is a federally chartered and insured savings bank headquartered in Topeka, Kansas. The Bank is examined and regulated by the Office of the Comptroller of the Currency (the "OCC"), its primary regulator, and its deposits are insured up to applicable limits by the Deposit Insurance Fund ("DIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). The Company, as a savings and loan holding company, is examined and regulated by the FRB.

On August 31, 2018, the Company completed the acquisition of CCB and its wholly-owned subsidiary Capital City Bank, headquartered in Topeka, Kansas. Capital City Bank owned and leased banking locations in Topeka, Lawrence, and Overland Park, Kansas. As a result of the merger, the Bank is entering the commercial banking business through the origination of commercial lending products and offering of commercial deposit services, and began offering trust and brokerage services. The Company acquired loans and deposits with fair values of $299.7 million and $352.5 million, respectively, at the date of acquisition. Under the terms of the acquisition agreement, the Company issued 3.0 million shares of Company common stock for all outstanding shares of CCB capital stock, for a total merger consideration of $39.1 million, based on the Company's closing stock price of $13.21 on August 31, 2018.

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. We attract deposits primarily from the general public and also from businesses and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate and participate in commercial loans with other lenders, originate consumer loans primarily secured by mortgages on one- to four-family residences, and invest in certain investment securities and mortgage-backed securities ("MBS") using funding from deposits, repurchase agreements, and Federal Home Loan Bank Topeka ("FHLB") borrowings. We offer a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market accounts, interest-bearing and non-interest-bearing checking accounts, and certificates of deposit with terms ranging from 91 days to 96 months. Our primary revenues are derived from interest on loans, MBS, investment securities, and dividends on FHLB stock.

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.

Our executive offices are located at 700 South Kansas Avenue, Topeka, Kansas 66603, and our telephone number at that address is (785) 235-1341.

Available Information

Our Internet website address is www.capfed.com. Our 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 website. These reports are available on our website as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. These reports are also available on the SEC's website at http://www.sec.gov.

Market Area and Competition

Our corporate office is located in Topeka, Kansas. We currently have a network of 58 branches (48 traditional branches and 10 in-store branches) located in nine counties throughout Kansas and three counties in Missouri. We primarily serve the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia, and Salina, Kansas and a portion of the metropolitan area of greater Kansas City. In addition to providing full service banking offices, we provide services through our call center which operates on extended hours, mobile banking, telephone banking, and online banking and bill payment services.

The Bank ranked second in deposit market share, at 7.26%, in the state of Kansas as reported in the June 30, 2018 FDIC "Summary of Deposits - Market Share Report." Deposit market share is measured by total deposits, without consideration for type of deposit. Prior to the acquisition of CCB, we did not offer commercial deposit accounts, while many of our competitors have both commercial and retail deposits in their total deposit base. Some of our competitors also offer products and services that we do not, which may add to their total deposits. Consumers also have the ability to utilize online financial institutions and investment brokerages that are not confined to any specific market area. Management considers our well-established retail banking network together with our reputation for financial strength and customer service to be major factors in our success at attracting and retaining customers in our market areas.

The Bank consistently has been one of the top one- to four-family lenders with regard to mortgage loan origination volume in the state of Kansas. Through our strong relationships with real estate agents and marketing efforts, which reflect our reputation, and pricing, we attract mortgage loan business from walk-in customers, customers that apply online, and existing customers. Competition in originating one- to four-family loans primarily comes from other savings institutions, commercial banks, credit unions, and mortgage bankers. Other savings institutions, commercial banks, credit unions, and finance companies provide vigorous competition in consumer lending.

Lending Practices and Underwriting Standards

General. Originating and purchasing loans secured by one- to four-family residential properties is the Bank's primary lending business, resulting in a loan concentration in residential first mortgage loans secured by properties located in Kansas and Missouri. The Bank also originates consumer loans and construction loans secured by residential properties, and originates and participates in commercial loans.

On August 31, 2018, the Bank acquired loans from CCB with fair values of $299.7 million as of that date. The acquired loans are included in the September 30, 2018 loan discussions and tables, where applicable, throughout this Annual Report on Form 10-K.

One- to Four-Family Residential Real Estate Lending. The Bank originates and services one- to four-family loans that are not guaranteed or insured by the federal government, and purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders.

Originated Loans

While the Bank originates both fixed- and adjustable-rate loans, our origination volume is dependent upon customer demand for loans in our market areas. Demand is affected by the local housing market, competition, and the interest rate environment. During fiscal years 2018 and 2017, the Bank originated and refinanced $543.5 million and $619.0 million of one- to four-family loans, respectively.

Correspondent Purchased Loans
The Bank purchases one- to four-family loans, on a loan-by-loan basis, from a select group of correspondent lenders. Loan purchases enable the Bank to attain geographic diversification in the loan portfolio. At September 30, 2018, the Bank had correspondent lending relationships in 28 states and the District of Columbia. During fiscal years 2018 and 2017, the Bank

purchased $391.6 million and $563.2 million, respectively, of one- to four-family loans from correspondent lenders. We generally pay a premium of 0.50% to 1.0% of the loan balance to purchase these loans, and we pay 1.0% of the loan balance to purchase the servicing of these loans.

The Bank has an agreement with a third-party mortgage sub-servicer to service loans originated by the Bank's correspondent lenders in certain states. The sub-servicer has experience servicing loans in the market areas in which the Bank purchases loans and services the loans according to the Bank's servicing standards, which is intended to allow the Bank greater control over servicing and reporting and help maintain a standard of loan performance.

Bulk Purchased Loans
In the past, the Bank has also purchased one- to four-family loans from correspondent and nationwide lenders in bulk loan packages. The last bulk loan package purchase by the Bank was in August 2012. The Bank no longer purchases bulk loan packages. See "Part I, Item 1A. Risk Factors" for additional information regarding why the Bank no longer purchases bulk loan packages.

The servicing rights associated with bulk purchased loans were generally retained by the lender/seller for the loans purchased from nationwide lenders. The servicing by nationwide lenders is governed by a servicing agreement, which outlines collection policies and procedures, as well as oversight requirements, such as servicer certifications attesting to and providing proof of compliance with the servicing agreement.

At September 30, 2018, $194.1 million, or 66% of the Bank's bulk purchased loan portfolio, are loans guaranteed by one seller. Based on the historical performance of these loans and the seller, the Bank believes the seller has the financial ability to repurchase or replace loans if any loans were to become delinquent. The Bank has not experienced any losses with this group of loans since the loan package was purchased in August 2012. For the $99.5 million of bulk purchased loans at September 30, 2018 that do not have the above noted guarantee, the Bank has continued to experience a reduction in loan losses due to an improvement in collateral values. A large portion of these loans were originally interest-only loans with interest-only terms up to 10 years. All of the bulk purchased interest-only loans are now fully amortizing loans.

Underwriting
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"). Information pertaining to the creditworthiness of the borrower generally consists of a summary of the borrower's credit history, employment stability, sources of income, assets, net worth, and debt ratios. The value of the subject property must be supported by an appraisal report prepared in accordance with our appraisal policy by either a staff appraiser or a fee appraiser, both of which are independent of the loan origination function and who are approved by our Board of Directors.

Loans over $550 thousand, up to and including $800 thousand, must be underwritten by two senior underwriters. Loans over $800 thousand, up to and including $3.0 million, must be approved by our Asset and Liability Management Committee ("ALCO"), while loans over $3.0 million must be approved by our Board of Directors. For loans requiring ALCO and/or Board of Directors' approval, lending management is responsible for presenting to ALCO and/or the Board of Directors information about the creditworthiness of the borrower and the market value of the subject property.

The underwriting standards for loans purchased from correspondent and nationwide lenders are generally similar to the Bank's internal underwriting standards. The underwriting of correspondent loans is performed by the Bank's underwriters. Our standard contractual agreement with the lender/seller includes recourse options for any breach of representation or warranty with respect to the loans purchased. The Bank did not request any lenders/sellers to repurchase loans for breach of representation during fiscal year 2018.

Adjustable-rate Mortgage ("ARM") Loans
ARM loans are offered with a three-year, five-year, or seven-year term to the initial repricing date. After the initial period, the interest rate for each ARM loan adjusts annually for the remainder of the term of the loan. Currently, the repricing index for loan originations and correspondent purchases is tied to London Interbank Offered Rates ("LIBOR"); however, other indices have been used in the past. Current adjustable-rate one- to four-family loans originated by the Bank generally provide for a specified rate limit or cap on the periodic adjustment to the interest rate, as well as a specified maximum

lifetime cap and minimum rate, or floor. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as our cost of funds. Negative amortization of principal is not allowed. For three- and five-year ARM loans, borrowers are qualified based on the principal, interest, tax, and insurance payments at the initial interest rate plus the life of loan cap and the initial interest rate plus the first period cap, respectively. For seven-year ARM loans, borrowers are qualified based on the principal, interest, tax, and insurance payments at the initial rate. After the initial three-, five-, or seven-year period, the interest rate resets annually and the new principal and interest payment is based on the new interest rate, remaining unpaid principal balance, and remaining term of the ARM loan. Our ARM loans are not automatically convertible into fixed-rate loans; however, we do allow borrowers to pay an endorsement fee to convert an ARM loan into a fixed-rate loan. ARM loans can pose greater credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment also rises, increasing the potential for default. This specific type of risk is known as repricing risk.

Pricing

Our pricing strategy for one- to four-family loan products includes setting interest rates based on secondary market prices and local competitor pricing for our local lending markets, and secondary market prices and national competitor pricing for our correspondent markets.

Mortgage Insurance

For a one- to four-family loan with a loan-to-value ("LTV") ratio in excess of 80% at the time of origination, private mortgage insurance ("PMI") is required in order to reduce the Bank's loss exposure. The Bank will lend up to 97% of the lesser of the appraised value or purchase price for one- to four-family loans, provided PMI is obtained. Management continuously monitors the claim-paying ability of our PMI counterparties. We believe our PMI counterparties have the ability to meet potential claim obligations we may file in the foreseeable future.

Repayment

The Bank's one- to four-family loans are primarily fully amortizing fixed-rate or ARM loans. The contractual maturities for fixed-rate loans and ARM loans can be up to 30 years; however, there are certain bulk purchased ARM loans that had original contractual maturities of 40 years. Our one- to four-family loans are generally not assumable and do not contain prepayment penalties. A "due on sale" clause, allowing the Bank to declare the unpaid principal balance due and payable upon the sale of the secured property, is generally included in the security instrument.

Construction Lending

The Bank originates construction and owner-occupied construction-to-permanent loans secured by one- to four-family residential real estate. The majority of these loans are secured by property located within the Bank's Kansas City market area. At September 30, 2018, we had $33.1 million in one- to four-family construction loans outstanding, representing 0.4% of our total loan portfolio, of which $27.1 million were owner occupied construction-to-permanent loans.

The application process for a construction loan includes submission of complete plans, specifications, and costs of the project to be constructed. All construction loans are manually underwritten using the Bank's internal underwriting standards. Construction draw requests and the supporting documentation are reviewed and approved by authorized management or experienced construction loan personnel. The Bank also performs regular documented inspections of the construction project to ensure the funds are being used for the intended purpose. Interest is not capitalized during the construction period; it is billed and collected monthly based on the amount of funds disbursed.

The Bank's owner occupied construction-to-permanent loan program combines the construction loan and the permanent loan into one loan, allowing the borrower to secure the same interest rate structure throughout the construction period and the permanent loan term. Once the construction period is complete on an owner-occupied construction-to-permanent loan, the payment method is changed from interest-only to an amortized principal and interest payment for the remaining term of the loan.

Loan Endorsement Program

In an effort to offset the impact of repayments and to retain our customers, existing loan customers, including customers whose loans were purchased from a correspondent lender, have the opportunity, for a cash fee, to endorse their original loan terms to current loan terms being offered. Customers whose loans have been sold to third parties, or have been delinquent on their contractual loan payments during the previous 12 months, or are currently in bankruptcy, are not eligible to participate in this program. The Bank does not solicit customers for this program, but considers it a valuable opportunity to retain customers who, based on our initial underwriting criteria, could likely obtain similar financing elsewhere. During fiscal years 2018 and 2017, the Bank endorsed $19.4 million and $53.1 million of one- to four-family loans, respectively.

Loan Sales
One- to four-family loans may be sold on a bulk basis or on a flow basis as loans are originated. Loans originated by the Bank and purchased from correspondent lenders are generally eligible for sale in the secondary market. Loans are generally sold for portfolio restructuring purposes, to reduce interest rate risk and/or to maintain a certain liquidity position. The Bank generally retains the servicing on these loans. ALCO determines the criteria upon which one- to four-family loans are to be classified as held-for-sale or held-for-investment. One- to four-family loans classified as held-for-sale are to be sold in accordance with policies set forth by ALCO. During fiscal years 2018 and 2017, the Bank sold $16.6 million and $6.7 million of one- to four-family loans, respectively. The loans sold during fiscal years 2018 and 2017 were completed in order to test the Bank's loan sale processes for liquidity purposes.

Consumer Lending. 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 savings deposits. The Bank also originates a very limited amount of unsecured loans. The Bank does not originate any consumer loans on an indirect basis, such as contracts purchased from retailers of goods or services which have extended credit to their customers. Generally, consumer loans are originated in the Bank's market areas. At September 30, 2018, our consumer loan portfolio totaled $139.6 million, or approximately 2% of our total loan portfolio.

The majority of our consumer loan portfolio is comprised of home equity lines of credit which have adjustable interest rates. For a majority of the home equity lines of credit, the Bank has the first mortgage or the Bank is in the first lien position. Home equity lines of credit may be originated up to 90% of the value of the property securing the loan if no first mortgage exists, or up to 90% of the value of the property securing the loans if taking into consideration an existing first mortgage. Repaid principal may be re-advanced at any time during the draw period, not to exceed the original credit limit of the loan.

Closed-end home equity loans may be originated up to 95% of the value of the property securing the loans if taking into consideration an existing first mortgage, or the lesser of up to $40 thousand or 25% of the value of the property securing the loan if no first mortgage exists. Generally, loan terms are more limiting and rates are higher for a loan in the second lien position. Home equity loans, including lines of credit and closed-end loans, comprised approximately 93% of our consumer loan portfolio, or $129.6 million, at September 30, 2018; of that amount, 86% were adjustable-rate.

The underwriting standards for consumer loans include a determination of the applicant's payment history on other debts and an assessment of the applicant's ability to meet existing obligations and payments on the proposed loan. Although creditworthiness of the 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.

Consumer loans generally have shorter terms-to-maturity or reprice more frequently, usually without periodic caps, which reduces our exposure to credit risk and changes in interest rates, and usually carry higher rates of interest than do one- to four-family loans. However, consumer loans may entail greater credit risk than do one- to four-family loans, particularly in the case of consumer loans that are secured by rapidly depreciable assets, such as vehicles. Management believes that offering consumer loan products helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities.

Commercial Lending. At September 30, 2018, the Bank's commercial loans totaled $569.6 million, or approximately 8% of our total loan portfolio. Of this amount, $296.4 million were participation loans. Total undisbursed loan amounts related to commercial loans were $187.3 million, resulting in a total commercial loan concentration of $756.9

million at September 30, 2018. During fiscal year 2018 and 2017, the Bank entered into commercial real estate loan participations of $135.8 million and $67.7 million, respectively. With the acquisition of CCB, the Bank began offering more commercial lending products.

At September 30, 2018, the Bank's commercial real estate loan portfolio totaled $506.7 million or approximately 89% of our commercial loan portfolio. Our commercial real estate loans include a variety of property types, including hotels, office and retail buildings, senior housing facilities, and multi-family dwellings located in Texas, Missouri, Kansas, Kentucky, Nebraska, Colorado, Arkansas, California, Montana, and Arizona. Our largest commercial real estate loan was $50.0 million at September 30, 2018. This loan was current according to its terms at September 30, 2018.

At September 30, 2018, the Bank's commercial and industrial loan portfolio totaled $62.9 million, or approximately 11% of our commercial loan portfolio. The Bank's commercial and industrial loan portfolio consists largely of loans secured by accounts receivable, inventory and equipment. The majority of the Bank's commercial and industrial loan portfolio was purchased as part of the CCB acquisition.

Underwriting

The Bank performs more extensive due diligence in underwriting commercial loans than loans secured by one- to four-family residential properties due to the larger loan amounts, the more complex sources of repayment and the riskier nature of such loans. When participating in a commercial real estate loan, the Bank performs the same underwriting procedures as if the loan was being originated by the Bank. The primary source of repayment is funds from the operation of the subject property. For secondary sources of repayment, the Bank generally requires personal guarantees and also evaluates the real estate collateral.

When underwriting a commercial real estate loan, several factors are considered, such as the income producing potential of the property to support the debt service, cash equity provided by the borrower, the financial strength of the borrower, tenant and/or guarantor(s), managerial expertise of the borrower or tenant, feasibility studies from the borrower or an independent third party, the marketability of the property and our lending experience with the borrower. For non-owner occupied properties, the Bank has a pre-lease requirement, depending on the property type, and overall strength of the credit.

The loan approval method uses a hierarchy of individual credit authorities. Loan relationships over $750 thousand, up to and including $10.0 million, are submitted to the Loan Committee for approval and also require the approval of both the Chief Lending Officer and the Chief Commercial Banking Officer. Loan relationships over $10.0 million, up to and including $40.0 million, are submitted to ALCO for approval and loan relationships over $40.0 million are submitted to the Board of Directors for approval.

For non-construction properties, the historical net operating income, which is the income derived from the operation of the property less all operating expenses, generally must be at least 1.20 times the required payments related to the outstanding debt (debt service coverage ratio) at the time of origination. For construction projects, the minimum debt service coverage ratio requirement of 1.20 applies to the projected cash flows, and the borrower must have successful experience with the construction and operation of properties similar to the subject property. As part of the underwriting process, the historical or projected cash flows are stressed under various scenarios to measure the viability of the project given adverse conditions.

Generally, our maximum LTV ratios conform to supervisory limits, including 65% for raw land, 75% for land development and 80% for commercial real estate loans. Full appraisals on properties securing these loans are performed by independent state certified fee appraisers. Additionally, the Bank has an independent third-party perform a review of each appraisal. The Bank generally requires at least 15% cash equity from the borrower for land acquisition, land development, and commercial real estate construction loans. For non-acquisition, development or construction loans, the equity may be from a combination of cash and the appraised value of the secured property.

Our commercial and industrial loans are primarily made in the Bank's market areas and are underwritten on the basis of the borrower's ability to service the debt from income. Other sources of repayment include the collateral underlying the loans and guarantees from business owners. 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. The increased risk in commercial and industrial loans is 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. Significant adverse changes in borrowers' industries and businesses could cause a rapid decline in the values of, and collectability associated with, business assets securing the loans, which could result in inadequate collateral coverage of our commercial and industrial loans. Additionally, commercial and industrial loans secured by accounts receivable may be substantially dependent on the ability of the borrower to collect amounts due from clients and loans secured by inventory and equipment are subject to depreciation over time and may be difficult to appraise. As a result of these additional complexities, variables and risks, commercial and industrial loans require more thorough underwriting and servicing than other types of commercial loans.

Loan Terms
Commercial loans generally have amortization terms of 15 to 30 years and maturities ranging from 90 days to 20 years, which generally requires balloon payments of the remaining principal balance.

Commercial loans have either fixed or adjustable interest rates based on prevailing market rates. The interest rate on adjustable-rate loans is based on a variety of indices, but is generally determined through negotiation with the borrower or determined by the lead bank in the case of a loan participation.

For a construction loan, generally, the Bank allows interest-only payments during the construction phase of a project and for a stabilization period of 6 to 12 months after occupancy. The Bank requires amortizing payments at the conclusion of the stabilization period.

Additionally, the Bank may include covenants in the loan agreement that allow the Bank to take action when deterioration in the financial strength of the project is detected to potentially prevent the credit from becoming impaired. The covenants are specific to each loan agreement, based on factors such as the purpose of funds, the collateral type, and the financial strength of the project, the borrower and the guarantor, among other factors.

Monitoring of Risk
For the Bank's commercial real estate loan portfolio, borrowers with a loan principal balance of $1.5 million or more are required to provide financial information annually, including borrower financial statements, subject property rental rates and income, maintenance costs, an update of real estate property tax and insurance payments, and personal financial information for the guarantor(s). The annual review process for loans with a principal balance of $1.5 million or more allows the Bank to monitor compliance with loan covenants and review the borrower's performance, including cash flows from operations, debt service coverage, and comparison of performance to projections and year-over-year performance trending. Additionally, the Bank performs a site visit, schedules a drive-by site visit or obtains an update from the lead bank to obtain information regarding the maintenance of the property and surrounding area. Depending on the financial strength of the project and/or the complexity of the borrower's financials, the Bank may also perform a global analysis of cash flows to account for all other properties owned by the borrower or guarantor. If signs of weakness are identified, the Bank may begin performing more frequent financial and/or collateral reviews or will initiate contact with the borrower, or the lead bank will contact the borrower if the loan is a participation loan, to ensure cash flows from operations are maintained at a satisfactory level to meet the debt requirements. Both macro-level and loan-level stress-test scenarios based on existing and forecasted market conditions are part of the on-going portfolio management process for the commercial real estate portfolio.

Commercial real estate construction lending generally involves a greater degree of risk than commercial real estate lending. Repayment of a construction loan is, to a great degree, dependent upon the successful and timely completion of the construction of the subject property. Construction delays, slower than anticipated stabilization or the financial impairment of the builder may negatively affect the borrower's ability to repay the loan. The Bank takes these risks into consideration during the underwriting process including the requirement of personal guarantees. The Bank mitigates the risk of commercial real estate construction lending during the construction period by monitoring inspection reports from an independent third-party, project budget, percentage of completion, on-site inspections and percentage of advanced funds.

Commercial and industrial loans are monitored through a review of borrower performance as indicated by borrower financial statements, borrowing base reports, accounts receivable aging reports, and inventory aging reports. These reports are required to be provided by the borrowers monthly, quarterly, or annually depending on the nature of the borrowing relationship.

Our commercial loans are generally large dollar loans and involve a greater degree of credit risk than one- to four-family loans. Because payments on these loans are often dependent on the successful operation or management of the properties and/or businesses, repayment of such loans may be subject to adverse conditions in the economy, the borrower's line of business, and/or the real estate market. If the cash flows from the project or business operation is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may become impaired. The Bank regularly monitors the level of risk in the portfolio, including concentrations in such factors as geographic locations, collateral types, tenant brand name, borrowing relationships, and lending relationships in the case of participation loans, among other factors.

Loan Portfolio. The following table presents the composition of our loan portfolio as of the dates indicated.

| | September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Per |
| | (Dollars in thousands) | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | $3,965,692 | 52.8 % | $3,959,232 | 55.1 % | $4,005,615 | 57.6 % | $4,010,424 | 60.6 % | $3,978,342 | 63. |
| Correspondent purchased | 2,505,987 | 33.4 | 2,445,311 | 34.0 | 2,206,072 | 31.7 | 1,846,210 | 27.9 | 1,431,745 | 23. |
| Bulk purchased | 293,607 | 3.9 | 351,705 | 4.9 | 416,653 | 6.0 | 485,682 | 7.3 | 561,890 | 9.0 |
| Construction | 33,149 | 0.4 | 30,647 | 0.4 | 39,430 | 0.6 | 29,552 | 0.4 | 33,378 | 0.5 |
| Total | 6,798,435 | 90.5 | 6,786,895 | 94.4 | 6,667,770 | 95.9 | 6,371,868 | 96.2 | 6,005,355 | 96. |
| Commercial: | | | | | | | | | | |
| Commercial real estate | 426,243 | 5.7 | 183,030 | 2.6 | 110,768 | 1.6 | 109,314 | 1.6 | 75,677 | 1.2 |
| Commercial and industrial | 62,869 | 0.9 | — | — | — | — | — | — | — | — |
| Construction | 80,498 | 1.1 | 86,952 | 1.2 | 43,375 | 0.6 | 11,523 | 0.2 | 21,465 | 0.3 |
| Total | 569,610 | 7.7 | 269,982 | 3.8 | 154,143 | 2.2 | 120,837 | 1.8 | 97,142 | 1.5 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 129,588 | 1.7 | 122,066 | 1.7 | 123,345 | 1.8 | 125,844 | 1.9 | 130,484 | 2.1 |
| Other | 10,012 | 0.1 | 3,808 | 0.1 | 4,264 | 0.1 | 4,179 | 0.1 | 4,537 | 0.1 |
| Total | 139,600 | 1.8 | 125,874 | 1.8 | 127,609 | 1.9 | 130,023 | 2.0 | 135,021 | 2.2 |
| Total loans receivable | 7,507,645 | 100.0% | 7,182,751 | 100.0% | 6,949,522 | 100.0% | 6,622,728 | 100.0% | 6,237,518 | 10( |
| | | | | | | | | | | |
| Less: | | | | | | | | | | |
| ACL | 8,463 | | 8,398 | | 8,540 | | 9,443 | | 9,227 | |
| Discounts/unearned loan fees | 33,933 | | 24,962 | | 24,933 | | 24,213 | | 23,687 | |
| Premiums/deferred costs | (49,236 ) | | (45,680 ) | | (41,975 ) | | (35,955 ) | | (28,566 ) | |
| Total loans receivable, net | $7,514,485 | | $7,195,071 | | $6,958,024 | | $6,625,027 | | $6,233,170 | |

9

The following table presents the contractual maturity of our loan portfolio, along with associated weighted average yields, at September 30, 2018. Loans 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.

| | One- to Four-Family | | Commercial | | Construction[2] | | Home Equity[3] | | Other | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount |
| | (Dollars in thousands) | | | | | | | | | | |
| Amounts due: | | | | | | | | | | | |
| Within one year[1] | $12,237 | 4.75% | $52,595 | 6.06% | $113,175 | 4.62 % | $6,350 | 5.83% | $1,643 | 7.23% | $186,000 |
| After one year: | | | | | | | | | | | |
| Over one to two | 6,125 | 4.44 | 18,842 | 4.32 | 472 | 14.15 | 1,290 | 6.73 | 1,539 | 6.12 | 28,268 |
| Over two to three | 8,542 | 4.71 | 121,615 | 4.06 | — | — | 841 | 5.87 | 1,595 | 5.21 | 132,593 |
| Over three to five | 40,201 | 3.95 | 40,517 | 5.31 | — | — | 2,571 | 5.78 | 4,654 | 4.80 | 87,943 |
| Over five to ten | 577,293 | 3.40 | 135,320 | 4.74 | — | — | 15,230 | 6.12 | 581 | 6.45 | 728,424 |
| Over ten to fifteen | 1,148,918 | 3.32 | 56,917 | 4.74 | — | — | 43,945 | 6.00 | — | — | 1,249,780 |
| After fifteen years | 4,971,970 | 3.69 | 63,306 | 4.47 | — | — | 59,361 | 5.86 | — | — | 5,094,637 |
| Total due after one year | 6,753,049 | 3.60 | 436,517 | 4.55 | 472 | 14.15 | 123,238 | 5.95 | 8,369 | 5.23 | 7,321,645 |
| Totals loans | $6,765,286 | 3.61 | $489,112 | 4.71 | $113,647 | 4.66 | $129,588 | 5.94 | $10,012 | 5.56 | 7,507,645 |
| Less: | | | | | | | | | | | |
| ACL | | | | | | | | | | | 8,463 |
| Discounts/unearned loan fees | | | | | | | | | | | 33,933 |
| Premiums/deferred costs | | | | | | | | | | | (49,236 ) |
| Total loans receivable, net | | | | | | | | | | | $7,514,485 |

(1) Includes demand loans, loans having no stated maturity, and overdraft loans.

(2) Construction loans are presented based upon the estimated term to complete construction. See "One- to Four-Family Residential Real Estate Lending - Construction Lending" above for more information regarding our construction-to-permanent loan program.

(3) For home equity loans that were not acquired from CCB, which represent the majority of the home equity loan portfolio, the maturity date calculated assumes the borrower always makes the required minimum payment. The majority of interest-only home equity lines of credit assume a balloon payment of unpaid principal at 120 months, while other home equity lines of credit generally assume a term of 240 months. For home equity loans acquired from CCB, which totaled $7.4 million at September 30, 2018, the maturity date reflected is the contractual maturity date.

The following table presents, as of September 30, 2018, the amount of loans due after September 30, 2019, and whether these loans have fixed or adjustable interest rates.

| | Fixed | Adjustable | Total |
|---|---|---|---|
| | (Dollars in thousands) | | |
| One- to four-family | $5,641,129 | $1,111,920 | $6,753,049 |
| Commercial | 280,735 | 155,782 | 436,517 |
| Construction | — | 472 | 472 |
| Consumer loans: | | | |
| Home equity | 13,527 | 109,711 | 123,238 |
| Other | 5,408 | 2,961 | 8,369 |
| Total | $5,940,799 | $1,380,846 | $7,321,645 |

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.

For one- to four-family loans and consumer loans, when a borrower fails to make a loan payment within 10 to 15 days after the due date, a late charge is assessed and a notice is mailed. Collection personnel review all delinquent loan accounts more than 16 days past due. Attempts to contact the borrower occur by personal letter and, if no response is received, by telephone, with the purpose of establishing repayment arrangements for the borrower to bring the loan current. Repayment arrangements must be approved by a designated bank employee. For residential mortgage loans serviced by the Bank, beginning at approximately the 31$^{st}$ day of delinquency, and again at approximately the 50$^{th}$ day of delinquency, information notices are mailed to borrowers to inform them of the availability of payment assistance programs. Borrowers are encouraged to contact the Bank to initiate the process of reviewing such opportunities. Once a loan becomes 90 days delinquent, assuming a loss mitigation solution is not actively in process, a demand letter is issued requiring the loan be brought current or foreclosure procedures will be implemented. Generally, when a loan becomes 120 days delinquent, and an acceptable repayment plan or loss mitigation solution has neither been established nor is in the process of being negotiated, the loan is forwarded to legal counsel to initiate foreclosure. We also monitor whether borrowers who have filed for bankruptcy are meeting their obligation to pay the mortgage debt in accordance with the terms of the bankruptcy petition.

For purchased loans serviced by a third party, we monitor delinquencies using reports received from the servicers. The reports generally provide total principal and interest due and length of delinquency, and are used to prepare monthly management reports and perform delinquent loan trend analysis. The information from the sub-servicer of our correspondent loans is generally received during the first week of the month while the information from the servicers of our bulk loans is received later in the month. Management also utilizes information from the servicers to monitor property valuations and identify the need to charge-off loan balances.

For commercial loans originated by the Bank, when a borrower fails to make a loan payment within 10 to 15 days after the due date, a late notice is mailed. If the loan becomes 30 days or more past due, the Bank begins collection efforts including sending legal notices for payment collection and contacting the borrower by telephone. The primary purpose of such contact is to notify the borrower of the past due payment in case the loan payment was misplaced or lost and to identify any changes in the borrower's income flow that may affect future loan performance. If it is determined that future loan performance may be adversely affected, the Bank initiates discussions with the borrower regarding plans to ensure cash flow from operations is sufficient to satisfy the debt requirements and meet the loan covenants. Generally, once a loan becomes 90 days delinquent, foreclosure procedures are initiated. For participation loans, the lead bank is responsible for all collection efforts and contact with the borrower. However, if the Bank does not receive an expected payment on a participation loan, the Bank contacts the lead bank to determine the cause of the late payment and to initiate discussions with the lead bank of collection efforts, as necessary. See "Lending Practices and Underwriting Standards – Commercial Lending – Monitoring of Risk" for additional information.

Delinquent and non-performing loans and other real estate owned ("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 September 30, 2018, 2017, and 2016, approximately 74%, 67%, and 75%, respectively, were 59 days or less delinquent.

| | Loans Delinquent for 30 to 89 Days at September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | | | |
| One- to four-family: | | | | | | |
| Originated | 129 | $10,647 | 129 | $13,257 | 143 | $13,593 |
| Correspondent purchased | 18 | 3,803 | 8 | 1,827 | 9 | 3,329 |
| Bulk purchased | 15 | 3,502 | 22 | 3,194 | 21 | 5,008 |
| Commercial | 6 | 322 | — | — | — | — |
| Consumer | 38 | 533 | 35 | 500 | 41 | 697 |
| | 206 | $18,807 | 194 | $18,778 | 214 | $22,627 |
| Loans 30 to 89 days delinquent to total loans receivable, net | | 0.25 % | | 0.26 % | | 0.33 % |

12

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, OREO one-to four-family properties acquired in settlement of loans were owned by the Bank, on average, for approximately four months before the properties were sold.

| | September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
| | 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 | 67 | $5,040 | 67 | $5,515 | 73 | $8,190 | 66 | $6,728 | 82 | $7,880 |
| Correspondent purchased | 1 | 449 | 1 | 91 | 3 | 985 | 1 | 394 | 2 | 709 |
| Bulk purchased | 11 | 3,045 | 13 | 3,371 | 28 | 7,323 | 36 | 8,898 | 28 | 7,120 |
| Commercial | — | — | — | — | — | — | — | — | — | — |
| Consumer | 30 | 569 | 22 | 410 | 31 | 529 | 28 | 509 | 29 | 410 |
| | 109 | 9,103 | 103 | 9,387 | 135 | 17,027 | 131 | 16,529 | 141 | 16,119 |
| Loans 90 or more days delinquent or in foreclosure as a percentage of total loans | | 0.12 % | | 0.13 % | | 0.24 % | | 0.25 % | | 0.26 % |
| Nonaccrual loans less than 90 Days Delinquent:[1] | | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | 19 | $1,482 | 50 | $4,567 | 70 | $8,956 | 77 | $9,004 | 67 | $7,473 |
| Correspondent purchased | 2 | 396 | 8 | 1,690 | 9 | 2,786 | 1 | 25 | 4 | 553 |
| Bulk purchased | — | — | 4 | 846 | 1 | 31 | 1 | 82 | 5 | 724 |
| Consumer | 2 | 9 | 7 | 113 | 12 | 328 | 12 | 295 | 2 | 45 |
| | 23 | 1,887 | 69 | 7,216 | 92 | 12,101 | 91 | 9,406 | 78 | 8,795 |
| Total non-performing loans | 132 | 10,990 | 172 | 16,603 | 227 | 29,128 | 222 | 25,935 | 219 | 24,914 |
| Non-performing loans as a percentage of total loans | | 0.15 % | | 0.23 % | | 0.42 % | | 0.39 % | | 0.40 % |

| | September 30, 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Amount | Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | | | | | | | |
| OREO: | | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated[2] | 8 | $843 | 4 | $58 | 12 | $692 | 29 | $1,752 | 25 | $2,040 |
| Correspondent purchased | — | — | — | — | 1 | 499 | 1 | 499 | 1 | 179 |
| Bulk purchased | 1 | 454 | 5 | 1,279 | 4 | 1,265 | 2 | 796 | 2 | 575 |
| Commercial | 1 | 600 | — | — | — | — | — | — | — | — |
| Consumer | — | — | 1 | 67 | — | — | 1 | 8 | — | — |
| Other | — | — | — | — | 1 | 1,278 | 1 | 1,278 | 1 | 1,300 |
| | 10 | 1,897 | 10 | 1,404 | 18 | 3,734 | 34 | 4,333 | 29 | 4,094 |
| Total non-performing assets | 142 | $12,887 | 182 | $18,007 | 245 | $32,862 | 256 | $30,268 | 248 | $29,008 |
| Non-performing assets as a percentage of total assets | | 0.14 % | | 0.20 % | | 0.35 % | | 0.31 % | | 0.29 % |

(1) Represents loans required to be reported as nonaccrual pursuant to regulatory reporting requirements, even if the loans are current. The decrease in the balance of these loans at September 30, 2017 compared to September 30, 2016 was due to fewer loans being classified as troubled debt restructurings ("TDRs") as a result of management refining its methodology for assessing whether a loan modification qualifies as a TDR. At September 30, 2018, 2017, 2016, 2015, and 2014, this amount was comprised of $1.1 million, $1.8 million, $2.3 million, $2.2 million, and $1.1 million, respectively, of loans that were 30 to 89 days delinquent and were reported as such, and $800 thousand, $5.4 million, $9.8 million, $7.2 million, and $7.7 million, respectively, of loans that were 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 amount of interest income on nonaccrual loans and TDRs as of September 30, 2018 included in interest income was $1.1 million for the year ended September 30, 2018. The amount of additional interest income that would have been recorded on nonaccrual loans and TDRs as of September 30, 2018, if they had performed in accordance with their original terms, was $90 thousand for the year ended September 30, 2018.

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 September 30, 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 September 30, 2018, potential losses, after taking into consideration anticipated PMI proceeds and estimated selling costs, have been charged-off.

| | One- to Four-Family | | Loans 30 to 89 Days Delinquent | | Loans 90 or More Days Delinquent or in Foreclosure | | |
|---|---|---|---|---|---|---|---|
| State | Amount | % of Total | Amount | % of Total | Amount | % of Total | LTV |
| | (Dollars in thousands) | | | | | | |
| Kansas | $3,640,185 | 53.8 % | $9,186 | 51.2 % | $4,765 | 55.8 % | 62 % |
| Missouri | 1,236,483 | 18.3 | 3,320 | 18.5 | 1,060 | 12.4 | 62 |
| Texas | 743,013 | 11.0 | 1,848 | 10.3 | 450 | 5.3 | 45 |
| Tennessee | 226,820 | 3.3 | — | — | — | — | n/a |
| California | 195,710 | 2.9 | — | — | — | — | n/a |
| Pennsylvania | 108,818 | 1.6 | 299 | 1.6 | — | — | n/a |
| Georgia | 94,604 | 1.4 | — | — | 391 | 4.6 | 50 |
| Alabama | 91,526 | 1.3 | — | — | — | — | n/a |
| North Carolina | 64,596 | 1.0 | — | — | 122 | 1.4 | 79 |
| Other states | 363,531 | 5.4 | 3,299 | 18.4 | 1,746 | 20.5 | 67 |
| | $6,765,286 | 100.0% | $17,952 | 100.0% | $8,534 | 100.0% | 61 |

Troubled Debt Restructurings. For borrowers experiencing financial difficulties, the Bank may grant a concession to the borrower, resulting in a TDR. Such concessions generally involve extensions of loan maturity dates, the granting of periods during which the payment of only interest and escrow is required, reductions in interest rates, and loans that have been discharged under Chapter 7 bankruptcy proceedings where the borrower has not reaffirmed the debt. The Bank does not forgive principal or interest, nor does it commit to lend additional funds, except for situations generally involving the capitalization of delinquent interest and/or escrow not to exceed the original loan balance, to these borrowers. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies and Note 5. Loans Receivable and Allowance for Credit Losses" for additional information related to TDRs.

The following table presents the Company's TDRs, based on accrual status, at the dates indicated.

| | September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | | | |
| Accruing TDRs | $20,216 | $27,383 | $23,177 | $24,331 | $24,636 |
| Nonaccrual TDRs(1) | 4,652 | 11,742 | 18,725 | 15,511 | 13,370 |
| Total TDRs | $24,868 | $39,125 | $41,902 | $39,842 | $38,006 |

(1) Nonaccrual TDRs are included in the non-performing loan table above.

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due, including principal and interest, according to the original contractual terms of the loan agreement. Interest income on impaired loans is recognized in the period collected unless the ultimate collection of principal is considered doubtful. The unpaid principal balance of loans reported as impaired at September 30, 2018, 2017, and 2016 was $29.9 million, $44.4 million, and $58.9 million, respectively. During the fourth quarter of fiscal year 2017, management refined its methodology for classifying loans as impaired which, though not material, resulted in fewer loans being classified as impaired in the current fiscal year.

See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies and Note 5. Loans Receivable and Allowance for Credit Losses" for additional information related to impaired loans.

Classified Assets. In accordance with the Bank's asset classification policy, management regularly reviews the problem assets in the Bank's portfolio to determine whether any assets require classification. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 5. Loans Receivable and Allowance for Credit Losses" for asset classification definitions.

The following table sets forth the recorded investment in assets, classified as either special mention or substandard, as of September 30, 2018. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 5. Loans Receivable and Allowance for Credit Losses" for information regarding asset classification definitions. At September 30, 2018, there were no loans classified as doubtful, and all loans classified as loss were fully charged-off.

| | Special Mention | | Substandard | |
|---|---|---|---|---|
| | Number | Amount | Number | Amount |
| | (Dollars in thousands) | | | |
| One- to four-family: | | | | |
| Originated | 76 | $8,660 | 255 | $22,409 |
| Correspondent purchased | 4 | 997 | 13 | 3,126 |
| Bulk purchased | — | — | 29 | 7,195 |
| Commercial | 3 | 2,377 | 1 | 1,368 |
| Consumer Loans: | | | | |
| Home equity | 14 | 298 | 57 | 894 |
| Other | — | — | 4 | 10 |
| Total loans | 97 | 12,332 | 359 | 35,002 |
| | | | | |
| OREO: | | | | |
| Originated | — | — | 8 | 843 |
| Bulk purchased | — | — | 1 | 454 |
| Commercial | — | — | 1 | 600 |
| Total OREO | — | — | 10 | 1,897 |
| Total classified assets | 97 | $12,332 | 369 | $36,899 |

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. Our ACL methodology considers a number of factors including the trend and composition of delinquent loans, trends in foreclosed property and short sale transactions and charge-off activity, the current status and trends of local and national employment levels, trends and current conditions in the real estate and housing markets, loan portfolio growth and concentrations, industry and peer charge-off activity and ACL ratios, and the Bank's ACL ratios. For our commercial loan portfolio, we also consider qualitative factors such as geographic locations, collateral types, tenant brand name, borrowing relationships, and lending relationships in the case of participation loans, among other factors. 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" for a full discussion of our ACL methodology. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 5. Loans Receivable and Allowance for Credit Losses" for additional information on the ACL.

16

The Bank did not record a provision for credit losses during the current fiscal year or during the prior fiscal year. 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 $65 thousand during the current fiscal year and net charge-offs were $142 thousand during the prior fiscal year. At September 30, 2018 and 2017, respectively, loans 30 to 89 days delinquent were 0.25% and 0.26% of total loans and loans 90 or more days delinquent or in foreclosure were 0.12% and 0.13% of total loans.

The following table presents ACL activity and related ratios at the dates and for the periods indicated. Using the Bank's annualized net historical loan losses from the Bank's ACL formula analysis model over the past five years, the Bank would have approximately 22 years of net loan loss coverage based on the ACL balance at September 30, 2018.

| | Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | | | |
| Balance at beginning of period | $8,398 | $8,540 | $9,443 | $9,227 | $8,822 |
| Charge-offs: | | | | | |
| One- to four-family: | | | | | |
| Originated | (136) | (72) | (200) | (424) | (284) |
| Correspondent | (128) | — | — | (11) | (96) |
| Bulk purchased | — | (216) | (342) | (228) | (653) |
| Total | (264) | (288) | (542) | (663) | (1,033) |
| Consumer: | | | | | |
| Home equity | (32) | (51) | (83) | (29) | (103) |
| Other | (6) | (9) | (5) | (43) | (6) |
| Total | (38) | (60) | (88) | (72) | (109) |
| Total charge-offs | (302) | (348) | (630) | (735) | (1,142) |
| Recoveries: | | | | | |
| One- to four-family: | | | | | |
| Originated | 144 | 4 | 77 | 56 | 1 |
| Bulk purchased | 196 | 165 | 374 | 58 | 64 |
| Total | 340 | 169 | 451 | 114 | 65 |
| Consumer: | | | | | |
| Home equity | 22 | 26 | 25 | 64 | 72 |
| Other | 5 | 11 | 1 | 2 | 1 |
| Total | 27 | 37 | 26 | 66 | 73 |
| Total recoveries | 367 | 206 | 477 | 180 | 138 |
| Net recoveries (charge-offs) | 65 | (142) | (153) | (555) | (1,004) |
| Provision for credit losses | — | — | (750) | 771 | 1,409 |
| Balance at end of period | $8,463 | $8,398 | $8,540 | $9,443 | $9,227 |
| Ratio of net charge-offs during the period to average loans outstanding during the period | — % | — % | — % | 0.01 % | 0.02 % |
| Ratio of net (recoveries) charge-offs during the period to average non-performing assets | (0.42) | 0.56 | 0.48 | 1.87 | 3.38 |
| ACL to non-performing loans at end of period | 77.01 | 50.58 | 29.32 | 36.41 | 37.04 |
| ACL to loans receivable, net at end of period | 0.11 | 0.12 | 0.12 | 0.14 | 0.15 |
| ACL to net charge-offs | N/M[(1)] | 58.9x | 55.8x | 17.0x | 9.2x |

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

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

| | September 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | | 2015 | | 2014 | |
| | Amount of ACL | % of Loans to Total Loans | Amount of ACL | % of Loans to Total Loans | Amount of ACL | % of Loans to Total Loans | Amount of ACL | % of Loans to Total Loans | Amount of ACL | % of Loans to Total Loans |
| | (Dollars in thousands) | | | | | | | | | |
| One- to four-family: | | | | | | | | | | |
| Originated | $2,933 | 52.8 % | $3,149 | 55.1 % | $3,892 | 57.6 % | $4,833 | 60.6 % | $6,228 | 86.0 % |
| Correspondent purchased(1) | 1,861 | 33.4 | 1,922 | 34.0 | 2,102 | 31.7 | 2,115 | 27.9 | N/A | N/A |
| Bulk purchased | 925 | 3.9 | 1,000 | 4.9 | 1,065 | 6.0 | 1,434 | 7.3 | 2,323 | 8.9 |
| Construction | 20 | 0.4 | 24 | 0.4 | 36 | 0.6 | 32 | 0.4 | 35 | 1.1 |
| Total | 5,739 | 90.5 | 6,095 | 94.4 | 7,095 | 95.9 | 8,414 | 96.2 | 8,586 | 96.0 |
| Commercial: | | | | | | | | | | |
| Commercial real estate | 1,801 | 5.7 | 1,242 | 2.6 | 774 | 1.6 | 604 | 1.6 | 312 | 1.2 |
| Commercial and industrial | 21 | 0.8 | — | — | — | — | — | — | — | — |
| Construction | 734 | 1.1 | 870 | 1.2 | 434 | 0.6 | 138 | 0.2 | 88 | 0.6 |
| Total | 2,556 | 7.6 | 2,112 | 3.8 | 1,208 | 2.2 | 742 | 1.8 | 400 | 1.8 |
| Consumer loans: | | | | | | | | | | |
| Home equity | 129 | 1.8 | 159 | 1.7 | 187 | 1.8 | 222 | 1.9 | 211 | 2.1 |
| Other consumer | 39 | 0.1 | 32 | 0.1 | 50 | 0.1 | 65 | 0.1 | 30 | 0.1 |
| Total consumer loans | 168 | 1.9 | 191 | 1.8 | 237 | 1.9 | 287 | 2.0 | 241 | 2.2 |
| | $8,463 | 100.0% | $8,398 | 100.0% | $8,540 | 100.0% | $9,443 | 100.0% | $9,227 | 100.0% |

(1) The disaggregation of data related to correspondent purchased loans is not available for years prior to fiscal year 2015. For fiscal year 2014, correspondent purchased amounts were combined with originated loans in the ACL formula analysis model.

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 September 30, 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" 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 September 30, 2018.

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including U.S. Treasury obligations; securities of various federal agencies; government-sponsored enterprises ("GSEs"), including callable agency securities; municipal bonds; certain certificates of deposit of insured banks and savings institutions; certain bankers' acceptances; repurchase agreements; and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in investment grade commercial paper, corporate debt securities, and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. As a member of FHLB, the Bank is required to maintain a specified investment in FHLB stock. See "Regulation and Supervision – Federal Home Loan Bank System" and "Office of the Comptroller of the Currency" for a discussion of additional restrictions on our investment activities.

ALCO considers various factors when making investment decisions, including the liquidity, credit, interest rate risk, and tax consequences of the proposed investment options. The composition of the investment portfolio will be affected by various market conditions, including the slope of the yield curve, the level of interest rates, the impact on the Bank's interest rate risk, the trend of net deposit flows, the volume of loan sales, repayments of borrowings, and loan originations and purchases.

The general objectives of the Bank's investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low, and to maximize earnings while satisfactorily managing liquidity risk, interest rate risk, reinvestment risk, and credit risk. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Cash flow projections are reviewed regularly and updated to ensure that adequate liquidity is maintained.

We classify securities as either trading, available-for-sale ("AFS"), or held-to-maturity ("HTM") at the date of purchase. Securities that are purchased and held principally for resale in the near future are classified as trading securities and are reported at fair value with unrealized gains and losses reported in the consolidated statements of income. AFS securities are reported at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income (loss) ("AOCI") within stockholders' equity, net of deferred income taxes. HTM securities are reported at cost, adjusted for amortization of premium and accretion of discount. We have both the ability and intent to hold our HTM securities to maturity.

On a quarterly basis, management conducts a formal review of securities for the presence of an other-than-temporary impairment. The process involves monitoring market events and other items that could impact issuers. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 1. Summary of Significant Accounting Policies" for additional information. Management does not believe any other-than-temporary impairments existed at September 30, 2018.

Investment Securities. Our investment securities portfolio consists primarily of debentures issued by GSEs (primarily Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC") and the Federal Home Loan Banks) and non-taxable municipal bonds. At September 30, 2018, our investment securities portfolio totaled $289.9 million. The portfolio consisted of securities classified as either HTM or AFS. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 4. Securities" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Investment Securities" for additional information.

Mortgage-Backed Securities. At September 30, 2018, our MBS portfolio totaled $1.04 billion. The portfolio consisted of securities classified as either HTM or AFS and were primarily issued by GSEs. The principal and interest payments of MBS issued by GSEs are collateralized by the underlying mortgage assets with principal and interest payments guaranteed by the GSEs. The underlying mortgage assets are conforming mortgages that comply with FNMA and FHLMC underwriting guidelines, as applicable, and are therefore not considered subprime. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 4. Securities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financial Condition – Mortgage-Backed Securities" for additional information.

MBS generally yield less than the loans that underlie such securities because of the servicing fee retained by the servicer and the cost of payment guarantees or credit enhancements retained by the GSEs that reduce credit risk. However, MBS are generally more liquid than individual mortgage loans and may be used to collateralize certain borrowings and public unit deposits of the Bank. In general, MBS issued or guaranteed by FNMA and FHLMC are weighted at no more than 20% for risk-based capital purposes compared to the 50% risk-weighting assigned to most non-securitized one- to four-family loans.

When securities are purchased for a price other than par value, the difference between the price paid and par is accreted to or amortized against the interest earned over the life of the security, depending on whether a discount or premium to par was paid. Movements in interest rates affect prepayment rates which, in turn, affect the average lives of MBS and the speed at which the discount or premium is accreted to or amortized against earnings.

At September 30, 2018, the MBS portfolio included $145.5 million of collateralized mortgage obligations ("CMOs"). CMOs are special types of MBS in which the stream of principal and interest payments on the underlying mortgages or MBS are used to create investment classes with different maturities and, in some cases, different amortization schedules, as well as a residual interest, with each such class possessing different risk characteristics. We do not purchase residual interest bonds.

While MBS issued by FNMA and FHLMC carry a reduced credit risk compared to whole mortgage loans, these securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of the underlying mortgage loans and consequently affect both the prepayment speed and value of the securities. As noted above, the Bank, on some transactions, pays a premium over par value on MBS purchased. Large premiums could cause significant negative yield adjustments due to accelerated prepayments on the underlying mortgages. The balance of net premiums on our portfolio of MBS at September 30, 2018 was $3.4 million.

The following table sets forth the composition of our investment and MBS portfolios as of the dates indicated. At September 30, 2018, our investment securities portfolio did not contain securities of any issuer with an aggregate book value in excess of 10% of our stockholders' equity, excluding those issued by GSEs. The HTM security portfolio had an unrealized loss of $11.2 million at September 30, 2018 compared to an unrealized gain of $5.3 million at September 30, 2017. The change from an unrealized gain position to an unrealized loss position was due primarily to an increase in market interest rates between periods.

| | September 30, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | | 2016 | | |
| | Carrying Value | % of Total | Fair Value | Carrying Value | % of Total | Fair Value | Carrying Value | % of Total | Fair Value |
| | (Dollars in thousands) | | | | | | | | |
| AFS: | | | | | | | | | |
| MBS | $445,090 | 62.3 % | $445,090 | $141,516 | 34.0 % | $141,516 | $178,507 | 33.9 % | $178,507 |
| GSE debentures | 265,398 | 37.1 | 265,398 | 270,729 | 65.1 | 270,729 | 347,038 | 65.8 | 347,038 |
| Trust Preferred Securities | — | — | — | 2,051 | 0.5 | 2,051 | 1,756 | 0.3 | 1,756 |
| Municipal bonds | 4,126 | 0.6 | 4,126 | 1,535 | 0.4 | 1,535 | — | — | — |
| | 714,614 | 100.0% | 714,614 | 415,831 | 100.0% | 415,831 | 527,301 | 100.0% | 527,301 |
| HTM: | | | | | | | | | |
| MBS | 591,900 | 96.7 % | 580,825 | 800,931 | 96.8 % | 806,096 | 1,067,571 | 97.0 % | 1,089,214 |
| Municipal bonds | 20,418 | 3.3 | 20,246 | 26,807 | 3.2 | 26,913 | 33,303 | 3.0 | 33,653 |
| | 612,318 | 100.0% | 601,071 | 827,738 | 100.0% | 833,009 | 1,100,874 | 100.0% | 1,122,867 |
| | $1,326,932 | | $1,315,685 | $1,243,569 | | $1,248,840 | $1,628,175 | | $1,650,168 |

The composition and maturities of the investment and MBS portfolio at September 30, 2018 are indicated in the following table by remaining contractual maturity, without consideration of call features or pre-refunding dates, along with associated weighted average yields.  Yields on tax-exempt investments are not calculated on a fully taxable equivalent basis.

| | 1 year or less | | More than 1 to 5 years | | More than 5 to 10 years | | Over 10 years | | Total Securities | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying Value | Yield | Carrying Value | Yield | Carrying Value | Yield | Carrying Value | Yield | Carrying Value | Yield | Fair Value |
| | (Dollars in thousands) | | | | | | | | | | |
| AFS: | | | | | | | | | | | |
| MBS | $525 | 4.18% | $25,130 | 3.80% | $78,104 | 3.13% | $341,331 | 2.96% | $445,090 | 3.04% | $445,090 |
| GSE debentures | 52,823 | 1.31 | 212,575 | 2.28 | — | — | — | — | 265,398 | 2.09 | 265,398 |
| Municipal bonds | 1,653 | 1.69 | 2,473 | 1.54 | — | — | — | — | 4,126 | 1.60 | 4,126 |
| | 55,001 | 1.35 | 240,178 | 2.43 | 78,104 | 3.13 | 341,331 | 2.96 | 714,614 | 2.68 | 714,614 |
| HTM: | | | | | | | | | | | |
| MBS | 843 | 3.63 | 97,587 | 1.50 | 308,982 | 2.09 | 184,488 | 2.78 | 591,900 | 2.21 | 580,825 |
| Municipal bonds | 4,161 | 1.31 | 16,257 | 1.61 | — | — | — | — | 20,418 | 1.55 | 20,246 |
| | 5,004 | 1.70 | 113,844 | 1.52 | 308,982 | 2.09 | 184,488 | 2.78 | 612,318 | 2.19 | 601,071 |
| | $60,005 | 1.37 | $354,022 | 2.14 | $387,086 | 2.30 | $525,819 | 2.90 | $1,326,932 | 2.45 | $1,315,685 |

Sources of Funds
General. Our 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.

Deposits. We offer a variety of retail deposit accounts, and with the acquisition of CCB, we began offering commercial deposit accounts and services. Our deposit account offerings have a wide range of interest rates and terms. Our deposits consist of savings accounts, money market deposit accounts, interest-bearing and non-interest-bearing checking accounts, and certificates of deposit. We rely primarily upon competitive pricing policies, marketing, and customer service to attract and retain deposits. The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates, and competition. The variety of deposit accounts we offer has allowed us to utilize strategic pricing to obtain funds and to respond with flexibility to changes in consumer demand. We seek to manage the pricing of our deposits in keeping with our asset and liability management, liquidity, and profitability objectives. Based on our experience, we believe that our deposits are stable sources of funds. Despite this stability, our ability to attract and maintain these deposits and the rates paid on them has been, and will continue to be, significantly affected by market conditions.

With the acquisition of CCB on August 31, 2018, we started obtaining interest-bearing deposits through the Promontory Interfinancial Network Insured Cash Sweep Service ("Promontory Cash Sweep deposits"). Through this service, customers elect to place their deposit account funds in deposit accounts at various members of the insured cash sweep network, which provides customers with access to additional FDIC insurance coverage. The average Promontory Cash Sweep deposits totaled $49.8 million during the month of September 2018.

The Board of Directors has authorized the utilization of brokers to obtain deposits as a source of funds. Depending on market conditions, the Bank may use brokered deposits to fund asset growth and gather deposits that may help to manage interest rate risk. No brokered deposits were acquired during fiscal year 2018 and there were no brokered deposits outstanding at September 30, 2018 or 2017.

The Board of Directors also has authorized the utilization of public unit deposits as a source of funds. In order to qualify to obtain such deposits, the Bank must have a branch in each county in which it collects public unit deposits and, by law, must pledge securities as collateral for all such balances in excess of the FDIC insurance limits. At September 30, 2018 and 2017, the balance of public unit certificates of deposit was $407.7 million and $460.0 million, respectively.

As of September 30, 2018, the Bank's policy allows for combined brokered and public unit deposits up to 15% of total deposits. At September 30, 2018, that amount was approximately 8% of total deposits.

Borrowings. We utilize borrowings when we need additional capacity to fund loan demand or when they help us meet our asset and liability management objectives. Historically, our term borrowings have consisted primarily of FHLB advances. FHLB advances may be made pursuant to several different credit programs, each of which has its own interest rate, maturity, repayment, and embedded options, if any. At September 30, 2018, $1.60 billion of our FHLB advances were fixed-rate advances with no embedded options and $475.0 million of our FHLB advances were variable-rate, also with no embedded options. The variable-rate advances are tied to interest rate swaps, effectively converting the adjustable-rate borrowings into fixed-rate liabilities. The Bank supplements FHLB borrowings with repurchase agreements, wherein the Bank enters into agreements with Board approved counterparties to sell securities under agreements to repurchase them. These agreements are recorded as financing transactions as the Bank maintains effective control over the transferred securities. Repurchase agreements are made at mutually agreed upon terms between counterparties and the Bank. The use of repurchase agreements allows for the diversification of funding sources and the use of securities that were not being leveraged as collateral. The Bank also regularly uses its FHLB line of credit as a source of funding. The Bank's internal policy limits total borrowings to 55% of total assets.

During fiscal year 2018, the Bank continued, at times, to utilize a leverage strategy (the "leverage strategy") to increase earnings. The leverage strategy during the current fiscal year involved borrowing up to $2.10 billion either on the Bank's FHLB line of credit or by entering into short-term FHLB advances, depending on the rates offered by FHLB. The borrowings were repaid prior to each quarter end, or earlier if the strategy was suspended. The proceeds of the borrowings, net of the required FHLB stock holdings, were deposited at the Federal Reserve Bank of Kansas City ("FRB of Kansas City"). Management suspended the strategy at times during fiscal year 2018 due to the negative interest rate spread, which

23

resulted in the strategy not being profitable. Management continues to monitor the net interest rate spread and overall profitability of the strategy. It is expected that the strategy will be reimplemented if it reaches a position that is profitable.

At September 30, 2018, we had $2.08 billion of FHLB advances, at par, outstanding. Total FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with FHLB. Per FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of Bank Call Report total assets without the pre-approval of FHLB senior management. In July 2018, the president of the FHLB renewed the approval of the increase in the Bank's borrowing limit to 55% of Bank Call Report total assets through July 2019. This approval was also in place throughout fiscal year 2018. 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 continue to 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.

At September 30, 2018, repurchase agreements totaled $100.0 million, or approximately 1% of total assets. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets and subject to the internal policy limit on total borrowings of 55%. The securities underlying the agreements continue to be reported in the Bank's securities portfolio. At September 30, 2018, we had securities with a fair value of $107.4 million pledged as collateral on repurchase agreements.

The following table sets forth certain information relating to the category of borrowings for which the average short-term balance outstanding during the period was at least 30% of stockholders' equity at the end of each period shown. The maximum balance, average balance, and weighted average contractual interest rate during the fiscal years shown reflect borrowings that were scheduled to mature within one year at any month-end during those years.

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| | (Dollars in thousands) | | |
| Short-Term FHLB Borrowings: | | | |
| Balance at end of period | $975,000 | $475,000 | $500,000 |
| Maximum balance outstanding at any month-end during the period | 2,975,000 | 2,675,000 | 2,600,000 |
| Average balance | 2,189,483 | 2,520,217 | 2,436,749 |
| Weighted average contractual interest rate during the period | 1.65 % | 1.27 % | 0.70 % |
| Weighted average contractual interest rate at end of period | 2.00 | 1.91 | 2.69 |

Subsidiary Activities

At September 30, 2018, the Company had one wholly-owned subsidiary, the Bank. The Bank provides a full range of retail banking services through 58 banking offices serving primarily the metropolitan areas of Topeka, Wichita, Lawrence, Manhattan, Emporia and Salina, Kansas and portions of the metropolitan area of greater Kansas City. At September 30, 2018, the Bank had two wholly-owned subsidiaries, Capitol Funds, Inc. and Capital City Investments, Inc. At September 30, 2018, Capitol Funds, Inc. had one wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company ("CFMRC"), which serves as a reinsurance company for certain PMI companies the Bank uses in its normal course of operations. CFMRC stopped writing new business for the Bank in January 2010. Capital City Investments, Inc. is a real estate and investment holding company. Each wholly-owned subsidiary is reported with the Company on a consolidated basis.

Regulation and Supervision

Set forth below is a description of certain laws and regulations that are applicable to Capitol Federal Financial, Inc. and the Bank.

General. The Bank, as a federally chartered savings bank, is subject to regulation and oversight by the OCC extending to all aspects of its operations. This regulation of the Bank is intended for the protection of depositors and other customers and not for the purpose of protecting the Company's stockholders. The Bank is required to maintain minimum levels of regulatory capital and is subject to some limitations on capital distributions to the Company. The Bank also is subject to regulation and examination by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law.

The Company is a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act ("HOLA"). As such, the Company is registered with the FRB and subject to the FRB regulations, examinations, supervision, and reporting requirements. In addition, the FRB has enforcement authority over the Company. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the Bank.

The OCC and FRB enforcement authority includes, among other things, the ability to assess civil monetary penalties, to issue cease-and-desist or removal orders, and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed. Except under certain circumstances, public disclosure of final enforcement actions by the OCC or the FRB is required by law.

Office of the Comptroller of the Currency. The investment and lending authority of the Bank is prescribed by federal laws and regulations and the Bank is prohibited from engaging in any activities not permitted by such laws and regulations.

As a federally chartered savings bank, the Bank is required to meet a Qualified Thrift Lender ("QTL") test. This test requires the Bank to have at least 65% of its portfolio assets, as defined by statute, in qualified thrift investments at month-end for 9 out of every 12 months on a rolling basis. Under an alternative test, the Bank's business must consist primarily of acquiring the savings of the public and investing in loans, while maintaining 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, the Bank is required to maintain a significant portion of its assets in residential housing related loans and investments. An institution that fails to qualify as a QTL based upon one of these tests is immediately subject to certain restrictions on its operations, including a prohibition against capital distributions, except with the prior approval of both the OCC and the FRB, as necessary to meet the obligations of a company controlling the institution. If the Bank fails the QTL test and does not regain QTL status within one year, or fails the test for a second time, the Company must immediately register as, and become subject to, the restrictions applicable to a bank holding company. The activities authorized for a bank holding company are more limited than are the activities authorized for a savings and loan holding company. Three years after failing the test, an institution must divest all investments and cease all activities not permissible for both a national bank and a savings association. Failure to meet the QTL test is a statutory violation subject to enforcement action. As of September 30, 2018, the Bank met the QTL test.

The Bank is subject to a 35% of total assets limit on non-real estate consumer loans, commercial paper and corporate debt securities, and a 20% limit on commercial non-mortgage loans. At September 30, 2018, the Bank was in compliance with these limits.

The Bank's relationship with its depositors and borrowers is regulated to a great extent by federal laws and regulations, especially in such matters as the ownership of savings accounts and the form and content of mortgage requirements. In addition, the branching authority of the Bank is regulated by the OCC. The Bank is generally authorized to branch nationwide.

The Bank is subject to a statutory lending limit on aggregate loans to one person or a group of persons combined because of certain common interests. The general limit is equal to 15% of our unimpaired capital and surplus, plus an additional 10% for loans fully secured by readily marketable collateral. At September 30, 2018, the Bank's lending limit under this restriction was $181.6 million. The Bank has no loans or loan relationships in excess of its lending limit. Total loan commitments and loans outstanding to the Bank's largest borrowing relationship totaled $50.0 million at September 30, 2018, all of which was current according to its terms.

The Bank is subject to periodic examinations by the OCC. During these examinations, the examiners may require the Bank to increase its ACL and/or recognize additional charge-offs based on their judgments, which can impact our capital and earnings. As a federally chartered savings bank, the Bank is subject to a semi-annual assessment, based upon its total assets, to fund the operations of the OCC.

The OCC has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure, and compensation and other employee benefits. Any institution regulated by the OCC that fails to comply with these standards must submit a compliance plan.

Insurance of Accounts and Regulation by the FDIC. The DIF of the FDIC insures deposit accounts in the Bank up to applicable limits. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to $250 thousand per separately insured deposit ownership right or category.

Under the FDIC's system for assessing insurance premiums, insured institutions that have not reported assets of $10 billion or more at the end of the quarter for at least four consecutive quarters on their Call Reports are assessed based on CAMELS component ratings and certain financial ratios. For these institutions, total base assessment rates currently range from 1.5 to 16 basis points for institutions with CAMELS composite ratings of 1 or 2, 3 to 30 basis points for those with a CAMELS composite score of 3, and 11 to 30 basis points for those with CAMELS composite scores of 4 or 5, all subject to adjustments. For the fiscal year ended September 30, 2018, the Bank paid $2.9 million in FDIC premiums. Assessment rates are applied to an institution's assessment base, which is its average consolidated total assets minus its average tangible equity during the assessment period.

An institution that has reported total assets at the end of the quarter of $10 billion or more for at least four consecutive quarters is assessed under a complex scorecard method employing many factors, including weighted average CAMELS ratings; a performance score; leverage ratio; ability to withstand asset-related stress; certain measures of concentration, core earnings, core deposits, credit quality, and liquidity; and a loss severity score and loss severity measure. Total base assessment rates for these institutions currently range from 1.5 to 40 basis points, subject to certain adjustments. For all institutions, the base assessment rates are expected to decrease when the reserve ratio increases to specified thresholds of 2% and 2.5%.

The FDIC has authority to increase insurance assessments, and any significant increases would have an adverse effect on the operating expenses and results of operations of the Company. Management cannot predict what assessment rates will be in the future. In an emergency, the FDIC may also impose a special assessment.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition, or violation that may lead to termination of our deposit insurance.

The Dodd-Frank Act requires large institutions to bear the burden of raising the reserve ratio from 1.15% to 1.35%. To implement this mandate, large and highly complex institutions must pay an annual surcharge of 4.5 basis points on their assessment base. If the DIF reserve ratio has not reached 1.35% by December 31, 2018, the FDIC plans to impose a shortfall assessment on large institutions on March 31, 2019.

Since established small institutions will be contributing to the DIF while the reserve ratio remains between 1.15% and 1.35% and the large institutions are paying a surcharge, the FDIC will provide assessment credits to the established small institutions for the portion of their assessments that contribute to the increase. When the reserve ratio reaches 1.38%, the FDIC will automatically apply an established small institution's assessment credit to reduce its regular deposit insurance assessments.

FDIC-insured institutions are required to pay additional quarterly assessments called the FICO assessments in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. The rate for these assessments is adjusted quarterly and is applied to the same base as used for the deposit insurance assessment. These assessments are expected to continue until the bonds mature through 2019. For the fiscal year ended September 30, 2018, the Bank paid $377 thousand in FICO assessments.

Transactions with Affiliates. Transactions between the Bank and its affiliates are required to be on terms as favorable to the institution as transactions with non-affiliates, and certain of these transactions are restricted to a percentage of the Bank's capital, and, in the case of loans, require eligible collateral in specified amounts. In addition, the Bank may not lend to any affiliate engaged in activities not permissible for a bank holding company or purchase or invest in the securities of affiliates.

Regulatory Capital Requirements. The Bank and Company are required to maintain specified levels of regulatory capital under regulations of the OCC and FRB, respectively. The current regulatory capital rules, sometimes referred to as the Basel III rules, became effective for the Company and Bank in January 2016, with some rules being transitioned into full effectiveness over two-to-four years.
Under the Basel III rules, the minimum capital ratios are as follows:

- 4.5% common equity Tier 1 ("CET1") to risk-weighted assets.
- 6.0% Tier 1 capital to risk-weighted assets.
- 8.0% total capital to risk-weighted assets.
- 4.0% Tier 1 capital to average consolidated assets as reported on Call Reports, minus certain items deducted from Tier 1 capital (known as the "leverage ratio").

CET1 capital and Tier 1 capital for the Company and the Bank generally consists of common stock plus related surplus and retained earnings, adjusted for goodwill and other intangible assets and AOCI-related amounts. Also included in Tier 1 capital for the Company are trust preferred securities that were assumed in conjunction with the acquisition of CCB on August 31, 2018. Tier 2 capital for the Company and the Bank includes the balance of ACL; however, the amount of includable ACL in Tier 2 capital may be limited if the amount exceeds 1.25% of risk-weighted assets. At September 30, 2018, the Bank had $8.5 million of ACL, which was less than the 1.25% risk-weighted assets limit; therefore, the entire amount of ACL was includable in Tier 2 and total risk-based capital. Total capital for the Company and the Bank consists of Tier 1 capital plus the amount of includable ACL (Tier 2 capital).

The Basel III rules allow certain savings and loan holding companies to include certain hybrid securities, such as trust preferred securities, in Tier 1 capital so long as the institution had less than $15 billion in assets as of December 31, 2009, and the securities were issued before May 19, 2010. As mentioned above, the Company assumed trust preferred securities in conjunction with the acquisition of CCB on August 31, 2018 and the amounts will be included in Tier 1 capital until they have been redeemed, which management anticipates will occur in fiscal year 2019.

The Basel III rules require the Company and the Bank to maintain a capital conservation buffer above certain minimum capital ratios in order to avoid certain restrictions on capital distributions and other payments including dividends, share repurchases, and certain compensation. This requirement, which was 1.875% at September 30, 2018, became effective January 1, 2016 and is being phased in over a four year period by increasing the required buffer amount by 0.625% each year. At September 30, 2018 and 2017, the Bank and Company held capital in excess of the capital conservation buffer requirement. Once the buffer requirement is fully phased-in on January 1, 2019, the Bank and Company must maintain a balance of capital that exceeds by more than 2.5% each of the minimum risk-based capital ratios in order to satisfy the requirement, so that the required ratios will bear: (1) a CET1 capital ratio of more than 7.0%, (2) a Tier 1 capital ratio of more than 8.5%, and (3) a total capital (Tier 1 plus Tier 2) ratio of more than 10.5%.

The capital rules assign a risk weight to every asset and to certain off-balance sheet items, such as binding loan commitments, which are multiplied by credit conversion factors to convert them into asset equivalents. The risk weights for the Bank's and Company's assets and off-balance sheet items generally range from 0% to 150%. At September 30, 2018, the Bank and the Company each had risk-weighted assets of $4.79 billion.

For the quarter ended September 30, 2018, the Bank reported in its Call Report quarterly average assets of $9.26 billion and the Company reported to the FRB quarterly average assets of $9.28 billion.

A depository institution is considered to be well capitalized if it has (i) a total risk-based capital ratio of 10.0% or more, (ii) a CET1 risk-based capital ratio of 6.5% or more, (iii) a Tier 1 risk-based capital ratio of 8.0% or more, and (iv) a leverage ratio of 5.0% or more, and is not subject to any of certain specified requirements to meet and maintain a specific capital level for any capital measure. An institution that is not well capitalized is subject to certain restrictions on brokered deposits, including restrictions on the rates it can offer on its deposits generally. At September 30, 2018, the Bank was considered well capitalized under OCC regulations. See "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 14. Regulatory Capital Requirements" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for additional regulatory capital information.

The OCC has the ability to establish individual minimum capital requirements for a particular institution which vary from the capital levels that would otherwise be required under the capital regulations, based on such factors as concentrations of credit risk, levels of interest rate risk, the risks of non-traditional activities, and other circumstances. The OCC has not imposed any such requirement on the Bank.

The OCC is authorized and, under certain circumstances, required to take certain actions against federal savings banks that are considered not to be adequately capitalized because they fail to meet the minimum ratios under the Basel III rules. Any such institution must submit a capital restoration plan for OCC approval and may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and may not make capital distributions. The OCC may impose further restrictions. The plan must include a guaranty by the institution's holding company limited to the lesser of 5% of the institution's assets when it became undercapitalized, or the amount necessary to restore the institution to adequately capitalized status.

Federal regulations state that any institution that fails to comply with its capital plan or has a CET1 risk-based capital ratio of less than 4.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a total risk-based capital ratio of less than 6.0%, or a leverage ratio of less than 3.0% is considered significantly undercapitalized and must be made subject to one or more additional specified actions and restrictions that may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution with tangible equity to total assets of less than 2.0% is critically undercapitalized and becomes subject to further mandatory restrictions on its operations. The OCC generally is authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OCC of any of these measures on the Bank may have a substantial adverse effect on its operations and profitability. In general, the FDIC must be appointed receiver for a critically undercapitalized institution whose capital is not restored within the time provided.

When the FDIC as receiver liquidates an institution, the claims of depositors and the FDIC as their successor (for deposits covered by FDIC insurance) have priority over other unsecured claims against the institution.

Community Reinvestment and Consumer Protection Laws. In connection with its lending activities, the Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 ("SAFE Act"), and the Community Reinvestment Act ("CRA"). In addition, federal banking regulators, pursuant to the Gramm-Leach-Bliley Act, have enacted regulations limiting the ability of banks and other financial institutions to disclose nonpublic consumer information to non-affiliated third parties. The regulations require disclosure of privacy policies and allow consumers to prevent certain personal information from being shared with non-affiliated parties. With respect to federal consumer protection laws, regulations are generally promulgated by the CFPB, but the OCC examines the Bank for compliance with such laws.

The CRA requires the appropriate federal banking agency, in connection with its examination of an FDIC-insured institution, to assess its record in meeting the credit needs of the communities served by the bank, including low and moderate income neighborhoods. The federal banking regulators take into account the institution's record of performance under the CRA when considering applications for mergers, acquisitions, and branches. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve, or substantial non-compliance. The Bank received a satisfactory rating in its most recently completed CRA evaluation.

Bank Secrecy Act /Anti-Money Laundering Laws. The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity and source of deposits and wealth of its customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

Stress Testing.  As required by the Dodd-Frank Act and the regulations of the FRB and the OCC, FDIC-insured institutions and their holding companies with average total consolidated assets greater than $10 billion must conduct annual, company-run stress tests under the baseline, adverse and severely adverse scenarios provided by the federal banking regulators. The Company and the Bank are not subject to this requirement as their average total consolidated assets for this purpose are not greater than $10 billion.

Federal Securities Law. The common stock of the Company is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

The Company stock held by persons who are affiliates of the Company may not be resold without registration or unless sold in accordance with certain resale restrictions. For this purpose, affiliates are generally considered to be executive officers, directors and principal stockholders. If the Company meets specified current public information requirements, each affiliate of the Company will be able to sell in the public market, without registration, a limited number of shares in any three-month period.

Federal Reserve System. The FRB requires all depository institutions to maintain reserves at specified levels against their transaction accounts, primarily checking accounts. At September 30, 2018, the Bank was in compliance with these reserve requirements. The Bank is authorized to borrow from the Federal Reserve Bank "discount window." An eligible institution need not exhaust other sources of funds before going to the discount window, nor are there restrictions on the purposes for which the borrower can use primary credit. At September 30, 2018, the Bank had no outstanding borrowings from the discount window.

Federal Home Loan Bank System. The Bank is a member of one of 11 regional Federal Home Loan Banks, each of which serves as a reserve, or central bank, for its members within its assigned region and is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans, called advances, to members and provides access to a line of credit in accordance with policies and procedures established by the Board of Directors of FHLB, which are subject to the oversight of the Federal Housing Finance Agency ("FHFA").

As a member, the Bank is required to purchase and maintain capital stock in FHLB. The minimum required FHLB stock amount is generally 4.5% of the Bank's FHLB advances and outstanding balance against the FHLB line of credit, and 2% of the outstanding principal of loans sold into the Mortgage Partnership Finance program. At September 30, 2018, the Bank had a balance of $99.7 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received dividends on its FHLB stock, although no assurance can be given that these dividends will continue. On a quarterly basis, management conducts a review of FHLB to determine whether an other-than-temporary impairment of the FHLB stock is present. At September 30, 2018, management concluded there was no such impairment.

Federal Savings and Loan Holding Company Regulation. The purpose and powers of the Company are to pursue any or all of the lawful objectives of a savings and loan holding company and to exercise any of the powers accorded to a savings and loan holding company.

The HOLA prohibits a savings and loan holding company (directly or indirectly, or through one or more subsidiaries) from acquiring another savings association, or holding company thereof, without prior written approval from the FRB; acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings association, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by the HOLA; or acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by savings and loan holding companies to acquire savings associations, the FRB must consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, competitive factors, and other factors.

The Dodd-Frank Act extended to savings and loan holding companies and codified the FRB's "source of strength" doctrine, which has long applied to bank holding companies. The FRB has promulgated regulations implementing its "source of strength" policy, which requires holding companies to act as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

2018 Regulatory Reform. In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act"), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Regulatory Relief Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion and for large banks with assets of more than $50 billion. Many of these changes could result in meaningful regulatory changes for community banks such as the Bank, and their holding companies.

The Regulatory Relief Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than $10 billion by instructing the federal banking regulators to establish a single "Community Bank Leverage Ratio" of between 8 and 10 percent. Any qualifying depository institution or its holding company that exceeds the "community bank leverage ratio" will be considered to have met generally applicable leverage and risk-based regulatory capital requirements and any qualifying depository institution that exceeds the new ratio will be considered to be "well capitalized" under the prompt corrective action rules. In addition, the Regulatory Relief Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

It is difficult at this time to predict when or how any new standards under the Regulatory Relief Act will ultimately be applied to the Bank or the Company or what specific impact the Regulatory Relief Act and the yet-to-be-written implementing rules and regulations will have on the Bank or the Company.

Taxation
Federal Taxation
General
The Company and the Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The Company files a consolidated federal income tax return. The Company is no longer subject to federal income tax examination for fiscal years prior to 2015.

Method of Accounting
For federal income tax purposes, the Bank currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on September 30 for filing its federal income tax return.

Minimum Tax
The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of the regular tax. The Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017 repealed the alternative minimum tax, but the repeal is not applicable to the Company until its September 30, 2019 federal income tax return. See additional information regarding the Tax Act in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Executive Summary."

Net Operating Loss Carryovers
For federal income tax purposes, a financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. As of September 30, 2018, the Company assumed a net operating loss carryover of $1.1 million ($266 thousand tax effected) with the acquisition of CCB.

State Taxation

The earnings/losses of Capitol Federal Financial, Inc., Capitol Funds, Inc. and Capital City Investments, Inc. are combined for purposes of filing a consolidated Kansas corporate tax return. The Kansas corporate tax rate is 4.0%, plus a surcharge of 3.0% on earnings greater than $50 thousand.

The Bank files a Kansas privilege tax return. For Kansas privilege tax purposes, the minimum tax rate is 4.5% of earnings, which is calculated based on federal taxable income, subject to certain adjustments. The Bank has not received notification from the state of any potential tax liability for any years still subject to audit.

Additionally, the Bank files state tax returns in various other states where it has significant purchased loans and/or foreclosure activities. In these states, the Bank has either established nexus under an economic nexus theory or has exceeded enumerated nexus thresholds based on the amount of interest derived from sources within the state.

Employees

At September 30, 2018, we had a total of 775 employees, including 137 part-time employees. The full-time equivalent of our total employees at September 30, 2018 was 733. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be good.

Executive Officers of the Registrant

John B. Dicus. Age 57 years. Mr. Dicus is Chairman of the Board of Directors, Chief Executive Officer, and President of the Bank and the Company. He has served as Chairman since January 2009 and Chief Executive Officer since January 2003. He has served as President of the Bank since 1996 and of the Company since its inception in March 1999. Prior to accepting the responsibilities of Chief Executive Officer, he served as Chief Operating Officer of the Bank and the Company. Prior to that, he served as the Executive Vice President of Corporate Services for the Bank for four years. He has been with the Bank in various other positions since 1985.

Kent G. Townsend. Age 57 years. Mr. Townsend serves as Executive Vice President and Chief Financial Officer of the Bank, its subsidiary, and the Company. Mr. Townsend also serves as Treasurer for the Company, Capitol Funds, Inc. and CFMRC. Mr. Townsend was promoted to Executive Vice President, Chief Financial Officer and Treasurer on September 1, 2005. Prior to that, he served as Senior Vice President, a position he held since April 1999, and Controller of the Company, a position he held since March 1999. He has served in similar positions with the Bank since September 1995. He served as the Financial Planning and Analysis Officer with the Bank for three years and other financial related positions since joining the Bank in 1984.

Rick C. Jackson. Age 53 years. Mr. Jackson serves as Executive Vice President, Chief Lending Officer and Community Development Director of the Bank and the Company. He also serves as the President of Capitol Funds, Inc., a subsidiary of the Bank and President of CFMRC. He has been with the Bank since 1993 and has held the position of Community Development Director since that time. He has held the position of Chief Lending Officer since February 2010.

Natalie G. Haag. Age 59 years. Ms. Haag serves as Executive Vice President and General Counsel of the Bank and the Company. Prior to joining the Bank and the Company in August 2012, Ms. Haag was 2nd Vice President, Director of Governmental Affairs and Assistant General Counsel for Security Benefit Corporation and Security Benefit Life Insurance Company in Topeka, Kansas. Security Benefit provides retirement products and services, including annuities and mutual funds. Ms. Haag was employed by Security Benefit since 2003. The Security Benefit companies are not parents, subsidiaries or affiliates of the Bank or the Company.

Carlton A. Ricketts. Age 61 years. Mr. Ricketts serves as Executive Vice President, Chief Corporate Services Officer of the Bank and the Company. Prior to accepting those responsibilities in April 2012, he served as Chief Strategic Planning Officer of the Bank, a position held since February 2007.

Daniel L. Lehman. Age 53 years. Mr. Lehman serves as Executive Vice President, Chief Retail Operations Officer of the Bank and Company. Prior to accepting those responsibilities in October 2016, he served as First Vice President and Accounting Director, a position held since May 2003 and Controller, a position held since 2005.

Robert D. Kobbeman. Age 63 years. Mr. Kobbeman joined the Bank and the Company at the time of the acquisition of CCB and serves as Executive Vice President, Chief Commercial Banking Officer. Prior to joining the Bank and the

Company, Mr. Kobbeman was the President and Chief Executive Officer and a director of Capital City Bank since 2002. From 1998 to 2002, Mr. Kobbeman served as Executive Vice President, Chief Lending Officer of Capital City Bank.

Item 1A. Risk Factors
There are risks inherent in the Bank's and Company's business. The following is a summary of material risks and uncertainties relating to the operations of the Bank and the Company. Adverse experiences with these could have a material impact on the Company's financial condition and results of operations. Some of these risks and uncertainties are interrelated, and the occurrence of one or more of them may exacerbate the effect of others. These material risks and uncertainties are not necessarily presented in order of significance. In addition to the risks set forth below and the other risks described in this Annual Report, there may also be additional risks and uncertainties that are not currently known to us or that we currently deem to be immaterial that could materially and adversely affect our business, financial condition or operating results.

Changes in interest rates could have an adverse impact on our results of operations and financial condition.
Our results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, securities, cash at the Federal Reserve Bank and dividends received on FHLB stock, and the interest paid on deposits and borrowings. Changes in interest rates could have an adverse impact on our results of operations and financial condition because the majority of our interest-earning assets are long-term, fixed-rate loans, while the majority of our interest-bearing liabilities are shorter term, and therefore subject to a greater degree of interest rate fluctuations. This type of risk is known as interest rate risk and is affected by prevailing economic and competitive conditions, including monetary policies of the FRB and fiscal policies of the United States federal government.

The impact of changes in interest rates is generally observed on the income statement. The magnitude of the impact will be determined by the difference between the amount of interest-earning assets and interest-bearing liabilities, both of which either reprice or mature within a given period of time. This difference provides an indication of the extent to which our net interest rate spread will be impacted by changes in interest rates. In addition, changes in interest rates will impact the expected level of repricing of the Bank's mortgage-related assets and callable debt securities. Generally, as interest rates decline, the amount of interest-earning assets expected to reprice will increase as borrowers have an economic incentive to reduce the cost of their mortgage or debt, which would negatively impact the Bank's interest income. Conversely, as interest rates rise, the amount of interest-earning assets expected to reprice will decline as the economic incentive to refinance the mortgage or debt is diminished. As this occurs, the amount of interest-earning assets repricing could diminish to the point where interest-bearing liabilities reprice to a higher interest rate at a faster pace than interest-earning assets, thus negatively impacting the Bank's net interest income.

Changes in interest rates can also have an adverse effect on our financial condition as AFS securities are reported at estimated fair value. We increase or decrease our stockholders' equity, specifically AOCI (loss), by the amount of change in the estimated fair value of our AFS securities, net of deferred taxes. Increases in interest rates generally decrease the fair value of AFS securities. Decreases in the fair value of AFS securities would, therefore, adversely impact stockholders' equity.

Changes in interest rates, as they relate to customers, can also have an adverse impact on our financial condition and results of operations. In times of rising interest rates, default risk may increase among borrowers with adjustable-rate loans as the rates on their loans adjust upward and their payments increase. Fluctuations in interest rates also affect customer demand for deposit products. Local competition could affect our ability to attract deposits, or could result in us paying more than competitors for deposits.

As was announced in July 2017, LIBOR is anticipated to be phased out by the end of 2021. As of September 30, 2018, the Bank's loan portfolio included $831.1 million of adjustable-rate loans for which the repricing index was tied to LIBOR. Additionally, the Bank has interest rate swaps with a notional amount of $475.0 million tied to LIBOR. Our loan agreements generally allow the Bank to choose a new index based upon comparable information if the current index is no longer available. The use of a new index could reduce our interest income and therefore have an adverse effect on our results of operations. Management continues to monitor the status and discussions regarding LIBOR.

In addition to general changes in interest rates, changes that affect the shape of the yield curve could negatively impact the Bank. The Bank's interest-bearing liabilities are generally priced based on short-term interest rates while the majority of the Bank's interest-earning assets are priced based on long-term interest rates. Income for the Bank is primarily driven by the spread between these rates. As a result, a steeper yield curve, meaning long-term interest rates are significantly higher than short-term interest rates, would provide the Bank with a better opportunity to increase net interest income. When the yield curve is flat, meaning long-term interest rates and short-term interest rates are essentially the same, or when the yield curve is inverted, meaning long-term interest rates are lower than short-term interest rates, the yield between interest-earning assets and interest-bearing liabilities that reprice is compressed or diminished and would likely negatively impact the Bank's net interest income. See "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional information about the Bank's interest rate risk management.

The occurrence of any information system failure or interruption, breach of security or cyber-attack, at the Company, at its third-party service providers or counterparties may have an adverse effect on our business, reputation, financial condition or results of operations.
Information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger, our deposits and our loans. In the normal course of our business, we collect, process, retain and transmit (by email and other electronic means) sensitive and confidential information regarding our customers, employees and others. We also outsource certain aspects of our data processing, data processing operations, remote network monitoring, engineering and managed security services to third-party service providers. In addition to confidential information regarding our customers, employees and others, we, and in some cases a third party, compile, process, transmit and store proprietary, non-public information concerning our business, operations, plans and strategies.

Information security risks for financial institutions continue to increase in part because of evolving technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. Cyber criminals use a variety of tactics, such as ransomware, denial of service, and theft of sensitive business and customer information to extort payment or other concessions from victims. In some cases, these attacks have caused significant impacts on other businesses' access to data and ability to provide services. We are not able to anticipate or implement effective preventive measures against all incidents of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources.

We use a variety of physical, procedural and technological safeguards to prevent or limit the impact of system failures, interruptions and security breaches and to protect confidential information from mishandling, misuse or loss, including detection and response mechanisms designed to contain and mitigate security incidents. However, there can be no assurance that such events will not occur or that they will be promptly detected and adequately addressed if they do, and early detection of security breaches may be thwarted by sophisticated attacks and malware designed to avoid detection. If there is a failure in or breach of our information systems, or those of a third-party service provider, the confidential and other information processed and stored in, and transmitted through, such information systems could potentially be jeopardized, or could otherwise cause interruptions or malfunctions in our operations or the operations of our customers, employees, or others.

Our business and operations depend on the secure processing, storage and transmission of confidential and other information in our information systems and those of our third-party service providers. Although we devote significant resources and management focus to ensuring the integrity of our information systems through information security measures, risk management practices, relationships with threat intelligence providers and business continuity planning, our facilities, computer systems, software and networks, and those of our third-party service providers, may be vulnerable to external or internal security breaches, acts of vandalism, unauthorized access, misuse, computer viruses or other malicious code and cyber attacks that could have a security impact. In addition, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to our confidential or other information or the confidential or other information of our customers, employees or others. While we regularly conduct security and risk assessments on our systems and those of our third-party service providers, there can be no assurance that their information security protocols are sufficient to withstand a cyber-attack or other security breach. The Company has not experienced any material breaches.

The occurrence of any of the foregoing could subject us to litigation or regulatory scrutiny, cause us significant reputational damage or erode confidence in the security of our information systems, products and services, cause us to lose customers or have greater difficulty in attracting new customers, have an adverse effect on the value of our common stock or subject us to financial losses that may not be covered by insurance, any of which could have a material adverse effect on our business, financial condition or results of operations. As information security risks and cyber threats continue to evolve, we may be required to expend significant additional resources to further enhance or modify our information security measures and/or to investigate and remediate any information security vulnerabilities or other exposures arising from operational and security risks.

Furthermore, there has recently been heightened legislative and regulatory focus on privacy, data protection and information security. New or revised laws and regulations may significantly impact our current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws could result in higher compliance and technology costs and could restrict our ability to provide certain products and services, which could have a material adverse effect on our business, financial condition or results of operations.

Our customers are also the target of cyber-attacks and identity theft. There have been several recent instances involving financial services and consumer-based companies reporting the unauthorized disclosure of client or customer information or the destruction or theft of corporate data. Large scale identity theft could result in customers' accounts being compromised and fraudulent activities being performed in their name. We have implemented certain safeguards against these types of activities but they may not fully protect us from fraudulent financial losses. The occurrence of a breach of security involving our customers' information, regardless of its origin, could damage our reputation and result in a loss of customers and business and subject us to additional regulatory scrutiny, and could expose us to litigation and possible financial liability. Any of these events could have a material adverse effect on our financial condition and results of operations.

An economic downturn, especially one affecting our geographic market area and certain regions of the country where we have correspondent loans, could adversely impact our business and financial results.
Our primary lending emphasis is the origination and purchase of one- to four-family first mortgage loans on residential properties; therefore, we are particularly exposed to downturns in regional housing markets and, to a lesser extent, the U.S. housing market, along with changes in the levels of unemployment or underemployment. We monitor the current status and trends of local and national employment levels and trends and current conditions in the real estate and housing markets in our local market areas and certain areas where we have correspondent loans. Adverse conditions in our local economies and in certain areas where we have correspondent loans, such as inflation, unemployment, recession, natural disasters, or other factors beyond our control, could impact the ability of our borrowers to repay their loans. Any one or a combination of these events may have an adverse impact on borrowers' ability to repay their loans, which could result in increased delinquencies, non-performing assets, loan losses, and future loan loss provisions. Decreases in local real estate values could adversely affect the value of the property used as collateral for our loans, which could cause us to realize a loss in the event of a foreclosure.

The increase in commercial loans in our loan portfolio exposes us to increased lending and credit risks.
A growing portion of our loan portfolio consists of commercial loans. In addition, as a result of the acquisition of CCB, it is anticipated that commercial lending will continue to be a growing portion of our business. These loan types tend to be larger than and in different geographic regions from most of our existing loan portfolio and are generally considered to have different and greater risks than one- to four-family residential real estate loans. Furthermore, these loan types can expose us to a greater risk of delinquencies, non-performing assets, loan losses, and future loan loss provisions than one- to four-family residential real estate loans because repayment of such loans often depends on the successful operations of a business or of the underlying property. Repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate market, the economy, environmental factors, natural disasters, and/or changes in government regulation. Also, there are risks inherent in commercial real estate construction lending as the value of the project is uncertain prior to the completion of construction and subsequent lease-up. A sudden downturn in the economy or other unforeseen events could result in stalled projects or collateral shortfalls, thus exposing us to increased credit risk. Additionally, a large portion of our commercial loans were originated/participated in during the past five fiscal years, which makes it difficult to assess the future performance of these loans because of the borrowers' relatively limited income history and loan payment history.

Our recently acquired commercial and industrial loans are primarily made based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. The borrowers' cash flow may prove to be unpredictable, and collateral securing these loans may fluctuate in value. Most often, this collateral consists of accounts receivable, inventory and equipment. Significant adverse changes in a borrower's industries and businesses could cause rapid declines in values of, and collectability associated with, those business assets, which could result in inadequate collateral coverage for our commercial and industrial loans and expose us to future losses. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its clients. Inventory and equipment may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. If the cash flow from business operations is reduced, the borrower's ability to repay the loan may be impaired. An increase in specific reserves and charge-offs related to our recently acquired commercial and industrial loan portfolio could have an adverse effect on our business, financial condition, results of operations and future prospects.

Our commercial loans generally have significantly larger average loan balances compared to one- to four-family residential real estate loans and may involve multiple loans to groups of related borrowers. Our largest commercial lending relationship was $50.0 million at September 30, 2018.

A growing commercial loan portfolio subjects us to greater regulatory scrutiny. Regulatory agencies have observed that many commercial markets are experiencing substantial growth, and as a result, concentration levels of commercial loans have been rising at some institutions.

We regularly monitor the risks in our commercial loan portfolio, including concentrations in such factors as geographic locations, property types, tenant brand name, borrowing relationships, and lending relationships in the case of participation loans, among other factors. We continually strive to maintain high underwriting standards, including selecting borrowers and guarantors that are financially sound and experienced in the industry, and selecting projects that meet the Bank's lending policies and risk appetite. The properties securing our commercial loan portfolio are diverse in terms of type and geographic location. This diversity helps reduce our exposure to adverse economic events, environmental factors and natural disasters that may affect any single market or industry. For additional information regarding our commercial loan underwriting and monitoring of risk, see "Part 1, Item 1. Business - Lending Practices and Underwriting Standards - Commercial Lending."

We are heavily reliant on technology, and a failure to effectively implement technology initiatives or anticipate future technology needs or demands could adversely affect our business or performance.
Like most financial institutions, the Bank significantly depends on technology to deliver its products and other services and to otherwise conduct business. To remain technologically competitive and operationally efficient, the Bank invests in system upgrades, new technological solutions, and other technology initiatives. Many of these solutions and initiatives have a significant duration, are tied to critical information systems, and require substantial resources. Although the Bank takes steps to mitigate the risks and uncertainties associated with these solutions and initiatives, there is no guarantee that they will be implemented on time, within budget, or without negative operational or customer impact. The Bank also may not succeed in anticipating its future technology needs, the technology demands of its customers, or the competitive landscape for technology. If the Bank were to falter in any of these areas, it could have an adverse effect on our business, financial condition or results of operations.

We may be required to provide remedial consideration to borrowers whose loans we purchase from correspondent and nationwide lenders if it is discovered that the originating company did not properly comply with lending regulations during the origination process.
We purchase whole one- to four-family loans from correspondent and nationwide lenders. While loans purchased on a loan-by-loan basis from correspondent lenders are underwritten by the Bank's underwriters and loans purchased in bulk packages from correspondent and nationwide lenders are evaluated on a certain set of criteria before being purchased, we are still subject to some risks associated with the loan origination process itself. By law, loan originators are required to comply with lending regulations at all times during the origination process. Even though the Bank can contractually pursue the originating company, certain compliance related risks associated with the origination process itself may shift from the originating company to the Bank once the Bank purchases the loan. Should it be discovered, at any point, that an instance of noncompliance occurred by the originating company during the origination process, the Bank may still be held responsible and required to remedy the issue for the loans it purchased from the originator. Remedial actions can include refunding interest paid by the borrower and adjusting the contractual interest rate on the loan to the current market rate if advantageous to the borrower. The Bank no longer purchases loans in bulk from nationwide lenders due primarily to these risks.

Strong competition may limit growth and profitability.

While we are one of the largest mortgage loan originators in the state of Kansas, we compete in the same market areas as local, regional, and national banks, credit unions, mortgage brokerage firms, investment banking firms, investment brokerage firms, and savings institutions. We must also compete with online investment and mortgage brokerages and online banks that are not confined to any specific market area. Many of these competitors operate on a national or regional level, are a conglomerate of various financial services providers housed under one corporation, or otherwise have substantially greater financial or technological resources than the Bank. We compete primarily on the basis of the interest rates offered to depositors, the terms of loans offered to borrowers, and the benefits afforded to customers as a local institution and portfolio lender. Our pricing strategy for loan and deposit products includes setting interest rates based on secondary market prices and local competitor pricing for our local markets, and secondary market prices and national competitor pricing for our correspondent lending markets. Should we face competitive pressure to increase deposit rates or decrease loan rates, our net interest income could be adversely affected. Additionally, our competitors may offer products and services that we do not or cannot provide, as certain deposit and loan products fall outside of our accepted level of risk. Our profitability depends upon our ability to compete in our local market areas.

We operate in a highly regulated environment which limits the manner and scope of our business activities and we may be adversely affected by new and/or changes in laws and regulations or interpretation of existing laws and regulations.
We are subject to extensive regulation, supervision, and examination by the OCC, FRB, and the FDIC. These regulatory authorities exercise broad discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's ACL, and determine the level of deposit insurance premiums assessed. The Dodd-Frank Act created the CFPB with broad powers to supervise and enforce consumer protection laws, including a wide range of consumer protection laws that apply to all banks and savings institutions, like the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB also has examination and enforcement authority over all banks with regulatory assets exceeding $10 billion at four consecutive quarter-ends. The Bank has not exceeded $10 billion in regulatory assets at four consecutive quarter-ends, but it may at some point in the future. Smaller banks, like the Bank, will continue to be examined for compliance with the consumer laws and regulations of the CFPB by their primary bank regulators (the OCC, in the case of the Bank). The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations, and gives state attorneys general the ability to enforce federal consumer protection laws.

Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation, interpretation or application, could have a material adverse impact on our operations. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued formal enforcement orders requiring capital ratios in excess of regulatory requirements and/or assessing monetary penalties. Bank regulatory agencies, such as the OCC and the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of investors. The CFPB enforces consumer protection laws and regulations for the benefit of the consumer and not the protection or benefit of investors. In addition, new laws and regulations may continue to increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and securities, the products we offer, the fees we can charge and our ongoing operations, costs, and profitability.

The Company is also directly subject to the requirements of entities that set and interpret the accounting standards such as the Financial Accounting Standards Board, and indirectly subject to the actions and interpretations of the Public Company Accounting Oversight Board, which establishes auditing and related professional practice standards for registered public accounting firms and inspects registered firms to assess their compliance with certain laws, rules, and professional standards in public company audits. These regulations, along with the currently existing tax, accounting, securities, and monetary laws, regulations, rules, standards, policies and interpretations, control the methods by which financial institutions and their holding companies conduct business, engage in strategic and tax planning, implement strategic initiatives, and govern financial reporting.

The Company's failure to comply with laws, regulations or policies could result in civil or criminal sanctions and money penalties by state and federal agencies, and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Part I, Item 1. Business - Regulation and Supervision" for more information about the regulations to which the Company is subject.

The Company's ability to pay dividends is subject to the ability of the Bank to make capital distributions to the Company.
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, and also on the availability of cash at the holding company level in the event earnings are not sufficient to pay dividends. Under certain circumstances, capital distributions from the Bank to the

Company may be subject to regulatory approvals. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Limitations on Dividends and Other Capital Distributions" for additional information.

Our risk-management and compliance programs and functions may not be effective in mitigating risk and loss.
We maintain an enterprise risk management program that is designed to identify, quantify, monitor, report, and control the risks that we face. These risks include: interest-rate, credit, liquidity, operations, reputation, compliance and litigation. We also maintain a compliance program to identify, measure, assess, and report on our adherence to applicable laws, policies and procedures. While we assess and improve these programs on an ongoing basis, there can be no assurance that our risk management or compliance programs, along with other related controls, will effectively mitigate all risk and limit losses in our business. If conditions or circumstances arise that expose flaws or gaps in our risk management or compliance programs, or if our controls do not function as designed, the performance and value of our business could be adversely affected.

The Company may not attract and retain skilled employees.
The Company's success depends, in large part, on its ability to attract and retain key people. Competition for the best people can be intense, and the Company spends considerable time and resources attracting and hiring qualified people for its operations. The unexpected loss of the services of one or more of the Company's key personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, and years of industry experience, as well as the difficulty of promptly finding qualified replacement personnel.

The Company may not realize all of the anticipated benefits of the acquisition of CCB.
The success of the Company's acquisition of CCB will depend on, among other things, the ability to realize anticipated cost savings and to combine the businesses of the companies in a manner that does not materially disrupt the existing customer relationships of the companies or result in decreased revenues from customers. If the Company is unable to achieve these objectives, the anticipated benefits of the acquisition may not be realized fully, if at all, or may take longer to realize than expected. Additionally, the integration of the two companies could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, weakness in our internal control over financial reporting, procedures and policies that adversely affect the Company's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Integration efforts will also divert management attention and resources.

Item 1B. Unresolved Staff Comments
None.
Item 2. Properties
At September 30, 2018, we had 48 traditional branch offices and 10 in-store branch offices. The Bank owns the office building and related land in which its home office and executive offices are located, and 34 of its other branch offices. The remaining 23 branches are either leased or partially owned.

For additional information regarding our lease obligations, see "Part II, Item 8. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 6. Premises and Equipment, net."

Management believes that our current facilities are adequate to meet our present and immediately foreseeable needs. However, we will continue to monitor customer growth and expand our branching network, if necessary, to serve our customers' needs.
Item 3. 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 4. Mine Safety Disclosures

None.

PART II

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

Stock Listing

Capitol Federal Financial, Inc. common stock is traded on the Global Select tier of the NASDAQ Stock Market under the symbol "CFFN". At November 21, 2018, there were approximately 9,220 Capitol Federal Financial, Inc. stockholders of record.

Share Repurchases

On October 28, 2015, the Company announced a stock repurchase plan for up to $70.0 million of common stock. The plan does not have an expiration date. Since the Company completed its second-step conversion in December 2010, $368.0 million worth of shares have been repurchased.

The following table summarizes our share repurchase activity during the three months ended September 30, 2018 and additional information regarding our share repurchase program.

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan |
|---|---|---|---|---|
| July 1, 2018 through July 31, 2018 | — | $ —— | | $ 70,000,000 |
| August 1, 2018 through August 31, 2018 | — | — | — | 70,000,000 |
| September 1, 2018 through September 30, 2018 | — | — | — | 70,000,000 |
| Total | — | — | — | 70,000,000 |

Stockholders and General Inquiries

Copies of our Annual Report on Form 10-K for the fiscal year ended September 30, 2018 are available to stockholders at no charge in the Investor Relations section of our website, www.capfed.com.

Stockholder Return Performance Presentation

The information presented below assumes $100 invested on September 30, 2013 in the Company's common stock and in each of the indices, and assumes the reinvestment of all dividends. Historical stock price performance is not necessarily indicative of future stock price performance.

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| Index | 9/30/2013 | 9/30/2014 | 9/30/2015 | 9/30/2016 | 9/30/2017 | 9/30/2018 |
| Capitol Federal Financial, Inc. | 100.00 | 103.05 | 113.10 | 139.97 | 155.01 | 143.51 |
| NASDAQ Composite Index | 100.00 | 120.61 | 125.43 | 146.03 | 180.62 | 226.08 |
| SNL U.S. Bank & Thrift Index | 100.00 | 117.86 | 120.33 | 124.41 | 174.98 | 188.09 |

Source: S&P Global Market Intelligence

Restrictions on the Payments of Dividends

The Company's ability to pay dividends is dependent, in part, upon its ability to obtain capital distributions from the Bank. The dividend policy of the Company is subject to the discretion of the Board of Directors and will 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 level. See "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Limitations on Dividends and Other Capital Distributions" for additional information regarding the Company's ability to pay dividends.

Item 6. Selected Financial Data

The summary information presented below under "Selected Balance Sheet Data" and "Selected Operations Data" for, and as of the end of, each of the years ended September 30 is derived from our audited consolidated financial statements. The following information is only a summary and should be read in conjunction with our consolidated financial statements.

| | September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (Dollars in thousands) | | | | |
| Selected Balance Sheet Data: | | | | | |
| Total assets | $9,449,547 | $9,192,916 | $9,267,247 | $9,844,161 | $9,865,028 |
| Loans receivable, net | 7,514,485 | 7,195,071 | 6,958,024 | 6,625,027 | 6,233,170 |
| Securities: | | | | | |
| AFS | 714,614 | 415,831 | 527,301 | 758,171 | 840,790 |
| HTM | 612,318 | 827,738 | 1,100,874 | 1,271,122 | 1,552,699 |
| FHLB stock | 99,726 | 100,954 | 109,970 | 150,543 | 213,054 |
| Deposits | 5,603,354 | 5,309,868 | 5,164,018 | 4,832,520 | 4,655,272 |
| Borrowings | 2,285,033 | 2,373,808 | 2,572,389 | 3,470,521 | 3,589,677 |
| Stockholders' equity | 1,391,622 | 1,368,313 | 1,392,964 | 1,416,226 | 1,492,882 |

| | For the Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (Dollars and counts in thousands, except per share amounts) | | | | |
| Selected Operations Data: | | | | | |
| Total interest and dividend income | $321,892 | $313,186 | $301,113 | $297,362 | $290,246 |
| Total interest expense | 123,119 | 117,804 | 108,931 | 107,594 | 106,103 |
| Net interest and dividend income | 198,773 | 195,382 | 192,182 | 189,768 | 184,143 |
| Provision for credit losses | — | — | (750) | 771 | 1,409 |
| Net interest and dividend income after provision for credit losses | 198,773 | 195,382 | 192,932 | 188,997 | 182,734 |
| Deposit service fees | 15,636 | 15,053 | 14,835 | 14,897 | 14,937 |
| Other non-interest income | 6,399 | 7,143 | 8,477 | 6,243 | 8,018 |
| Total non-interest income | 22,035 | 22,196 | 23,312 | 21,140 | 22,955 |
| Salaries and employee benefits | 46,563 | 43,437 | 42,378 | 43,309 | 43,757 |
| Other non-interest expense | 50,339 | 46,221 | 51,927 | 51,060 | 46,780 |
| Total non-interest expense | 96,902 | 89,658 | 94,305 | 94,369 | 90,537 |
| Income before income tax expense | 123,906 | 127,920 | 121,939 | 115,768 | 115,152 |