Capitol Federal Financial Inc
Form 10-Q
February 08, 2018

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

Form 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-34814
Capitol Federal Financial, Inc.
(Exact name of registrant as specified in its charter)

Maryland	27-2631712
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
700 South Kansas Avenue, Topeka, Kansas	66603
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ¨ (Do not check if a smaller reporting company)

Smaller Reporting Company ¨

Emerging Growth Company ¨

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

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

As of February 2, 2018, there were 138,235,235 shares of Capitol Federal Financial, Inc. common stock outstanding.

PART I - FINANCIAL INFORMATION		Page Number
Item 1.	Financial Statements (Unaudited)	3
	Consolidated Balance Sheets at December 31, 2017 and September 30, 2017	3
	Consolidated Statements of Income for the three months ended December 31, 2017 and 2016	4
	Consolidated Statements of Comprehensive Income for the three months ended December 31, 2017 and 2016	5
	Consolidated Statement of Stockholders' Equity for the three months ended December 31, 2017	6
	Consolidated Statements of Cash Flows for the three months ended December 31, 2017 and 2016	7
	Notes to Consolidated Financial Statements	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	29
	Financial Condition - Loans Receivable	33
	Financial Condition - Asset Quality	39
	Financial Condition - Liabilities	46
	Financial Condition - Stockholders' Equity	49
	Operating Results	50
	Comparison of Operating Results for the three months ended December 31, 2017 and 2016	54
	Comparison of Operating Results for the three months ended December 31, 2017 and September 30, 2017	56
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	63
Item 4.	Controls and Procedures	68

PART II - OTHER INFORMATION		
Item 1.	Legal Proceedings	69
Item 1A.	Risk Factors	69
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	69
Item 3.	Defaults Upon Senior Securities	69
Item 4.	Mine Safety Disclosures	69
Item 5.	Other Information	69
Item 6.	Exhibits	69

INDEX TO EXHIBITS	70
SIGNATURES	72

PART I -- FINANCIAL INFORMATION
Item 1. Financial Statements

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

	(Unaudited) December 31, 2017	September 30, 2017
ASSETS:		
Cash and cash equivalents (includes interest-earning deposits of $9,582 and $340,748)	$29,120	$351,659
Securities:		
Available-for-sale ("AFS"), at estimated fair value (amortized cost of $498,469 and $410,541)	501,884	415,831
Held-to-maturity ("HTM"), at amortized cost (estimated fair value of $770,425 and $833,009)	770,806	827,738
Loans receivable, net (allowance for credit losses ("ACL") of $8,370 and $8,398)	7,189,744	7,195,071
Federal Home Loan Bank Topeka ("FHLB") stock, at cost	195,470	100,954
Premises and equipment, net	84,591	84,818
Other assets	218,544	216,845
TOTAL ASSETS	$8,990,159	$9,192,916
LIABILITIES:		
Deposits	$5,266,217	$5,309,868
FHLB borrowings	2,174,146	2,173,808
Repurchase agreements	100,000	200,000
Advance payments by borrowers for taxes and insurance	27,804	63,749
Income taxes payable, net	6,440	530
Deferred income tax liabilities, net	17,981	24,458
Accounts payable and accrued expenses	46,960	52,190
Total liabilities	7,639,548	7,824,603
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 100,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $.01 par value; 1,400,000,000 shares authorized, 138,230,735 and 138,223,835		
shares issued and outstanding as of December 31, 2017 and September 30, 2017, respectively	1,382	1,382
Additional paid-in capital	1,167,692	1,167,368
Unearned compensation, Employee Stock Ownership Plan ("ESOP")	(37,582)	(37,995)
Retained earnings	216,045	234,640
Accumulated other comprehensive income ("AOCI"), net of tax	3,074	2,918
Total stockholders' equity	1,350,611	1,368,313
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$8,990,159	$9,192,916

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2017	2016
INTEREST AND DIVIDEND INCOME:		
Loans receivable	$64,189	$ 61,945
Cash and cash equivalents	7,114	2,969
Mortgage-backed securities ("MBS")	5,252	6,362
FHLB stock	3,095	2,939
Investment securities	994	1,107
Total interest and dividend income	80,644	75,322
INTEREST EXPENSE:		
FHLB borrowings	17,917	16,117
Deposits	11,961	10,396
Repurchase agreements	1,392	1,503
Total interest expense	31,270	28,016
NET INTEREST INCOME	49,374	47,306
PROVISION FOR CREDIT LOSSES	—	—
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	49,374	47,306
NON-INTEREST INCOME:		
Retail fees and charges	3,965	3,709
Income from bank-owned life insurance ("BOLI")	534	523
Other non-interest income	859	1,036
Total non-interest income	5,358	5,268
NON-INTEREST EXPENSE:		
Salaries and employee benefits	10,528	10,634
Information technology and related expense	3,331	2,834
Occupancy, net	2,765	2,675
Deposit and loan transaction costs	1,407	1,386
Regulatory and outside services	1,140	1,346
Federal insurance premium	852	894
Advertising and promotional	685	690
Office supplies and related expense	442	437
Other non-interest expense	886	701
Total non-interest expense	22,036	21,597
INCOME BEFORE INCOME TAX EXPENSE	32,696	30,977
INCOME TAX EXPENSE	860	10,399
NET INCOME	$31,836	$ 20,578
Basic earnings per share ("EPS")	$0.24	$ 0.15
Diluted EPS	$0.24	$ 0.15
Dividends declared per share	$0.38	$ 0.38
Basic weighted average common shares	134,372,980	133,696,574
Diluted weighted average common shares	134,467,309	133,949,796

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2017	2016
Net income	$31,836	$20,578
Other comprehensive income (loss), net of tax:		
Changes in unrealized gains (losses) on AFS securities, net of taxes of $709 and $799	(1,166)	(1,314)
Changes in unrealized gains (losses) on cash flow hedges, net of taxes of $(804) and $0	1,322	—
Comprehensive income	$31,992	$19,264

See accompanying notes to consolidated financial statements.

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

	Common Stock	Additional Paid-In Capital	Unearned Compensation ESOP	Retained Earnings	AOCI	Total Stockholders' Equity
Balance at October 1, 2017	$ 1,382	$ 1,167,368	$ (37,995)	$ 234,640	$ 2,918	$ 1,368,313
Net income				31,836		31,836
Other comprehensive income, net of tax					156	156
ESOP activity, net		165	413			578
Stock-based compensation		94				94
Cumulative effect of adopting Accounting Standards Update ("ASU") 2016-09		19		(19)		—
Stock options exercised		46				46
Cash dividends to stockholders ($0.38 per share)				(50,412)		(50,412)
Balance at December 31, 2017	$ 1,382	$ 1,167,692	$ (37,582)	$ 216,045	$ 3,074	$ 1,350,611

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$31,836	$ 20,578
Adjustments to reconcile net income to net cash provided by operating activities:		
FHLB stock dividends	(3,095)	(2,939)
Proceeds from sales of loans receivable held-for-sale ("LHFS")	15,642	—
Amortization and accretion of premiums and discounts on securities	902	1,362
Depreciation and amortization of premises and equipment	2,058	1,891
Amortization of deferred amounts related to FHLB advances, net	338	365
Common stock committed to be released for allocation - ESOP	578	634
Stock-based compensation	94	157
Changes in deferred income tax liabilities, net	(6,572)	—
Changes in:		
Other assets, net	1,531	(437)
Income taxes payable, net	5,909	8,899
Accounts payable and accrued expenses	(5,909)	(3,556)
Net cash provided by operating activities	43,312	26,954
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS securities	(101,782)	(35,890)
Proceeds from calls, maturities and principal reductions of AFS securities	11,760	61,274
Proceeds from calls, maturities and principal reductions of HTM securities	56,055	77,309
Proceeds from sale of AFS securities	2,078	—
Proceeds from the redemption of FHLB stock	—	98,950
Purchase of FHLB stock	(91,421)	(91,405)
Net increase in loans receivable	(10,979)	(114,245)
Purchase of premises and equipment	(2,034)	(1,981)
Proceeds from sale of other real estate owned ("OREO")	434	1,272
Net cash used in investing activities	(135,889)	(4,716)

(Continued)

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

	For the Three Months Ended December 31,	
	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends paid	(50,412)	(50,198)
Net change in deposits	(43,651)	28,656
Proceeds from borrowings	4,300,000	2,100,000
Repayments on borrowings	(4,400,000)	(2,200,000)
Change in advance payments by borrowers for taxes and insurance	(35,945)	(37,240)
Stock options exercised	46	5,147
Excess tax benefits from stock options	—	193
Net cash used in financing activities	(229,962)	(153,442)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(322,539)	(131,204)
CASH AND CASH EQUIVALENTS:		
Beginning of period	351,659	281,764
End of period	$ 29,120	$ 150,560
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Loans transferred to/from LHFS	$ 15,814	$ —

See accompanying notes to consolidated financial statements. (Concluded)

Notes to Consolidated Financial Statements (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include the accounts of Capitol Federal® Financial, Inc. (the "Company") and its wholly-owned subsidiary, Capitol Federal Savings Bank (the "Bank"). The Bank has a wholly-owned subsidiary, Capitol Funds, Inc. Capitol Funds, Inc. has a wholly-owned subsidiary, Capitol Federal Mortgage Reinsurance Company. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, filed with the Securities and Exchange Commission ("SEC"). Interim results are not necessarily indicative of results for a full year.

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

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Recent Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers. The ASU, as amended, implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of the amended guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, the amended guidance identifies specific steps an entity should apply in order to achieve this principle. The amended guidance requires entities to disclose both quantitative and qualitative information regarding contracts with customers. ASU 2014-09 will become effective for the Company on October 1, 2018. The majority of the Company's revenue is composed of interest income from loans and securities which are explicitly excluded from the amended ASU; therefore the amended ASU will likely not have a material impact to the Company's consolidated financial condition and results of operations, but it will likely result in expanded disclosures. The Company's evaluation of the amended ASU and its impact on components of non-interest income is ongoing.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments, Recognition and Measurement of Financial Assets and Liabilities. The ASU supersedes certain accounting guidance related to equity securities with readily determinable fair values and the related impairment assessment. An entity's equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this ASU. The ASU requires public business entities to utilize the exit price notation in determining fair value for financial instruments measured at amortized cost on the balance sheet. The ASU requires additional reporting in other comprehensive income for financial liabilities measured at fair value in accordance with the fair value option. The ASU also requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balances or in the notes to the financial statements. ASU 2016-01 will become effective for the Company on October 1, 2018. The Company is currently evaluating the impact that this ASU may have on the

Company's consolidated financial condition, results of operations and disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases. The ASU amends lease accounting guidance by requiring that lessees recognize the assets and liabilities arising from leases on the balance sheet. Additionally, the ASU requires entities to disclose both quantitative and qualitative information regarding their leasing activities. The accounting applied by a lessor is largely unchanged from that applied under the previous guidance. ASU 2016-02 will become effective for the Company on October 1, 2019. The Company is continuing to work on the development of a lease inventory including determining whether other contracts exist that are deemed to be in scope. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption. The Company is continuing to evaluate the impact this ASU may have on the Company's consolidated financial condition, results of operations and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting. The ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, along with simplifying the classification in the statement of cash flows. The Company adopted the ASU on October 1, 2017. Upon adoption, the Company elected to account for forfeitures of stock-based compensation awards when they occur. The Company will recognize excess tax benefits and tax deficiencies in income tax expense on the consolidated statements of income and present them within operating activities on the consolidated statements of cash flows. This ASU did not have a material impact on the Company's consolidated financial condition or results of operations at the time of adoption. However, the impact of tax benefits and the timing of their recognition within income tax expense is unpredictable, as these benefits are recognized primarily as a result of stock options being exercised.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments. The ASU replaces the incurred loss impairment methodology in current GAAP, which requires credit losses to be recognized when it is probable that a loss has incurred, with a new impairment methodology. The new impairment methodology requires an entity to measure, at each reporting date, the expected credit losses of financial assets not measured at fair value, such as loans, HTM debt securities, and loan commitments, over their contractual lives. Under the new impairment methodology, expected credit losses will be measured at each reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Additionally, the ASU amends the current credit loss measurements for AFS debt securities. Credit losses related to AFS debt securities will be recorded through the ACL rather than as a direct write-down as per current GAAP. The ASU also requires enhanced disclosures related to credit quality and significant estimates and judgments used by management when estimating credit losses. The ASU will become effective for the Company on October 1, 2020. The Company continues to follow its implementation plan and is currently in the process of analyzing historical loan and loss data for portfolio segmentation purposes. Additionally, the Company has formed a cross-functional working group comprised of individuals from various functional areas to assist with the implementation of the ASU. While we are currently unable to reasonably estimate the impact of adopting this ASU, we expect the impact of adoption will be influenced by the composition of our loan and securities portfolios as well as the economic conditions and forecasts at the time of adoption.

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

2. EARNINGS PER SHARE

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

	For the Three Months Ended December 31,	
	2017	2016
	(Dollars in thousands, except per share amounts)	
Net income	$31,836	$ 20,578
Income allocated to participating securities	(13)	(13)
Net income available to common stockholders	$31,823	$ 20,565
Average common shares outstanding	134,372,531	133,696,125
Average committed ESOP shares outstanding	449	449
Total basic average common shares outstanding	134,372,980	133,696,574
Effect of dilutive stock options	94,329	253,222
Total diluted average common shares outstanding	134,467,309	133,949,796
Net EPS:		
Basic	$0.24	$ 0.15
Diluted	$0.24	$ 0.15
Antidilutive stock options, excluded from the diluted average common shares outstanding calculation	498,900	236,400

11

3. SECURITIES

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

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$296,327	$ —	$ 1,423	$294,904
MBS	200,616	5,131	280	205,467
Municipal bonds	1,526	—	13	1,513
	$498,469	$ 5,131	$ 1,716	$501,884
HTM:				
MBS	$745,771	$ 8,286	$ 8,626	$745,431
Municipal bonds	25,035	24	65	24,994
	$770,806	$ 8,310	$ 8,691	$770,425

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
AFS:				
GSE debentures	$271,300	$ 16	$ 587	$270,729
MBS	135,644	5,923	51	141,516
Trust preferred securities	2,067	—	16	2,051
Municipal bonds	1,530	5	—	1,535
	$410,541	$ 5,944	$ 654	$415,831
HTM:				
MBS	$800,931	$ 10,460	$ 5,295	$806,096
Municipal bonds	26,807	119	13	26,913
	$827,738	$ 10,579	$ 5,308	$833,009

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

	December 31, 2017			
	Less Than 12 Months		Equal to or Greater Than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)			
AFS:				
GSE debentures	$120,921	$ 442	$148,983	$ 981
MBS	84,672	274	661	6
Municipal bonds	1,513	13	—	—
	$207,106	$ 729	$149,644	$ 987
HTM:				
MBS	$184,796	$ 1,875	$276,338	$ 6,751
Municipal bonds	16,036	65	445	—
	$200,832	$ 1,940	$276,783	$ 6,751

	September 30, 2017			
	Less Than 12 Months		Equal to or Greater Than 12 Months	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(Dollars in thousands)			
AFS:				
GSE debentures	$224,421	$ 539	$24,952	$ 48
MBS	9,648	46	673	5
Trust preferred securities	—	—	2,051	16
	$234,069	$ 585	$27,676	$ 69
HTM:				
MBS	$259,200	$ 1,582	$201,094	$ 3,713
Municipal bonds	5,638	8	1,460	5
	$264,838	$ 1,590	$202,554	$ 3,718

The unrealized losses at December 31, 2017 and September 30, 2017 were primarily a result of an increase in market yields from the time the securities were purchased. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. The impairment is also considered temporary because scheduled coupon payments have been made, it is anticipated that the entire principal balance will be collected as scheduled, and management neither intends to sell the securities, nor is it more likely than not that the Company will be required to sell the securities before the recovery of the remaining amortized cost amount, which could be at maturity. As a result of the analysis, management has concluded that no other-than-temporary impairments existed at December 31, 2017 or

September 30, 2017.

The amortized cost and estimated fair value of debt securities as of December 31, 2017, by contractual maturity, are shown below. Actual principal repayments may differ from contractual maturities due to prepayment or early call privileges by the issuer. In the case of MBS, borrowers on the underlying loans generally have the right to prepay their loans without prepayment penalty. For this reason, MBS are not included in the maturity categories.

	AFS		HTM	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(Dollars in thousands)			
One year or less	$146,363	$146,082	$6,113	$6,109
One year through five years	151,490	150,335	18,922	18,885
	297,853	296,417	25,035	24,994
MBS	200,616	205,467	745,771	745,431
	$498,469	$501,884	$770,806	$770,425

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

	For the Three Months Ended December 31,	
	2017	2016
	(Dollars in thousands)	
Taxable	$881	$964
Non-taxable	113	143
	$994	$1,107

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

	December 31, 2017	September 30, 2017
	(Dollars in thousands)	
Public unit deposits	$439,595	$499,993
Repurchase agreements	108,709	214,298
Federal Reserve Bank of Kansas City ("FRB of Kansas City")	11,073	11,769
	$559,377	$726,060

During the current quarter, the Company sold trust preferred securities and received proceeds of $2.1 million. The Company recognized a gain of $9 thousand on the sale. All other dispositions of securities during the quarter were the result of principal repayments, calls, or maturities.

4. LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

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

	December 31, 2017	September 30, 2017
	(Dollars in thousands)	
Real estate loans:		
One- to four-family:		
Originated	$3,940,288	$3,959,232
Correspondent purchased	2,453,625	2,445,311
Bulk purchased	338,084	351,705
Construction	33,063	30,647
Total	6,765,060	6,786,895
Commercial:		
Permanent	205,020	183,030
Construction	80,062	86,952
Total	285,082	269,982
Total real estate loans	7,050,142	7,056,877
Consumer loans:		
Home equity	123,124	122,066
Other	4,238	3,808
Total consumer loans	127,362	125,874
Total loans receivable	7,177,504	7,182,751
Less:		
ACL	8,370	8,398
Discounts/unearned loan fees	25,110	24,962
Premiums/deferred costs	(45,720)	(45,680)
	$7,189,744	$7,195,071

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

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

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

The Bank also originates construction-to-permanent loans secured by one- to four-family residential real estate. Construction loans are obtained by homeowners who will occupy the property when construction is complete. The Bank does not originate construction loans to builders for speculative purposes. Construction draw requests and the supporting documentation are reviewed and approved by designated personnel. The Bank also performs regular

documented inspections of the construction project to ensure the funds are being used for the intended purpose and the project is being completed according to the plans and specifications provided.

Commercial real estate loans - The Bank's commercial real estate loans are originated by the Bank or are in participation with a lead bank. When underwriting a commercial real estate loan, several factors are considered, such as the income producing potential of the property, cash equity provided by the borrower, the financial strength of the borrower, managerial expertise of the borrower or tenant, feasibility studies, lending experience with the borrower and the marketability of the property. For commercial real estate participation loans, the Bank performs the same underwriting procedures as if the loan was being originated by the Bank.
At the time of origination, loan-to-value ("LTV") ratios on commercial real estate loans generally do not exceed 80% of the appraised value of the property securing the loans and the minimum debt service coverage ratio is generally 1.25. Appraisals on properties securing these loans are performed by independent state certified fee appraisers.

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

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

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

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

The following tables present the recorded investment, by class, in loans 30 to 89 days delinquent, loans 90 or more days delinquent or in foreclosure, total delinquent loans, current loans, and total recorded investment at the dates presented. The recorded investment in loans is defined as the unpaid principal balance of a loan, less charge-offs and inclusive of unearned loan fees and deferred costs. At December 31, 2017 and September 30, 2017, all loans 90 or more days delinquent were on nonaccrual status.

	December 31, 2017				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family - originated	$11,403	$ 5,962	$ 17,365	$3,941,643	$3,959,008
One- to four-family - correspondent	1,135	561	1,696	2,486,562	2,488,258
One- to four-family - bulk purchased	4,724	3,732	8,456	331,204	339,660
Commercial real estate	—	—	—	283,826	283,826
Consumer - home equity	604	511	1,115	122,009	123,124
Consumer - other	33	3	36	4,202	4,238
	$17,899	$ 10,769	$ 28,668	$7,169,446	$7,198,114

	September 30, 2017				
	30 to 89 Days Delinquent	90 or More Days Delinquent or in Foreclosure	Total Delinquent Loans	Current Loans	Total Recorded Investment
	(Dollars in thousands)				
One- to four-family - originated	$13,216	$ 5,500	$ 18,716	$3,956,598	$3,975,314
One- to four-family - correspondent	1,855	92	1,947	2,477,916	2,479,863
One- to four-family - bulk purchased	3,233	3,399	6,632	346,807	353,439
Commercial real estate	—	—	—	268,979	268,979
Consumer - home equity	467	406	873	121,193	122,066
Consumer - other	33	4	37	3,771	3,808
	$18,804	$ 9,401	$ 28,205	$7,175,264	$7,203,469

The recorded investment of mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2017 and September 30, 2017 was $3.9 million and $4.3 million, respectively, which is included in loans 90 or more days delinquent or in foreclosure in the table above. The carrying value of residential OREO held as a result of obtaining physical possession upon completion of a foreclosure or through completion of a deed in lieu of foreclosure was $875 thousand at December 31, 2017 and $1.4 million at September 30, 2017.

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

	December 31, 2017	September 30, 2017
	(Dollars in thousands)	
One- to four-family - originated	$9,339	$ 10,054

One- to four-family - correspondent	1,340	1,804
One- to four-family - bulk purchased	4,179	4,264
Commercial real estate	—	—
Consumer - home equity	597	519
Consumer - other	3	4
	$15,458	$ 16,645

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

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

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

	December 31, 2017		September 30, 2017	
	Special Mention	Substandard	Special Mention	Substandard
	(Dollars in thousands)			
One- to four-family - originated	$10,485	$ 27,425	$7,031	$ 30,059
One- to four-family - correspondent	1,089	4,074	261	3,800
One- to four-family - bulk purchased	—	7,889	—	8,005
Commercial real estate	—	—	—	—
Consumer - home equity	163	1,014	9	1,032
Consumer - other	—	3	—	4
	$11,737	$ 40,405	$7,301	$ 42,900

The following table shows the weighted average credit score and weighted average LTV for one- to four-family loans and consumer home equity loans at the dates presented. Borrower credit scores are intended to provide an indication as to the likelihood that a borrower will repay their debts. Credit scores are updated at least semiannually, with the last update in September 2017, from a nationally recognized consumer rating agency. The LTV ratios provide an estimate of the extent to which the Bank may incur a loss on any given loan that may go into foreclosure. The consumer - home equity LTV does not take into account the first lien position, if applicable. The LTV ratios were based on the current loan balance and either the lesser of the purchase price or original appraisal, or the most recent Bank appraisal, if available. In most cases, the most recent appraisal was obtained at the time of origination.

	December 31, 2017		September 30, 2017	
	Credit Score	LTV	Credit Score	LTV
One- to four-family - originated	767	63%	767	63%
One- to four-family - correspondent	764	68	764	68
One- to four-family - bulk purchased	757	62	757	63
Consumer - home equity	756	19	755	19
	765	64	765	64

18

Troubled Debt Restructurings ("TDRs") - The following tables present the recorded investment prior to restructuring and immediately after restructuring in all loans restructured during the periods presented. These tables do not reflect the recorded investment at the end of the periods indicated. Any increase in the recorded investment at the time of the restructuring was generally due to the capitalization of delinquent interest and/or escrow balances. During the fourth quarter of fiscal year 2017, management refined its methodology for assessing whether a loan modification qualifies as a TDR which, though not material, resulted in fewer loans being classified as TDRs in the current fiscal year.

	For the Three Months Ended December 31, 2017		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family - originated	1	$ 74	$ 82
One- to four-family - correspondent	—	—	—
One- to four-family - bulk purchased	—	—	—
Commercial real estate	—	—	—
Consumer - home equity	—	—	—
Consumer - other	—	—	—
	1	$ 74	$ 82

	For the Three Months Ended December 31, 2016		
	Number of Contracts	Pre-Restructured Outstanding	Post-Restructured Outstanding
	(Dollars in thousands)		
One- to four-family - originated	38	$ 3,928	$ 4,185
One- to four-family - correspondent	—	—	—
One- to four-family - bulk purchased	—	—	—
Commercial real estate	—	—	—
Consumer - home equity	8	206	212
Consumer - other	—	—	—
	46	$ 4,134	$ 4,397

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

	For the Three Months Ended			
	December 31, 2017		December 31, 2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(Dollars in thousands)			
One- to four-family - originated	12	$ 820	11	$ 978
One- to four-family - correspondent	—	—	—	—
One- to four-family - bulk purchased	3	1,040	—	—
Commercial real estate	—	—	—	—
Consumer - home equity	4	133	4	115
Consumer - other	—	—	—	—
	19	$ 1,993	15	$ 1,093

19

Impaired loans - The following information pertains to impaired loans, by class, as of the dates presented.

	December 31, 2017			September 30, 2017		
	Recorded Investment	Unpaid Principal Balance	Related ACL	Recorded Investment	Unpaid Principal Balance	Related ACL
	(Dollars in thousands)					
With no related allowance recorded						
One- to four-family - originated	$27,165	$27,861	$ —	$30,251	$30,953	$ —
One- to four-family - correspondent	3,605	3,578	—	3,800	3,771	—
One- to four-family - bulk purchased	6,787	8,004	—	7,403	8,606	—
Commercial real estate	—	—	—	—	—	—
Consumer - home equity	636	876	—	775	997	—
Consumer - other	—	24	—	—	24	—
	38,193	40,343	—	42,229	44,351	—
With an allowance recorded						
One- to four-family - originated	—	—	—	—	—	—
One- to four-family - correspondent	—	—	—	—	—	—
One- to four-family - bulk purchased	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—
Consumer - home equity	—	—	—	—	—	—
Consumer - other	—	—	—	—	—	—
	—	—	—	—	—	—
Total						
One- to four-family - originated	27,165	27,861	—	30,251	30,953	—
One- to four-family - correspondent	3,605	3,578	—	3,800	3,771	—
One- to four-family - bulk purchased	6,787	8,004	—	7,403	8,606	—
Commercial real estate	—	—	—	—	—	—
Consumer - home equity	636	876	—	775	997	—
Consumer - other	—	24	—	—	24	—
	$38,193	$40,343	$ —	$42,229	$44,351	$ —

The following information pertains to impaired loans, by class, for the periods presented. During the fourth quarter of fiscal year 2017, management refined its methodology for classifying loans as impaired. The change resulting from this refinement was immaterial. Impaired loans include loans partially charged-off and TDRs. All impaired loans are individually evaluated for loss and all losses are charged-off, resulting in no related ACL for these loans.

	For the Three Months Ended			
	December 31, 2017		December 31, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)			
With no related allowance recorded				
One- to four-family - originated	$28,461	$ 297	$22,687	$ 205
One- to four-family - correspondent	3,717	33	3,138	24
One- to four-family - bulk purchased	7,210	53	10,898	46
Commercial real estate	—	—	—	—
Consumer - home equity	668	10	991	30
Consumer - other	—	—	11	—
	40,056	393	37,725	305
With an allowance recorded				
One- to four-family - originated	—	—	13,289	125
One- to four-family - correspondent	—	—	2,254	20
One- to four-family - bulk purchased	—	—	1,428	6
Commercial real estate	—	—	—	—
Consumer - home equity	—	—	587	15
Consumer - other	—	—	13	—
	—	—	17,571	166
Total				
One- to four-family - originated	28,461	297	35,976	330
One- to four-family - correspondent	3,717	33	5,392	44
One- to four-family - bulk purchased	7,210	53	12,326	52
Commercial real estate	—	—	—	—
Consumer - home equity	668	10	1,578	45
Consumer - other	—	—	24	—
	$40,056	$ 393	$55,296	$ 471

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

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

	For the Three Months Ended December 31, 2016						
	One- to Four-Family						
	Originated	Correspondent Purchased	Bulk Purchased	Total	Commercial Real Estate	Consumer	Total
	(Dollars in thousands)						
Beginning balance	$3,928	$ 2,102	$ 1,065	$7,095	$ 1,208	$ 237	$8,540
Charge-offs	(24)	—	—	(24)	—	(8)	(32)
Recoveries	—	—	—	—	—	13	13
Provision for credit losses	(161)	(38)	(53)	(252)	287	(35)	—
Ending balance	$3,743	$ 2,064	$ 1,012	$6,819	$ 1,495	$ 207	$8,521

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

	December 31, 2017						
	One- to Four-Family						
		Correspondent	Bulk		Commercial		
	Originated	Purchased	Purchased	Total	Real Estate	Consumer	Total
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	$3,931,843	$ 2,484,653	$332,873	$6,749,369	$ 283,826	$126,726	$7,159,921
Recorded investment in loans individually evaluated for impairment	27,165	3,605	6,787	37,557	—	636	38,193
	$3,959,008	$ 2,488,258	$339,660	$6,786,926	$ 283,826	$127,362	$7,198,114
ACL for loans collectively evaluated for impairment	$3,115	$ 1,902	$1,000	$6,017	$ 2,157	$196	$8,370

	September 30, 2017						
	One- to Four-Family						
		Correspondent	Bulk		Commercial		
	Originated	Purchased	Purchased	Total	Real Estate	Consumer	Total
	(Dollars in thousands)						
Recorded investment in loans collectively evaluated for impairment	$3,945,063	$ 2,476,063	$346,035	$6,767,161	$ 268,979	$125,100	$7,161,240
Recorded investment in loans individually evaluated for impairment	30,251	3,800	7,404	41,455	—	774	42,229
	$3,975,314	$ 2,479,863	$353,439	$6,808,616	$ 268,979	$125,874	$7,203,469
ACL for loans collectively evaluated for impairment	$3,173	$ 1,922	$1,000	$6,095	$ 2,112	$191	$8,398

5. INCOME TAXES

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made significant changes to the U.S. corporate income tax laws, such as a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018, bonus depreciation that will allow full expensing of qualified property, and other changes to and/or limitations on certain corporate income tax deductions. As required by Section 15 of the Internal Revenue Code, the Company will have a blended statutory federal income tax rate of 24.5% for fiscal year 2018, which is based on the applicable income tax rates prior to and subsequent to January 1, 2018 and the number of days in the fiscal year. In accordance with GAAP, the Company applied the blended federal income tax rate to pretax income in the current quarter and revalued its deferred tax assets and liabilities as of December 22, 2017 to account for the future impact of a lower federal income tax rate. The revaluation of the Company's deferred tax assets and liabilities resulted in a $7.5 million reduction in income tax expense in the current quarter and a corresponding reduction in the Company's net deferred tax liability.

Management estimates the effective income tax rate for fiscal year 2018 to be between 20% and 21% which is significantly lower than the effective tax rate of 34.2% for fiscal year 2017. The effective income tax rate is anticipated to be lower in the current fiscal year than the prior fiscal year due primarily to the revaluation of the Company's deferred tax assets and liabilities along with a lower blended statutory federal income tax rate. Management reviewed the carrying value of the Bank’s low income housing partnership investments in relation to the remaining tax benefits, considering the reduction in the corporate income tax rate, and determined there was no impairment present at December 31, 2017.

6. REPURCHASE AGREEMENTS

At December 31, 2017 and September 30, 2017, the Company had repurchase agreements outstanding in the amount of $100.0 million and $200.0 million, respectively, with a weighted average contractual rate of 2.53% and 2.94%, respectively. The $100.0 million outstanding at December 31, 2017 is scheduled to mature during fiscal year 2020. All of the Company's repurchase agreements at December 31, 2017 and September 30, 2017 were fixed-rate. See Note 3 for information regarding the amount of securities pledged as collateral in conjunction with repurchase agreements. Securities are delivered to the party with whom each transaction is executed and the party agrees to resell the same securities to the Bank at the maturity of the agreement. The Bank retains the right to substitute similar or like securities throughout the terms of the agreements. The repurchase agreements and collateral are subject to valuation at current market levels and the Bank may ask for the return of excess collateral or be required to post additional collateral due to changes in the market values of these items. The Bank may also be required to post additional collateral as a result of principal payments received on the securities pledged.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

AFS Securities - The Company's AFS securities portfolio is carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. The majority of the securities within the AFS portfolio were issued by GSEs. The Company primarily uses prices obtained from third party pricing services to determine the fair value of its securities. On a quarterly basis, management corroborates a sample of prices obtained from the third party pricing service for Level 2 securities by comparing them to an independent source. If the price provided by the independent source varies by more than a predetermined percentage from the price received from the third party pricing service, then the variance is researched by management. The Company did not have to adjust prices obtained from the third party pricing service when determining the fair value of its securities during the three months ended December 31, 2017 or during fiscal year 2017. The Company's major security types, based on the nature and risks of the securities, are:

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

- Trust Preferred Securities - Estimated fair values are based on a discounted cash flow method. Cash flows are determined by taking prepayment and underlying credit considerations into account. The discount rates are derived from secondary trades and bid/offer prices. (Level 3)

Interest Rate Swaps - The Company's interest rate swaps are designated as cash flow hedges and are reported at fair value in accounts payable and accrued expenses on the consolidated balance sheet, with any unrealized gains and losses, net of taxes, reported as AOCI in stockholders' equity. The estimated fair value of the interest rates swaps are obtained from a third party and are determined using a discounted cash flow analysis using observable market-based inputs. On a quarterly basis, management corroborates the estimated fair values obtained from the third party by internally calculating the estimated fair value using a discounted cash flow analysis using independent observable market-based inputs. The Company did not make any adjustments to the estimated fair value received from the third party during the three months ended December 31, 2017 or during fiscal year 2017. (Level 2)

The following tables provide the level of valuation assumption used to determine the carrying value of the Company's financial instruments measured at fair value on a recurring basis at the dates presented.

	December 31, 2017			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Assets:				
AFS Securities:				
GSE debentures	$294,904	$ —	$ 294,904	$ —
MBS	205,467	—	205,467	—
Municipal bonds	1,513	—	1,513	—
	501,884	—	501,884	—
Interest Rate Swaps	1,528	—	1,528	—
	$503,412	$ —	$ 503,412	$ —

	September 30, 2017			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Assets:				
AFS Securities:				
GSE debentures	$270,729	$ —	$ 270,729	$ —
MBS	141,516	—	141,516	—
Municipal bonds	1,535	—	1,535	—
Trust preferred securities	2,051	—	—	2,051
	415,831	—	413,780	2,051
Liabilities:				
Interest Rate Swaps	598	—	598	—

The Company sold its Level 3 AFS security during the three months ended December 31, 2017, received proceeds of $2.1 million, and recognized a gain on sale of $9 thousand, which is included in other non-interest income in the Company's consolidated statement of income. The Company's Level 3 AFS securities had no activity during the three months ended December 31, 2016, except for principal repayments of $19 thousand and a decrease in net unrealized losses included in other comprehensive income of $80 thousand.

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

Loans Receivable - The amount of loans individually evaluated for impairment on a non-recurring basis during the three months ended December 31, 2017 and 2016 that were still held in the portfolio as of December 31, 2017 and 2016 was $1.9 million and $9.4 million, respectively. All of these loans were secured by residential real estate and were individually evaluated to determine if the carrying value of the loan was in excess of the fair value of the collateral, less estimated selling costs of 10%. Fair values were estimated through current appraisals. Management does not adjust or apply a discount to the appraised value, except for the estimated sales cost noted above. The primary significant unobservable input for loans individually evaluated for impairment was the appraisal. Fair values of loans individually evaluated for impairment cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the loan and, as such, are classified as Level 3. Based on this evaluation, the Bank charged-off all loss amounts as of December 31, 2017 and 2016; therefore, the fair value was equal to the carrying value and there was no ACL related to these loans.

OREO - OREO primarily represents real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at lower of cost or fair value. Fair value is estimated through current appraisals or listing prices, less estimated selling costs of 10%. Management does not adjust or apply a discount to the appraised value or listing price, except for the estimated sales costs noted above. The primary significant unobservable input for OREO was the appraisal or listing price. Fair values of foreclosed property cannot be determined with precision and may not be realized in an actual sale of the property and, as such, are classified as Level 3. The fair value of OREO measured on a non-recurring basis during the three months ended December 31, 2017 and 2016 that was still held in the portfolio as of December 31, 2017 and 2016 was $313 thousand and $1.3 million, respectively. The carrying value of the properties equaled the fair value of the properties at December 31, 2017 and 2016.

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

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

	December 31, 2017		September 30, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in thousands)			
Assets:				
Cash and cash equivalents	$29,120	$ 29,120	$351,659	$351,659
AFS securities	501,884	501,884	415,831	415,831
HTM securities	770,806	770,425	827,738	833,009
Loans receivable	7,189,744	7,306,923	7,195,071	7,354,100
FHLB stock	195,470	195,470	100,954	100,954
Interest rate swaps	1,528	1,528	—	—
Liabilities:				
Deposits	5,266,217	5,261,378	5,309,868	5,318,249
FHLB borrowings	2,174,146	2,167,670	2,173,808	2,182,841
Repurchase agreements	100,000	100,571	200,000	202,004
Interest rate swaps	—	—	598	598

27

The following methods and assumptions were used to estimate the fair value of the financial instruments:

Cash and cash equivalents - The carrying amounts of cash and cash equivalents are considered to approximate their fair value due to the nature of the financial assets. (Level 1)

HTM securities - Estimated fair values of securities are based on one of three methods: (1) quoted market prices where available; (2) quoted market prices for similar instruments if quoted market prices are not available; (3) unobservable data that represents the Bank's assumptions about items that market participants would consider in determining fair value where no market data is available. HTM securities are carried at amortized cost. (Level 2)

Loans receivable - The fair value of one- to four-family loans and home equity loans are generally estimated using the present value of expected future cash flows, assuming future prepayments and using discount factors determined by prices obtained from securitization markets, less a discount for the cost of servicing and lack of liquidity. The estimated fair value of the Bank's commercial and consumer loans are based on the expected future cash flows assuming future prepayments and discount factors based on current offering rates. (Level 3)

FHLB stock - The carrying value and estimated fair value of FHLB stock equals cost, which is based on redemption at par value. (Level 1)

Deposits - The estimated fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The estimated fair value of these deposits at December 31, 2017 and September 30, 2017 was $2.44 billion and $2.40 billion, respectively. (Level 1) The fair value of certificates of deposit is estimated by discounting future cash flows using current London Interbank Offered Rates ("LIBOR"). The estimated fair value of certificates of deposit at December 31, 2017 and September 30, 2017 was $2.82 billion and $2.92 billion, respectively. (Level 2)

FHLB borrowings and repurchase agreements - The fair value of fixed-maturity borrowed funds is estimated by discounting estimated future cash flows using current offer rates. (Level 2) The carrying value of FHLB line of credit is considered to approximate its fair value due to the nature of the financial liability. (Level 1)
Interest rate swaps - The fair value of the interest rate swaps was determined using discounted cash flow analysis using observable market-based inputs. (Level 2)

8. OTHER COMPREHENSIVE INCOME

The following table presents the changes in the components of AOCI, net of tax, for the three months ended December 31, 2017. During the three months ended December 31, 2016, the only changes in AOCI, net of tax, were related to unrealized gains (losses) on AFS securities and there were no amounts reclassified from AOCI.

	For the Three Months Ended December 31, 2017		
	Unrealized Gains (Losses) on AFS Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Total AOCI
	(dollars in thousands)		
Beginning balance	$3,290	$ (372)	2,918
Other comprehensive income (loss), before reclassifications	(1,166)	1,596	430
Amount reclassified from AOCI	—	(274)	(274)
Other comprehensive income (loss)	(1,166)	1,322	156
Ending balance	$2,124	$ 950	3,074

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

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

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

- our ability to maintain overhead costs at reasonable levels;
- our ability to originate and purchase a sufficient volume of one- to four-family loans in order to maintain the balance of that portfolio at a level desired by management;
- our ability to invest funds in wholesale or secondary markets at favorable yields compared to the related funding source;
- our ability to access cost-effective funding;
- fluctuations in deposit flows;
- the future earnings and capital levels of the Bank and the continued non-objection by our primary federal banking regulators, to the extent required, to distribute capital from the Bank to the Company, which could affect the ability of the Company to pay dividends in accordance with its dividend policy;
- the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations, including areas where we have purchased large amounts of correspondent loans;
- changes in real estate values, unemployment levels, and the level and direction of loan delinquencies and charge-offs may require changes in the estimates of the adequacy of the ACL, which may adversely affect our business;
- increases in non-performing assets, which may require the Bank to increase the ACL, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets;
- results of examinations of the Bank and the Company by their respective primary federal banking regulators, including the possibility that the regulators may, among other things, require us to increase our ACL;
- changes in accounting principles, policies, or guidelines;
- the effects of, and changes in, monetary and interest rate policies of the Board of Governors of the Federal Reserve System ("FRB");
- the effects of, and changes in, trade and fiscal policies and laws of the United States government;
- the effects of, and changes in, foreign and military policies of the United States government;
- inflation, interest rate, market, monetary, and currency fluctuations;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by users, including the features, pricing, and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- our success in gaining regulatory approval of our products and services and branching locations, when required;
- the impact of interpretations of, and changes in, financial services laws and regulations, including laws concerning taxes, banking, securities, consumer protection 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;
- acquisitions and dispositions;
- changes in consumer spending, borrowing and saving habits; and
- our success at managing the risks involved in our business.

This list of important factors is not all inclusive. For a discussion of risks and uncertainties related to our business that could adversely impact our operations and/or financial results, see "Part I, Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company or the Bank.

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

The following discussion and analysis is intended to assist in understanding the financial condition, results of operations, liquidity, and capital resources of the Company. The Bank comprises almost all of the consolidated assets and liabilities of the Company and the Company is dependent primarily upon the performance of the Bank for the results of its operations. Because of this relationship, references to management actions, strategies and results of actions apply to both the Bank and the Company. This discussion and analysis should be read in conjunction with Management's Discussion and Analysis included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017, filed with the SEC.

Executive Summary

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

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 retail deposits from the general public and invest those funds primarily in permanent loans secured by first mortgages on owner-occupied, one- to four-family residences. We also originate consumer loans primarily secured by mortgages on one- to four-family residences and originate and participate in commercial real estate loans. We also invest in certain investment securities and MBS using funding from deposits, FHLB borrowings, and repurchase agreements.

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

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

Local economic conditions have a significant impact on the ability of borrowers to repay loans and the value of the collateral securing these loans. The industries in the Bank's local market areas, where the properties securing approximately 67% of the Bank's one- to four-family loans are located, are diversified, especially in the Kansas City metropolitan statistical area, which comprises the largest segment of our loan portfolio and deposit base. As of December 2017, the unemployment rate was 3.4% for Kansas and 3.5% for Missouri, compared to the national average of 4.1%, based on information from the Bureau of Labor Statistics. The Kansas City market area has an average household income of approximately $80 thousand per annum, based on 2017 estimates from Claritas Pop-Facts Premier. The average household income in our combined local market areas is approximately $76 thousand per annum, with 91% of the population at or above the poverty level, also based on the 2017 estimates from Claritas Pop-Facts Premier. The Federal Housing Finance Agency price index for Kansas and Missouri continues to indicate relative stability in property values in our local market areas. Management also monitors broad industry and economic indicators and trends in the states and/or metropolitan statistical areas with the highest concentrations of correspondent purchased loans.

The Tax Act enacted on December 22, 2017 made significant changes to the U.S. corporate income tax laws, such as a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018, and changes to and/or limitations on certain income tax deductions. The Company has a fiscal year end of September 30th, so the change in the income tax rate will result in the use of a blended federal income tax rate for fiscal year 2018. In accordance with GAAP, the Company applied the blended federal income tax rate to pretax income in the current quarter and revalued its deferred tax assets and liabilities as of December 22, 2017 to account for the future impact of a lower income tax rate. The revaluation of the Company's deferred tax assets and liabilities contributed $7.5 million to the decrease in income tax expense in the current quarter. The benefit of the lower income tax rate is partially offset by the Company recognizing more proportional amortization expense related to its low income housing partnerships in fiscal year 2018 resulting from an adjustment to account for a higher portion of those benefits realized prior to the income tax rate change. Management estimates the effective income tax rate for fiscal year 2018 to be between 20% and 21% and approximately 22% for fiscal year 2019.

For the quarter ended December 31, 2017, the Company recognized net income of $31.8 million, or $0.24 per share, an increase of $11.3 million, or 54.7%, from the quarter ended December 31, 2016. The increase in net income was due primarily to a decrease in income tax expense resulting from the enactment of the Tax Act on December 22, 2017, the impact of which was an increase in basic

and diluted EPS of $0.08 for the current quarter. The $0.08 EPS was composed of $0.06 per share related to the revaluation of the Company's deferred tax liabilities ($7.5 million) and $0.02 per share as a result of applying the lower blended corporate income tax rate to pretax income in the current quarter ($3.0 million).

The Bank has continued to utilize a leverage strategy to increase earnings in fiscal year 2018. The leverage strategy during the current quarter involved borrowing up to $2.10 billion either on the Bank's FHLB line of credit or by entering into short-term FHLB advances, depending on the rates offered by FHLB. The borrowings were repaid prior to quarter end for regulatory purposes. The proceeds from the borrowings, net of the required FHLB stock holdings which yielded 6.4% during the current quarter, were deposited at the FRB of Kansas City. Net income attributable to the leverage strategy is largely derived from the dividends received on FHLB stock holdings, plus the net interest rate spread between the yield on the cash at the FRB of Kansas City and the rate paid on the related FHLB borrowings, less applicable federal insurance premiums and estimated taxes. Net income attributable to the leverage strategy was $767 thousand during the current quarter, compared to $642 thousand for the prior year quarter. The increase was due primarily to a decrease in the fiscal year 2018 estimated effective tax rate applied to pretax income attributable to the leverage strategy.

The net interest margin increased 10 basis points, from 1.73% for the prior year quarter to 1.83% for the current year quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased 13 basis points, from 2.07% for the prior year quarter to 2.20% for the current year quarter. The increase in the net interest margin was due mainly to an increase in interest-earning asset yields, as well as a shift in the mix of interest-earning assets from relatively lower yielding securities to higher yielding loans and a net decrease in the cost of liabilities not related to the leverage strategy. The Company's efficiency ratio was 40.26% for the current quarter compared to 41.08% for the prior year quarter.

Total assets were $8.99 billion at December 31, 2017 compared to $9.19 billion at September 30, 2017. The $202.8 million decrease was due primarily to a $322.5 million decrease in cash and cash equivalents, partially offset by an increase in FHLB stock. At December 31, 2017, the Bank was not required by the FHLB to redeem the FHLB stock associated with the leverage strategy, which contributed to the lower cash balance compared to September 30, 2017, when this stock was redeemed. Additionally, cash was used during the current quarter to pay off maturing term borrowings, fund disbursements from borrower escrow accounts, and purchase securities.

The loan receivable portfolio was $7.19 billion at December 31, 2017, a decrease of $5.3 million from September 30, 2017. During the current quarter, the Bank originated and refinanced $146.6 million of loans with a weighted average rate of 3.84% and purchased $99.8 million of one- to four-family loans from correspondent lenders with a weighted average rate of 3.59%. The Bank also entered into participations totaling $50.4 million of commercial real estate loans with a weighted average rate of 4.19%, of which $45.2 million had not yet been funded as of December 31, 2017.

The Bank is continuing to manage the size of its loan portfolio as it manages its liquidity levels. Loan volume has primarily been maintained through the rates offered to correspondent lenders. Generally, over the past couple of years, cash flows from the securities portfolio have been used primarily to purchase loans and in part to pay down FHLB advances. By moving cash from lower yielding assets to higher yielding assets and repaying higher cost liabilities, we have been able to maintain our net interest margin. In addition to the repayment of securities, the Bank has emphasized growth in the deposit portfolio in part to pay down FHLB advances. The ratio of securities and cash to total assets was approximately 15% at December 31, 2017, which is approximately where management would like to maintain that percentage. In the long run, management considers a 10% ratio of stockholders' equity to total assets at the Bank an appropriate level of capital. At December 31, 2017, this ratio was 13.5%.

Total liabilities were $7.64 billion at December 31, 2017 compared to $7.82 billion at September 30, 2017. The $185.1 million decrease was due mainly to decreases in repurchase agreements and deposits. Repurchase agreements decreased due to the maturity of a $100.0 million repurchase agreement during the quarter. Deposits decreased $43.7

million, to $5.27 billion at December 31, 2017, due mainly to a decrease in wholesale certificates of deposit.

Stockholders' equity was $1.35 billion at December 31, 2017 compared to $1.37 billion at September 30, 2017. The $17.7 million decrease was due primarily to the payment of $50.4 million in cash dividends, partially offset by net income of $31.8 million.

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

Critical Accounting Policies

Our most critical accounting policies are the methodologies used to determine the ACL and fair value measurements. These policies are important to the presentation of our financial condition and results of operations, involve a high degree of complexity, and require management to make difficult and subjective judgments that may require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could affect reported results materially. These critical accounting policies and their application are reviewed at least annually by our audit committee. For a full discussion of our critical accounting policies, see Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

Financial Condition

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

	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016
	(Dollars in thousands)				
Total assets	$8,990,159	$9,192,916	$9,103,280	$9,246,390	$9,139,510
Cash and cash equivalents	29,120	351,659	130,249	240,587	150,560
AFS securities	501,884	415,831	452,894	465,083	499,792
HTM securities	770,806	827,738	891,037	954,110	1,022,215
Loans receivable, net	7,189,744	7,195,071	7,240,594	7,193,721	7,071,410
FHLB stock, at cost	195,470	100,954	101,039	105,475	105,364
Deposits	5,266,217	5,309,868	5,267,685	5,269,234	5,192,674
FHLB borrowings	2,174,146	2,173,808	2,173,472	2,273,113	2,272,754
Repurchase agreements	100,000	200,000	200,000	200,000	200,000
Stockholders' equity	1,350,611	1,368,313	1,358,986	1,382,289	1,368,175
Equity to total assets at end of period	15.0 %	14.9 %	14.9 %	14.9 %	15.0 %

Loans Receivable. The following table presents the balance and weighted average rate of our loan portfolio as of the dates indicated. Within the one- to four-family loan portfolio at December 31, 2017, 57% of this amount had a balance at origination of less than $424 thousand.

	December 31, 2017		September 30, 2017	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Real estate loans:				
One- to four-family:				
Originated	$3,940,288	3.69%	$3,959,232	3.70%
Correspondent purchased	2,453,625	3.54	2,445,311	3.53
Bulk purchased	338,084	2.31	351,705	2.29
Construction	33,063	3.47	30,647	3.45
Total	6,765,060	3.57	6,786,895	3.56
Commercial:				
Permanent	205,020	4.22	183,030	4.24
Construction	80,062	3.89	86,952	3.80
Total	285,082	4.13	269,982	4.10
Total real estate loans	7,050,142	3.59	7,056,877	3.58
Consumer loans:				
Home equity	123,124	5.40	122,066	5.40
Other	4,238	4.04	3,808	4.05
Total consumer loans	127,362	5.36	125,874	5.36
Total loans receivable	7,177,504	3.62	7,182,751	3.61
Less:				
ACL	8,370		8,398	
Discounts/unearned loan fees	25,110		24,962	