METTLER TOLEDO INTERNATIONAL INC/
Form 4
November 26, 2013

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
FILLIOL OLIVER A

(Last) (First) (Middle)

IM LANGACHER 44, CH-8606 GREIFENSEE

(Street)

SWITZERLAND

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
METTLER TOLEDO INTERNATIONAL INC/ [MTD]

3. Date of Earliest Transaction (Month/Day/Year)
11/22/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, par value $0.01 per share	11/22/2013		M		1,300	A	$ 47.95	17,579	D	
Common Stock, par value $0.01 per share	11/22/2013		S		1,300	D	$ 251.57 (1)	16,279	D	
	11/22/2013		M		6,700	A	$ 47.95	22,979	D	

Common Stock, par value $0.01 per share								
Common Stock, par value $0.01 per share	11/22/2013		S	6,700	D	$ 252.77 (2)	16,279	D
Common Stock, par value $0.01 per share	11/22/2013		M	1,800	A	$ 47.95	18,079	D
Common Stock, par value $0.01 per share	11/22/2013		S	1,800	D	$ 253.69 (3)	16,279	D
Common Stock, par value $0.01 per share	11/22/2013		M	200	A	$ 47.95	16,479	D
Common Stock, par value $0.01 per share	11/22/2013		S	200	D	$ 254.35 (4)	16,279	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

								Date Exercisable	Expiration Date	Title	Amount or Number of Shares
				Code	V	(A)	(D)				
Stock Option (right to buy)	$ 47.95	11/22/2013		M			1,300	10/28/2005(5)	04/28/2015	Common Stock, par value $0.01 per share	1,300
Stock Option (right to buy)	$ 47.95	11/22/2013		M			6,700	10/28/2005(5)	04/28/2015	Common Stock, par value $0.01 per share	6,700
Stock Option (right to buy)	$ 47.95	11/22/2013		M			1,800	10/28/2005(5)	04/28/2015	Common Stock, par value $0.01 per share	1,800
Stock Option (right to buy)	$ 47.95	11/22/2013		M			200	10/28/2005(5)	04/28/2015	Common Stock, par value $0.01 per share	200

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
FILLIOL OLIVER A IM LANGACHER 44 CH-8606 GREIFENSEE SWITZERLAND	X		President and CEO	

Signatures

James Bellerjeau, Attorney in Fact	11/26/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Represents the average sales price of multiple individual transactions at prices between $251.24 and $251.91. Filer agrees to provide, upon request by the Commission staff, full information regarding the number of shares purchased or sold at each separate price.

(2) Represents the average sales price of multiple individual transactions at prices between $252.24 and $253.22. Filer agrees to provide, upon request by the Commission staff, full information regarding the number of shares purchased or sold at each separate price.

(3) Represents the average sales price of multiple individual transactions at prices between $253.24 and $254.07. Filer agrees to provide, upon request by the Commission staff, full information regarding the number of shares purchased or sold at each separate price.

(4) Represents the average sales price of multiple individual transactions at prices between $254.26 and $254.43. Filer agrees to provide, upon request by the Commission staff, full information regarding the number of shares purchased or sold at each separate price.

(5) The options vest annually in five equal installments beginning on the first anniversary of the date of grant.

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(after provision for credit losses)
49,889

49,374

49,658

49,364

49,054

Non-interest income
5,433

5,358

5,895

5,460

5,573

Non-interest expense
23,598

22,036

23,479

22,645

21,937

Income tax expense
8,394

860

11,472

10,809

11,103

Net income
$
23,330

$
31,836

$
20,602

$
21,370

$
21,587

Efficiency ratio
42.66
%

40.26
%

42.26
%

41.30
%

40.16
%

Basic EPS
$
0.17

$
0.24

$
0.15

$
0.16

$
0.16

Diluted EPS
0.17

0.24

0.15

0.16

0.16

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Comparison of Operating Results for the Six Months Ended March 31, 2018 and 2017

The Company recognized net income of $55.2 million, or $0.41 per share, for the six month period ended March 31, 2018 compared to net income of $42.2 million, or $0.31 per share, for the six month period ended March 31, 2017. The increase in net income was due primarily to a decrease in income tax expense resulting from the Tax Act being signed into law in December 2017.

The net interest margin increased eight basis points, from 1.77% for the prior year six month period to 1.85% for the current year six month period. Excluding the effects of the leverage strategy, the net interest margin would have increased 11 basis points, from 2.11% for the prior year six month period to 2.22% for the current year six month period. 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.

Interest and Dividend Income

The weighted average yield on total interest-earning assets increased 22 basis points, from 2.80% for the prior year six month period to 3.02% for the current year six month period, while the average balance of interest-earning assets decreased $163.7 million from the prior year six month period. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased 10 basis points, from 3.23% for the prior year six month period to 3.33% for the current year six month period, while the average balance of interest-earning assets would have decreased $152.2 million. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent.

	For the Six Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$128,383	$125,051	$3,332	2.7 %
Cash and cash equivalents	15,009	7,101	7,908	111.4
MBS	10,642	12,553	(1,911)	(15.2)
FHLB stock	6,296	6,039	257	4.3
Investment securities	2,088	2,238	(150)	(6.7)
Total interest and dividend income	$162,418	$152,982	$9,436	6.2

The increase in interest income on loans receivable was due mainly to a $118.3 million increase in the average balance of the portfolio, as well as a four basis point increase in the weighted average yield on the portfolio to 3.57% for the current year six month period. The increase in the weighted average yield was due primarily to adjustable-rate loans repricing to higher market rates, along with the origination and purchase of new loans at higher market rates.

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy increased $794 thousand from the prior year six month period due to a 72 basis point increase in the weighted average yield. Interest income on cash associated with the leverage strategy increased $7.1 million from the prior year six month period due to a 74 basis point increase in the weighted average yield. In both cases, the increase in the weighted average yield was related to balances held at the FRB of Kansas City.

The decrease in interest income on the MBS portfolio was due to a $227.4 million decrease in the average balance of the portfolio, partially offset by a 12 basis point increase in the weighted average yield on the portfolio to 2.28% for

the current year six month period. Cash flows not reinvested were used primarily to fund loan growth and pay off certain maturing term borrowings. The increase in the weighted average yield was due primarily to adjustable-rate MBS repricing to higher market rates, as well as a decrease in the impact of net premium amortization. Net premium amortization of $1.6 million during the current year six month period decreased the weighted average yield on the portfolio by 35 basis points. During the prior year six month period, $2.3 million of net premiums were amortized which decreased the weighted average yield on the portfolio by 40 basis points. As of March 31, 2018, the remaining net balance of premiums on our portfolio of MBS was $7.4 million.

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Interest Expense

The weighted average rate paid on total interest-bearing liabilities increased 15 basis points, from 1.17% for the prior year six month period to 1.32% for the current year six month period, while the average balance of interest-bearing liabilities decreased $134.6 million from the prior year six month period. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have decreased one basis point, from 1.30% for the prior year six month period to 1.29% for the current year six month period, and the average balance of interest-bearing liabilities would have decreased $123.0 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

	For the Six Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
INTEREST EXPENSE:				
FHLB borrowings	$36,689	$32,888	$3,801	11.6 %
Deposits	24,441	20,760	3,681	17.7
Repurchase agreements	2,025	2,974	(949)	(31.9)
Total interest expense	$63,155	$56,622	$6,533	11.5

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy decreased $3.9 million from the prior year six month period due to a 22 basis point decrease in the weighted average rate paid on the portfolio, to 2.06% for the current year six month period, and a $140.9 million decrease in the average balance of the portfolio. The decrease in the weighted average rate paid was due to certain advances maturing between periods being replaced at lower effective interest rates. The decrease in the average balance was a result of using cash flows from the securities portfolio and funds generated from deposit growth to pay off certain advances that matured between periods. Interest expense on FHLB borrowings associated with the leverage strategy increased $7.7 million from the prior year six month period due to a 77 basis point increase in the weighted average rate paid as a result of an increase in interest rates between periods.

The increase in interest expense on deposits was due primarily to a 13 basis point increase in the weighted average rate, to 0.93% for the current year six month period. The increase in the weighted average rate was primarily related to the certificate of deposit portfolio, which increased 19 basis points to 1.53% for the current year six month period. The weighted average rate paid on wholesale certificates increased 64 basis points, to 1.38% for the current year six month period.

Provision for Credit Losses

The Bank did not record a provision for credit losses during the current year six month period or the prior year six month period. Based on management's assessment of the ACL formula analysis model and several other factors, it was determined that no provision for credit losses was necessary. Net loan charge-offs were $8 thousand during the current year six month period compared to $93 thousand in the prior year six month period. At March 31, 2018, loans 30 to 89 days delinquent were 0.19% of total loans and loans 90 or more days delinquent or in foreclosure were 0.16% of total loans. At March 31, 2017, loans 30 to 89 days delinquent were 0.22% of total loans and loans 90 or more days delinquent or in foreclosure were 0.19% of total loans.

Non-Interest Income

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

	For the Six Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Retail fees and charges	$7,635	$7,291	$344	4.7 %
Income from BOLI	810	1,096	(286)	(26.1)
Other non-interest income	2,346	2,454	(108)	(4.4)
Total non-interest income	$10,791	$10,841	$(50)	(0.5)

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The increase in retail fees and charges was due mainly to increases in debit card income due to higher transaction volume in the current year and a reduction in waived fees as customers and vendors have become more accustomed to the chip card technology. The decrease in income from BOLI was due mainly to a one-time adjustment to the benchmark interest rate associated with one of the policies.

Non-Interest Expense

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

	For the Six Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	$21,695	$21,178	$517	2.4 %
Information technology and related expense	6,953	5,602	1,351	24.1
Occupancy, net	5,604	5,439	165	3.0
Deposit and loan transaction costs	2,720	2,614	106	4.1
Regulatory and outside services	2,291	2,611	(320)	(12.3)
Advertising and promotional	2,022	1,953	69	3.5
Federal insurance premium	1,699	1,772	(73)	(4.1)
Office supplies and related expense	884	978	(94)	(9.6)
Other non-interest expense	1,766	1,387	379	27.3
Total non-interest expense	$45,634	$43,534	$2,100	4.8

The increase in salaries and employee benefits expense was due primarily to a new 2018 Tax Savings Bonus Plan. The 2018 Tax Savings Bonus plan is a one-time bonus award to qualifying non-officer employees. The anticipated expense associated with this plan will be recognized in fiscal year 2018 and is approximately $1.0 million, of which $333 thousand was recognized during the current quarter. It is expected that the Bank will recognize approximately $333 thousand of expense per quarter in the third and fourth quarters of fiscal year 2018 related to this plan. The increase in information technology and related expense and the decrease in regulatory and outside services were due mainly to a change in the presentation of certain information technology professional and consulting expenses beginning in fiscal year 2018. Information technology professional and consulting expenses are now being reported in information technology and related expenses rather than regulatory and outside services. Additionally, these expenses increased compared to the prior year due primarily to ongoing enhancements to the Bank's online banking services, along with increases in information technology expenses related to software licensing and depreciation. The increase in other non-interest expense was due mainly to an increase in OREO operations expense.

The Company's efficiency ratio was 41.47% for the current year six month period compared to 40.61% for the prior year six month period. The change in the efficiency ratio was due primarily to higher non-interest expense in the current year six month period compared to the prior year six month period. The efficiency ratio is a measure of a financial institution's total non-interest expense as a percentage of the sum of net interest income (pre-provision for credit losses) and non-interest income. A lower value indicates that the financial institution is generating revenue with a proportionally lower level of expense.

Income Tax Expense

Income tax expense was $9.3 million for the current year six month period compared to $21.5 million for the prior year six month period. The effective tax rate was 14.4% for the current year six month period compared to 33.8% for the prior year six month period. The decrease in effective tax rate was due mainly to the Tax Act being signed into law

in December 2017.

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Average Balance Sheet

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

			For the Six Months Ended					
			March 31, 2018			March 31, 2017		
	At March 31, 2018		Average	Interest		Average	Interest	
		Yield/	Outstanding	Earned/	Yield/	Outstanding	Earned/	Yield/
	Amount	Rate	Amount	Paid	Rate	Amount	Paid	Rate
Assets:	(Dollars in thousands)							
Interest-earning assets:								
Loans receivable[1]	$7,200,663	3.60%	$7,195,403	$128,383	3.57%	$7,077,103	$125,051	3.53%
MBS[2]	982,405	2.39	935,442	10,642	2.28	1,162,814	12,553	2.16
Investment securities[2][3]	293,113	1.61	302,669	2,088	1.38	355,189	2,238	1.26
FHLB stock	195,626	6.74	192,469	6,296	6.56	194,824	6,039	6.22
Cash and cash equivalents[4]	140,580	1.75	2,118,019	15,009	1.40	2,117,787	7,101	0.66
Total interest-earning assets[1][2]	8,812,387	3.44	10,744,002	162,418	3.02	10,907,717	152,982	2.80
Other non-interest-earning assets	304,074		307,596			298,414		
Total assets	$9,116,461		$11,051,598			$11,206,131		
Liabilities and stockholders' equity:								
Interest-bearing liabilities:								
Checking	$933,359	0.04	$856,773	153	0.04	$814,227	149	0.04
Savings	376,294	0.41	354,457	569	0.32	339,893	354	0.21
Money market	1,198,900	0.38	1,192,571	1,897	0.32	1,204,469	1,420	0.24
Retail certificates	2,456,532	1.64	2,431,173	18,954	1.56	2,436,744	17,420	1.43
Wholesale certificates	389,108	1.56	415,907	2,868	1.38	381,922	1,417	0.74
Total deposits	5,354,193	0.98	5,250,881	24,441	0.93	5,177,255	20,760	0.80
FHLB borrowings[5]	2,174,478	2.05	4,163,650	36,689	1.75	4,316,101	32,888	1.52
Repurchase agreements	100,000	2.53	144,242	2,025	2.78	200,000	2,974	2.94
Total borrowings	2,274,478	2.08	4,307,892	38,714	1.79	4,516,101	35,862	1.59
Total interest-bearing liabilities	7,628,671	1.31	9,558,773	63,155	1.32	9,693,356	56,622	1.17
Other non-interest-bearing liabilities	123,050		130,219			127,284		
Stockholders' equity	1,364,740		1,362,606			1,385,491		
Total liabilities and stockholders' equity	$9,116,461		$11,051,598			$11,206,131		

(Continued)

Explanation of Responses:

	At March 31, 2018		For the Six Months Ended March 31, 2018			March 31, 2017		
	Amount	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)							
Net interest income[6]				$99,263			$96,360	
Net interest rate spread[7][8]		2.13%			1.70 %			1.63 %
Net interest-earning assets	$1,183,716		$1,185,229			$1,214,361		
Net interest margin[8][9]					1.85			1.77
Ratio of interest-earning assets to interest-bearing liabilities					1.12x			1.13x
Selected performance ratios:								
Return on average assets (annualized)[8]					1.00 %			0.75 %
Return on average equity (annualized)[8]					8.10			6.09
Average equity to average assets					12.33			12.36
Operating expense ratio[10]					0.83			0.78
Efficiency ratio[11]					41.47			40.61
Pre-tax yield on leverage strategy[12]					0.19			0.22
							(Concluded)	

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

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

(3) The average balance of investment securities includes an average balance of nontaxable securities of $26.1 million and $32.2 million for the six months ended March 31, 2018 and March 31, 2017, respectively.

(4) The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of $1.91 billion and $1.93 billion for the six months ended March 31, 2018 and March 31, 2017, respectively.

(5) Included in this line, for the six months ended March 31, 2018 and March 31, 2017, respectively, are FHLB borrowings related to the leverage strategy with an average outstanding amount of $2.01 billion and $2.02 billion, respectively, interest paid of $14.5 million and $6.8 million, respectively, at a rate of 1.43% and 0.66%, respectively, and FHLB borrowings not related to the leverage strategy with an average outstanding amount of $2.16 billion and $2.30 billion, respectively, interest paid of $22.2 million and $26.1 million, respectively, at a rate of 2.06% and 2.28%, respectively. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.

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

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

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

For the Six Months Ended

	March 31, 2018			March 31, 2017		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	1.00 %	(0.19)%	1.19 %	0.75 %	(0.14)%	0.89 %
Return on average equity (annualized)	8.10	0.22	7.88	6.09	0.22	5.87
Net interest margin	1.85	(0.37)	2.22	1.77	(0.34)	2.11
Net interest rate spread	1.70	(0.34)	2.04	1.63	(0.30)	1.93

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

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

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

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

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Rate/Volume Analysis

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

	For the Six Months Ended March 31, 2018 vs. March 31, 2017		
	Increase (Decrease) Due to		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	$2,117	$1,215	$3,332
MBS	(2,558)	647	(1,911)
Investment securities	(350)	200	(150)
FHLB stock	(74)	331	257
Cash and cash equivalents	1	7,907	7,908
Total interest-earning assets	(864)	10,300	9,436
Interest-bearing liabilities:			
Checking	8	(4)	4
Savings	16	199	215
Money market	(14)	491	477
Certificates of deposit	191	2,794	2,985
FHLB borrowings	(1,680)	5,481	3,801
Repurchase agreements	(791)	(158)	(949)
Total interest-bearing liabilities	(2,270)	8,803	6,533
Net change in net interest income	$1,406	$1,497	$2,903

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

For the quarter ended March 31, 2018, the Company recognized net income of $23.3 million, or $0.17 per share, compared to net income of $21.6 million, or $0.16 per share for the quarter ended March 31, 2017. The $1.7 million increase in net income was due primarily to a decrease in income tax expense resulting from the Tax Act being signed into law in December 2017.

The net interest margin increased six basis points, from 1.80% for the prior year quarter to 1.86% for the current year quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased nine basis points, from 2.15% for the prior year quarter to 2.24% 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.

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Explanation of Responses:

Interest and Dividend Income
The weighted average yield on total interest-earning assets increased 21 basis points, from 2.85% for the prior year quarter to 3.06% for the current quarter, while the average balance of interest-earning assets decreased $186.7 million from the prior year quarter. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased eight basis points, from 3.27% for the prior year quarter to 3.35% for the current quarter, while the average balance of interest-earning assets would have decreased $163.3 million. The following table presents the components of interest and dividend income for the time periods presented along with the change measured in dollars and percent.

	For the Three Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$64,194	$63,106	$1,088	1.7 %
Cash and cash equivalents	7,895	4,132	3,763	91.1
MBS	5,390	6,191	(801)	(12.9)
FHLB stock	3,201	3,100	101	3.3
Investment securities	1,094	1,131	(37)	(3.3)
Total interest and dividend income	$81,774	$77,660	$4,114	5.3

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy increased $324 thousand from the prior year quarter due primarily to a 69 basis point increase in the weighted average yield. Interest income on cash associated with the leverage strategy increased $3.4 million from the prior year quarter due to a 73 basis point increase in the weighted average yield. In both cases, the increase in the weighted average yield was related to balances held at the FRB of Kansas City.

The decrease in interest income on the MBS portfolio was due to a $186.2 million decrease in the average balance of the portfolio as cash flows not reinvested were used primarily to fund loan growth and pay off certain maturing term borrowings. The weighted average yield on the portfolio increased 10 basis points, to 2.30% for the current quarter. The increase in the weighted average yield was due primarily to adjustable-rate MBS repricing to higher market rates, along with a decrease in the impact of net premium amortization. During the current quarter, $788 thousand of net premiums on MBS were amortized, which decreased the weighted average yield on the portfolio by 33 basis points. During the prior year quarter, $1.0 million of net premiums were amortized, which decreased the weighted average yield on the portfolio by 36 basis points.

Interest Expense
The weighted average rate paid on total interest-bearing liabilities increased 16 basis points, from 1.19% for the prior year quarter to 1.35% for the current quarter, while the average balance of interest-bearing liabilities decreased $159.2 million. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities would have decreased one basis point, from 1.31% for the prior year quarter to 1.30% for the current quarter, and the average balance of interest-bearing liabilities would have decreased $135.8 million. The following table presents the components of interest expense for the periods presented, along with the change measured in dollars and percent.

For the Three Months Ended March 31,		Change Expressed in:	
2018	2017	Dollars	Percent

	(Dollars in thousands)			
INTEREST EXPENSE:				
FHLB borrowings	$18,772	$16,771	$2,001	11.9 %
Deposits	12,480	10,364	2,116	20.4
Repurchase agreements	633	1,471	(838)	(57.0)
Total interest expense	$31,885	$28,606	$3,279	11.5

The table above includes interest expense on FHLB borrowings both associated and not associated with the leverage strategy. Interest expense on FHLB advances not related to the leverage strategy decreased $1.9 million from the prior year quarter due to a 25 basis point decrease in the weighted average rate paid as a result of certain maturing advances being replaced at lower market interest rates,

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as well as to a $98.6 million decrease in the average balance of the portfolio as a result of not replacing all of the advances that matured between periods. Interest expense on FHLB borrowings associated with the leverage strategy increased $3.9 million from the prior year quarter due to a 79 basis point increase in the weighted average rate paid resulting from an increase in interest rates between periods.

The increase in interest expense on deposits was due primarily to a 15 basis point increase in the weighted average rate, to 0.96% for the current quarter. The increase in the weighted average rate was primarily related to the certificate of deposit portfolio, which increased 22 basis points to 1.57% for the current quarter. The decrease in interest expense on repurchase agreements was due to the maturity of a $100.0 million repurchase agreement between periods.

Non-Interest Income

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

	For the Three Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Retail fees and charges	$3,670	$3,582	$88	2.5 %
Income from BOLI	276	573	(297)	(51.8)
Other non-interest income	1,487	1,418	69	4.9
Total non-interest income	$5,433	$5,573	$(140)	(2.5)

The decrease in income from BOLI was due mainly to a one-time adjustment to the benchmark interest rate associated with one of the policies.

Non-Interest Expense

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

	For the Three Months Ended March 31,		Change Expressed in:	
	2018	2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	$11,167	$10,544	$623	5.9 %
Information technology and related expense	3,622	2,768	854	30.9
Occupancy, net	2,839	2,764	75	2.7
Deposit and loan transaction costs	1,313	1,228	85	6.9
Regulatory and outside services	1,151	1,265	(114)	(9.0)
Advertising and promotional	1,337	1,263	74	5.9
Federal insurance premium	847	878	(31)	(3.5)
Office supplies and related expense	442	541	(99)	(18.3)
Other non-interest expense	880	686	194	28.3
Total non-interest expense	$23,598	$21,937	$1,661	7.6

The increase in salaries and employee benefits expense was due primarily to the 2018 Tax Savings Bonus Plan as previously discussed. The decrease in regulatory and outside services were due mainly to a change in the presentation of certain information technology professional and consulting expenses beginning in fiscal year 2018. Information technology professional and consulting expenses are now being reported in information technology and related expenses rather than regulatory and outside services. These expenses increased compared to the prior year due primarily to ongoing enhancements to the Bank's online banking services, along with increases in information technology expenses related to software licensing and depreciation.

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The Company's efficiency ratio was 42.66% for the current quarter compared to 40.16% for the prior year quarter. The change in the efficiency ratio was due mainly to an increase in non-interest expense.

Income Tax Expense

Income tax expense was $8.4 million for the current quarter compared to $11.1 million for the prior year quarter. The effective tax rate for the current quarter was 26.5% compared to 34.0% for the prior year quarter. The decrease in the effective tax rate was due mainly to the Tax Act being signed into law in December 2017.

Average Balance Sheet

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

	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
Assets:	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable[1]	$7,194,856	$64,194	3.57%	$7,140,433	$63,106	3.54%
MBS[2]	938,143	5,390	2.30	1,124,367	6,191	2.20
Investment securities[2][3]	305,285	1,094	1.43	353,722	1,131	1.28
FHLB stock	193,477	3,201	6.71	193,826	3,100	6.49
Cash and cash equivalents[4]	2,076,109	7,895	1.52	2,082,180	4,132	0.79
Total interest-earning assets[1][2]	10,707,870	81,774	3.06	10,894,528	77,660	2.85
Other non-interest-earning assets	310,401			300,795		
Total assets	$11,018,271			$11,195,323		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Checking	$868,878	76	0.04	$828,420	75	0.04
Savings	360,471	321	0.36	344,699	199	0.23
Money market	1,195,699	1,106	0.38	1,218,058	712	0.24
Retail certificates	2,432,667	9,541	1.59	2,428,497	8,652	1.44
Wholesale certificates	403,293	1,436	1.44	378,546	726	0.78
Total deposits	5,261,008	12,480	0.96	5,198,220	10,364	0.81
FHLB borrowings[5]	4,180,927	18,772	1.81	4,302,878	16,771	1.57
Repurchase agreements	100,000	633	2.53	200,000	1,471	2.94
Total borrowings	4,280,927	19,405	1.83	4,502,878	18,242	1.64
Total interest-bearing liabilities	9,541,935	31,885	1.35	9,701,098	28,606	1.19
Other non-interest-bearing liabilities	115,505			115,547		
Stockholders' equity	1,360,831			1,378,678		
Total liabilities and stockholders' equity	$11,018,271			$11,195,323		

(Continued)

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	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Net interest income[6]		$49,889			$49,054	
Net interest rate spread[7][8]			1.71 %			1.66 %
Net interest-earning assets	$1,165,935			$1,193,430		
Net interest margin[8][9]			1.86			1.80
Ratio of interest-earning assets to interest-bearing liabilities			1.12x			1.12x
Selected performance ratios:						
Return on average assets (annualized)[8]			0.85 %			0.77 %
Return on average equity (annualized)[8]			6.86			6.26
Average equity to average assets			12.35			12.31
Operating expense ratio[10]			0.86			0.78
Efficiency ratio[11]			42.66			40.16
Pre-tax yield on leverage strategy[12]			0.18			0.25

(Concluded)

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

(2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.

(3) The average balance of investment securities includes an average balance of nontaxable securities of $24.8 million and $31.2 million for the three months ended March 31, 2018 and March 31, 2017, respectively.

(4) The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of $1.91 billion and $1.94 billion for the three months ended March 31, 2018 and March 31, 2017, respectively.

(5) Included in this line, for the quarters ended March 31, 2018 and March 31, 2017, respectively, are FHLB borrowings related to the leverage strategy with an average outstanding amount of $2.01 billion and $2.03 billion, respectively, interest paid of $7.8 million and $3.9 million, respectively, at a rate of 1.55% and 0.76%, respectively, and FHLB borrowings not related to the leverage strategy with an average outstanding amount of $2.17 billion and $2.27 billion, respectively, interest paid of $11.0 million and $12.9 million, respectively, at a rate of 2.05% and 2.30%, respectively. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.

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

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

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

	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	0.85 %	(0.15)%	1.00 %	0.77 %	(0.14)%	0.91 %
Return on average equity (annualized)	6.86	0.21	6.65	6.26	0.24	6.02
Net interest margin	1.86	(0.38)	2.24	1.80	(0.35)	2.15
Net interest rate spread	1.71	(0.34)	2.05	1.66	(0.30)	1.96

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

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

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

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

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Rate/Volume Analysis

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

	For the Three Months Ended March 31, 2018 vs. 2017 Increase (Decrease) Due to		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	$475	$613	$1,088
MBS	(1,061)	260	(801)
Investment securities	(165)	128	(37)
FHLB stock	(6)	107	101
Cash and cash equivalents	(12)	3,775	3,763
Total interest-earning assets	(769)	4,883	4,114
Interest-bearing liabilities:			
Checking	4	(2)	2
Savings	9	113	122
Money market	(14)	407	393
Certificates of deposit	98	1,501	1,599
FHLB borrowings	(698)	2,699	2,001
Repurchase agreements	(656)	(182)	(838)
Total interest-bearing liabilities	(1,257)	4,536	3,279
Net change in net interest income	$488	$347	$835

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

For the quarter ended March 31, 2018, the Company recognized net income of $23.3 million, or $0.17 per share, compared to net income of $31.8 million, or $0.24 per share, for the quarter ended December 31, 2017. The decrease in net income was due primarily to higher income tax expense in the current quarter compared to the prior quarter, due mainly to the enactment of the Tax Act and the resulting revaluation of the Company's deferred income tax assets and liabilities which reduced income tax expense by $7.5 million in the prior quarter.

Net interest income increased $515 thousand, or 1.0%, from the prior quarter to $49.9 million for the current quarter. The net interest margin increased three basis points from 1.83% for the prior quarter to 1.86% for the current quarter. Excluding the effects of the leverage strategy, the net interest margin would have increased four basis points from 2.20% for the prior quarter to 2.24% for the current quarter. The increase in net interest margin was due mainly to a decrease in the cost of borrowings not related to the leverage strategy, along with a reduction in interest expense resulting from fewer days in the current quarter.

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Interest and Dividend Income

The weighted average yield on total interest-earning assets for the current quarter increased eight basis points from the prior quarter, to 3.06%, while the average balance of interest-earning assets decreased $71.5 million between the two periods. Absent the impact of the leverage strategy, the weighted average yield on total interest-earning assets would have increased four basis points from the prior quarter, to 3.35%, while the average balance of interest-earning assets would have decreased $69.5 million. The following table presents the components of interest and dividend income for the time periods presented, along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31, 2018	December 31, 2017	Dollars	Percent
	(Dollars in thousands)			
INTEREST AND DIVIDEND INCOME:				
Loans receivable	$64,194	$ 64,189	$5	— %
Cash and cash equivalents	7,895	7,114	781	11.0
MBS	5,390	5,252	138	2.6
FHLB stock	3,201	3,095	106	3.4
Investment securities	1,094	994	100	10.1
Total interest and dividend income	$81,774	$ 80,644	$1,130	1.4

The table above includes interest income on cash and cash equivalents associated and not associated with the leverage strategy. Interest income on cash and cash equivalents not related to the leverage strategy decreased $165 thousand from the prior quarter due to a $79.9 million decrease in the average balance primarily resulting from cash being used to pay off certain maturing term borrowings during the prior quarter, partially offset by a 25 basis point increase in the weighted average yield. Interest income on cash associated with the leverage strategy increased $945 thousand from the prior quarter due to a 23 basis point increase in the weighted average yield. In both cases, the increase in the weighted average yield was related to balances held at the FRB of Kansas City.

Interest Expense

The weighted average rate paid on total interest-bearing liabilities for the current quarter increased six basis points from the prior quarter, to 1.35%, while the average balance of interest-bearing liabilities decreased $33.3 million between the two periods. Absent the impact of the leverage strategy, the weighted average rate paid on total interest-bearing liabilities for the current quarter would have increased one basis point from the prior quarter, to 1.30%, while the average balance of interest-bearing liabilities would have decreased $31.3 million. The following table presents the components of interest expense for the time periods presented, along with the change measured in dollars and percent.

	For the Three Months Ended		Change Expressed in:	
	March 31, 2018	December 31, 2017	Dollars	Percent
	(Dollars in thousands)			
INTEREST EXPENSE:				
FHLB borrowings	$18,772	$ 17,917	$855	4.8 %
Deposits	12,480	11,961	519	4.3
Repurchase agreements	633	1,392	(759)	(54.5)
Total interest expense	$31,885	$ 31,270	$615	2.0

The table above includes interest expense on FHLB borrowings associated and not associated with the leverage strategy. Interest expense on FHLB borrowings not related to the leverage strategy decreased $218 thousand from the prior quarter due to a three basis point decrease in the weighted average rate paid, to 2.05% for the current quarter. Interest expense on FHLB borrowings associated with the leverage strategy increased $1.1 million from the prior quarter due to a 24 basis point increase in the weighted average rate paid as a result of an increase in interest rates between periods.

The increase in interest expense on deposits was due primarily to a five basis point increase in the weighted average rate paid, to 0.96% for the current quarter. The increase in the weighted average rate paid was primarily due to increases in the money market deposit portfolio rate and retail certificate of deposit portfolio rate, which increased 12 basis points and five basis points, respectively.

The decrease in interest expense on repurchase agreements was due to the maturity of a $100.0 million repurchase agreement during the prior quarter.

Non-Interest Income

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

	For the Three Months Ended		Change Expressed in:	
	March 31, 2018	December 31, 2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST INCOME:				
Retail fees and charges	$3,670	$ 3,965	$(295)	(7.4)%
Income from BOLI	276	534	(258)	(48.3)
Other non-interest income	1,487	859	628	73.1
Total non-interest income	$5,433	$ 5,358	$75	1.4

The decrease in retail fees and charges was due mainly to a decrease in debit card income resulting from a reduction in transaction volume due to the seasonality of such activity. The decrease in income from BOLI was due mainly to a one-time adjustment to the benchmark interest rate associated with one of the policies. The increase in other non-interest income was due primarily to an increase in insurance commissions resulting from the receipt of annual commissions from certain insurance providers during the current quarter and no such commissions received during the prior quarter, along with a gain on the sale of loans during the current quarter compared to a loss on the sale of loans during the prior quarter as management continues to test loan sale processes for liquidity purposes.

Non-Interest Expense

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

	For the Three Months Ended		Change Expressed in:	
	March 31, 2018	December 31, 2017	Dollars	Percent
	(Dollars in thousands)			
NON-INTEREST EXPENSE:				
Salaries and employee benefits	$11,167	$ 10,528	$639	6.1 %
Information technology and related expense	3,622	3,331	291	8.7
Occupancy, net	2,839	2,765	74	2.7
Deposit and loan transaction costs	1,313	1,407	(94)	(6.7)
Regulatory and outside services	1,151	1,140	11	1.0
Advertising and promotional	1,337	685	652	95.2
Federal insurance premium	847	852	(5)	(0.6)
Office supplies and related expense	442	442	—	—
Other non-interest expense	880	886	(6)	(0.7)
Total non-interest expense	$23,598	$ 22,036	$1,562	7.1

The increase in salaries and employee benefits expense was due primarily to the timing of expenses related to paid time-off usage and accruals, as well as to the 2018 Tax Savings Bonus Plan as previously discussed. The increase in advertising and promotional expense was due primarily to the timing of media campaigns and sponsorships.

The Company's efficiency ratio was 42.66% for the current quarter compared to 40.26% for the prior quarter. The change in the efficiency ratio was due primarily to higher non-interest expense in the current quarter compared to the prior quarter.

Income Tax Expense
Income tax expense was $8.4 million for the current quarter, compared to $860 thousand for the prior quarter. The effective tax rate was 26.5% for the current quarter compared to 2.6% for the prior quarter. The lower effective income tax rate and income tax expense

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in the prior quarter were due primarily to revaluing the Company's deferred tax assets and liabilities as a result of the enactment of the Tax Act in December 2017. Management estimates the effective tax rate for the third and fourth quarter of fiscal year 2018 to be approximately the same as the current quarter effective income tax rate of 26.5%.

Average Balance Sheet

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

	For the Three Months Ended					
	March 31, 2018			December 31, 2017		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
Assets:	(Dollars in thousands)					
Interest-earning assets:						
Loans receivable[1]	$7,194,856	$64,194	3.57%	$7,195,938	$64,189	3.56%
MBS[2]	938,143	5,390	2.30	932,801	5,252	2.25
Investment securities[2][3]	305,285	1,094	1.43	300,110	994	1.32
FHLB stock	193,477	3,201	6.71	191,482	3,095	6.41
Cash and cash equivalents[4]	2,076,109	7,895	1.52	2,159,019	7,114	1.29
Total interest-earning assets[1][2]	10,707,870	81,774	3.06	10,779,350	80,644	2.98
Other non-interest-earning assets	310,401			304,850		
Total assets	$11,018,271			$11,084,200		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Checking	$868,878	76	0.04	$844,932	77	0.04
Savings	360,471	321	0.36	348,573	248	0.28
Money market	1,195,699	1,106	0.38	1,189,511	791	0.26
Retail certificates	2,432,667	9,541	1.59	2,429,711	9,413	1.54
Wholesale certificates	403,293	1,436	1.44	428,246	1,432	1.33
Total deposits	5,261,008	12,480	0.96	5,240,973	11,961	0.91
FHLB borrowings[5]	4,180,927	18,772	1.81	4,146,750	17,917	1.71
Repurchase agreements	100,000	633	2.53	187,522	1,392	2.90
Total borrowings	4,280,927	19,405	1.83	4,334,272	19,309	1.76
Total interest-bearing liabilities	9,541,935	31,885	1.35	9,575,245	31,270	1.29
Other non-interest-bearing liabilities	115,505			144,613		
Stockholders' equity	1,360,831			1,364,342		
Total liabilities and stockholders' equity	$11,018,271			$11,084,200		

(Continued)

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	For the Three Months Ended					
	March 31, 2018			December 31, 2017		
	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Amount	Interest Earned/ Paid	Yield/ Rate
	(Dollars in thousands)					
Net interest income[6]		$49,889			$49,374	
Net interest rate spread[7][8]			1.71 %			1.69 %
Net interest-earning assets	$1,165,935			$1,204,105		
Net interest margin[8][9]			1.86			1.83
Ratio of interest-earning assets to interest-bearing liabilities			1.12x			1.13x
Selected performance ratios:						
Return on average assets (annualized)[8]			0.85 %			1.15 %
Return on average equity (annualized)[8]			6.86			9.33
Average equity to average assets			12.35			12.31
Operating expense ratio[10]			0.86			0.80
Efficiency ratio[11]			42.66			40.26
Pre-tax yield on leverage strategy[12]			0.18			0.19

(Concluded)

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

(2) MBS and investment securities classified as AFS are stated at amortized cost, adjusted for unamortized purchase premiums or discounts.

(3) The average balance of investment securities includes an average balance of nontaxable securities of $24.8 million and $27.5 million for the three months ended March 31, 2018 and December 31, 2017, respectively.

(4) The average balance of cash and cash equivalents includes an average balance of cash related to the leverage strategy of $1.91 billion and $1.92 billion for the three months ended March 31, 2018 and December 31, 2017, respectively.

(5) Included in this line, for the quarters ended March 31, 2018 and December 31, 2017, respectively, are FHLB borrowings related to the leverage strategy with an average outstanding amount of $2.01 billion for each of the two periods, interest paid of $7.8 million and $6.7 million, respectively, at a rate of 1.55% and 1.31%, respectively, and FHLB borrowings not related to the leverage strategy with an average outstanding amount of $2.17 billion and $2.14 billion, respectively, interest paid of $11.0 million and $11.2 million, respectively, at a rate of 2.05% and 2.08%, respectively. The FHLB advance amounts and rates included in this line include the effect of interest rate swaps and are net of deferred prepayment penalties.

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

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

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

	For the Three Months Ended					
	March 31, 2018			December 31, 2017		
	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)	Actual (GAAP)	Leverage Strategy	Adjusted (Non-GAAP)
Return on average assets (annualized)	0.85 %	(0.15)%	1.00 %	1.15 %	(0.22)%	1.37 %
Return on average equity (annualized)	6.86	0.21	6.65	9.33	0.22	9.11
Net interest margin	1.86	(0.38)	2.24	1.83	(0.37)	2.20
Net interest rate spread	1.71	(0.34)	2.05	1.69	(0.33)	2.02

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

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

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

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

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Rate/Volume Analysis

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

	For the Three Months Ended March 31, 2018 vs. December 31, 2017 Increase (Decrease) Due to		
	Volume	Rate	Total
	(Dollars in thousands)		
Interest-earning assets:			
Loans receivable	$(31)	$36	$5
MBS	30	108	138
Investment securities	17	83	100
FHLB stock	20	86	106
Cash and cash equivalents	(303)	1,084	781
Total interest-earning assets	(267)	1,397	1,130
Interest-bearing liabilities:			
Checking	1	(1)	—
Savings	8	65	73
Money market	4	311	315
Certificates of deposit	(118)	249	131
FHLB borrowings	(115)	970	855
Repurchase agreements	(596)	(163)	(759)
Total interest-bearing liabilities	(816)	1,431	615
Net change in net interest income	$549	$(34)	$515

Liquidity and Capital Resources

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

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

In the event short-term liquidity needs exceed available cash, the Bank has access to a line of credit at FHLB and the FRB of Kansas City's discount window. Per FHLB's lending guidelines, total FHLB borrowings cannot exceed 40% of regulatory total assets without

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the pre-approval of FHLB senior management. In July 2017, the president of FHLB approved an increase, through July 2018, in the Bank's borrowing limit to 55% of Bank Call Report total assets. When the leverage strategy is in place, the Bank maintains the resulting excess cash reserves from the FHLB borrowings at the FRB of Kansas City, which can be used to meet any short-term liquidity needs. The amount that can be borrowed from the FRB of Kansas City's discount window is based upon the fair value of securities pledged as collateral and certain other characteristics of those securities, and is used only when other sources of short-term liquidity are unavailable. Management tests the Bank's access to the FRB of Kansas City's discount window annually with a nominal, overnight borrowing.

If management observes a trend in the amount and frequency of line of credit utilization and/or short-term borrowings that is not in conjunction with a planned strategy, such as the leverage strategy, the Bank will likely utilize long-term wholesale borrowing sources such as FHLB advances and/or repurchase agreements to provide long-term, fixed-rate funding. The maturities of these long-term borrowings are generally staggered in order to mitigate the risk of a highly negative cash flow position at maturity. The Bank's internal policy limits total borrowings to 55% of total assets. At March 31, 2018, the Bank had total borrowings, at par, of $2.28 billion, or approximately 25% of total assets.

The amount of FHLB advances outstanding at March 31, 2018 was $2.08 billion, of which $675.0 million was scheduled to mature in the next 12 months. All FHLB borrowings are secured by certain qualifying loans pursuant to a blanket collateral agreement with FHLB. At March 31, 2018, the Bank's ratio of the par value of FHLB borrowings to Call Report total assets was 24%. When the full leverage strategy is in place, FHLB borrowings may be in excess of 40% of the Bank's Call Report total assets, and may be in excess of 40% as long as the Bank continues its leverage strategy and FHLB senior management continue to approve the Bank's borrowing limit being in excess of 40% of Call Report total assets. All or a portion of the FHLB borrowings in conjunction with the leverage strategy could be repaid at any point in time while the strategy is in effect, if necessary.

At March 31, 2018, the Bank had repurchase agreements of $100.0 million, or approximately 1% of total assets, none of which were scheduled to mature in the next 12 months. The Bank may enter into additional repurchase agreements as management deems appropriate, not to exceed 15% of total assets, and subject to the total borrowings limit of 55% discussed above. The Bank has pledged securities with an estimated fair value of $108.5 million as collateral for repurchase agreements as of March 31, 2018. The securities pledged for the repurchase agreements will be delivered back to the Bank when the repurchase agreements mature.

The Bank could utilize the repayment and maturity of outstanding loans, MBS, and other investments for liquidity needs rather than reinvesting such funds into the related portfolios. At March 31, 2018, the Bank had $692.7 million of securities that were eligible but unused as collateral for borrowing or other liquidity needs.

The Bank has access to other sources of funds for liquidity purposes, such as brokered and public unit deposits. As of March 31, 2018, the Bank's policy allowed for combined brokered and public unit deposits up to 15% of total deposits. At March 31, 2018, the Bank had public unit deposits totaling $389.1 million, which had an average remaining term to maturity of 11 months, or approximately 7% of total deposits, and no brokered deposits. Management continuously monitors the wholesale deposit market for opportunities to obtain funds at attractive rates. The Bank had pledged securities with an estimated fair value of $433.1 million as collateral for public unit deposits at March 31, 2018. The securities pledged as collateral for public unit deposits are held under joint custody with FHLB and generally will be released upon deposit maturity.
At March 31, 2018, $971.9 million of the Bank's certificate of deposit portfolio was scheduled to mature within one year, including $230.9 million of public unit deposits. Based on our deposit retention experience and our current pricing strategy, we anticipate the majority of the maturing retail certificates of deposit will renew or transfer to other deposit products at the prevailing rate, although no assurance can be given in this regard. We also anticipate the majority of the maturing public unit deposits will be replaced with similar wholesale funding products.

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

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The following table presents the contractual maturities of our loan, MBS, and investment securities portfolios at March 31, 2018, along with associated weighted average yields. Loans and securities which have adjustable interest rates are shown as maturing in the period during which the contract is due. The table does not reflect the effects of possible prepayments or enforcement of due on sale clauses. As of March 31, 2018, the amortized cost of investment securities in our portfolio which are callable or have pre-refunding dates within one year was $127.4 million.

	Loans[1]		MBS		Investment Securities		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)							
Amounts due:								
Within one year	$34,254	3.81%	$1,591	3.66%	$126,422	1.21%	$162,267	1.78%
After one year:								
Over one to two years	39,178	4.87	4,257	4.36	4,651	1.37	48,086	4.48
Over two to three years	112,786	3.87	22,560	2.81	105,403	1.62	240,749	2.78
Over three to five years	47,181	3.99	75,920	1.62	56,637	2.53	179,738	2.53
Over five to ten years	614,906	3.58	398,080	2.14	—	—	1,012,986	3.01
Over ten to fifteen years	1,285,517	3.34	143,438	2.62	—	—	1,428,955	3.26
After fifteen years	5,053,920	3.65	336,559	2.70	—	—	5,390,479	3.59
Total due after one year	7,153,488	3.60	980,814	2.39	166,691	1.92	8,300,993	3.42
	$7,187,742	3.60	$982,405	2.39	$293,113	1.61	$8,463,260	3.39

(1) Demand loans, loans having no stated maturity, and overdraft loans are included in the amounts due within one year. Construction loans are presented based on the estimated term to complete construction. The maturity date for home equity loans assumes the customer always makes the required minimum payment.

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Limitations on Dividends and Other Capital Distributions

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

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

Off-Balance Sheet Arrangements, Commitments and Contractual Obligations

The Company, in the normal course of business, makes commitments to buy or sell assets, extend credit, or to incur or fund liabilities. There have been no material changes in commitments, contractual obligations or off-balance sheet arrangements from September 30, 2017. For additional information, see "Part II, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Off-Balance Sheet Arrangements, Commitments and Contractual Obligations" in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2017. We anticipate we will continue to have sufficient funds, through repayments and maturities of loans and securities, deposits and borrowings, to meet our current commitments.

The maximum balance of short-term FHLB borrowings outstanding at any month-end during the six months ended March 31, 2018 was $2.88 billion, and the average balance of short-term FHLB borrowings outstanding during this period was $2.72 billion at a weighted average contractual rate of 1.50%. Short-term FHLB borrowings for this disclosure are defined as those with maturity dates within the next 12 months. The majority of the short-term FHLB borrowings amount related to borrowings associated with the leverage strategy. This compares to a balance of short-term FHLB borrowings outstanding at March 31, 2018 of $775.0 million at a weighted average contractual rate of 1.76%.

Contingencies

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

Capital

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

	Bank Ratios	Company Ratios	Minimum Regulatory Requirement	Regulatory Requirement For Well-Capitalized Status of Bank Under PCA Provisions
Tier 1 leverage ratio	10.9 %	12.3 %	4.0 %	5.0 %
Common Equity Tier 1 capital ratio	27.1	30.6	4.5	6.5
Tier 1 capital ratio	27.1	30.6	6.0	8.0
Total capital ratio	27.3	30.7	8.0	10.0

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

	Bank	Company
Total equity as reported under GAAP	$1,210,455	$1,364,740
AOCI	(5,159)	(5,159)
Total tier 1 capital	1,205,296	1,359,581
ACL	8,390	8,390
Total capital	$1,213,686	$1,367,971

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Asset and Liability Management and Market Risk

For a complete discussion of the Bank's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Bank's portfolios, see "Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report on Form 10-K for the year ended September 30, 2017. The analysis presented in the tables below reflects the level of market risk at the Bank, including the cash the holding company has on deposit at the Bank.

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

The general objective of our interest rate risk management program is to determine and manage an appropriate level of interest rate risk while maximizing net interest income in a manner consistent with our policy to manage, to the extent practicable, the exposure of net interest income to changes in market interest rates. The Board of Directors and Asset and Liability Management Committee ("ALCO") regularly review the Bank's interest rate risk exposure by forecasting the impact of hypothetical, alternative interest rate environments on net interest income and the market value of portfolio equity ("MVPE") at various dates. The MVPE is defined as the net of the present value of cash flows from existing assets, liabilities, and off-balance sheet instruments. The present values are determined based upon market conditions as of the date of the analysis, as well as in alternative interest rate environments providing potential

changes in the MVPE under those alternative interest rate environments. Net interest income is projected in the same alternative interest rate environments with both a static balance sheet and management strategies considered. The MVPE and net interest income analysis are also conducted to estimate our sensitivity to rates for future time horizons based upon market conditions as of the date of the analysis. In addition to the interest rate environments presented below, management also reviews the impact of non-parallel rate shock scenarios on a quarterly basis. These scenarios consist of flattening and steepening the yield curve by changing short-term and long-term interest rates independent of each other, and simulating cash flows and determining valuations as a

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result of these hypothetical changes in interest rates to identify rate environments that pose the greatest risk to the Bank. This analysis helps management quantify the Bank's exposure to changes in the shape of the yield curve.

Qualitative Disclosure about Market Risk
At March 31, 2018, the Bank's gap between the amount of interest-earning assets and interest-bearing liabilities projected to reprice within one year was $65.6 million, or 0.72% of total assets, compared to $185.2 million, or 2.06% of total assets, at December 31, 2017. The decrease in the one-year gap amount was due primarily to a decrease in the amount of mortgage-related assets projected to reprice due to higher interest rates. As interest rates rise, borrowers have less economic incentive to refinance their mortgages and agency debt issuers have less economic incentive or opportunity to exercise their call options in order to issue new debt at lower interest rates. This increase in interest rates resulted in lower projected cash flows on these assets over the next year compared to December 31, 2017. The decrease in the projected cash flows on mortgage-related assets was partially offset by an increase in the amount of cash held at March 31, 2018.

The majority of interest-earning assets anticipated to reprice in the coming year are repayments and prepayments on mortgage loans and MBS, both of which include the option to prepay without a fee being paid by the contract holder. The amount of interest-bearing liabilities expected to reprice in a given period is not typically impacted significantly by changes in interest rates because the Bank's borrowings and certificate of deposit portfolios have contractual maturities and generally cannot be terminated early without a prepayment penalty. If interest rates were to increase 200 basis points, as of March 31, 2018, the Bank's one-year gap is projected to be $(327.0) million, or (3.59)% of total assets. This compares to a one-year gap of $(305.9) million, or (3.40)% of total assets, if interest rates were to have increased 200 basis points as of December 31, 2017.

During the current quarter, loan repayments totaled $246.9 million and cash flows from the securities portfolio totaled $115.9 million. The asset cash flows of $362.8 million were reinvested into new assets at current market interest rates. Total cash flows from fixed-rate liabilities that matured and repriced into current market interest rates during the current quarter were $337.2 million. These offsetting cash flows allow the Bank to manage its interest rate risk and gap position more precisely than if the Bank did not have offsetting cash flows due to its mix of assets or maturity structure of liabilities.

Other strategies include managing the Bank's wholesale assets and liabilities. The Bank primarily uses long-term fixed-rate borrowings with no embedded options to lengthen the average life of the Bank's liabilities. The fixed-rate characteristics of these borrowings lock-in the cost until maturity and thus decrease the amount of liabilities repricing as interest rates move higher compared to funding with lower-cost short-term borrowings. These borrowings are laddered in order to prevent large amounts of liabilities repricing in any one period. The WAL of the Bank's term borrowings as of March 31, 2018 was 2.0 years. However, including the impact of interest rate swaps related to $200.0 million of adjustable-rate FHLB advances, the WAL of the Bank's term borrowings as of March 31, 2018 was 2.4 years. The interest rate swaps effectively convert the adjustable-rate borrowings into long-term, fixed-rate liabilities.

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

In addition to the wholesale strategies, the Bank has sought to increase core deposits and long-term certificates of deposit. Core deposits are expected to reduce the risk of higher interest rates because their interest rates are not expected to increase significantly as market interest rates rise. Specifically, checking accounts and savings accounts have had minimal interest rate fluctuations throughout historical interest rate cycles, though no assurance can be given

that this will be the case in future interest rate cycles. The balances and rates of these accounts have historically tended to remain very stable over time, giving them the characteristic of long-term liabilities. The Bank uses historical data pertaining to these accounts to estimate their future balances. At March 31, 2018 the WAL of the Bank's non-maturity deposits was 12.8 years.

Over the last few years, the Bank has priced long-term certificates of deposit more aggressively than short-term certificates of deposit with the goal of giving customers incentive to move funds into longer-term certificates of deposit when interest rates were lower. The balance of our retail certificates of deposit with terms of 36 months or longer increased $322.6 million, or 24%, since March 31, 2015. Long-term certificates of deposit reduce the amount of liabilities repricing as interest rates rise in a given time period.

Because of the on-balance sheet strategies implemented over the past several years, management believes the Bank is well-positioned to move into a market rate environment where interest rates are higher.

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

	Within One Year	More Than One Year to Three Years	More Than Three Years to Five Years	Over Five Years	Total
Interest-earning assets:	(Dollars in thousands)				
Loans receivable[1]	$1,500,289	$1,804,630	$1,131,293	$2,740,192	$7,176,404
Securities[2]	541,501	398,983	198,197	135,930	1,274,611
Other interest-earning assets	123,624	—	—	—	123,624
Total interest-earning assets	2,165,414	2,203,613	1,329,490	2,876,122	8,574,639
Interest-bearing liabilities:					
Non-maturity deposits[3]	302,698	346,441	260,384	1,709,792	2,619,315
Certificates of deposit	1,022,132	1,305,142	517,243	1,123	2,845,640
Borrowings[4]	775,000	1,100,000	300,000	142,557	2,317,557
Total interest-bearing liabilities	2,099,830	2,751,583	1,077,627	1,853,472	7,782,512
Excess (deficiency) of interest-earning assets over interest-bearing liabilities	$65,584	$(547,970)	$251,863	$1,022,650	$792,127
Cumulative excess of interest-earning assets over interest-bearing liabilities	$65,584	$(482,386)	$(230,523)	$792,127	
Cumulative excess of interest-earning assets over interest-bearing liabilities as a percent of total Bank assets at:					
March 31, 2018	0.72 %	(5.29)%	(2.53)%	8.69 %	
September 30, 2017	6.98				
Cumulative one-year gap - interest rates +200 bps at:					
March 31, 2018	(3.59)				
September 30, 2017	0.88				

(1) ARM loans are included in the period in which the rate is next scheduled to adjust or in the period in which repayments are expected to occur, or prepayments are expected to be received, prior to their next rate adjustment, rather than in the period in which the loans are due. Fixed-rate loans are included in the periods in which they are scheduled to be repaid, based on scheduled amortization and prepayment assumptions. Balances are net of undisbursed amounts and deferred fees and exclude loans 90 or more days delinquent or in foreclosure.

(2) MBS reflect projected prepayments at amortized cost. Investment securities are presented based on contractual maturities, term to call dates or pre-refunding dates as of March 31, 2018, at amortized cost.

(3) Although the Bank's checking, savings, and money market accounts are subject to immediate withdrawal, management considers a substantial amount of these accounts to be core deposits having significantly longer effective maturities. The decay rates (the assumed rates at which the balances of existing accounts decline) used on these accounts is based on assumptions developed from our actual experiences with these accounts. If all of the Bank's checking, savings, and money market accounts had been assumed to be subject to repricing within one year, interest-bearing liabilities which were estimated to mature or reprice within one year would have exceeded interest-earning assets with comparable characteristics by $2.25 billion, for a cumulative one-year gap of (24.7)% of total assets.

(4) Borrowings exclude deferred prepayment penalty costs.

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

Change	Net Interest Income At					
(in Basis Points)	March 31, 2018			September 30, 2017		
in Interest Rates[1]	Amount ($)	Change ($)	Change (%)	Amount ($)	Change ($)	Change (%)
	(Dollars in thousands)					
-100 bp	$197,136	$(1,071)	(0.54)%	$181,200	$(6,623)	(3.53)%
000 bp	198,207	—	—	187,823	—	—
+100 bp	196,603	(1,604)	(0.81)	189,259	1,436	0.76
+200 bp	192,755	(5,452)	(2.75)	188,508	685	0.36
+300 bp	188,014	(10,193)	(5.14)	186,299	(1,524)	(0.81)

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

The net interest income projections were higher in all interest rate scenarios at March 31, 2018 compared to September 30, 2017. This was due primarily to enhancements in the Bank's deposit rate model to better align projected money market deposit rates with historical behavior and management's expectations. This change resulted in a decrease in the projected interest expense over the 12-month horizon compared to September 30, 2017. In addition, higher interest rates at March 31, 2018 resulted in an increase in the projected income on the Bank's interest-earning assets compared to September 30, 2017.

The net interest income projections decrease from the base case in all rising rate scenarios at March 31, 2018, while at September 30, 2017 the net interest income projection improved in the +100 and +200 basis point scenarios before decreasing in the +300 basis point scenario. This change was due primarily to a decrease in cash between the two periods as well as higher market interest rates at March 31, 2018, which reduced projected cash flows on mortgage-related assets, both of which resulted in a decrease in the level of earnings in the higher interest rate environments. The decrease in cash, which reprices daily, reduced the amount of assets projected to reprice in the twelve-month horizon. In addition, as interest rates rise, the one-year gap eventually becomes negative due to a reduction in cash flows from the Bank's mortgage-related assets and callable agency debentures. At March 31, 2018, as interest rates move higher, liabilities would reprice to higher interest rates at a faster pace than assets and have a negative impact on the Bank's net interest income projection. At September 30, 2017, modeled in the +300 basis point scenario, liabilities would reprice to higher interest rates at a faster pace than assets and have a negative impact on the Bank's net interest income projection.

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Explanation of Responses:

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

Change	Market Value of Portfolio Equity At					
(in Basis Points)	March 31, 2018			September 30, 2017		
in Interest Rates[1]	Amount ($)	Change ($)	Change (%)	Amount ($)	Change ($)	Change (%)
	(Dollars in thousands)					
-100 bp	$1,533,601	$60,168	4.08 %	$1,446,537	$(13,891)	(0.95)%
000 bp	1,473,433	—	—	1,460,428	—	—
+100 bp	1,302,270	(171,163)	(11.62)	1,352,558	(107,870)	(7.39)
+200 bp	1,088,704	(384,729)	(26.11)	1,173,891	(286,537)	(19.62)
+300 bp	868,254	(605,179)	(41.07)	969,747	(490,681)	(33.60)

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

The percentage change in the Bank's MVPE at March 31, 2018 was more adversely impacted in the increasing interest rate scenarios than at September 30, 2017. This was due to a decrease in cash held between the two periods as well as market interest rates being higher at March 31, 2018. The market value of cash is not impacted by changes in interest rates due to the fact that the interest rates on cash changes daily as short-term interest rates change. As long-term interest rates increase, repayments on mortgage-related assets are more likely to decrease and only be realized through significant changes in borrowers' lives such as divorce, death, job-related relocations, or other events as there is less economic incentive for borrowers to prepay their debt, resulting in an increase in the average life of mortgage-related assets. Similarly, call projections for the Bank's callable agency debentures decrease as interest rates rise, which results in cash flows related to these assets moving closer to the contractual maturity dates. The higher expected average lives of these assets, relative to the assumptions in the base case interest rate environment, increases the sensitivity of their market value to changes in interest rates. As a result, the projected decrease in the market value of the Bank's financial assets was more significant than the projected decrease in the market value of its financial liabilities, which resulted in a projected decrease in MVPE in all of the rising interest rate scenarios presented.

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

	Amount	Yield/Rate	WAL	% of Category	% of Total
	(Dollars in thousands)				
Investment securities	$293,113	1.61 %	1.3	23.0 %	3.3 %
MBS - fixed	644,051	2.23	3.2	50.5	7.3
MBS - adjustable	338,354	2.70	3.0	26.5	3.9
Total securities	1,275,518	2.21	2.7	100.0 %	14.5
Loans receivable:					
Fixed-rate one- to four-family:					
<= 15 years	1,164,767	3.08	4.1	16.2 %	13.2
> 15 years	4,468,744	3.83	6.5	62.2	50.8
All other fixed-rate loans	276,262	4.20	4.6	3.8	3.1
Total fixed-rate loans	5,909,773	3.70	6.0	82.2	67.1
Adjustable-rate one- to four-family:					
<= 36 months	255,774	1.82	3.4	3.6	2.9
> 36 months	848,455	3.12	2.8	11.8	9.7
All other adjustable-rate loans	173,740	5.01	3.9	2.4	2.0
Total adjustable-rate loans	1,277,969	3.12	3.0	17.8	14.6
Total loans receivable	7,187,742	3.60	5.5	100.0 %	81.7
FHLB stock	195,626	6.74	1.0		2.2
Cash and cash equivalents	140,580	1.75	—		1.6
Total interest-earning assets	$8,799,466	3.44	4.9		100.0%
Non-maturity deposits	$2,508,553	0.25	12.8	46.8 %	32.9 %
Retail certificates of deposit	2,456,532	1.64	1.9	45.9	32.2
Public units	389,108	1.56	0.9	7.3	5.1
Total deposits	5,354,193	0.98	6.9	100.0 %	70.2
Term borrowings	2,175,000	2.09	2.4	95.6 %	28.5
FHLB line of credit	100,000	1.75	—	4.4	1.3
Total borrowings	2,275,000	2.08	2.3	100.0 %	29.8
Total interest-bearing liabilities	$7,629,193	1.31	5.5		100.0%

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

PART II - OTHER INFORMATION
Item 1. Legal Proceedings
The Company and the Bank are involved as plaintiff or defendant in various legal actions arising in the normal course of business. In our opinion, after consultation with legal counsel, we believe it unlikely that such pending legal actions will have a material adverse effect on our financial condition, results of operations or liquidity.
Item 1A. Risk Factors
There have been no material changes to our risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017.

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

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

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
January 1, 2018 through January 31, 2018	—	$ —	—	$70,000,000
February 1, 2018 through February 28, 2018	—	—	—	70,000,000
March 1, 2018 through March 31, 2018	—	—	—	70,000,000
Total	—	—	—	70,000,000

Item 3. Defaults Upon Senior Securities
Not applicable.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
Not applicable.
Item 6. Exhibits
See Index to Exhibits.

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INDEX TO EXHIBITS

Exhibit Number	Document
3(i)	Charter of Capitol Federal Financial, Inc., as filed on May 6, 2010, as Exhibit 3(i) to Capitol Federal Financial, Inc.'s Registration Statement on Form S-1 (File No. 333-166578) and incorporated herein by reference
3(ii)	Bylaws of Capitol Federal Financial, Inc., as amended, filed on September 30, 2016, as Exhibit 3.2 to Form 8-K for Capitol Federal Financial Inc. and incorporated herein by reference
10.1(i)	Capitol Federal Financial, Inc.'s Employee Stock Ownership Plan, as amended, filed on May 10, 2011 as Exhibit 10.1(ii) to the March 31, 2011 Form 10-Q for Capitol Federal Financial, Inc., and incorporated herein by reference
10.1(ii)	Form of Change of Control Agreement with each of John B. Dicus, Kent G. Townsend, and Rick C. Jackson filed on January 20, 2011 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference
10.1(iii)	Form of Change of Control Agreement with each of Natalie G. Haag and Carlton A. Ricketts filed on November 29, 2012 as Exhibit 10.1(iv) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.1(iv)	Form of Change of Control Agreement with Daniel L. Lehman filed on November 29, 2016 as Exhibit 10.1(v) to the Registrant's Annual Report on Form 10-K and incorporated herein by reference
10.2	Capitol Federal Financial's 2000 Stock Option and Incentive Plan (the "Stock Option Plan") filed on April 13, 2000 as Appendix A to Capitol Federal Financial's Revised Proxy Statement (File No. 000-25391) and incorporated herein by reference
10.3	Capitol Federal Financial Deferred Incentive Bonus Plan, as amended, filed on May 5, 2009 as Exhibit 10.4 to the March 31, 2009 Form 10-Q for Capitol Federal Financial and incorporated herein by reference
10.4	Form of Incentive Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.5 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference
10.5	Form of Non-Qualified Stock Option Agreement under the Stock Option Plan filed on February 4, 2005 as Exhibit 10.6 to the December 31, 2004 Form 10-Q for Capitol Federal Financial and incorporated herein by reference
10.6	Description of Director Fee Arrangements filed on August 1, 2014 as Exhibit 10.9 to the Registrant's June 30, 2014 Form 10-Q and incorporated herein by reference
10.7	Short-term Performance Plan filed on August 4, 2015 as Exhibit 10.10 to the Registrant's June 30, 2015 Form 10-Q and incorporated herein by reference
10.8	Capitol Federal Financial, Inc. 2012 Equity Incentive Plan (the "Equity Incentive Plan") filed on December 22, 2011 as Appendix A to Capitol Federal Financial, Inc.'s Proxy Statement (File No. 001-34814) and incorporated herein by reference
10.9	Form of Incentive Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.12 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.10	Form of Non-Qualified Stock Option Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.13 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.11	Form of Stock Appreciation Right Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.14 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
10.12	Form of Restricted Stock Agreement under the Equity Incentive Plan filed on February 6, 2012 as Exhibit 10.15 to the Registrant's December 31, 2011 Form 10-Q and incorporated herein by reference
11	Calculations of Basic and Diluted EPS (See "Part I, Item 1. Financial Statements – Notes to Consolidated Financial Statements – Note 2 – Earnings Per Share")
31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer

31.2	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 made by Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 made by John B. Dicus, Chairman, President and Chief Executive Officer, and Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

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

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SIGNATURES

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

CAPITOL FEDERAL FINANCIAL, INC.

Date: May 10, 2018	By:	/s/ John B. Dicus John B. Dicus, Chairman, President and Chief Executive Officer
Date: May 10, 2018	By:	/s/ Kent G. Townsend Kent G. Townsend, Executive Vice President, Chief Financial Officer and Treasurer

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