Section 1: 10-Q (10-Q)

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

FORM 10-Q

☒ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period ended March 31, 2019

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-37709

AXOS FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0867444**
(State or other jurisdiction of incorporation or organization)	***(I.R.S. Employer Identification No.)***
4350 La Jolla Village Drive, Suite 140, San Diego, CA	**92122**
(Address of principal executive offices)	***(Zip Code)***

Registrant's telephone number, including area code: (858) 350-6200

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Securities Exchange Act of 1934.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). ☐ Yes ☒ No

The number of shares outstanding of the registrant's common stock on the last practicable date: 61,285,734 shares of common stock, $0.01 par value per share, as of April 23, 2019.

AXOS FINANCIAL, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in thousands, except par and stated value)	March 31, 2019	June 30, 2018
ASSETS		
Cash and due from banks	$ 288,832	$ 544,317
Cash segregated for regulatory purposes	474,407	78,433
Federal funds sold	100	100
Total cash and cash equivalents	763,339	622,850
Securities:		
Available-for-sale	219,156	180,305
Stock of the regulatory agencies, at cost	19,682	17,250
Loans held for sale, carried at fair value	15,714	35,077
Loans held for sale, lower of cost or fair value	3,267	2,686
Loans and leases—net of allowance for loan and lease losses of $71,746 as of March 31, 2019 and $49,151 as of June 30, 2018	9,098,453	8,432,289
Mortgage servicing rights, carried at fair value	10,355	10,752
Other real estate owned and repossessed vehicles	7,616	9,591
Goodwill and other intangible assets—net	136,076	67,788
Securities borrowed	127,167	—
Customer, broker-dealer and clearing receivables	252,900	—
Other assets	221,836	160,916
TOTAL ASSETS	$ 10,875,561	$ 9,539,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 1,763,773	$ 1,015,355
Interest bearing	6,891,682	6,969,995
Total deposits	8,655,455	7,985,350
Advances from the Federal Home Loan Bank	443,500	457,000
Borrowings, subordinated notes and debentures	214,477	54,552
Securities loaned	201,574	—
Customer, broker-dealer and clearing payables	245,208	—
Accounts payable and accrued liabilities and other liabilities	75,862	82,089
Total liabilities	9,836,076	8,578,991
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDERS' EQUITY:		
Preferred stock—$0.01 par value; 1,000,000 shares authorized:		
Series A—$10,000 stated value and liquidation preference per share; 515 shares issued and outstanding as of March 31, 2019 and June 30, 2018	5,063	5,063
Common stock—$0.01 par value; 150,000,000 shares authorized; 66,253,298 shares issued and 61,285,375 shares outstanding as of March 31, 2019; 65,796,060 shares issued and 62,688,064 shares outstanding as of June 30, 2018	663	658
Additional paid-in capital	384,491	366,515
Accumulated other comprehensive income (loss)—net of tax	(518)	(613)
Retained earnings	785,613	671,348
Treasury stock, at cost; 4,967,923 shares as of March 31, 2019 and 3,107,996 shares as of June 30, 2018	(135,827)	(82,458)
Total stockholders' equity	1,039,485	960,513
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 10,875,561	$ 9,539,504

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except earnings per common share)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
INTEREST AND DIVIDEND INCOME:				
Loans and leases, including fees	$ 157,181	$ 135,901	$ 397,049	$ 335,510
Securities borrowed and customer receivables	3,970	—	3,970	—
Investments	8,057	8,979	22,225	20,666
Total interest and dividend income	169,208	144,880	423,244	356,176
INTEREST EXPENSE:				
Deposits	29,719	20,800	84,385	57,162
Advances from the Federal Home Loan Bank	8,366	6,496	26,848	14,605
Securities loaned	1,038	—	1,038	—
Other borrowings	916	901	2,805	2,963
Total interest expense	40,039	28,197	115,076	74,730
Net interest income	129,169	116,683	308,168	281,446
Provision for loan and lease losses	19,000	16,900	24,550	21,900
Net interest income, after provision for loan and lease losses	110,169	99,783	283,618	259,546
NON-INTEREST INCOME:				
Realized gain (loss) on sale of securities	—	(101)	(133)	(18)
Other-than-temporary loss on securities:				
Total impairment (losses) gains	(1,666)	(173)	(1,666)	(6,271)
Loss (gain) recognized in other comprehensive income	845	173	845	6,115
Total unrealized (loss) gain on securities	(821)	—	(821)	(156)
Prepayment penalty fee income	706	874	4,077	3,108
Gain on sale – other	535	522	5,611	2,888
Mortgage banking income	352	3,089	2,959	11,852
Broker-dealer fee income	5,036	—	5,036	—
Banking and service fees	20,290	19,141	42,804	36,290
Total non-interest income	26,098	23,525	59,533	53,964
NON-INTEREST EXPENSE:				
Salaries and related costs	33,716	25,871	93,524	72,310
Data processing	7,144	4,216	16,792	12,191
Advertising and promotional	3,635	4,315	11,265	11,092
Depreciation and amortization	4,765	2,024	11,348	5,719
Professional services	4,286	1,474	8,489	3,954
Occupancy and equipment	2,584	1,543	5,983	4,461
FDIC and regulatory fees	2,133	1,242	6,587	3,338
Broker-dealer clearing charges	1,095	—	1,095	—
General and administrative expense	22,457	4,749	30,587	11,198
Total non-interest expense	81,815	45,434	185,670	124,263
INCOME BEFORE INCOME TAXES	54,452	77,874	157,481	189,247
INCOME TAXES	15,631	26,621	42,984	73,953
NET INCOME	$ 38,821	$ 51,253	$ 114,497	$ 115,294
NET INCOME ATTRIBUTABLE TO COMMON STOCK	$ 38,744	$ 51,176	$ 114,265	$ 115,062
COMPREHENSIVE INCOME	$ 38,530	$ 49,746	$ 114,592	$ 113,666
Basic earnings per common share (revised for March 2018)	$ 0.63	$ 0.82	$ 1.84	$ 1.82
Diluted earnings per common share (revised for March 2018)	$ 0.63	$ 0.80	$ 1.83	$ 1.79

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands)	**2019**	**2018**	**2019**	**2018**
NET INCOME	$ 38,821	$ 51,253	$ 114,497	$ 115,294
Net unrealized gain (loss) from available-for-sale securities, net of tax expense (benefit) of $128 and $(715) for the three months ended March 31, 2019 and 2018, and $109 and $(3,215) for the nine months ended March 31, 2019 and 2018, respectively.	303	(1,700)	595	(5,661)
Other-than-temporary impairment on securities recognized in other comprehensive income, net of tax expense (benefit) of $(251) and $51 for the three months ended March 31, 2019 and 2018, and $(251) and $2,278 for the nine months ended March 31, 2019 and 2018, respectively.	(594)	122	(594)	3,837
Reclassification of net (gain) loss from available-for-sale securities included in income, net of tax expense (benefit) of $0 and $(30) for the three months ended March 31, 2019 and 2018, and $(30) and $(104) for the nine months ended March 31, 2019 and 2018, respectively.	—	71	94	196
Other comprehensive income (loss)	(291)	(1,507)	95	(1,628)
Comprehensive income	$ 38,530	$ 49,746	$ 114,592	$ 113,666

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	For the Three Months Ended March 31, 2019										
	Preferred Stock		Common Stock								
			Number of Shares								
(Dollars in thousands)	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Treasury Stock	Total
BALANCE—December 31, 2018	515	$ 5,063	66,169,401	(4,961,658)	61,207,743	$ 662	$ 377,689	$746,869	$ (227)	$(135,655)	$ 994,401
Net income	—	—	—	—	—	—	—	38,821	—	—	38,821
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(291)	—	(291)
Cash dividends on preferred stock	—	—	—	—	—	—	—	(77)	—	—	(77)
Stock-based compensation expense and restricted stock unit vesting	—	—	83,897	(6,265)	77,632	1	6,802	—	—	(172)	6,631
BALANCE—March 31, 2019	515	$ 5,063	66,253,298	(4,967,923)	61,285,375	$ 663	$ 384,491	$785,613	$ (518)	$(135,827)	$1,039,485

	For the Three Months Ended March 31, 2018										
	Preferred Stock		Common Stock								
			Number of Shares								
(Dollars in thousands)	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Treasury Stock	Total
BALANCE—December 31, 2017	515	$ 5,063	65,444,875	(2,724,234)	62,720,641	$ 654	$ 353,801	$583,132	$ 366	$(69,353)	$873,663
Net income	—	—	—	—	—	—	—	51,253	—	—	51,253
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(1,507)	—	(1,507)
Cash dividends on preferred stock	—	—	—	—	—	—	—	(77)	—	—	(77)
Purchase of treasury stock	—	—	—	(230,028)	(230,028)	—	—	—	—	(6,888)	(6,888)
Stock-based compensation expense and restricted stock unit vesting	—	—	71,282	(9,027)	62,255	1	5,498	—	—	(290)	5,209
BALANCE—March 31, 2018	515	$ 5,063	65,516,157	(2,963,289)	62,552,868	$ 655	$ 359,299	$634,308	$ (1,141)	$(76,531)	$921,653

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

For the Nine Months Ended March 31, 2019

	Preferred Stock		Common Stock								
			Number of Shares								
(Dollars in thousands)	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Treasury Stock	Total
BALANCE—June 30, 2018	515	$ 5,063	65,796,060	(3,107,996)	62,688,064	$ 658	$ 366,515	$671,348	$ (613)	$ (82,458)	$ 960,513
Net income	—	—	—	—	—	—	—	114,497	—	—	114,497
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	95	—	95
Cash dividends on preferred stock	—	—	—	—	—	—	—	(232)	—	—	(232)
Purchase of treasury stock	—	—	—	(1,704,528)	(1,704,528)	—	—	—	—	(47,881)	(47,881)
Stock-based compensation expense and restricted stock unit vesting	—	—	457,238	(155,399)	301,839	5	17,976	—	—	(5,488)	12,493
BALANCE—March 31, 2019	515	$ 5,063	66,253,298	(4,967,923)	61,285,375	$ 663	$ 384,491	$785,613	$ (518)	$(135,827)	$1,039,485

For the Nine Months Ended March 31, 2018

	Preferred Stock		Common Stock								
			Number of Shares								
(Dollars in thousands)	Shares	Amount	Issued	Treasury	Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Income Tax	Treasury Stock	Total
BALANCE—June 30, 2017	515	$ 5,063	65,115,932	(1,579,688)	63,536,244	$ 651	$ 346,117	$519,246	$ 487	$(37,317)	$834,247
Net income	—	—	—	—	—	—	—	115,294	—	—	115,294
Other comprehensive income (loss)	—	—	—	—	—	—	—	—	(1,628)	—	(1,628)
Cash dividends on preferred stock	—	—	—	—	—	—	—	(232)	—	—	(232)
Purchase of treasury stock	—	—	—	(1,233,491)	(1,233,491)	—	—	—	—	(35,183)	(35,183)
Stock-based compensation expense and restricted stock unit vesting	—	—	400,225	(150,110)	250,115	4	13,182	—	—	(4,031)	9,155
BALANCE—March 31, 2018	515	$ 5,063	65,516,157	(2,963,289)	62,552,868	$ 655	$ 359,299	$634,308	$ (1,141)	$(76,531)	$921,653

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 114,497	$ 115,294
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net accretion of discounts on securities and loans and leases	(30,844)	(29,543)
Amortization of borrowing costs	156	156
Stock-based compensation expense	17,981	13,185
Net (gain) loss on sale of investment securities	133	18
Impairment charge on securities	821	156
Provision for loan and lease losses	24,550	21,900
Broker-dealer reserve for bad debt	15,298	—
Deferred income taxes	(13,640)	8,227
Origination of loans held for sale	(1,201,001)	(1,275,333)
Unrealized (gain) loss on loans held for sale	246	(145)
Gain on sales of loans held for sale	(8,570)	(14,740)
Proceeds from sale of loans held for sale (revised for March 2018)	1,227,360	1,280,757
Change in fair value of mortgage servicing rights	2,053	(188)
(Gain) loss on sale of other real estate and foreclosed assets	(253)	(216)
Depreciation and amortization	11,348	5,719
Net changes in assets and liabilities which provide (use) cash:		
Accrued interest receivable	(12,286)	(6,242)
Securities borrowed	30,731	—
Customer, broker-dealer and clearing receivables	(36,024)	—
Other assets (revised for March 2018)	(13,021)	(20,933)
Accrued interest payable	1,327	393
Securities loaned	(1,467)	—
Customer, broker-dealer and clearing payables	5,097	—
Accounts payable and other liabilities	(7,881)	19,907
Net cash provided by (used in) operating activities (revised for March 2018)	126,611	118,372
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(73,664)	(81,908)
Proceeds from sales of available-for-sale securities	1,927	53,010
Proceeds from repayment of securities	41,755	126,993
Purchase of stock of the Federal Home Loan Bank	(177,326)	(25,287)
Proceeds from redemption of stock of the Federal Home Loan Bank	177,325	21,507
Origination of loans and leases held for investment	(5,369,034)	(4,543,744)
Proceeds from sale of loans and leases held for investment (revised for March 2018)	45,073	206
Origination of mortgage warehouse loans, net	(63,868)	(17,460)
Proceeds from sales of other real estate owned and repossessed assets	1,805	1,654
Cash paid for deposit acquisition	(14,747)	—
Acquisition of business activity, net of cash paid	67,911	—
Purchases of loans and leases, net of discounts and premiums	(11,525)	—
Principal repayments on loans and leases	4,727,328	3,869,702
Purchases of furniture, equipment and software	(16,786)	(8,350)
Net cash used in investing activities (revised for March 2018)	(663,826)	(603,677)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	670,105	1,064,250

Repayment of the Federal Home Loan Bank term advances	(132,500)	(15,000)
Net (repayment) proceeds of Federal Home Loan Bank other advances	119,000	343,000
Repayments of borrowings	(43,100)	(20,000)
Proceeds of borrowings	110,300	—
Tax payments related to settlement of restricted stock units	(5,488)	(4,031)
Repurchase of treasury stock	(47,881)	(35,183)
Tax benefit from exercise of common stock options and vesting of restricted stock grants	—	1
Cash dividends paid on preferred stock	(232)	(232)
Proceeds from issuance of subordinated notes	7,500	—
Net cash provided by financing activities	677,704	1,332,805
NET CHANGE IN CASH AND CASH EQUIVALENTS	140,489	847,500
CASH AND CASH EQUIVALENTS—Beginning of year	$ 622,850	$ 643,541
CASH AND CASH EQUIVALENTS—End of period	$ 763,339	$ 1,491,041

AXOS FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31,	
(Dollars in thousands)	**2019**	**2018**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid on deposits and borrowed funds	$ 112,717	$ 74,337
Income taxes paid	$ 43,930	$ 39,406
Transfers from loans and leases held for investment to other real estate and repossessed vehicles	$ 578	$ 8,425
Transfers from loans and leases held for investment to loans held for sale	$ 57,408	$ —
Transfers from loans held for sale to loans held for investment	$ —	$ 1,034
Loans and leases held for investment sold, cash not received	$ 33,996	$ —

See accompanying notes to the condensed consolidated financial statements.

AXOS FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED MARCH 31, 2019 AND 2018
(Dollars in thousands, except per share and stated value amounts)
(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Axos Financial, Inc. ("Axos") and its wholly owned subsidiaries, Axos Bank (the "Bank") and Axos Nevada Holding, LLC (the "Axos Nevada Holding" and collectively, the "Company"). Axos Nevada Holding wholly owns its subsidiary Axos Securities, LLC, which wholly owns subsidiaries Axos Clearing LLC ("Axos Clearing"), a clearing broker dealer, WiseBanyan, Inc., a registered investment advisor, and WiseBanyan Securities, LLC, an introducing broker dealer. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications were made to previously reported amounts in the unaudited condensed consolidated financial statements and notes thereto to make them consistent with the current period presentation.

The accompanying interim condensed consolidated financial statements, presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"), are unaudited and reflect all adjustments which, in the opinion of management, are necessary for a fair statement of financial condition and results of operations for the interim periods. All adjustments are of a normal and recurring nature. Results for the nine months ended March 31, 2019 are not necessarily indicative of results that may be expected for any other interim period or for the year as a whole. Certain information and note disclosures normally included in the audited annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") with respect to interim financial reporting. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended June 30, 2018 included in our Annual Report on Form 10-K.

Business Segments. The Company determines reportable segments based on the services offered, the significance of the services offered, the significance of those services to the Company's financial condition and operating results and management's regular review of the operating results of those services. The Company operates through two operating segments: Banking Business and Securities Business. Please refer to "Note 17 - Segment Reporting" for further information on the reporting for the Company's two business segments.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents. The Bank's cash, due from banks, money market mutual funds and federal funds sold, all of which have original maturities within 90 days, consist of cash and cash equivalents. Net cash flows are reported for customer deposit transactions.

Cash segregated for regulatory purposes. Federal Reserve Board regulations require depository institutions to maintain certain minimum reserve balances. Included within this are cash balances required by the Federal Reserve Bank of San Francisco. In addition this account includes qualified deposits in special reserve bank accounts for the exclusive benefit of customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the "Exchange Rate") and other regulations.

Securities. Debt securities are classified as held-to-maturity and carried at amortized cost when management has both the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Trading securities refer to certain types of assets that banks hold for resale at a profit or when the Company elects to account for certain securities at fair value. Increases or decreases in the fair value of trading securities are recognized in earnings as they occur. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Gains and losses on securities sales are based on a comparison of sales proceeds and the amortized cost of the security sold using the specific identification method. Purchases and sales are recognized on the trade date. Interest income includes amortization of purchase premiums or discounts. Premiums and discounts on securities are amortized or accreted using the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. The Company's portfolios of held-to-maturity and available-for-sale securities are reviewed quarterly for other-than-temporary impairment. In performing this review, management considers (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) the impact of changes in market interest rates on the market value of the security and (4) how to record an impairment by assessing whether the Company intends to sell or it is more likely than not that it will be required to sell a security in an unrealized loss position before the Company recovers the security's amortized cost. If either of these criteria for (4) is met, the entire difference between amortized cost and fair value is recognized in earnings. Alternatively, if either of the criteria for (4) is not met, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans and Leases. Loans and leases that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred purchase premiums and discounts, deferred origination fees and costs, and an allowance for loan and lease losses. Interest income is accrued on the unpaid principal balance. Premiums and discounts on loans purchased as well as origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method.

The Company provides equipment financing to its customers through a variety of lease arrangements. The most common arrangement is a direct financing (capital) lease. For direct financing leases, lease receivables are recorded on the balance sheet but the leased property is not, although the Company generally retains legal title to the leased property until the end of each lease. Direct financing leases are stated at the net amount of minimum lease payments receivable, plus any unguaranteed residual value, less the amount of unearned income and net acquisition discount at the reporting date. Direct lease origination costs are amortized over the weighted average life of the lease portfolio. Leases acquired in an acquisition are initially measured and recorded at their fair value on the acquisition date. Purchase discounts or premiums on acquired leases are recognized as an adjustment to interest income over the contractual life of the leases using the effective interest method or taken into income when the related leases are paid off. Direct financing leases are subject to the allowance for loan and lease losses.

Recognition of interest income on all portfolio segments is generally discontinued at the time the loan or lease is 90 days delinquent unless the loan or lease is well secured and in process of collection. Past due status is based on the contractual terms of the loan or lease. In all cases, loans or leases are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans or leases placed on nonaccrual, is reversed against interest income. Interest received on such loans or leases is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans and leases are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale. U.S government agency (“agency”) loans originated and intended for sale in the secondary market are carried at fair value. Net unrealized gains and losses are recognized through mortgage banking income in the income statement. The Bank sells its mortgage loans with either servicing released or servicing retained depending upon market pricing. Gains and losses on loan sales are recorded as mortgage banking income or other gains on sale, based on the difference between sales proceeds and carrying value. Non-agency loans held for sale are carried at the lower of cost or fair value.

Loans that were originated with the intent and ability to hold for the foreseeable future (loans held for investment) but which have been subsequently designated as being held for sale for risk management or liquidity needs are carried at the lower of cost or fair value calculated using pools of loans with similar characteristics.

There may be times when loans have been classified as held for sale and cannot be sold. Loans transferred to a long-term-investment classification from held-for-sale are transferred at the lower of cost or market value on the transfer date. Any difference between the carrying amount of the loan and its outstanding principal balance is recognized as an adjustment to yield by the interest method. A loan cannot be classified as a long-term investment unless the Bank has both the ability and the intent to hold the loan for the foreseeable future or until maturity.

Allowance for Loan and Lease Losses. The allowance for loan and lease losses is maintained at a level estimated to provide for probable incurred losses in the loan and lease portfolio. Management determines the adequacy of the allowance based on reviews of individual loans and leases and pools of loans, recent loss experience, current economic conditions, the risk characteristics of the various categories of loans and leases and other pertinent factors. This evaluation is inherently subjective and requires estimates that are susceptible to significant revision as more information becomes available. The allowance is increased by the provision for loan and lease losses, which is charged against current period operating results and recoveries of loans and leases previously charged-off. The allowance is decreased by the amount of charge-offs of loans and leases deemed uncollectible. Allocations of the allowance may be made for specific loans and leases but the entire allowance is available for any loan or lease that, in management’s judgment, should be charged off. See Note 6 of these financial statement footnotes and the financial statement footnotes for the year ended June 30, 2018 included in our Annual Report on Form 10-K for further information.

Securities Borrowed and Securities Loaned. Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Customer, Broker-Dealer and Clearing Receivables and Payables. Customer, broker-dealer and clearing receivables include receivables of the Company’s broker-dealer subsidiaries, which represent amounts due on cash and margin transactions and are generally collateralized by securities owned by clients. These receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. The receivables are reported at their outstanding principal balance net of allowance for doubtful accounts. When a receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources, such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the balance sheet. Also included in these accounts are receivables and payables from brokers and dealers and clearing organizations as well as securities failed to deliver and receive.

Brand Partnership Products. Through its strategic partnerships division, the Bank has agreements with third-party service providers (“Program Managers”) possessing demonstrated expertise in managing programs involving marketing and processing financial products such as credit, debit, and prepaid cards, and small business and consumer loans. These relationships include the Company’s relationships with H&R Block, Inc., Nationwide Mutual Insurance Company, Netspend and BFS Capital, among others. As delineated by the related contracts, a Program Manager provides program management services in its areas of expertise subject to the Bank’s continuing control and active supervision of the subject program. Underwriting standards and credit decisioning remain with the Bank in all cases. Each of these relationships is designed to allow the Bank to leverage the Program Manager’s knowledge and experience to distribute program-related financial products to a broad and increasing base of customers. With respect to credit products, the Bank generally originates the resulting receivable for sale, but may, in its discretion, retain such receivable. The Bank performs extensive due diligence with respect to each Program Manager and program, and maintains a regimen of comprehensive risk management and strict compliance oversight with respect to all programs.

Through our agreement with H&R Block, Inc. (“H&R Block”) and its wholly-owned subsidiaries the Bank provides H&R Block-branded financial products and services. The products and services that represent the primary focus and the majority of transactional volume that the Bank processes are described in detail below.

The first product is Emerald Prepaid Mastercard® services (“EPC”). The Bank entered into agreements to offer this product in August 2015. Under the agreements, the Bank is responsible for the primary oversight and control of the prepaid card programs of a wholly-owned subsidiary of H&R Block. The Bank holds the prepaid card customer deposits for those cards issued under the prepaid programs in non-interest bearing accounts and earns a fixed fee paid by H&R Block's subsidiary for each automated clearing house ("ACH") transaction processed through the prepaid card customer accounts. A portion of H&R Block's customers use the Emerald Card as an option to receive federal and state income tax refunds. The prepaid customer deposits are included in non-interest bearing deposit liabilities on the balance sheet of the Company and the ACH fee income is included in the income statement under the line banking and service fees.

The second product is Refund Transfer ("RT"). The Bank entered into agreements to offer this product in August 2015. The Bank is responsible for the primary oversight and control of the refund transfer program of a wholly-owned subsidiary of H&R Block. The Bank opens a temporary bank account for each H&R Block customer who is receiving an income tax refund and elects to defer payment of his or her tax preparation fees. After the Internal Revenue Service and any state income tax authorities transfer the refund into the customer's account, the net funds are transferred to the customer and the temporary deposit account is closed. The Bank earns a fixed fee paid by H&R Block for each of the H&R Block customers electing a Refund Transfer. The fees are earned primarily in the quarter ending March 31st and are included in the income statement under the line banking and service fees.

The third product is Emerald Advance. The Bank entered into agreements to offer this product in August 2015. Under the agreements the Bank is responsible for the underwriting guidelines and credit policies for unsecured consumer lines of credit offered to H&R Block customers. The Bank offers and funds unsecured lines of credit to consumers primarily through the H&R Block tax preparation offices and earns interest income and fee income. The Bank retains 10% of the Emerald Advance and sells the remainder to H&R Block. The lines of credit are included in loans and leases on the balance sheet of the Company and the interest income and fee income are included in the income statement under the line loans and leases interest and dividend income.

The fourth product is an interest-free Refund Advance loan. The Bank exclusively originated and funded all of H&R Block's interest-free Refund Advance loans to tax preparation clients for the 2018 tax season. The Bank performed the credit underwriting, loan origination, and funding associated with the interest-free Refund Advance loans in the current tax season and received fees from H&R Block for operating the program. No fee is charged to the tax preparation client. Repayment of the Refund Advance loan is deducted from the client's tax refund proceeds; if an insufficient refund to repay the Refund Advance loan is received, there is no recourse to the client, no negative credit reporting occurs in respect of the client and no collection efforts are made against the client. This agreement is an expansion of the services the Bank provided to H&R Block in the 2017 tax season when the Bank participated through purchases of the loans with other providers in the Refund Advance loan program. During the 2017 tax season, the Bank purchased the Refund Advance loans from a third-party bank at a discount and recorded the accretion of the loan discount as interest income, reported on the income statement under the interest and dividend income line item. During the 2018 tax season, the Bank recorded the fees received from H&R Block as interest income on loans, reported on the income statement under the interest and dividend income line item. In July 2018, the Bank has renewed its agreement with H&R Block to be the exclusive provider of interest-free Refund Advance loans to customers during the 2019 tax season.

The H&R Block-branded financial services products introduce seasonality into the Company's quarterly reports on Form 10-Q in the unaudited condensed consolidated income statements through the banking and service fees category of non-interest income and the other general and administrative category of non-interest expense, with the peak income and expense in these categories typically occurring during our third fiscal quarter ending March 31.

Revenue Recognition. On July 1, 2018, the Company adopted ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*", and all subsequent amendments using a modified retrospective approach. The implementation of the new standard did not have a material impact on the measurement, timing, or recognition of revenue. Accordingly, no cumulative effect adjustment to opening retained earnings was deemed necessary. Results for reporting periods beginning after July 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard affects all entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other guidance. Therefore, the ASU excludes revenue associated with financial instruments including loans, leases, securities, and derivatives as these topics are accounted for following other guidance. Other areas that are within the scope of the revenue recognition standard include service charges on deposit accounts, and gains and losses on other real estate owned.

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain non-interest income streams such as gain or loss associated with mortgage servicing rights, financial guarantees, derivatives, and income from bank owned life insurance are also not within the scope of the new guidance. Topic 606 is applicable to non-interest income such as deposit related fees, interchange fees, merchant related income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Non-interest income considered to be within the scope of Topic 606 is discussed below.

Deposit Service Fees. Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fees, Exchange, and Other Service Charges. Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Broker dealer clearing fees. Fee revenue is generally recognized at a point in time upon the delivery of contracted services based on a predefined contractual amount or on the trade date for trade execution services based on prevailing market prices and internal and regulatory guidelines. Revenues and expenses related to client trades, including order routing revenue (also referred to as payment for order flow), are recorded on a trade-date basis. Client securities trades are recorded on a settlement-date basis with such trades generally settling within two business days after the trade date.

Bankruptcy Trustee and Fiduciary Service Fees. Bankruptcy Trustee and Fiduciary Service income is primarily comprised of fees earned from the Monthly Basis Point Fee and Bank Account Service Charge. The products and services provided to the Trustee also indirectly provide additional deposits to the other banks. One of the uses of the increased deposits by the other banks is to fund the fees paid. The performance obligation is satisfied when the deposits are increased (or decreased) at the end of each month. The expected value method will be used to calculate and record the estimated revenue at the beginning of each month with a subsequent reconciliation to actual at the end of each month.

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the periods indicated.

	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Non-interest income				
Deposit service fees	$ 404	$ 224	$ 3,083	$ 2,950
Card fees	1,174	911	4,094	2,670
Broker-dealer clearing fees	1,567	—	1,567	—
Bankruptcy trustee and fiduciary service fees	1,514	—	5,724	—
Non-interest income (in-scope of Topic 606)	4,659	1,135	14,468	5,620
Non-interest income (out-of-scope of Topic 606)	21,439	22,390	45,065	48,344
Total non-interest income	$ 26,098	$ 23,525	$ 59,533	$ 53,964

Contract Balances. A contract asset or receivable is recognized if the Company performs a service or transfers a good in advance of receiving consideration. A contract liability is recognized if the Company receives consideration (or has the unconditional right to receive consideration) in advance of performance. As of March 31, 2019, the Company's contract liabilities were not considered material.

Contract Acquisition Costs. The Company uses the practical expedient to expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in less than one year. In adopting the guidance in Topic 606, the Company did not capitalize any contract acquisition costs.

Other Real Estate Owned. The gains or losses on sales of other real estate owned ("OREO") are recorded in non-interest expense under Real estate owned and repossessed vehicles. The Company's performance obligation for sale of OREO is the transfer of title and ownership rights of the OREO to the buyer, which occurs at the settlement date when the sale proceeds are received and income is recognized.

Revisions of Previously Issued Financial Statements for Correction of Immaterial Errors. During the fiscal year ended June 30, 2018, the Company identified an immaterial error related to an incorrect calculation of basic and diluted earnings per common share related to unvested nonparticipating restricted stock units. The corrected calculation results in increased basic and diluted earnings per common share in certain periods. In order to correct this immaterial error, the Company revised the basic and diluted earnings per common share for the interim quarters of the fiscal year ended June 30, 2018. The revisions are reflected in the table below.

	Three Months Ended March 31, 2018			Nine Months Ended March 31, 2018		
(Dollars in thousands, except per share data)	**Previously Reported**	**Adjustment**	**Revised**	**Previously Reported**	**Adjustment**	**Revised**
Earnings Per Common Share						
Net income attributable to common stockholders	$ 51,176	$ —	$ 51,176	$ 115,062	$ —	$ 115,062
Average common shares issued and outstanding	62,543,949	—	62,543,949	63,219,386	—	63,219,386
Average unvested RSUs	1,551,828	(1,479,828)	72,000	1,488,554	(1,409,128)	79,426
Total qualifying shares	64,095,777	(1,479,828)	62,615,949	64,707,940	(1,409,128)	63,298,812
Earnings per common share	$ 0.80	$ 0.02	$ 0.82	$ 1.78	$ 0.04	$ 1.82
Diluted Earnings Per Common Share						
Dilutive net income attributable to common stockholders	$ 51,176	$ —	$ 51,176	$ 115,062	$ —	$ 115,062
Average common shares issued and outstanding	64,095,777	(1,479,828)	62,615,949	64,707,940	(1,409,128)	63,298,812
Dilutive effect of average unvested RSUs	—	1,050,861	1,050,861	—	874,663	874,663
Total dilutive common shares issued and outstanding	64,095,777	(428,967)	63,666,810	64,707,940	(534,465)	64,173,475
Diluted earnings per common share	$ 0.80	$ —	$ 0.80	$ 1.78	$ 0.01	$ 1.79

During the fourth quarter of 2018, the Company identified an immaterial error related to the classification of proceeds from the sale of loans that were transferred from loans held-for-investment in the condensed consolidated statements of cash flows for the nine months ended March 31, 2018 and revised its previously issued financial statements for the nine months ended March 31, 2018 to correctly present these activities. There was no change to net change in cash and cash equivalents. The revisions to cash flows from operating and investing activities are reflected in the table below.

(Dollars in thousands)	Nine Months Ended March 31, 2018 Previously Reported	Adjustment	Revised
Cash Flows From Operating Activities:			
Proceeds from sale of loans held for sale	$ 1,280,673	$ 84	$ 1,280,757
Other assets	$ (20,643)	$ (290)	$ (20,933)
Net cash provided by in operating activities	$ 118,578	$ (206)	$ 118,372
Cash Flows From Investing Activities:			
Proceeds from sale of loans held for investment	$ —	$ 206	$ 206
Net cash used in investing activities	$ (603,883)	$ 206	$ (603,677)

The Company assessed the materiality of the errors on prior periods' financial statements in accordance with SEC Staff Accounting Bulletin ("SAB") No. 99, Materiality, codified in Accounting Standards Codification ("ASC") 250, Presentation of Financial Statements and concluded that these misstatements were not material to any prior annual or interim periods. Accordingly, in accordance with ASC 250 (SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), Consolidated Statements of Income, Consolidated Statements of Cash Flows and Earnings Per Common Share footnote have been revised to correctly present these amounts. The above revisions had no effect on net income or retained earnings. Periods not presented herein will be revised, as applicable, as they are included in future filings.

New Accounting Pronouncements.In February 2016, the FASB issued ASU 2016-02, *Leases*, as amended in July 2018 by ASU 2018-10 *Codification Improvements to Topic 842, Leases* and ASU 2018-11 *Leases (Topic 842): Targeted Improvements.* The new standard establishes a right-of-use model that requires a lessee to record a right of use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASUs 2016-02, 2018-10 and 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is anticipated for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company continues to evaluate the impact of ASUs 2016-02, 2018-10 and 2018-11. The Company has several lease agreements, which are currently considered operating leases, and therefore, not recognized on the Company's consolidated balance sheet. The Company expects the new guidance will require these lease agreements to be recognized on the consolidated balance sheet as a right-of-use asset and a corresponding lease liability. Therefore, the Company's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Company's consolidated balance sheet, along with the Company's regulatory capital ratios. However, the Company does not expect the new guidance to have a material impact on the Company's consolidated statements of income. The Company is nearing completion of its effort to compile a complete inventory of arrangements containing a lease and accumulating the lease data necessary to apply the amended guidance. The Company plans to adopt this standard on July 1, 2019.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model; and (ii) provides for recording credit losses on available-for-sale debt securities through an allowance account. ASU 2016-13 also requires certain incremental disclosures. ASU 2016-13 should be applied on a modified-retrospective transition approach that would require a cumulative-effect adjustment to the opening retained earnings in the statement of financial condition as of the date of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The guidance will be effective for the Company's financial statements that include periods beginning July 1, 2020. Early adoption is permitted beginning July 1, 2019. The Company has formed a working group, which is currently developing an implementation plan to include assessment of processes, portfolio segmentation, model development, system requirements and the identification of data and resource needs, among other things including evaluating third-party vendor solutions. The Company expects ASU 2016-13 to have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is deemed to be a business. Determining whether a transferred set constitutes a business is important because the accounting for a business combination differs from that of an asset acquisition. The definition of a business also affects the accounting for dispositions. Under the new standard, when substantially all of the fair value of assets acquired is concentrated in a single asset, or a group of similar assets, the assets acquired would not represent a business and business combination accounting would not be required. The new standard may result in more transactions being accounted for as asset acquisitions rather than business combinations.

The Company adopted this standard on July 1, 2018. The new guidance did not have a significant impact on the Company’s consolidated financial statements at the time of adoption.

In March 2017, the FASB issued guidance within ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities*. The amendments in ASU 2017-08 to Subtopic 310-20, Receivables-Nonrefundable Fees and Other Costs, shorten the amortization period for certain purchased callable debt securities held at a premium to the earliest call date, which more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The adoption of this guidance is not expected to have a significant impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting*. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company adopted this standard on July 1, 2018. The new guidance did not have a significant impact on the Company’s consolidated financial statements at the time of adoption.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The ASU expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In June 2018, the FASB issued guidance within ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. The amendments in ASU 2018-07 to Topic 718, Compensation-Stock Compensation, are intended to align the accounting for share-based payment awards issued to employees and nonemployees. Changes to the accounting for nonemployee awards include: 1) equity classified share-based payment awards issued to nonemployees will now be measured on the grant date, instead of the previous requirement to remeasure the awards through the performance completion date; 2) for performance conditions, compensation cost associated with the award will be recognized when achievement of the performance condition is probable, rather than upon achievement of the performance condition; and 3) the current requirement to reassess the classification (equity or liability) for nonemployee awards upon vesting will be eliminated, except for awards in the form of convertible instruments. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company’s share-based payment awards to nonemployees consist only of grants made to the Company’s nonemployee Directors as compensation solely related to each individual’s role as a nonemployee Director. As such, in accordance with ASC 718, the Company accounts for these share-based payment awards to its nonemployee Directors in the same manner as share-based payment awards for its employees. Accordingly, the amendments in this guidance will not have an effect on the accounting for the Company’s share-based payment awards to its nonemployee Directors.

In August 2018, the FASB issued guidance within ASU 2018-13, Fair Value Measurement Disclosure Framework (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in ASU 2018-13 require a nonpublic entity to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities. Public companies are also now required to disclose the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Under current GAAP, entities are required to disclose a roll forward for Level 3 fair value measurements. The amendments in this ASU related to changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this ASU. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. This ASU will amend the guidance in ASC Topic 230, Statement of Cash Flows, and is intended to reduce the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments within this ASU will require that the reconciliation of the beginning-of-period and end-of-period cash and cash equivalents amounts shown on the statement of cash flows include restricted cash and restricted cash equivalents. If restricted cash and restricted cash equivalents are presented separately from cash and cash equivalents on the balance sheet, an entity will be required to reconcile the amounts presented on the statement of cash flows to the amounts on the balance sheet. An entity will also be required to disclose information regarding the nature of the restrictions. ASU 2016-18 requires retrospective application and is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. The Company adopted this standard on March 31, 2019. The new guidance did not have a significant impact on the Company’s consolidated financial statements at the time of adoption.

3. ACQUISITIONS

The Company completed one business acquisition during the fiscal year ended June 30, 2018 and two business acquisitions and two asset acquisitions during the nine months ended March 31, 2019. The pro forma results of operations and the results of operations for the acquisitions since the acquisition date have not been separately disclosed because the effects were not material to the consolidated financial statements. The purchase transactions are detailed below.

MWABank deposit acquisition. On March 15, 2019, the Bank closed the deposit assumption agreement with MWA Bank and acquired approximately $173 million of deposits, including approximately $151 million of checking, savings and money market accounts and $22 million of time deposits, from MWABank. Axos did not assume any assets, employees or branches in this transaction. The Bank received cash equal to the book value of the deposit liabilities.

WiseBanyan. On February 26, 2019 the Company's subsidiary, Axos Securities, LLC, had completed the acquisition of WiseBanyan Holding, Inc. and its subsidiaries (collectively "WiseBanyan"). Headquartered in Las Vegas, Nevada, WiseBanyan is a provider of personal financial and investment management services through a proprietary technology platform. WiseBanyan currently serves approximately 24,000 clients with approximately $150 million of assets under management. The Company paid $3.2 million in cash to acquire the assets of WiseBanyan and recorded $2.7 million in intangible assets.

COR Securities Holdings. On January 28, 2019 ("Acquisition Date"), Axos Clearing, LLC and Axos Clarity MergeCo., Inc. completed the acquisition of COR Securities Holdings Inc.("COR Securities"), the parent company of COR Clearing LLC ("COR Clearing"), pursuant to the terms of the Agreement and Plan of Merger, dated as of September 28, 2018 (the "Merger Agreement").

Headquartered in Omaha, Nebraska, COR Clearing is a full-service correspondent clearing firm for independent broker-dealers. Established as a part of Mutual of Omaha Insurance Company and spun off as Legent Clearing in 2002, COR Clearing provides clearing, settlement, custody, securities and margin lending, and technology solutions to more than sixty introducing broker-dealers and 90,000 customers. The total cash consideration of approximately $80.3 million was funded with existing capital. The Company issued subordinated notes totaling $7.5 million to the principal stockholders of COR Securities in an equal principal amount, with a maturity of 15 months, to serve as the sole source of payment of indemnification obligations of the principal stakeholders of COR Securities under the Merger Agreement.

The acquisition of COR Securities is being accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. The Company recorded goodwill for a provisional amount of $34.9 million and an additional $20.1 million in intangible assets as of the Acquisition Date. The estimated fair values of the acquired assets and assumed liabilities are subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the closing date of acquisition. Included in the professional services line of the statement of income the Company recognized $0.4 million in transaction costs.

The consideration paid for COR Securities common equity and the provisional fair values of acquired identifiable assets and liabilities assumed as of the Acquisition Date were as follows:

(Dollars in thousands)		**January 28, 2019**
ASSETS		
Cash and due from banks	$	16,604
Cash segregated for regulatory purposes		142,016
Securities, available for sale		9,585
Stock of the regulatory agencies, at cost		2,431
Furniture, equipment and software—net		2,101
Securities borrowed		157,898
Customer, broker-dealer and clearing receivables		232,174
Other assets		5,564
Total identifiable assets	$	568,373
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Notes payable to banks	$	85,100
Securities loaned		203,041
Customer, broker-dealer and clearing payables		240,110
Deferred income tax		2,185
Accounts payable and accrued liabilities		5,198
Total identifiable liabilities	$	535,634
Provisional resulting goodwill	$	34,933
Intangible assets		20,120
Total cash purchase price	$	80,292
Notes issued	$	7,500

Nationwide Bank deposit acquisition. On November 16, 2018, the Bank completed the acquisition of substantially all of Nationwide Bank’s (“Nationwide”) deposits at the time of closing, adding $2.4 billion in deposits, including $0.7 billion in checking, savings and money market accounts and $1.7 billion in time deposit accounts. The Bank received cash for the deposit balances transferred less a premium of $13.5 million, commensurate with the fair market value of the deposits purchased.

Bankruptcy trustee and fiduciary services business of Epiq Systems, Inc. On April 4, 2018, the Company completed the acquisition of the bankruptcy trustee and fiduciary services business of Epiq Systems, Inc. (“Epiq”) in an all-cash transaction. The assets acquired by the Company include comprehensive software solutions, trustee customer relationships, trade name, accounts receivable and fixed assets. The business provides specialized software and consulting services to Chapter 7 bankruptcy and non-Chapter 7 trustees and fiduciaries in all fifty states. This business is expected to generate fee income from bank partners and bankruptcy cases, as well as opportunities to source low cost deposits. No deposits were acquired as part of the transaction.

The Company has included the financial results of the acquired bankruptcy trustee and fiduciary services business in its consolidated financial statements subsequent to the acquisition date. The Epiq transaction has been accounted for under the acquisition method of accounting. The assets, both tangible and intangible, were recorded at their estimated fair values as of the transaction date. The Company utilized a third-party valuation firm and made significant estimates and exercised judgment in estimating fair values and accounting for such acquired assets and liabilities. During the three months ended September 30, 2018 the Company settled the working capital with Epiq and recorded a $2 adjustment to goodwill. See Note 7 to the consolidated financial statements for further information on goodwill and other intangible assets.

4. FAIR VALUE

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting Standards Codification Topic 820, *Fair Value Measurement*, also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for *identical* assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Level 1 assets and liabilities include debt and equity securities that are actively traded in an exchange or over-the-counter market and are highly liquid, such as, among other assets and securities, certain U.S. treasury and other U.S. government debt.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for *similar* assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets include securities with quoted prices that are traded less frequently than exchange-traded instruments and whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models such as discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

When available, the Company generally uses quoted market prices to determine fair value, in which case the items are classified in Level 1. In some cases where a market price is available, the Company will make use of acceptable practical expedients (such as matrix pricing) to calculate fair value, in which case the items are classified in Level 2.

The Company considers relevant and observable market prices in its valuations where possible. The frequency of transactions, the size of the bid-ask spread and the nature of the participants are some of the factors the Company uses to help determine whether a market is active and orderly or inactive and not orderly. Price quotes based upon transactions that are not orderly are not considered to be determinative of fair value and should be given little, if any, weight in measuring fair value.

If quoted market prices are not available, fair value is based upon internally developed valuation techniques that use, where possible, current market-based or independently sourced market parameters, such as interest rates, credit spreads, housing value forecasts, etc. Items valued using such internally generated valuation techniques are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be some significant inputs that are readily observable.

The following section describes the valuation methodologies used by the Company to measure various financial instruments at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified:

Securities—trading, available-for-sale, and held-to-maturity. Trading securities are recorded at fair value. Available-for-sale (“AFS”) securities are recorded at fair value and consist of residential mortgage-backed securities (“RMBS”) issued by U.S. agencies, RMBS issued by non-agencies, municipal securities as well as other Non-RMBS securities. Fair value for U.S. agency securities is generally based on quoted market prices of similar securities used to form a dealer quote or a pricing matrix. There continues to be significant illiquidity in the market for RMBS issued by non-agencies, impacting the availability and reliability of transparent pricing. As orderly quoted market prices are not available, the Level 3 fair values for these securities are determined by the Company utilizing industry-standard tools to calculate the net present value of the expected cash flows available to the securities from the underlying mortgage assets. The Company computes Level 3 fair values for each non-agency RMBS in the same manner (as described below) whether available-for-sale or held-to-maturity.

To determine the performance of the underlying mortgage loan pools, the Company estimates prepayments, defaults, and loss severities based on a number of macroeconomic factors, including housing price changes, unemployment rates, interest rates and borrower attributes such as credit score and loan documentation at the time of origination. For each security, the Company inputs a projection of monthly default rates, loss severity rates and voluntary prepayment rates for the underlying mortgages for the remaining life of each security to determine the expected cash flows. The projections of default rates are derived by the Company from the historic default rate observed in the pool of loans collateralizing the security, increased by and decreased by the forecasted increase or decrease in the national unemployment rate. The projections of loss severity rates are derived by the Company from the historic loss severity rate observed in the pool of loans, increased by (and decreased by) the forecasted decrease or increase in the national home price appreciation ("HPA") index. The largest factors influencing the Company's modeling of the monthly default rate are unemployment and HPA, as a strong correlation exists. The national unemployment rate announced prior to the end of the period covered by this report (reported for February 2019) was 3.8%, down from the high of 10.0% in October 2009. Going forward, the Company is projecting lower monthly default rates. The range of loss severity rates applied to each default used in the Company's projections at March 31, 2019 are from 40.0% up to 68.3% based upon individual bond historical performance. The default rates and the severities are projected for every non-agency RMBS security held by the Company and will vary monthly based upon the actual performance of the security and the macroeconomic factors discussed above.

To determine the discount rates used to compute the present value of the expected cash flows for these non-agency RMBS securities, the Company separates the securities by the borrower characteristics in the underlying pool. Specifically, "Alt-A" securities generally have borrowers with a lower FICO and less documentation of income. "Pay-option ARMs" are Alt-A securities with borrowers that tend to pay the least amount of principal (or increase their loan balance through negative amortization). The Company calculates separate discount rates for Alt-A and Pay-option ARM non-agency RMBS securities using market-participant assumptions for risk, capital and return on equity. The range of annual default rates used in the Company's projections at March 31, 2019 are from 1.5% up to 16.0% with Alt-A and Pay-option ARMs securities tending toward the lower end of the range. The Company applies its discount rates to the projected monthly cash flows which already reflect the full impact of all forecasted losses using the assumptions described above. When calculating present value of the expected cash flows at March 31, 2019, the Company computed its discount rates as a spread between 271 and 679 basis points over the interpolated swap curve with Alt-A and Pay-option ARM securities tending toward the lower end of the range.

The Bank's estimate of fair value for non-agency securities using Level 3 pricing is highly subjective and is based on the Bank's estimate of voluntary prepayments, default rates, severities and discount margins, which are forecasted monthly over the remaining life of the security. Changes in one or more of these assumptions can cause a significant change in the estimated fair value. For further details see the table later in this note that summarizes quantitative information about Level 3 fair value measurements.

Loans Held for Sale. Loans held for sale at fair value are primarily single-family and multifamily residential loans. The fair value of residential loans held for sale is determined by pricing for comparable assets or by existing forward sales commitment prices with investors.

Impaired Loans and Leases. Impaired loans and leases are loans and leases which are inadequately protected by the current net worth and paying capacity of the borrowers or the collateral pledged. The accrual of interest income has been discontinued for impaired loans and leases. The impaired loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. The Company assesses loans individually and identifies impairment when the loan is classified as impaired, has been restructured, or management has serious doubts about the future collectibility of principal and interest, even though the loans may currently be performing. The fair value of an impaired loan is determined based on an observable market price or current appraised value of the underlying collateral. The fair value of impaired loans with specific write-offs or allocations of the allowance for loan losses are generally based on recent real estate appraisals or internal valuation analyses consistent with the methodology used in real estate appraisals and include other third-party valuations and analysis of cash flows. These appraisals and analyses are updated at least on an annual basis. The Company primarily obtains real estate appraisals and in the rare cases where an appraisal cannot be obtained, the Company performs an internal valuation analysis. These appraisals and analyses may utilize a single valuation approach or a combination of approaches including comparable sales and income approaches. The sales comparison approach uses at least three recent similar property sales to help determine the fair value of the property being appraised. The income approach is calculated by taking the net operating income generated by the collateral property of the rent collected and dividing it by an assumed capitalization rate. Adjustments are routinely made in the process by the appraisers to account for differences between the comparable sales and income data available. When measuring the fair value of the impaired loan based upon the projected sale of the underlying collateral, the Company subtracts the costs expected to be incurred for the transfer of the underlying collateral, which includes items such as sales commissions, delinquent taxes and insurance premiums. These adjustments to the estimated fair value of nonaccrual loans may result in increases or decreases to the provision for loan and lease losses recorded in current earnings. Such adjustments are typically significant and result in a Level 3 classification for the inputs for determining fair value.

Other Real Estate Owned and Repossessed Vehicles. Non-recurring adjustments to certain commercial and residential real estate properties classified as other real estate owned ("OREO") are measured at the lower of carrying amount or fair value, less estimated costs to sell. Fair values are generally based on third-party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Mortgage Servicing Rights. The Company initially records all mortgage servicing rights ("MSRs") at fair value and accounts for MSRs at fair value during the life of the MSR, with changes in fair value recorded mortgage banking income in the income statement. Fair value adjustments encompass market-driven valuation changes as well as modeled amortization involving the run-off of value that occurs due to the passage of time as individual loans are paid by borrowers. Market expectations about loan duration, and correspondingly the expected term of future servicing cash flows, may vary from time to time due to changes in expected prepayment activity, especially when interest rates rise or fall. Market expectations of increased loan prepayment speeds may negatively impact the fair value of the single family MSRs. Fair value is also dependent on the discount rate used in calculating present value, which is imputed from observable market activity and market participants and results in Level 3 classification. Management reviews and adjusts the discount rate on an ongoing basis. An increase in the discount rate would reduce the estimated fair value of the MSRs asset.

Mortgage Banking Derivatives. Fair value for mortgage banking derivatives are either based upon prices in active secondary markets for identical securities or based on quoted market prices of similar assets used to form a dealer quote or a pricing matrix. If no such quoted price exists, the fair value of a commitment is determined by quoted prices for a similar commitment or commitments, adjusted for the specific attributes of each commitment. These fair values are then adjusted for items such as fallout and estimated costs to originate the loan.

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with or, in some cases, more conservative than other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the relevant reporting date.

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and June 30, 2018. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	March 31, 2019			
(Dollars in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS:				
Securities—Available-for-Sale:				
Agency Debt[1]	$ —	$ 1,692	$ —	$ 1,692
Agency RMBS[1]	—	10,070	—	10,070
Non-Agency RMBS[2]	—	—	13,122	13,122
Municipal	—	29,804	—	29,804
Asset-backed securities and structured notes	—	164,468	—	164,468
Total—Securities—Available-for-Sale	$ —	$ 206,034	$ 13,122	$ 219,156
Loans Held for Sale	$ —	$ 15,714	$ —	$ 15,714
Mortgage servicing rights	$ —	$ —	$ 10,355	$ 10,355
Other assets—Derivative instruments	$ —	$ —	$ 838	$ 838
LIABILITIES:				
Other liabilities—Derivative instruments	$ —	$ —	$ 216	$ 216

	June 30, 2018			
(Dollars in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
ASSETS:				
Securities—Available-for-Sale:				
Agency RMBS[1]	$ —	$ 12,926	$ —	$ 12,926
Non-Agency RMBS[2]	—	—	17,443	17,443
Municipal	—	20,212	—	20,212
Asset-backed securities and structured notes	—	129,724	—	129,724
Total—Securities—Available-for-Sale	$ —	$ 162,862	$ 17,443	$ 180,305
Loans Held for Sale	$ —	$ 35,077	$ —	$ 35,077
Mortgage servicing rights	$ —	$ —	$ 10,752	$ 10,752
Other assets—Derivative instruments	$ —	$ —	$ 1,321	$ 1,321
LIABILITIES:				
Other liabilities—Derivative instruments	$ —	$ —	$ 368	$ 368

[1] *U.S. government-backed or government sponsored enterprises including Fannie Mae, Freddie Mac and Ginnie Mae.*

[2] *Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages. Primarily super senior securities secured by Alt-A or pay-option ARM mortgages.*

The following tables present additional information about assets measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

	For the Three Months Ended March 31, 2019			
(Dollars in thousands)	**Securities – Available-for-Sale: Non-Agency RMBS**	**Mortgage Servicing Rights**	**Derivative Instruments, net**	**Total**
Opening balance	$ 14,421	$ 11,215	$ 469	$ 26,105
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total gains or losses for the period:				
Included in earnings—Sale of securities	—	—	—	—
Included in earnings—Fair value gain (loss) on trading securities	—	—	—	—
Included in earnings—Mortgage banking income	—	(1,199)	153	(1,046)
Included in other comprehensive income	(108)	—	—	(108)
Purchases, originations, issues, sales and settlements:				
Purchases/originations	—	339	—	339
Issues	—	—	—	—
Sales	—	—	—	—
Settlements	(370)	—	—	(370)
Other-than-temporary impairment	(821)	—	—	(821)
Closing balance	$ 13,122	$ 10,355	$ 622	$ 24,099
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$ —	$ (1,199)	$ 153	$ (1,046)

	For the Nine Months Ended March 31, 2019			
(Dollars in thousands)	**Securities – Available-for-Sale: Non-Agency RMBS**	**Mortgage Servicing Rights**	**Derivative Instruments, net**	**Total**
Opening Balance	$ 17,443	$ 10,752	$ 953	$ 29,148
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Total gains or losses for the period:				
Included in earnings—Sale of securities	(133)	—	—	(133)
Included in earnings—Fair value gain (loss) on trading securities	—	—	—	—
Included in earnings—Mortgage banking income	—	(2,053)	(331)	(2,384)
Included in other comprehensive income	442	—	—	442
Purchases, issues, sales and settlements:				
Purchases	—	1,656	—	1,656
Issues	—	—	—	—
Sales	(2,058)	—	—	(2,058)
Settlements	(1,751)	—	—	(1,751)
Other-than-temporary impairment	(821)	—	—	(821)
Closing balance	$ 13,122	$ 10,355	$ 622	$ 24,099
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$ (133)	$ (2,053)	$ (331)	$ (2,517)

(Dollars in thousands)	For the Three Months Ended March 31, 2018 Securities – Trading: Collateralized Debt Obligations	Securities – Available-for-Sale: Non-Agency RMBS	Mortgage Servicing Rights	Derivative Instruments, net	Total
Opening balance	$ —	$ 24,791	$ 9,066	$ 1,218	$ 35,075
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Total gains or losses for the period:					
Included in earnings—Sale of securities	—	(101)	—	—	(101)
Included in earnings—Fair value gain on trading securities	—	—	—	—	—
Included in earnings—Mortgage banking income	—	—	567	220	787
Included in other comprehensive income	—	(960)	—	—	(960)
Purchases, originations, issues, sales and settlements:					
Purchases/originations	—	—	595	—	595
Issues	—	—	—	—	—
Sales	—	(4,068)	—	—	(4,068)
Settlements	—	(2,032)	—	—	(2,032)
Other-than-temporary impairment	—	—	—	—	—
Closing balance	$ —	$ 17,630	$ 10,228	$ 1,438	$ 29,296
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$ —	$ (101)	$ 567	$ 220	$ 686

(Dollars in thousands)	For the Nine Months Ended March 31, 2018 Securities – Trading: Collateralized Debt Obligations	Securities – Available-for-Sale: Non-Agency RMBS	Mortgage Servicing Rights	Derivative Instruments, net	Total
Opening Balance	$ 8,327	$ 71,503	$ 7,200	$ 1,026	$ 88,056
Transfers into Level 3	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—
Total gains or losses for the period:					
Included in earnings—Sale of securities	282	(300)	—	—	(18)
Included in earnings—Fair value gain (loss) on trading securities	—	—	—	—	—
Included in earnings—Mortgage banking income	—	—	188	412	600
Included in other comprehensive income	—	(2,114)	—	—	(2,114)
Purchases, issues, sales and settlements:					
Purchases	—	—	2,840	—	2,840
Issues	—	—	—	—	—
Sales	(8,609)	(44,267)	—	—	(52,876)
Settlements	—	(7,036)	—	—	(7,036)
Other-than-temporary impairment	—	(156)	—	—	(156)
Closing balance	$ —	$ 17,630	$ 10,228	$ 1,438	$ 29,296
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the reporting period	$ —	$ (300)	$ 188	$ 412	$ 300

The table below summarizes the quantitative information about level 3 fair value measurements as of the dates indicated:

	March 31, 2019			
(Dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Securities – Non-agency RMBS	$ 13,122	Discounted Cash Flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	2.5 to 19.9% (12.0%) 1.5 to 16.0% (7.1%) 40.0 to 68.3% (59.1%) 2.7 to 6.8% (4.1%)
Mortgage Servicing Rights	$ 10,355	Discounted Cash Flow	Projected Constant Prepayment Rate, Life (in years), Discount Rate	5.7 to 38.4% (9.5%) 2.0 to 9.6 (6.7) 9.5 to 13.0% (9.8%)
Derivative Instruments	$ 622	Sales Comparison Approach	Projected Sales Profit of Underlying Loans	0.2 to 0.7% (0.4%)

	June 30, 2018			
(Dollars in thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Securities – Non-agency RMBS	$ 17,443	Discounted Cash Flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate over LIBOR	2.5 to 25.8% (14.1%) 1.5 to 10.6% (5.1%) 40.0 to 68.0% (58.9%) 2.7 to 7.1% (4.2%)
Mortgage Servicing Rights	$ 10,752	Discounted Cash Flow	Projected Constant Prepayment Rate, Life (in years), Discount Rate	6.0 to 26.6% (9.1%) 2.4 to 9.5 (6.9) 9.5 to 13.0% (9.9%)
Derivative Instruments	$ 953	Sales Comparison Approach	Projected Sales Profit of Underlying Loans	0.1 to 0.4% (0.3%)

The significant unobservable inputs used in the fair value measurement of the Company’s residential mortgage-backed securities are projected prepayment rates, probability of default, and projected loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the projected loss severity and a directionally opposite change in the assumption used for projected prepayment rates.

The table below summarizes assets measured for impairment on a non-recurring basis:

	March 31, 2019			
(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Impaired Loans and Leases:				
Single family real estate secured:				
Mortgage	$ —	$ —	$ 43,443	$ 43,443
Auto and RV secured	—	—	292	292
Other	—	—	798	798
Total	$ —	$ —	$ 44,533	$ 44,533
Other real estate owned and foreclosed assets:				
Single family real estate	$ —	$ —	$ 7,470	$ 7,470
Autos and RVs	—	—	146	146
Total	$ —	$ —	$ 7,616	$ 7,616

	June 30, 2018			
(Dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Impaired Loans and Leases:				
Single family real estate secured:				
Mortgage	$ —	$ —	$ 28,446	$ 28,446
Home equity	—	—	16	16
Multifamily real estate secured	—	—	232	232
Auto and RV secured	—	—	60	60
Commercial & Industrial	—	—	2,361	2,361
Other	—	—	111	111
Total	$ —	$ —	$ 31,226	$ 31,226
Other real estate owned and foreclosed assets:				
Single family real estate	$ —	$ —	$ 9,385	$ 9,385
Autos and RVs	—	—	206	206
Total	$ —	$ —	$ 9,591	$ 9,591

Impaired loans and leases measured for impairment on a non-recurring basis using the fair value of the collateral for collateral-dependent loans and leases have a carrying amount of $44,533, after charge-offs of $1,027 for the nine months ended March 31, 2019, life to date charge-offs of $2,591, life to date interest payments applied to principal of $985 for total life to date principal balance adjustments of $3,576. Impaired loans had a related allowance of $651 at March 31, 2019.

Other real estate owned and foreclosed assets, which are measured at the lower of carrying value or fair value less costs to sell, had a net carrying amount of $7,616 after charge-offs of $987 for the three months ended March 31, 2019.

The Company has elected the fair value option for Agency loans held for sale. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Interest income is recorded based on the contractual terms of the loan. None of these loans are 90 days or more past due nor on nonaccrual as of March 31, 2019 and June 30, 2018.

As of March 31, 2019 and June 30, 2018, the aggregate fair value of loans held for sale, carried at fair value, contractual balance (including accrued interest), and gain was as follows:

(Dollars in thousands)	March 31, 2019	June 30, 2018
Aggregate fair value	$ 15,714	$ 35,077
Contractual balance	15,286	34,415
Gain	$ 428	$ 662

The total amount of gains and losses from changes in fair value included in earnings for the period indicated below for loans held for sale were:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
(Dollars in thousands)	2019	2018	2019	2018
Interest income	$ 258	$ 213	$ 824	$ 584
Change in fair value	134	275	(577)	558
Total	$ 392	$ 488	$ 247	$ 1,142

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at the periods indicated:

(Dollars in thousands)	March 31, 2019				
		Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) [1]
Impaired loans and leases:					
Single family real estate secured:					
Mortgage	$	43,443	Sales comparison approach	Adjustment for differences between the comparable sales	-51.4 to 80.0% (1.1%)
Auto and RV secured	$	292	Sales comparison approach	Adjustment for differences between the comparable sales	-36.7 to 38.9% (2.5%)
Other	$	798	Discounted cash flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate	0.0 to 0.0% (0.0%) 0.0 to 10.0% (5.0%) 100.0 to 100.0% (100.0%) -1.7 to 1.6% (-0.1%)
Other real estate owned and foreclosed assets:					
Single family real estate	$	7,470	Sales comparison approach	Adjustment for differences between the comparable sales	-46.3 to 53.0% (6.3%)
Autos and RVs	$	146	Sales comparison approach	Adjustment for differences between the comparable sales	-7.7 to 56.3% (10.1%)

[1] *For impaired loans, other real estate owned and foreclosed assets the ranges shown may vary positively or negatively based on the comparable sales reported in the current appraisal. In certain instances, the range can be significant due to small sample sizes and in some cases the property being valued having limited comparable sales with similar characteristics at the time the current appraisal is conducted.*

(Dollars in thousands)	June 30, 2018				
		Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) [1]
Impaired loans and leases:					
Single family real estate secured:					
Mortgage	$	28,446	Sales comparison approach	Adjustment for differences between the comparable sales	-48.8 to 66.7% (2.3%)
Home equity	$	16	Sales comparison approach	Adjustment for differences between the comparable sales	0.0 to 14.9% (7.4%)
Multifamily real estate secured	$	232	Sales comparison approach and income approach	Adjustment for differences between the comparable sales and adjustments for differences in net operating income expectations, capitalization rate	-15.5 to 46.4% (15.4%)
Auto and RV secured	$	60	Sales comparison approach	Adjustment for differences between the comparable sales	-2.0 to 71.5% (24.0%)
Commercial and Industrial	$	2,361	Sales comparison approach	Adjustment for differences between the comparable sales	-33.8 to 0.0% (-16.9%)
Other	$	111	Discounted cash flow	Projected Constant Prepayment Rate, Projected Constant Default Rate, Projected Loss Severity, Discount Rate	0.0 to 0.0% (0.0%) 0.0 to 10.0% (5.0%) 100.0 to 100.0% (100.0%) -1.0 to 2.5% (0.8%)
Other real estate owned and foreclosed assets:					
Single family real estate	$	9,385	Sales comparison approach	Adjustment for differences between the comparable sales	-14.1 to 27.3% (0.5%)
Autos and RVs	$	206	Sales comparison approach	Adjustment for differences between the comparable sales	-33.9 to 60.5% (7.9%)

[1] *For impaired loans, other real estate owned and foreclosed assets the ranges shown may vary positively or negatively based on the comparable sales reported in the current appraisal. In certain instances, the range can be significant due to small sample sizes and in some cases the property being valued having limited comparable sales with similar characteristics at the time the current appraisal is conducted.*

Fair value of Financial Instruments

The carrying amounts and estimated fair values of financial instruments at March 31, 2019 and June 30, 2018 were as follows:

	March 31, 2019				
		Fair Value			
(Dollars in thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 763,339	$ 763,339	$ —	$ —	$ 763,339
Securities available-for-sale	219,156	—	206,034	13,122	219,156
Loans held for sale, at fair value	15,714	—	15,714	—	15,714
Loans held for sale, at lower of cost or fair value	3,267	—	—	3,913	3,913
Loans and leases held for investment—net	9,098,453	—	—	9,265,296	9,265,296
Accrued interest receivable	38,996	—	—	38,996	38,996
Mortgage servicing rights	10,355	—	—	10,355	10,355
Securities borrowed	127,167	—	—	127,269	127,269
Customer, broker-dealer and clearing receivables	252,900	—	—	254,822	254,822
Financial liabilities:					
Total deposits	8,655,455	—	8,203,638	—	8,203,638
Advances from the Federal Home Loan Bank	443,500	—	443,911	—	443,911
Borrowings, subordinated notes and debentures	214,477	—	213,271	—	213,271
Accrued interest payable	3,080	—	3,080	—	3,080
Securities Loaned	201,574	—	—	201,473	201,473
Customer, broker-dealer and clearing payables	245,208	—	—	211,586	211,586

	June 30, 2018				
		Fair Value			
(Dollars in thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Financial assets:					
Cash and cash equivalents	$ 622,850	$ 622,850	$ —	$ —	$ 622,850
Securities available-for-sale	180,305	—	162,862	17,443	180,305
Loans held for sale, at fair value	35,077	—	35,077	—	35,077
Loans held for sale, at lower of cost or fair value	2,686	—	—	2,734	2,734
Loans and leases held for investment—net	8,432,289	—	—	8,466,494	8,466,494
Accrued interest receivable	26,729	—	—	26,729	26,729
Mortgage servicing rights	10,752	—	—	10,752	10,752
Financial liabilities:					
Total deposits	7,985,350	—	7,584,928	—	7,584,928
Advances from the Federal Home Loan Bank	457,000	—	453,326	—	453,326
Borrowings, subordinated notes and debentures	54,552	—	51,693	—	51,693
Accrued interest payable	1,753	—	1,753	—	1,753

The methods and assumptions, not previously presented, used to estimate fair value are described as follows: Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans and leases or deposits that reprice frequently and fully. For fixed rate loans and leases, deposits, borrowings or subordinated debt and for variable rate loans and leases, deposits, borrowings or subordinated debt with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. A discussion of the methods of valuing trading securities, available for sale securities and loans held for sale can be found earlier in this footnote. The carrying amount of stock of the Federal Home Loan Bank ("FHLB") approximates the estimated fair value of this investment. The fair value of off-balance sheet items is not considered material.

5. SECURITIES

The amortized cost, carrying amount and fair value for the available-for-sale securities at March 31, 2019 and June 30, 2018 were:

March 31, 2019

(Dollars in thousands)	Available-for-sale Amortized Cost	 Unrealized Gains	 Unrealized Losses	 Fair Value
Mortgage-backed securities (RMBS):				
U.S. agencies[1]	$ 10,115	$ 112	$ (157)	$ 10,070
Non-agency[2]	13,910	100	(888)	13,122
Total mortgage-backed securities	24,025	212	(1,045)	23,192
Non-RMBS:				
U.S. agencies[1]	1,692	—	—	1,692
Municipal	29,965	660	(821)	29,804
Asset-backed securities and structured notes	163,330	1,364	(226)	164,468
Total Non-RMBS	194,987	2,024	(1,047)	195,964
Total debt securities	$ 219,012	$ 2,236	$ (2,092)	$ 219,156

	June 30, 2018			
	Available-for-sale			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mortgage-backed securities (RMBS):				
U.S. agencies[1]	$ 13,102	$ 152	$ (328)	$ 12,926
Non-agency[2]	19,384	116	(2,057)	17,443
Total mortgage-backed securities	32,486	268	(2,385)	30,369
Non-RMBS:				
Municipal	20,953	2	(743)	20,212
Asset-backed securities and structured notes	127,558	2,267	(101)	129,724
Total Non-RMBS	148,511	2,269	(844)	149,936
Total debt securities	$ 180,997	$ 2,537	$ (3,229)	$ 180,305

1 *U.S. government-backed or government sponsored enterprises including Fannie Mae, Freddie Mac and Ginnie Mae.*

2 *Private sponsors of securities collateralized primarily by pools of 1-4 family residential first mortgages. Primarily super senior securities secured by Alt-A or pay-option ARM mortgages.*

The Company's non-agency RMBS available-for-sale portfolio with a total fair value of $13,122 at March 31, 2019 consists of fourteen different issues of super senior securities.

Debt securities with evidence of credit quality deterioration since issuance and for which it is probable at purchase that the Company will be unable to collect all of the par value of the security are accounted for under ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ("ASC Topic 310-30"). Under ASC Topic 310-30, the excess of cash flows expected at acquisition over the purchase price is referred to as the accretable yield and is recognized in interest income over the remaining life of the security.

The face amounts of debt securities available-for-sale that were pledged to secure borrowings at March 31, 2019 and June 30, 2018 were $3,694 and $2,540 respectively.

The securities with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position were as follows:

	March 31, 2019					
	Available-for-sale securities in loss position for					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
RMBS:						
U.S. agencies	$ —	$ —	$ 4,570	$ (157)	$ 4,570	$ (157)
Non-agency	—	—	8,644	(888)	8,644	(888)
Total RMBS securities	—	—	13,214	(1,045)	13,214	(1,045)
Non-RMBS:						
U.S. agencies	1,692	—	—	—	1,692	—
Municipal debt	3,000	(1)	12,998	(820)	15,998	(821)
Asset-backed securities and structured notes	108,982	(202)	1,997	(24)	110,979	(226)
Total Non-RMBS	113,674	(203)	14,995	(844)	128,669	(1,047)
Total debt securities	$ 113,674	$ (203)	$ 28,209	$ (1,889)	$ 141,883	$ (2,092)

	June 30, 2018					
	Available-for-sale securities in loss position for					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
RMBS:						
U.S. agencies	$ 12	$ (1)	$ 6,825	$ (327)	$ 6,837	$ (328)
Non-agency	36	(1)	15,867	(2,056)	15,903	(2,057)
Total RMBS securities	48	(2)	22,692	(2,383)	22,740	(2,385)
Non-RMBS:						
Municipal debt	1,740	(17)	12,326	(726)	14,066	(743)
Asset-backed securities and structured notes	9,489	(30)	6,163	(71)	15,652	(101)
Total Non-RMBS	11,229	(47)	18,489	(797)	29,718	(844)
Total debt securities	$ 11,277	$ (49)	$ 41,181	$ (3,180)	$ 52,458	$ (3,229)

There were twenty-three securities that were in a continuous loss position at March 31, 2019 for a period of more than 12 months.There were six securities that were in a continuous loss position at March 31, 2019 for a period of less than 12 months. There were twenty-six securities that were in a continuous loss position at June 30, 2018 for a period of more than 12 months.There were eleven securities that were in a continuous loss position at June 30, 2018 for a period of less than 12 months.

The following table summarizes amounts of anticipated credit loss recognized in the income statement through other-than-temporary impairment charges, which reduced non-interest income:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
(Dollars in thousands)	2019	2018	2019	2018
Beginning balance	$ —	$ (110)	$ —	$ (15,528)
Additions for the amounts related to the credit loss for which an other-than-temporary impairment was not previously recognized	(821)	—	(821)	(7)
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	—	—	—	(149)
Credit losses realized for securities sold	—	110	—	15,684
Ending balance	$ (821)	$ —	$ (821)	$ —

At March 31, 2019, non-agency RMBS with a total carrying amount of $3,143 were determined to have cumulative credit losses of $821 of which $821 was recognized in earnings during the three months ended March 31, 2019. This quarter's other-than-temporary impairment of $821 is related to one non-agency RMBS with a total carrying amount of $3,143. The Company measures its non-agency RMBS in an unrealized loss position at the end of the reporting period for other-than-temporary impairment by comparing the present value of the cash flows currently expected to be collected from the security with its amortized cost basis. If the calculated present value is lower than the amortized cost, the difference is the credit component of an other-than-temporary impairment of its debt securities. The excess of present value over the fair value of the security, if any, is the noncredit component of the other-than-temporary impairment. If the Company does not intend to sell the security and will not be required to sell the security before recovery of its amortized cost basis, the credit component of other-than-temporary impairment is recorded as a loss in earnings and the noncredit component of other-than-temporary impairment is recorded in comprehensive income, net of the related income tax benefit. If the Company does not intend to hold the security, or will be required to sell the security prior to a recovery of the amortized cost basis of the security, the credit component and noncredit component of the other-than-temporary impairment is recorded as a loss in earnings.

To determine the cash flow expected to be collected and to calculate the present value for purposes of testing for other-than-temporary impairment, the Company utilizes the same industry-standard tool and the same cash flows as those calculated for Level 3 fair values as discussed in Note 4 – Fair Value. The discount rates used to compute the present value of the expected cash flows for purposes of testing for the credit component of the other-than-temporary impairment are either the implicit rate calculated in each of the Company's securities at acquisition or the last accounting yield. The Company calculates the implicit rate at acquisition based on the contractual terms of the security, considering scheduled payments (and minimum payments in the case of pay-option ARMs) without prepayment assumptions. Once the discount rate (or discount margin in the case of floating rate securities) is calculated as described above, the discount is used in the industry-standard model to calculate the present value of the cash flows.

Total proceeds of $8,700 and net realized gains of $282 were realized from the sale of trading securities during the nine months ended March 31, 2018. During the nine months ended March 31, 2019, the company sold one available-for-sale securities with a carrying value of $2,059 resulting in a $133 loss.

The gross gains and losses realized through earnings upon the sale of available-for-sale securities were as follows:

	For the Three Months Ended March 31,		For the Nine Months Ended March 31,	
(Dollars in thousands)	2019	2018	2019	2018
Proceeds	$ —	$ 3,969	$ 1,926	$ 44,013
Gross realized gains	—	161	—	1,269
Gross realized losses	—	(262)	(133)	(1,569)
Net realized gain (loss) on securities	$ —	$ (101)	$ (133)	$ (300)

The Company had recorded unrealized gains and unrealized losses in accumulated other comprehensive loss as follows:

(Dollars in thousands)	March 31, 2019	June 30, 2018
Available-for-sale debt securities—net unrealized gains (losses)	$ 144	$ (692)
Available-for-sale debt securities—non-credit related losses	(845)	—
Subtotal	(701)	(692)
Tax (expense) benefit	183	79
Net unrealized gain (loss) on investment securities in accumulated other comprehensive income (loss)	$ (518)	$ (613)

The expected maturity distribution of the Company's mortgage-backed securities and the contractual maturity distribution of the Company's Non-RMBS securities classified as available-for-sale were:

	March 31, 2019	
	Available for sale	
(Dollars in thousands)	Amortized Cost	Fair Value
RMBS—U.S. agencies[1]:		
Due within one year	$ 857	$ 844
Due one to five years	2,927	2,900
Due five to ten years	2,783	2,778
Due after ten years	3,548	3,548
Total RMBS—U.S. agencies[1]	10,115	10,070
RMBS—Non-agency:		
Due within one year	1,980	1,906
Due one to five years	5,694	5,379
Due five to ten years	3,891	3,624
Due after ten years	2,345	2,213
Total RMBS—Non-agency	13,910	13,122
Non-RMBS:		
Due within one year	61,819	62,516
Due one to five years	107,217	107,657
Due five to ten years	15,377	15,014
Due after ten years	10,574	10,777
Total Non-RMBS	194,987	195,964
Total	$ 219,012	$ 219,156

[1] *Residential mortgage-backed security (RMBS) distributions include impact of expected prepayments and other timing factors.*

6. LOANS, LEASES & ALLOWANCE FOR LOAN AND LEASE LOSSES

The following table sets forth the composition of the loan and lease portfolio as of the dates indicated:

(Dollars in thousands)	March 31, 2019	June 30, 2018
Single family real estate secured:		
Mortgage	$ 4,315,545	$ 4,198,941
Home equity	3,511	2,306
Warehouse and other[1]	716,048	412,085
Multifamily real estate secured	1,843,714	1,800,919
Commercial real estate secured	309,376	220,379
Auto and RV secured	272,301	213,522
Factoring	94,836	169,885
Commercial & Industrial	1,565,894	1,481,051
Other	58,986	18,598
Total gross loans and leases	9,180,211	8,517,686
Allowance for loan and lease losses	(71,746)	(49,151)
Unaccreted discounts and loan and lease fees	(10,012)	(36,246)
Total net loans and leases	$ 9,098,453	$ 8,432,289

1 *The balance of single family warehouse loans was $188,440 at March 31, 2019 and $175,508 at June 30, 2018. The remainder of the balance was attributable to commercial specialty, lender finance and construction loans secured by single family real estate.*

Allowance for Loan and Lease Losses. We are committed to maintaining the allowance for loan and lease losses (sometimes referred to as the "allowance") at a level that is considered to be commensurate with estimated probable incurred credit losses in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. While the Company believes that the allowance for loan and lease losses is adequate at March 31, 2019, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent risks in the loan and lease portfolio.

Allowance for Loan and Lease Loss Disclosures. The assessment of the adequacy of the Company's allowance for loan and lease losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans and leases, change in volume and mix of loans and leases, collateral values and charge-off history.

The Company provides general loan loss reserves for its automobile ("auto") and recreational vehicle ("RV") loans based upon the borrower credit score and the Company's loss experience to date. The allowance for loan loss for the auto and RV loan portfolio at March 31, 2019 was determined by classifying each outstanding loan according to semi-annually refreshed FICO score and providing loss rates. The Company had $272,009 of auto and RV loan balances subject to general reserves as follows: FICO greater than or equal to 770: $124,744; 715 – 769: $99,605; 700 – 714: $25,774; 660 – 699: $20,222 and less than 660: $1,664.

The Company provides general loan loss reserves for mortgage loans based upon the size and class of the mortgage loan and the loan-to-value ratio ("LTV") at date of origination. The Company divides the LTV analysis into two classes, separating the purchased loans from the loans underwritten directly by the Company. Based on historical performance, the Company concluded that originated loans require lower estimated loss rates than purchased loans. The allowance for each class is determined by dividing the outstanding unpaid balance for each loan by the loan-to-value and applying a loss rate. The LTV groupings for each significant mortgage class are as follows:

The Company had $4,272,102 of single family mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 60%: $2,469,851; 61% – 70%: $1,392,242; 71% – 80%: $408,929; and greater than 80%: $1,080.

The Company had $1,843,714 of multifamily mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 55%: $906,055; 56% – 65%: $613,930; 66% – 75%: $313,172; 76% – 80%: $9,357 and greater than 80%: $1,200.

The Company had $309,376 of commercial real estate loan balances subject to general reserves as follows: LTV less than or equal to 50%: $147,978; 51% – 60%: $70,875; 61% – 70%: $68,319; and 71% – 80%: $22,204.

The Company's commercial secured portfolio consists of business loans well-collateralized by residential real estate. The Company's other portfolio consists of receivables factoring for businesses and consumers. The Company allocates its allowance for loan loss for these asset types based on qualitative factors which consider the value of the collateral and the financial position of the issuer of the receivables.

Seasonal fluctuations in the *Other* loan classification and its associated allowance for loan and lease losses primarily relate to tax season H&R Block-related loan products. These products are generally short term in nature, in that they are intended to be repaid within a few weeks or months of origination; if they are not repaid timely, they are generally charged off in their entirety at 120 days delinquent, consistent with regulatory guidance for unsecured consumer loan products. The Company provides general loan loss reserves for its H&R Block-related loans based upon prior years' loss experience with consideration for current year loan performance. While they do incur higher proportional default and charge-off rates than the remainder of the Company's loan and lease portfolio, these asset quality attributes are within expectations of the design of the products. During the nine months ended March 31, 2019, the Company experienced a higher level of recoveries for its H&R Block related loans.

The following tables summarize activity in the allowance for loan and lease losses by portfolio classes for the periods indicated:

	For the Three Months Ended March 31, 2019									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multifamily Real Estate Secured	Commercial Real Estate Secured	Auto and RV Secured	Factoring	Commercial & Industrial	Other	Total
Balance at January 1, 2019	$ 22,234	$ 15	$ 3,337	$ 4,833	$ 974	$ 4,013	$ 316	$ 15,069	$ 2,915	$ 53,706
Provision for loan and lease losses	(1,169)	1	791	(407)	117	655	30	3,000	15,982	19,000
Charge-offs	(59)	—	—	—	—	(288)	—	—	(714)	(1,061)
Recoveries	—	3	—	—	—	42	—	—	56	101
Balance at March 31, 2019	$ 21,006	$ 19	$ 4,128	$ 4,426	$ 1,091	$ 4,422	$ 346	$ 18,069	$ 18,239	$ 71,746

	For the Three Months Ended March 31, 2018									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multifamily Real Estate Secured	Commercial Real Estate Secured	Auto and RV Secured	Factoring	Commercial & Industrial	Other	Total
Balance at January 1, 2018	$ 19,721	$ 20	$ 2,496	$ 4,830	$ 805	$ 2,907	$ 481	$ 11,490	$ 2,856	$ 45,606
Provision for loan and lease losses	23	(8)	(366)	266	96	368	19	2,376	14,126	16,900
Charge-offs	(80)	(1)	—	—	—	(253)	—	—	(200)	(534)
Recoveries	2	4	—	—	—	34	—	—	42	82
Balance at March 31, 2018	$ 19,666	$ 15	$ 2,130	$ 5,096	$ 901	$ 3,056	$ 500	$ 13,866	$ 16,824	$ 62,054

	For the Nine Months Ended March 31, 2019									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multifamily Real Estate Secured	Commercial Real Estate Secured	Auto and RV Secured	Factoring	Commercial & Industrial	Other	Total
Balance at July 1, 2018	$ 20,368	$ 14	$ 2,080	$ 5,010	$ 849	$ 3,178	$ 445	$ 16,238	$ 969	$ 49,151
Provision for loan and lease losses	1,042	(4)	2,048	(693)	242	1,947	(99)	2,980	17,087	24,550
Charge-offs	(799)	—	—	—	—	(832)	—	(1,149)	(1,706)	(4,486)
Recoveries	395	9	—	109	—	129	—	—	1,889	2,531
Balance at March 31, 2019	$ 21,006	$ 19	$ 4,128	$ 4,426	$ 1,091	$ 4,422	$ 346	$ 18,069	$ 18,239	$ 71,746

	For the Nine Months Ended March 31, 2018									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & Other	Multifamily Real Estate Secured	Commercial Real Estate Secured	Auto and RV Secured	Factoring	Commercial & Industrial	Other	Total
Balance at July 1, 2017	$ 19,972	$ 19	$ 2,298	$ 4,638	$ 1,008	$ 2,379	$ 401	$ 9,881	$ 236	$ 40,832
Provision for loan and lease losses	(136)	(14)	119	458	(107)	1,097	99	3,985	16,399	21,900
Charge-offs	(176)	(1)	(287)	—	—	(592)	—	—	(354)	(1,410)
Recoveries	6	11	—	—	—	172	—	—	543	732

Balance at March 31, 2018	$	19,666	$	15	$	2,130	$	5,096	$	901	$	3,056	$	500	$	13,866	$	16,824	$	62,054

The following tables present our loans and leases evaluated individually for impairment by portfolio class:

(Dollars in thousands)	Unpaid Principal Balance	Principal Balance Adjustment[1]	Recorded Investment	Accrued Interest / Origination Fees	Total	Related Allocation of General Allowance	Related Allocation of Specific Allowance
	March 31, 2019						
With no related allowance recorded:							
Single family real estate secured:							
Mortgage:							
In-house originated	$ 4,878	$ 1,766	$ 3,112	$ 203	$ 3,315	$ —	$ —
Purchased	2,344	1,208	1,136	—	1,136	—	—
Auto and RV secured:							
In-house originated	535	343	192	6	198	—	—
With an allowance recorded:							
Single family real estate secured:							
Mortgage:							
In-house originated	37,926	242	37,684	545	38,229	351	—
Purchased	1,528	17	1,511	97	1,608	18	—
Auto and RV secured:							
In-house originated	100	—	100	1	101	8	—
Other	798	—	798	—	798	274	—
Total	$ 48,109	$ 3,576	$ 44,533	$ 852	$ 45,385	$ 651	$ —
As a % of total gross loans and leases	0.52%	0.03%	0.49%	0.01%	0.50%	0.01%	—%

(Dollars in thousands)	Unpaid Principal Balance	Principal Balance Adjustment[1]	Recorded Investment	Accrued Interest / Origination Fees	Total	Related Allocation of General Allowance	Related Allocation of Specific Allowance
	June 30, 2018						
With no related allowance recorded:							
Single family real estate secured:							
Mortgage:							
In-house originated	$ 1,584	$ 951	$ 633	$ 78	$ 711	$ —	$ —
Purchased	3,598	1,739	1,859	—	1,859	—	—
Multifamily real estate secured:							
Purchased	480	248	232	—	232	—	—
Auto and RV secured:							
In-house originated	369	309	60	2	62	—	—
With an allowance recorded:							
Single family real estate secured:							
Mortgage:							
In-house originated	24,607	47	24,560	—	24,560	247	—
Purchased	1,394	—	1,394	21	1,415	14	—
Home equity:							
In-house originated	16	—	16	—	16	1	—
Commercial & Industrial	172	—	172	—	172	9	—
Other	111	—	111	—	111	7	—
Total	$ 32,331	$ 3,294	$ 29,037	$ 101	$ 29,138	$ 278	$ —
As a % of total gross loans and leases	0.38%	0.04%	0.34%	—%	0.34%	—%	—%

[1] *Impaired loans with an allowance recorded do not have any charge-offs. Principal balance adjustments on impaired loans with an allowance recorded represent interest payments that have been applied to the book balance as a result of the loans' non-accrual status.*

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The following tables present the balance in the allowance for loan and lease losses and the recorded investment in loans and leases by portfolio segment and based on impairment evaluation method:

	March 31, 2019									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse and other	Multifamily real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Allowance for loan and lease losses:										
Ending allowance balance attributable to loans and leases:										
Individually evaluated for impairment – general allowance	$ 369	$ —	$ —	$ —	$ —	$ 8	$ —	$ —	$ 274	$ 651
Individually evaluated for impairment – specific allowance	—	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	20,637	19	4,128	4,426	1,091	4,414	346	18,069	17,965	71,095
Total ending allowance balance	$ 21,006	$ 19	$ 4,128	$ 4,426	$ 1,091	$ 4,422	$ 346	$ 18,069	$ 18,239	$ 71,746
Loans and leases:										
Loans and leases individually evaluated for impairment[1]	$ 43,443	$ —	$ —	$ —	$ —	$ 292	$ —	$ —	$ 798	$ 44,533
Loans and leases collectively evaluated for impairment	4,272,102	3,511	716,048	1,843,714	309,376	272,009	94,836	1,565,894	58,188	9,135,678
Principal loan and lease balance	4,315,545	3,511	716,048	1,843,714	309,376	272,301	94,836	1,565,894	58,986	9,180,211
Unaccreted discounts and loan and lease fees	8,886	58	(1,475)	5,190	734	2,422	(22,435)	(2,568)	(824)	(10,012)
Total recorded investment in loans and leases	$4,324,431	$ 3,569	$ 714,573	$1,848,904	$ 310,110	$ 274,723	$ 72,401	$1,563,326	$ 58,162	$9,170,199

[1] *Loans and leases evaluated for impairment include Troubled Debt Restructurings ("TDRs") that have been performing for more than six months.*

	June 30, 2018									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse and other	Multifamily real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Allowance for loan and lease losses:										
Ending allowance balance attributable to loans and leases:										
Individually evaluated for impairment – general allowance	$ 261	$ 1	$ —	$ —	$ —	$ —	$ —	$ 9	$ 7	$ 278
Individually evaluated for										

impairment – specific allowance	—	—	—	—	—	—	—	—	—	—
Collectively evaluated for impairment	20,107	13	2,080	5,010	849	3,178	445	16,229	962	48,873
Total ending allowance balance	$ 20,368	$ 14	$ 2,080	$ 5,010	$ 849	$ 3,178	$ 445	$ 16,238	$ 969	$ 49,151
Loans and leases:										
Loans and leases individually evaluated for impairment[1]	$ 28,446	$ 16	$ —	$ 232	$ —	$ 60	$ —	$ 172	$ 111	$ 29,037
Loans and leases collectively evaluated for impairment	4,170,495	2,290	412,085	1,800,687	220,379	213,462	169,885	1,480,879	18,487	8,488,649
Principal loan and lease balance	4,198,941	2,306	412,085	1,800,919	220,379	213,522	169,885	1,481,051	18,598	8,517,686
Unaccreted discounts and loan and lease fees	9,187	48	(706)	5,063	836	2,065	(48,039)	(3,884)	(816)	(36,246)
Total recorded investment in loans and leases	$4,208,128	$ 2,354	$ 411,379	$1,805,982	$ 221,215	$ 215,587	$ 121,846	$1,477,167	$ 17,782	$8,481,440

[1] *Loans and leases evaluated for impairment include TDRs that have been performing for more than six months.*

Credit Quality Disclosures. Nonaccrual loans and leases consisted of the following as of the dates indicated:

(Dollars in thousands)	March 31, 2019	June 30, 2018
Single Family Real Estate Secured:		
Mortgage:		
In-house originated	$ 40,795	$ 25,193
Purchased	2,648	3,253
Home Equity:		
In-house originated	—	16
Multifamily Real Estate Secured:		
Purchased	—	232
Total nonaccrual loans secured by real estate	43,443	28,694
Auto and RV Secured	292	60
Commercial & Industrial	—	2,361
Other	798	111
Total nonaccrual loans and leases	$ 44,533	$ 31,226
Nonaccrual loans and leases to total loans and leases	0.49%	0.37%

Approximately 1.51% of our nonaccrual loans and leases at March 31, 2019 were considered TDRs, compared to 3.30% at June 30, 2018. Borrowers that make timely payments after TDRs are considered non-performing for at least six months. Generally, after six months of timely payments, those TDRs are reclassified from the nonaccrual loan and lease category to the performing loan and lease category and any previously deferred interest income is recognized. Approximately 97.55% of the Bank's nonaccrual loans and leases are single family first mortgages already written down to 46.17% in aggregate, of the original appraisal value of the underlying properties.

The following tables present the outstanding unpaid balance of loans and leases that are performing and nonaccrual by portfolio class:

	March 31, 2019									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & other	Multifamily real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing	$4,272,102	$ 3,511	$ 716,048	$1,843,714	$ 309,376	$ 272,009	$ 94,836	$1,565,894	$ 58,188	$9,135,678
Nonaccrual	43,443	—	—	—	—	292	—	—	798	44,533
Total	$4,315,545	$ 3,511	$ 716,048	$1,843,714	$ 309,376	$ 272,301	$ 94,836	$1,565,894	$ 58,986	$9,180,211

	June 30, 2018									
	Single Family Real Estate Secured									
(Dollars in thousands)	Mortgage	Home Equity	Warehouse & other	Multifamily real estate secured	Commercial real estate secured	Auto and RV secured	Factoring	Commercial & Industrial	Other	Total
Performing	$4,170,495	$ 2,290	$ 412,085	$1,800,687	$ 220,379	$ 213,462	$ 169,885	$1,478,690	$ 18,487	$8,486,460
Nonaccrual	28,446	16	—	232	—	60	—	2,361	111	31,226
Total	$4,198,941	$ 2,306	$ 412,085	$1,800,919	$ 220,379	$ 213,522	$ 169,885	$1,481,051	$ 18,598	$8,517,686

From time to time the Company modifies loan terms temporarily for borrowers who are experiencing financial stress. These loans are performing and accruing and will generally return to the original loan terms after the modification term expires.

The Company had no TDRs classified as performing loans at March 31, 2019 or June 30, 2018.

The Company's loan modifications primarily included single family, multifamily and commercial loans of which included one or a combination of the following: a reduction of the stated interest rate or delinquent property taxes that were paid by the Bank and either repaid by the borrower over a one year period or capitalized and amortized over the remaining life of the loan. The Company's loan modifications also included RV loans in which borrowers were able to make interest-only payments for a period of six months to one year which then reverted back to fully amortizing.

Credit Quality Indicators

The Company categorizes loans and leases into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans and leases individually by classifying the loans and leases based on credit risk. The Company uses the following definitions for risk ratings.

Pass. Loans and leases classified as pass are well protected by the current net worth and paying capacity of the obligor or by the fair value, less cost to acquire and sell, of any underlying collateral in a timely manner.

Special Mention. Loans and leases classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or of the institution's credit position at some future date.

Substandard. Loans and leases classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans and leases so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans and leases classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The Company reviews and grades loans and leases following a continuous review process, featuring coverage of all loan and lease types and business lines at least quarterly. Continuous reviewing provides more effective risk monitoring because it immediately tests for potential impacts caused by changes in personnel, policy, products or underwriting standards.

The following table presents the composition of the Company’s loan and lease portfolio by credit quality indicators:

	March 31, 2019				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Single family real estate secured:					
Mortgage					
In-house originated	$ 4,218,290	$ 11,007	$ 41,857	$ —	$ 4,271,154
Purchased	41,575	168	2,648	—	44,391
Home equity					
In-house originated	3,511	—	—	—	3,511
Warehouse and other					
In-house originated	631,211	84,837	—	—	716,048
Multifamily real estate secured					
In-house originated	1,782,566	2,538	—	—	1,785,104
Purchased	57,662	—	948	—	58,610
Commercial real estate secured					
In-house originated	301,788	—	—	—	301,788
Purchased	7,588	—	—	—	7,588
Auto and RV secured					
In-house originated	271,920	52	329	—	272,301
Factoring	94,836	—	—	—	94,836
Commercial & Industrial	1,529,555	36,203	136	—	1,565,894
Other	55,704	2,463	819	—	58,986
Total	$ 8,996,206	$ 137,268	$ 46,737	$ —	$ 9,180,211
As a % of total gross loans and leases	98.0%	1.5%	0.5%	—%	100.0%

	June 30, 2018				
(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Single family real estate secured:					
Mortgage					
In-house originated	$ 4,113,537	$ 19,403	$ 26,264	$ —	$ 4,159,204
Purchased	36,024	461	3,252	—	39,737
Home equity					
In-house originated	2,290	—	16	—	2,306
Warehouse and other					
In-house originated	412,085	—	—	—	412,085
Multifamily real estate secured					
In-house originated	1,731,068	3,983	—	—	1,735,051
Purchased	64,663	—	1,205	—	65,868
Commercial real estate secured					
In-house originated	212,235	—	—	—	212,235
Purchased	6,226	1,918	—	—	8,144
Auto and RV secured					
In-house originated	213,455	—	67	—	213,522
Factoring	169,885	—	—	—	169,885
Commercial & Industrial	1,471,433	5,460	1,969	2,189	1,481,051
Other	18,369	118	111	—	18,598
Total	$ 8,451,270	$ 31,343	$ 32,884	$ 2,189	$ 8,517,686
As a % of total gross loans and leases	99.2%	0.4%	0.4%	—%	100.0%

The increase in Special Mention Commercial & Industrial and Single family real estate secured – Warehouse and other loans between June 30, 2018 and March 31, 2019 relates to four construction loan borrowers whose time horizon to complete has increased beyond the initial project plan, however three of the borrowers are current with all financial obligations and one borrower is over 90% complete and continuing to finalize construction. The loans are structured as senior, first position with loan to cost ratios less than 60%.

The Company considers the performance of the loan and lease portfolio and its impact on the allowance for loan and lease losses. The Company also evaluates credit quality based on the aging status of its loans and leases. During the year, the Company holds certain short-term loans that do not have a fixed maturity date that are treated as delinquent if not paid in full 90 days after the origination date. The following table provides the outstanding unpaid balance of loans and leases that are past due 30 days or more by portfolio class as of the period indicated:

	March 31, 2019			
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90+ Days Past Due**	**Total**
Single family real estate secured:				
Mortgage				
In-house originated	$ 6,259	$ 3,048	$ 29,727	$ 39,034
Purchased	729	340	1,298	2,367
Home equity				
In-house originated	139	—	—	139
Warehouse and other	12,655	—	—	12,655
Multifamily real estate secured				
In-house originated	—	458	1,130	1,588
Auto and RV secured	375	93	167	635
Commercial & Industrial	137	—	—	137
Other	1,155	2,506	741	4,402
Total	$ 21,449	$ 6,445	$ 33,063	$ 60,957
As a % of total gross loans and leases	0.23%	0.07%	0.36%	0.66%

	June 30, 2018			
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90+ Days Past Due**	**Total**
Single family real estate secured:				
Mortgage				
In-house originated	$ 7,830	$ 3,240	$ 22,009	$ 33,079
Purchased	354	105	1,183	1,642
Home equity				
In-house originated	—	—	16	16
Multifamily real estate secured				
In-house originated	410	—	—	410
Auto and RV secured				
In-house originated	284	22	9	315
Commercial & Industrial	300	—	2,362	2,662
Other	79	111	111	301
Total	$ 9,257	$ 3,478	$ 25,690	$ 38,425
As a % of total gross loans and leases	0.11%	0.04%	0.30%	0.45%

7. OFFSETTING OF SECURITIES FINANCING AGREEMENTS

The Company enters into securities borrowed and securities loaned transactions. The Company executes these transactions to facilitate customer match-book activity, cover short positions and customer securities lending. The Company manages credit exposure from certain transactions by entering into master securities lending agreements. The relevant agreements allow for the efficient closeout of transactions, liquidation and set-off of collateral against the net amount owed by the counterparty following a default. Default events generally include, among other things, failure to pay, insolvency or bankruptcy of a counterparty.

The following table presents information about the offsetting of these instruments and related collateral amounts as of March 31, 2019:

(Dollars in thousands)	Gross Assets / Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Collateral	Net Assets / Liabilities
Assets:					
Securities borrowed	$ 127,167	$ —	$ 127,167	$ (127,167)	$ —
Liabilities:					
Securities loaned	$ 201,574	$ —	$ 201,574	$ (201,574)	$ —

The securities loaned transactions represent equities with an overnight and open maturity classification.

8. CUSTOMER, BROKER-DEALER AND CLEARING RECEIVABLES AND PAYABLES

Customer, broker-dealer and clearing receivables and payables consisted of the following at March 31, 2019:

(Dollars in thousands)	March 31, 2019
Receivables:	
Customers	$ 233,703
Broker-dealer and clearing organizations:	
Receivable from broker-dealers[1]	12,730
Securities failed to deliver	5,714
Other	753
Total receivables	$ 252,900
Payables:	
Customers	$ 228,094
Broker-dealer and clearing organizations:	
Payable to broker-dealers	13,830
Securities failed to receive	3,284
Total payables	$ 245,208

1. Includes broker-dealer reserve for bad debt of $15.3 million.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company's goodwill of $70.7 million as of March 31, 2019 increased from the $35.7 million at June 30, 2018 as a result of the acquisition of COR Clearing, which is a full-service correspondent clearing firm for independent broker-dealers. The following table summarizes the activity in the Company's goodwill balance as of the dates indicated:

(Dollars in thousands)	Total
Balance at January 1, 2019	$ 35,721
Additions	34,933
Balance as of March 31, 2019	$ 70,654

The Company's acquired intangible assets are summarized as follows as of the dates indicated:

	March 31, 2019			June 30, 2018		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Covenant not to compete	$ 930	$ 232	$ 698	$ 930	$ 58	$ 872
Customer relationships	31,310	1,233	30,077	9,820	243	9,577
Customer deposit intangible	13,545	821	12,724	—	—	—
Developed technologies	23,056	1,326	21,730	21,680	326	21,354
Trade name	290	97	193	290	24	266
Total intangible assets	$ 69,131	$ 3,709	$ 65,422	$ 32,720	$ 651	$ 32,069

	Weighted-Average Useful Lives (Years)
Covenant not to compete	4
Customer relationships	13
Customer deposit intangible	10
Developed technologies	5
Trade name	3

(Dollars in thousands)	Amortization Expense
For the fiscal year remainder:	
2019	$ 1,751
2020	10,392
2021	9,795
2022	8,441
2023	8,020
Thereafter	27,023
Total	$ 65,422

10. INCOME TAXES

As a result of legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that was enacted on December 22, 2017, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 35.0% to 21.0%. The Tax Act makes broad and complex changes to the U.S. tax code that will affect our fiscal year ending June 30, 2019, including reducing the U.S. federal corporate statutory tax rate to 21.0%. The accounting for the effects of the rate change on deferred tax balances is complete and no provisional amounts were recorded for this item.

11. BORROWINGS, SUBORDINATED NOTES AND DEBENTURES

The following table sets forth the composition of the borrowings, subordinated notes and debentures as of the dates indicated:

(Dollars in thousands)	March 31, 2019	June 30, 2018
Borrowings from other banks	$ 152,300	$ —
Subordinated loans	7,500	—
Subordinated notes	51,000	51,000
Subordinated debentures	5,155	5,155
Less unamortized issuance Costs	1,478	1,603
Total borrowings, subordinated notes and debentures	$ 214,477	$ 54,552

Borrowings from other banks. Axos Clearing has a total of $155.0 million uncommitted secured lines of credit available for borrowing as needed. As of March 31, 2019, there was $117.3 million outstanding. These credit facilities bear interest at rates based on the Federal Funds rate and are due upon demand.

Axos Clearing has a $35.0 million committed unsecured line of credit available for limited purpose borrowing. As of March 31, 2019, there was $35.0 million outstanding. This credit facility bears interest at rates based on the Federal Funds rate and are due upon demand.

Subordinated Loans. The Company issued subordinated notes totaling $7.5 million on January 28, 2019, to the principal stockholders of COR Securities in an equal principal amount, with a maturity of 15 months, to serve as the sole source of payment of indemnification obligations of the principal stakeholders of COR Securities under the Merger Agreement. Interest accrues at a rate of 6.25% per annum.

12. EQUITY AND STOCK-BASED COMPENSATION

Common Stock Repurchases. On March 17, 2016, the Board of Directors of the Company (the “Board”), authorized a program to repurchase up to $100 million of common stock. The new share repurchase authorization replaces the previous share repurchase plan approved on July 5, 2005. The Company may repurchase shares on the open market or through privately negotiated transactions at times and prices considered appropriate, at the discretion of the Company, and subject to its assessment of alternative uses of capital, stock trading price, general market conditions and regulatory factors. The repurchase program does not obligate the Company to acquire any specific number of shares. The share repurchase program will continue in effect until terminated by the Board. During the nine months ended March 31, 2019, the Company has repurchased a total of $47.9 million, or 1,704,528 common shares at an average price of $28.09 per share. As of March 31, 2019, the Company has $16.9 million remaining under the current Board authorized stock repurchase program. The Company accounts for treasury stock using the cost method as a reduction of stockholders’ equity in the accompanying unaudited condensed consolidated financial statements.

Restricted Stock Units. During the nine months ended March 31, 2019 and 2018, the Company granted 1,101,724 and 728,129 restricted stock unit awards (“RSUs”) to employees and directors, respectively. RSUs granted during these quarters generally vest over three years, one-third on each anniversary date, except for any RSUs granted to the Company’s CEO, which vest one-fourth on each fiscal year end.

The Company's income before income taxes and net income for the three months ended March 31, 2019 and 2018 include stock award expense of $6,802 and $3,994, with total income tax benefit of $2,325 and $1,365, respectively. For the nine months ended March 31, 2019 and 2018 include stock award expense of $17,979 and $11,680, with total income tax benefit of $4,773 and $4,565, respectively. The Company recognizes compensation expense based upon the grant-date fair value divided by the vesting and the service period between each vesting date. At March 31, 2019, unrecognized compensation expense related to non-vested awards aggregated to $46,013 and is expected to be recognized in future periods as follows:

(Dollars in thousands)	Stock Award Compensation Expense
For the fiscal year remainder:	
2019	$ 8,012
2020	18,299
2021	12,046
2022	5,051
2023	1,439
Thereafter	1,166
Total	$ 46,013

The following table presents the status and changes in restricted stock units for the periods indicated:

	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Non-vested balance at June 30, 2017	1,240,322	$ 22.52
Granted	747,022	26.53
Vested	(629,755)	22.55
Canceled	(123,858)	23.38
Non-vested balance at June 30, 2018	1,233,731	$ 24.84
Granted	1,101,724	34.68
Vested	(388,599)	24.20
Canceled	(48,451)	29.14
Non-vested balance at March 31, 2019	1,898,405	$ 30.57

The total fair value of shares vested for the three and nine months ended March 31, 2019 was $421 and $13,609. The total fair value of shares vested for the three and nine months ended March 31, 2018 was $674 and $9,400.

13. EARNINGS PER COMMON SHARE

Earnings per common share ("EPS") are presented under two formats: basic EPS and diluted EPS. Basic EPS is computed by dividing the net income attributable to common stock (net income after deducting dividends on preferred stock) by the sum of the weighted-average number of common shares outstanding during the year and the unvested average of participating RSUs. Diluted EPS is computed by dividing the sum of net income attributable to common stock and dividends on diluted preferred stock by the sum of the weighted-average number of common shares outstanding during the year and the impact of dilutive potential common shares, such as nonparticipating RSUs, stock options and convertible preferred stock.

The Company accounts for unvested stock-based compensation awards containing non-forfeitable rights to dividends or dividend equivalents (collectively, "dividends") as participating securities and includes the awards in the EPS calculation using the two-class method. The Company had granted restricted stock units under the 2004 Stock Incentive Plan to certain directors and employees, which entitle the recipients to receive non-forfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. These unvested awards meet the definition of participating securities. Under the two class method, all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities, based on their respective rights to receive dividends. Under the 2014 Stock Incentive Plan, RSUs have no stockholder rights, meaning they are not entitled to dividends and are considered nonparticipating. These nonparticipating RSUs are not included in the basic EPS calculation and are included in the diluted EPS calculation using the treasury stock method.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands, except per share data)	**2019**	**2018**	**2019**	**2018**
Earnings Per Common Share				
Net income	$ 38,821	$ 51,253	$ 114,497	$ 115,294
Preferred stock dividends	(77)	(77)	(232)	(232)
Net income attributable to common stockholders	$ 38,744	$ 51,176	$ 114,265	$ 115,062
Average common shares outstanding	61,259,419	62,543,949	62,130,598	63,219,386
Average unvested RSUs (as revised for 2018)	—	72,000	—	79,426
Total qualifying shares (as revised for 2018)	61,259,419	62,615,949	62,130,598	63,298,812
Earnings per common share (as revised for 2018)	$ 0.63	$ 0.82	$ 1.84	$ 1.82
Diluted Earnings Per Common Share				
Dilutive net income attributable to common stockholders	$ 38,744	$ 51,176	$ 114,265	$ 115,062
Average common shares issued and outstanding (as revised for 2018)	61,259,419	62,615,949	62,130,598	63,298,812
Dilutive effect of average unvested RSUs (as revised for 2018)	330,243	1,050,861	466,685	874,663
Total dilutive common shares outstanding (as revised for 2018)	61,589,662	63,666,810	62,597,283	64,173,475
Diluted earnings per common share (as revised for 2018)	$ 0.63	$ 0.80	$ 1.83	$ 1.79

14. REGULATORY REQUIREMENTS

Pursuant to the net capital requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Axos Clearing is subject to the SEC Uniform Net Capital (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain minimum net capital of $250,000 or 2% of aggregate debit balances arising from client transactions, as defined. On March 31, 2019, under the alternate method, the Company may not repay subordinated debt, pay cash distributions, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

At March 31, 2019, the net capital position of Axos Clearing was as follows:

(Dollars in thousands)	**Axos Clearing**
Net capital	$ 22,381
Less: required net capital	4,622
Excess capital	$ 17,759
Net capital as a percentage of aggregate debit items	9.68%
Net capital in excess of 5% aggregate debit items	$ 10,825

Axos Clearing as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the benefit of customers. At March 31, 2019, the Company had a deposit requirement of $200.8 million and maintained a deposit of $206.3 million.

Certain broker-dealers have chosen to maintain brokerage customer accounts at the Axos Clearing. To allow these broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Brokers (PAB). At March 31, 2019, the Company had a deposit requirement of $1.6 million and maintained a deposit of $0.5 million. On April 2, 2019, Axos Clearing made a deposit to satisfy the deposit requirement.

15. COMMITMENTS AND CONTINGENCIES

Credit-Related Financial Instruments. The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At March 31, 2019, the Company had commitments to originate $26,351 in fixed rate loans and leases and $609,729 in variable rate loans, totaling an aggregate outstanding principal balance of $636,080. Our fixed rate loan and lease commitments to originate had rates ranging from 2.99% to 8.86%. At March 31, 2019, the Company also had commitments to sell $37,484 in fixed rate loans and $1,454 in variable rate loans, totaling an aggregate outstanding principal balance of $38,938.

Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

In the normal course of business, Axos Clearing's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose Axos Clearing to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and Axos Clearing has to purchase or sell the financial instrument underlying the contract at a loss. Axos Clearing's clearing agreements with broker-dealers for which it provides clearing services requires them to indemnify Axos Clearing if customers fail to satisfy their contractual obligation.

Litigation. On October 15, 2015, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a putative class action lawsuit styled Golden v. BofI Holding, Inc., et al, and brought in United States District Court for the Southern District of California (the "Golden Case"). On November 3, 2015, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a second putative class action lawsuit styled Hazan v. BofI Holding, Inc., et al, and also brought in the United States District Court for the Southern District of California (the "Hazan Case"). On February 1, 2016, the Golden Case and the Hazan Case were consolidated as In re BofI Holding, Inc. Securities Litigation, Case #: 3:15-cv-02324-GPC-KSC (the "Class Action"), and the Houston Municipal Employees Pension System was appointed lead plaintiff. The plaintiffs allege that the Company and other named defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by failing to disclose wrongful conduct that was alleged in a complaint filed in connection with a wrongful termination of employment lawsuit filed on October 13, 2015 (the "Employment Matter") and that as a result the Company's statements regarding its internal controls, as well as portions of its financial statements, were false and misleading. On March 21, 2018, the Court entered a final order dismissing the Class Action with prejudice. Subsequently, the plaintiff filed a notice of appeal and opening brief and the Company has filed its answering brief.

On April 3, 2017, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a putative class action lawsuit styled Mandalevy v. BofI Holding, Inc., et al, and brought in United States District Court for the Southern District of California (the "Mandalevy Case"). The Mandalevy Case seeks monetary damages and other relief on behalf of a putative class that has not been certified by the Court. The complaint in the Mandalevy Case (the "Mandalevy Complaint") alleges a class period that differs from that alleged in the First Class Action, and that the Company and other named defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by failing to disclose wrongful conduct that was alleged in a March 2017 media article. The Mandalevy Case has not been consolidated into the First Class Action. On December 7, 2018, the Court entered a final order granting the defendants' motion and dismissing the Mandalevy Case with prejudice. Subsequently, the plaintiff filed a notice of appeal and opening brief and the Company is preparing its answering brief, which is due May 8, 2019.

The Company and the other named defendants dispute the allegations of wrongdoing advanced by the plaintiffs in the Class Action, the Mandalevy Case, and in the Employment Matter, as well as those plaintiffs' statement of the underlying factual circumstances, and are vigorously defending each case.

In addition to the First Class Action and the Mandalevy Case, two separate shareholder derivative actions were filed in December, 2015, purportedly on behalf of the Company. The first derivative action, *Calcaterra v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on December 3, 2015. The second derivative action, *Dow v. Micheletti, et al*, was filed in the San Diego County Superior Court on December 16, 2015. A third derivative action, *DeYoung v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on January 22, 2016, a fourth derivative action, *Yong v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on January 29, 2016, a fifth derivative action, *Laborers Pension Trust Fund of Northern Nevada v. Allrich et al*, was filed in the United States District Court for the Southern District of California on February 2, 2016, and a sixth derivative action, *Garner v. Garrabrants, et al*, was filed in the San Diego County Superior Court on August 10, 2017. Each of these six derivative actions names the Company as a nominal defendant, and certain of its officers and directors as defendants. Each complaint sets forth allegations of breaches of fiduciary duties, gross mismanagement, abuse of control, and unjust enrichment against the defendant officers and directors. The plaintiffs in these derivative actions seek damages in unspecified amounts on the Company's behalf from the officer and director defendants, certain corporate governance actions, and an award of their costs and attorney's fees.

The United States District Court for the Southern District of California ordered the four above-referenced derivative actions pending before it to be consolidated and appointed lead counsel in the consolidated action. On June 7, 2018, the Court entered an order granting defendant's motion for judgment on the pleadings, but giving the plaintiffs limited leave to amend by June 28, 2018. The plaintiffs failed to file an amended complaint, and instead plaintiffs filed on June 28, 2018 a motion to stay the case pending resolution of the securities class action and Employment Matter. On August 10, 2018, defendants filed an opposition to plaintiffs' motion. On September 11, 2018, the plaintiffs filed a second amended complaint. On October 16, 2018, defendants filed a motion to dismiss the second amended complaint.

The two derivative actions pending before the San Diego County Superior Court have been consolidated and have been stayed by agreement of the parties.

In view of the inherent difficulty of predicting the outcome of each legal action, particularly since claimants seek substantial or indeterminate damages, it is not possible to reasonably predict or estimate the eventual loss or range of loss, if any, related to each legal action.

16. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted related party loans collateralized by real property to principal officers, directors and their affiliates that are considered to be insiders by regulation. There were no new related party loans granted under the provisions of the employee loan program and no refinances of existing loans during the nine months ended March 31, 2019, and no new loans and no refinances of existing loans during the nine months ended March 31, 2018.

17. SEGMENT REPORTING

The Company determines reportable segments based on the services offered, the significance of the services offered, the significance of those services to the Company's financial condition and operating results and management's regular review of the operating results of those services. The Company operates through two operating segments: Banking Business and Securities Business.

The Banking Business includes a broad range of banking services including online banking, concierge banking, prepaid card services, and mortgage, vehicle and unsecured lending through online and telephonic distribution channels to serve the needs of consumer and small businesses nationally. In addition, the Banking Business focuses on providing deposit products nationwide to industry verticals (e.g., Title and Escrow), cash management products to a variety of businesses, and commercial & industrial and commercial real estate lending to clients. The Banking Business also includes a bankruptcy trustee and fiduciary service that provides specialized software and consulting services to Chapter 7 bankruptcy and non-Chapter 7 trustees and fiduciaries.

The Securities Business includes the Clearing Broker-Dealer, Registered Investment Advisor, and Introducing Broker-Dealer lines of businesses. These lines of business offer products independently to their own customers as well as to Banking Business clients. The products offered by the lines of business in the Securities Business primarily generate net interest and non-banking service fee income.

Segment results are determined based upon the management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions or in accordance with generally accepted accounting principles.

The Company evaluates performance and allocates resources based on profit or loss from operations. There are no material inter-segment sales or transfers. The accounting policies used by each reportable segment are the same as those discussed in Note 2. All costs, except certain corporate administration costs and income taxes, have been allocated to the reportable segments. Therefore, combined amounts agree to the consolidated totals.

In order to reconcile the two segments to the consolidated totals, the Company includes parent-only activities and intercompany eliminations. The following tables present the operating results of the segments:

	For the Three Months Ended March 31, 2019			
(Dollars in thousands)	Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 127,072	$ 2,951	$ (854)	$ 129,169
Provision for loan losses	19,000	—	—	19,000
Non-interest income	21,027	5,071	—	26,098
Non-interest expense	52,224	23,102	6,489	81,815
Income before taxes	$ 76,875	$ (15,080)	$ (7,343)	$ 54,452

	For the Three Months Ended March 31, 2018			
(Dollars in thousands)	Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 117,497	$ —	$ (814)	$ 116,683
Provision for loan losses	16,900	—	—	16,900
Non-interest income	23,372	—	153	23,525
Non-interest expense	40,273	—	5,161	45,434
Income before taxes	$ 83,696	$ —	$ (5,822)	$ 77,874

(Dollars in thousands)	For the Nine Months Ended March 31, 2019 Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 307,564	$ 2,951	$ (2,347)	$ 308,168
Provision for loan losses	24,550	—	—	24,550
Non-interest income	54,462	5,071	—	59,533
Non-interest expense	142,291	23,102	20,277	185,670
Income before taxes	$ 195,185	$ (15,080)	$ (22,624)	$ 157,481

(Dollars in thousands)	For the Nine Months Ended March 31, 2018 Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 283,786	$ —	$ (2,340)	$ 281,446
Provision for loan losses	21,900	—	—	21,900
Non-interest income	53,811	—	153	53,964
Non-interest expense	109,419	—	14,844	124,263
Income before taxes	$ 206,278	$ —	$ (17,031)	$ 189,247

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, off balance sheet items, contractual obligations and capital resources of Axos Financial, Inc. and subsidiaries (the "Company"). This information is intended to facilitate the understanding and assessment of significant changes and trends related to our financial condition and the results of our operations. This discussion and analysis should be read in conjunction with our financial information in our Annual Report on Form 10-K for the year ended June 30, 2018, and the interim unaudited condensed consolidated financial statements and notes thereto contained in this report.

Some matters discussed in this report may constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and as such, may involve risks and uncertainties. These forward-looking statements can be identified by the use of terminology such as "estimate," "project," "anticipate," "expect," "intend," "believe," "will," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. These forward-looking statements relate to, among other things, expectations of the environment in which we operate and projections of future performance. Forward-looking statements are inherently unreliable and actual results may vary. Factors that could cause actual results to differ from these forward-looking statements include changes in the interest rate environment, economic conditions, changes in the competitive marketplace, risks associated with credit quality, the outcome and effects of pending class action litigation filed against the Company and other risk factors discussed under the heading "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and in our Annual Report on Form 10-K for the year ended June 30, 2018, which has been filed with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements made in connection with this report, which are attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing information.

General

Our Company is the holding company for Axos Bank (the "Bank"), a diversified financial services company with approximately $10.9 billion in assets that provides consumer and business banking products through its online, low-cost distribution channels and affinity partners. The Bank has deposit and loan and lease customers nationwide including consumer and business checking, savings and time deposit accounts and financing for single family and multifamily residential properties, small-to-medium size businesses in target sectors, and selected specialty finance receivables. The Bank generates fee income from consumer and business products including fees from loans originated for sale and transaction fees earned from processing payment activity. Our wholly-owned subsidiaries, Axos Clearing LLC ("Axos Clearing") and WiseBanyan, Inc. ("WiseBanyan"), generate interest and fee income by providing comprehensive securities clearing services to introducing broker-dealers and registered investment advisor correspondents and digital investment advisory services to retail investors, respectively. Axos Financial, Inc.'s common stock is listed on the New York Stock Exchange and is a component of the Russell 2000® Index and the S&P SmallCap 600® Index.

Our Bank is a federal savings bank wholly-owned by our Company and regulated by the Office of the Comptroller of the Currency ("OCC"), and the Federal Deposit Insurance Corporation ("FDIC") as its deposit insurer. The Bank must file reports with the OCC and the FDIC concerning its activities and financial condition. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), enacted on July 21, 2010, created a new Consumer Financial Protection Bureau ("CFPB") as an independent bureau of the Federal Reserve that has broad authority to issue regulations implementing numerous consumer laws, to which we are subject.

The Securitites Business includes Axos Clearing which is a broker-dealer registered with the SEC and the Financial Industry Regulatory Authority, Inc. ("FINRA"). WiseBanyan is a Registered Investment Advisor under the Investment Advisers Act of 1940, that is registered with the SEC and FINRA, and WiseBanyan Securities, LLC is an introducing broker-dealer that is also registered with the SEC and FINRA.

We distribute our deposit products through a wide range of retail distribution channels, and our deposits consist of demand, savings and time deposits accounts. We distribute our loan products through our retail, correspondent and wholesale channels, and the loans we retain are primarily first mortgages secured by single family real property and by multifamily real property as well as commercial & industrial loans to businesses. Our mortgage-backed securities consist of mortgage pass-through securities issued by government-sponsored entities and non-agency collateralized mortgage obligations and asset-backed mortgage-backed securities issued by private sponsors. We believe our flexibility to adjust our asset generation channels has been a competitive advantage allowing us to avoid markets and products where credit fundamentals are poor or risks and rewards are not sufficient to support our required return on equity.

Segment Information

We determine reportable segments based on the services offered, the significance of the services offered, the significance of those services to our financial condition and operating results and management's regular review of the operating results of those services. We operate through two operating segments: Banking Business and Securities Business.

The Banking Business includes the a broad range of banking services including online banking, concierge banking, prepaid card services, and mortgage, vehicle and unsecured lending through online and telephonic distribution channels to serve the needs of consumer and small businesses nationally. In addition, the Banking Business focuses on providing deposit products nationwide to industry verticals (e.g., Title and Escrow), cash management products to a variety of businesses, and commercial & industrial and commercial real estate lending to clients. The Banking Business also includes a bankruptcy trustee and fiduciary service that provides specialized software and consulting services to Chapter 7 bankruptcy and non-Chapter 7 trustees and fiduciaries.

The Securities Business includes the Clearing Broker-Dealer, Registered Investment Advisor, and Introducing Broker-Dealer lines of businesses. These lines of business offer products independently to their own customers as well as to Banking Business clients. The products offered by the lines of business in the Securities Business primarily generate net interest and non-banking service fee income.

Segment results are determined based upon the management reporting system, which assigns balance sheet and income statement items to each of the business segments. The process is designed around the organizational and management structure and, accordingly, the results derived are not necessarily comparable with similar information published by other financial institutions or in accordance with generally accepted accounting principles.

The Company evaluates performance and allocates resources based on profit or loss from operations. There are no material inter-segment sales or transfers. Certain corporate administration costs and income taxes have not been allocated to the reportable segments. Therefore, in order to reconcile the two segments to the consolidated totals, we include parent-only activities and intercompany eliminations.

Effect of Tax Cuts and Jobs Act of 2017

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code including reducing the U.S. federal corporate statutory tax rate to from 35% to 21.0%, see Results of Operations for further information.

Mergers and Acquisitions

From time to time we undertake acquisitions or similar transactions consistent with our Company's operating and growth strategies. We completed one business acquisition during the fiscal year ended June 30, 2018, and completed four asset acquisitions and announced two acquisition agreements during the nine months ended March 31, 2019. Additionally, in July 2018, the Bank renewed its agreement with H&R Block to be the exclusive provider of interest-free Refund Advance loans to customers during the 2019 tax season. Further discussion of our Brand Partnership Products can be found under the heading "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2018 and Note 2 – "Significant Accounting Policies" of this Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

MWABank deposit acquisition. On March 15, 2019, the Bank closed the deposit assumption agreement with MWA Bank and acquired approximately $173 million of deposits, including approximately $151 million of checking, savings and money market accounts and $22 million of time deposits, from MWABank. Axos did not assume any assets, employees or branches in this transaction. The Bank received cash equal to the book value of the deposit liabilities.

WiseBanyan. On February 26, 2019 the Company's subsidiary, Axos Securities, LLC, had completed the acquisition of WiseBanyan Holding, Inc. and its subsidiaries (collectively "WiseBanyan"). Headquartered in Las Vegas, Nevada, WiseBanyan is a provider of personal financial and investment management services through a proprietary technology platform. WiseBanyan currently serves approximately 24,000 clients with approximately $150 million of assets under management. The Company paid $3.2 million in cash to acquire the assets of WiseBanyan and recorded $2.7 million in intangible assets.

COR Securities Holdings. On January 28, 2019 ("Acquisition Date"), Axos Clearing, LLC and Axos Clarity MergeCo., Inc. completed the acquisition of COR Securities Holdings Inc. ("COR Securities"), the parent company of COR Clearing LLC ("COR Clearing"), pursuant to the terms of the Agreement and Plan of Merger, dated as of September 28, 2018 (the "Merger Agreement").

Headquartered in Omaha, Nebraska, COR Clearing is a full-service correspondent clearing firm for independent broker-dealers. Established as a part of Mutual of Omaha Insurance Company and spun off as Legent Clearing in 2002, COR Clearing provides clearing, settlement, custody, securities and margin lending, and technology solutions to more than sixty introducing broker-dealers and 90,000 customers. The total cash consideration of approximately $80.3 million was funded with existing capital. The Company issued subordinated notes totaling $7.5 million to the principal stockholders of COR Securities in an equal principal amount, with a maturity of 15 months, to serve as the sole source of payment of indemnification obligations of the principal stakeholders of COR Securities under the Merger Agreement.

The acquisition of COR Securities is being accounted for as a business combination using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration paid are recorded at estimated fair values on the Acquisition Date. The Company recorded goodwill for a provisional amount of $34.9 million and an additional $20.1 million in intangible assets as of the Acquisition Date. The estimated fair values of the acquired assets and assumed liabilities are subject to refinement as additional information relative to closing date fair values becomes available. Any subsequent adjustments to the fair values of acquired assets and liabilities assumed, identifiable intangible assets, or other purchase accounting adjustments will result in adjustments to goodwill within the first 12 months following the closing date of acquisition.

Nationwide Bank. On November 16, 2018, our Bank completed the acquisition of substantially all of Nationwide Bank's ("Nationwide") deposits at the time of closing, adding $2.4 billion in deposits, including $0.7 billion in checking, savings and money market accounts and $1.7 billion in time deposit accounts. Our Bank received cash for the deposit balances transferred less a premium of approximately $13.2 million, commensurate with the fair market value of the deposits purchased.

Bankruptcy trustee and fiduciary services business of Epiq Systems, Inc. On April 4, 2018, we completed the acquisition of the bankruptcy trustee and fiduciary services business of Epiq Systems, Inc. ("Epiq"). The assets we acquired include comprehensive software solutions, trustee customer relationships, trade name, accounts receivable and fixed assets. The business provides specialized software and consulting services to Chapter 7 bankruptcy and non-Chapter 7 trustees and fiduciaries in all fifty states. This business generates fee income from bank partners and bankruptcy cases, as well as opportunities to source low cost deposits. No deposits were acquired as part of the transaction.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various factors and circumstances. We believe that our estimates and assumptions are reasonable under the circumstances. However, actual results may differ significantly from these estimates and assumptions that could have a material effect on the carrying value of assets and liabilities at the balance sheet dates and our results of operations for the reporting periods.

Our significant accounting policies and practices are described in greater detail in Note 1 to our June 30, 2018 audited consolidated financial statements and under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the fiscal year ended June 30, 2018.

USE OF NON-GAAP FINANCIAL MEASURES

In addition to the results presented in accordance with GAAP, this report includes non-GAAP financial measures such as adjusted earnings, adjusted earnings per common share, and tangible book value per common share. Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied and are not audited. Readers should be aware of these limitations and should be cautious as to their use of such measures. Although we believe the non-GAAP financial measures disclosed in this report enhance investors’ understanding of our business and performance, these non-GAAP measures should not be considered in isolation, or as a substitute for GAAP basis financial measures.

We define net income without the after-tax impact of non-recurring acquisition-related costs, and excess FDIC expense, and other costs (unusual or non-recurring charges), as “adjusted earnings”, a non-GAAP financial measure. Excess FDIC expense is defined as the higher insurance costs associated with increased levels of short-term brokered deposits in anticipation of the acquisition of deposits from Nationwide Bank. Other costs are due to a $15.3 million bad debt expense related to a correspondent customer of our clearing broker-dealer. Adjusted earnings per diluted common share (“adjusted EPS”), a non-GAAP financial measure, is calculated by dividing non-GAAP adjusted earnings by the average number of diluted common shares outstanding during the period. We believe the non-GAAP measures of adjusted earnings and adjusted EPS provide useful information about the Bank’s operating performance. Excluding the non-recurring acquisition related costs, excessive FDIC expense, and other costs provides investors with an understanding of Axos’ core business.

Below is a reconciliation of net income to adjusted earnings and adjusted EPS (Non-GAAP) for the periods shown:

(Dollars in thousands, except per share amounts)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Nine Months Ended March 31, 2019	Nine Months Ended March 31, 2018
Net income	$ 38,821	$ 51,253	$ 114,497	$ 115,294
Acquisition-related costs	2,511	79	4,644	377
Excess FDIC expense	—	—	1,111	—
Other costs	15,299	—	15,299	—
Income taxes	(5,113)	(27)	(5,746)	(147)
Adjusted earnings (Non-GAAP)	$ 51,518	$ 51,305	$ 129,805	$ 115,524
Adjusted EPS (Non-GAAP)	$ 0.84	$ 0.80	$ 2.07	$ 1.80

We define tangible book value as book value adjusted for goodwill and other intangible assets (“tangible book value”), a non-GAAP financial measure. Tangible book value is calculated using common stockholders’ equity minus mortgage servicing rights, goodwill and other intangible assets. Tangible book value per common share, a non-GAAP financial measure, is calculated by dividing tangible book value by the common shares outstanding at the end of the period. We believe tangible book value per common share is useful in evaluating the Company’s capital strength, financial condition, and ability to manage potential losses.

Below is a reconciliation of total stockholders’ equity to tangible book value (Non-GAAP) as of the dates indicated:

	March 31,	
(Dollars in thousands, except per share amounts)	**2019**	**2018**
Total stockholders’ equity	$ 1,039,485	$ 921,653
Less: preferred stock	5,063	5,063
Common stockholders’ equity	1,034,422	916,590
Less: mortgage servicing rights, carried at fair value	10,355	10,228
Less: goodwill and other intangible assets	136,076	—
Tangible common stockholders’ equity (Non-GAAP)	$ 887,991	$ 906,362
Common shares outstanding at end of period	61,285,375	62,552,868
Tangible book value per common share (Non-GAAP)	$ 14.49	$ 14.49

SELECTED FINANCIAL DATA

The following tables set forth certain selected financial data concerning the periods indicated:

AXOS FINANCIAL, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL INFORMATION

(Dollars in thousands)	March 31, 2019	June 30, 2018	March 31, 2018
Selected Balance Sheet Data:			
Total assets	$ 10,875,561	$ 9,539,504	$ 9,982,320
Loans and leases—net of allowance for loan and lease losses	9,098,453	8,432,289	8,064,716
Loans held for sale, at fair value	15,714	35,077	28,301
Loans held for sale, lower of cost or fair value	3,267	2,686	6,770
Allowance for loan and lease losses	71,746	49,151	62,054
Securities—available-for-sale	219,156	180,305	173,186
Securities borrowed	127,167	—	—
Customer, broker-dealer and clearing receivables	252,900	—	—
Total deposits	8,655,455	7,985,350	7,963,757
Advances from the FHLB	443,500	457,000	968,000
Borrowings, subordinated notes and debentures	214,477	54,552	54,528
Securities loaned	201,574	—	—
Customer, broker-dealer and clearing payables	245,208	—	—
Total stockholders' equity	1,039,485	960,513	921,653
Capital Ratios:			
Equity to assets at end of period	9.56%	10.07%	9.23%
Axos Financial, Inc.:			
Tier 1 leverage (core) capital to adjusted average assets	9.25%	9.45%	9.36%
Common equity tier 1 capital (to risk-weighted assets)	12.19%	13.27%	14.83%
Tier 1 capital (to risk-weighted assets)	12.26%	13.34%	14.91%
Total capital (to risk-weighted assets)	13.92%	14.84%	16.74%
Axos Bank:			
Tier 1 leverage (core) capital to adjusted average assets	8.68%	8.88%	9.40%
Common equity tier 1 capital (to risk-weighted assets)	12.33%	12.53%	14.97%
Tier 1 capital (to risk-weighted assets)	12.33%	12.53%	14.97%
Total capital (to risk-weighted assets)	13.31%	13.27%	15.98%
Axos Clearing, LLC:			
Net capital	$ 22,381	N/A	N/A
Excess capital	$ 17,759	N/A	N/A
Net capital as a percentage of aggregate debit items	9.68%	N/A	N/A
Net capital in excess of 5% aggregate debit items	$ 10,825	N/A	N/A

AXOS FINANCIAL, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL INFORMATION

	At or for the Three Months Ended March 31,		At or for the Nine Months Ended March 31,	
(Dollars in thousands, except per share data)	2019	2018	2019	2018
Selected Income Statement Data:				
Interest and dividend income	$ 169,208	$ 144,880	$ 423,244	$ 356,176
Interest expense	40,039	28,197	115,076	74,730
Net interest income	129,169	116,683	308,168	281,446
Provision for loan and lease losses	19,000	16,900	24,550	21,900
Net interest income after provision for loan and lease losses	110,169	99,783	283,618	259,546
Non-interest income	26,098	23,525	59,533	53,964
Non-interest expense	81,815	45,434	185,670	124,263
Income before income tax expense	54,452	77,874	157,481	189,247
Income tax expense	15,631	26,621	42,984	73,953
Net income	$ 38,821	$ 51,253	$ 114,497	$ 115,294
Net income attributable to common stock	$ 38,744	$ 51,176	$ 114,265	$ 115,062
Per Common Share Data:				
Net income:				
Basic (revised for March 2018)	$ 0.63	$ 0.82	$ 1.84	$ 1.82
Diluted (revised for March 2018)	$ 0.63	$ 0.80	$ 1.83	$ 1.79
Book value per common share	$ 16.88	$ 14.65	$ 16.88	$ 14.65
Tangible book value per common share (Non-GAAP)	$ 14.49	$ 14.49	$ 14.49	$ 14.49
Weighted average number of common shares outstanding:				
Basic (revised for March 2018)	61,259,419	62,615,949	62,130,598	63,298,812
Diluted (revised for March 2018)	61,589,662	63,666,810	62,597,283	64,173,475
Common shares outstanding at end of period	61,285,375	62,552,868	61,285,375	62,552,868
Common shares issued at end of period	66,253,298	65,516,157	66,253,298	65,516,157
Performance Ratios and Other Data:				
Loan and lease originations for investment	$ 2,227,387	$ 2,232,463	$ 5,432,902	$ 4,561,204
Loan originations for sale	$ 287,869	$ 258,840	$ 1,201,001	$ 1,275,333
Loan and lease purchases	$ —	$ —	$ 11,009	$ —
Return on average assets	1.42%	2.08%	1.52%	1.72%
Return on average common stockholders' equity	15.34%	22.84%	15.32%	17.55%
Interest rate spread[1]	4.37%	4.40%	3.78%	3.94%
Net interest margin[2]	4.82%	4.77%	4.18%	4.25%
Net interest margin[2] – Banking Business Segment only	4.94%	4.80%	4.24%	4.28%
Efficiency ratio	52.69%	32.40%	50.49%	37.05%
Efficiency ratio – Banking Business Segment only	35.26%	28.59%	39.30%	32.41%
Asset Quality Ratios:				
Net annualized charge-offs (recoveries) to average loans and leases	0.04%	0.02%	0.03%	0.01%
Non-performing loans and leases to total loans and leases	0.49%	0.37%	0.49%	0.37%
Non-performing assets to total assets	0.48%	0.39%	0.48%	0.39%
Allowance for loan and lease losses to total loans and leases held for investment at end of period	0.78%	0.76%	0.78%	0.76%

Allowance for loan and lease losses to non-performing loans and leases	161.11%	204.18%	161.11%	204.18%

[1] *Interest rate spread represents the difference between the annualized weighted average yield on interest-earning assets and the annualized weighted average rate paid on interest-bearing liabilities.*

[2] *Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.*

RESULTS OF OPERATIONS

Comparison of the Three and Nine Months Ended March 31, 2019 and 2018

For the three months ended March 31, 2019, we had net income of $38.8 million compared to net income of $51.3 million for the three months ended March 31, 2018. Net income attributable to common stockholders was $38.7 million or $0.63 per diluted share for the three months ended March 31, 2019 compared to net income attributable to common shareholders of $51.2 million, or $0.80 per diluted share for the three months ended March 31, 2018. For the nine months ended March 31, 2019, we had net income of $114.5 million compared to net income of $115.3 million for the nine months ended March 31, 2018. Net income attributable to common stockholders was $114.3 million, or $1.83 per diluted share for the nine months ended March 31, 2019 compared to net income attributable to common shareholders of $115.1 million, or $1.79 per diluted share for the nine months ended March 31, 2018. For the three and nine months ended March 31, 2019, the decrease in net income was primarily due to a $15.3 million bad debt expense related to a correspondent customer of our clearing broker-dealer.

Adjusted earnings and adjusted EPS, non-GAAP measures, which exclude non-cash amortization expenses and non-recurring costs related to mergers and acquisitions and excess FDIC expense, decreased 0.4% to $51.5 million and 5.0% to $0.84, respectively, for the quarter ended March 31, 2019 compared to $51.3 million and $0.80, respectively, for the quarter ended March 31, 2018. Adjusted earnings and adjusted EPS increased 12.4% to $129.8 million and 15.0% to $2.07, respectively, for the nine months ended March 31, 2019 compared to $115.5 million and $1.80, respectively, for the nine months ended March 31, 2018.

Net Interest Income

Net interest income for the three and nine months ended March 31, 2019 totaled $129.2 million and $308.2 million, an increase of 10.7% and 9.5%, compared to net interest income of $116.7 million and $281.4 million for the three and nine months ended March 31, 2018. The growth of net interest income for both the three and nine months ended March 31, 2019 is primarily due to increased average earnings assets from net loan and lease portfolio growth and increased average yields earned on the loan and lease portfolio, partially offset by volume increases in time deposits and FHLB advances and increased rates on interest-bearing demand and savings deposits.

Total interest and dividend income during the three and nine months ended March 31, 2019 increased 16.8% to $169.2 million and 18.8% to $423.2 million, respectively, compared to $144.9 million and $356.2 million during the three and nine months ended March 31, 2018. The increases in interest and dividend income for the three and nine months ended March 31, 2019 was primarily attributable to the continued growth in average earning assets from loan originations, primarily in commercial & industrial lending. The average balance of interest-earning loans and leases increased 14.5% and 14.5% for the three and nine months ended March 31, 2019 compared to the three and nine months ended March 31, 2018. As a result of the Federal Reserve decisions to increase the Fed Funds rate over the last year, we have increased our rates on new loans and our adjustable rate loans have adjusted upwards resulting in increased yields of 40 basis points and 38 basis points for the three and nine months ended March 31, 2019.

Total interest expense was $40.0 million and $115.1 million for the three and nine months ended March 31, 2019, an increase of $11.8 million or 42.0% and of $40.3 million or 54.0% as compared with the three and nine months ended March 31, 2018, respectively. The increase for the three months ended March 31, 2019 compared to the same 2018 period was due primarily to increased average interest-bearing liabilities which grew 10.7% and an increased average funding rate of 43 basis points. The average funding rate for the nine months ended March 31, 2019 compared to the same 2018 period increased 54 basis points as a result of the Federal Reserve decisions to increase the Fed Funds rate over the last year, while average interest-bearing liabilities grew 10.3%.

Net interest margin, defined as annualized net interest income divided by average earning assets, decreased by 5 basis points to 4.82% and decreased by 7 basis points to 4.18% for the three and nine months ended March 31, 2019, respectively. The decreases of 5 and 7 basis points were primarily the result of the above discussed changes in volumes, loan yields and in the overall cost of funds.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,					
	2019			2018		
(Dollars in thousands)	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]
Assets:						
Loans and leases[3, 4]	$ 9,418,632	$ 157,181	6.68%	$ 8,226,370	$ 135,901	6.61%
Interest-earning deposits in other financial institutions	733,113	3,689	2.01%	1,314,249	5,222	1.59%
Mortgage-backed and other investment securities[4]	224,410	3,676	6.55%	186,777	2,640	5.65%
Securities borrowed	250,052	3,289	5.26%	—	—	—%
Stock of the regulatory agencies, at cost	41,012	681	6.64%	64,287	1,117	6.95%
Total interest-earning assets	10,667,219	168,516	6.32%	9,791,683	144,880	5.92%
Non-interest-earning assets	283,424			63,990		
Total assets	$ 10,950,643			$ 9,855,673		
Liabilities and Stockholders' Equity:						
Interest-bearing demand and savings	$ 3,664,220	$ 14,128	1.54%	$ 4,729,058	$ 13,935	1.18%
Time deposits	2,736,040	15,591	2.28%	1,092,585	6,865	2.51%
Securities loaned	346,225	372	0.43%	—	—	—%
Advances from the FHLB	1,350,431	8,366	2.48%	1,546,569	6,496	1.68%
Borrowings, subordinated notes and debentures	119,006	1,582	5.32%	54,537	901	6.61%
Total interest-bearing liabilities	8,215,922	40,039	1.95%	7,422,749	28,197	1.52%
Non-interest-bearing demand deposits	1,627,198			1,459,834		
Other non-interest-bearing liabilities	92,208			71,782		
Stockholders' equity	1,015,315			901,308		
Total liabilities and stockholders' equity	$ 10,950,643			$ 9,855,673		
Net interest income		$ 128,477			$ 116,683	
Interest rate spread[5]			4.37%			4.40%
Net interest margin[6]			4.82%			4.77%

1 *Average balances are obtained from daily data.*
2 *Annualized.*
3 *Loans and leases include loans held for sale, loan premiums and unearned fees.*
4 *Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loans and leases include average balances of $28.6 million and $29.3 million of Community Reinvestment Act loans which are taxed at a reduced rate for the 2019 and 2018 three-month periods, respectively.*
5 *Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.*
6 *Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.*

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the nine months ended March 31, 2019 and 2018:

	For the Nine Months Ended March 31,					
	2019			2018		
(Dollars in thousands)	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]
Assets:						
Loans and leases[3, 4]	$ 8,888,588	$ 397,049	5.96%	$ 7,764,982	$ 335,510	5.76%
Interest-earning deposits in other financial institutions	584,422	9,162	2.09%	789,845	8,662	1.46%
Mortgage-backed and other investment securities[4]	204,765	10,154	6.61%	218,930	8,654	5.27%
Securities borrowed	82,134	3,289	5.34%	—	—	—%
Stock of the regulatory agencies, at cost	44,407	2,898	8.70%	63,562	3,350	7.03%
Total interest-earning assets	9,804,316	422,552	5.75%	8,837,319	356,176	5.37%
Non-interest-earning assets	226,464			85,401		
Total assets	$ 10,030,780			$ 8,922,720		
Liabilities and Stockholders’ Equity:						
Interest-bearing demand and savings	$ 3,836,252	$ 44,470	1.55%	$ 4,805,737	$ 39,146	1.09%
Time deposits	2,221,137	39,915	2.40%	914,349	18,016	2.63%
Securities loaned	113,723	372	0.44%	—	—	—%
Securities sold under agreements to repurchase	—	—	—%	7,427	229	4.11%
Advances from the FHLB	1,541,731	26,848	2.32%	1,169,810	14,605	1.66%
Borrowings, subordinated notes and debentures	77,217	3,471	5.99%	54,505	2,734	6.69%
Total interest-bearing liabilities	7,790,060	115,076	1.97%	6,951,828	74,730	1.43%
Non-interest-bearing demand deposits	1,175,141			1,024,620		
Other non-interest-bearing liabilities	66,003			66,922		
Stockholders’ equity	999,576			879,350		
Total liabilities and stockholders’ equity	$ 10,030,780			$ 8,922,720		
Net interest income		$ 307,476			$ 281,446	
Interest rate spread[5]			3.78%			3.94%
Net interest margin[6]			4.18%			4.25%

1 *Average balances are obtained from daily data.*

2 *Annualized.*

3 *Loans and leases include loans held for sale, loan premiums and unearned fees.*

4 *Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loans and leases include average balances of $28.8 million and $29.5 million of Community Reinvestment Act loans which are taxed at a reduced rate for the 2019 and 2018 nine-month periods, respectively.*

5 *Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.*

6 *Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.*

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth the effects of changing rates and volumes on our net interest income. Information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume) for the three and nine months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31, 2019 2019 vs 2018 Increase (Decrease) Due to			For the Nine Months Ended March 31, 2019 2019 vs 2018 Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Increase / (decrease) in interest income:						
Loans and leases	$ 19,831	$ 1,449	$ 21,280	$ 49,630	$ 11,909	$ 61,539
Interest-earning deposits in other financial institutions	(2,687)	1,154	(1,533)	(2,619)	3,119	500
Mortgage-backed and other investment securities	579	457	1,036	(588)	2,088	1,500
Securities borrowed	3,289	—	3,289	3,289	—	3,289
Stock of the regulatory agencies, at cost	(388)	(48)	(436)	(1,143)	691	(452)
	$ 20,624	$ 3,012	$ 23,636	$ 48,569	$ 17,807	$ 66,376
Increase / (decrease) in interest expense:						
Interest-bearing demand and savings	$ (3,533)	$ 3,726	$ 193	$ (9,003)	$ 14,327	$ 5,324
Time deposits	9,409	(683)	8,726	23,609	(1,710)	21,899
Securities loaned	372	—	372	372	—	372
Securities sold under agreements to repurchase	—	—	—	(155)	(114)	(269)
Advances from the FHLB	(908)	2,778	1,870	5,440	6,803	12,243
Borrowings, subordinated notes and debentures	886	(205)	681	1,046	(309)	737
	$ 6,226	$ 5,616	$ 11,842	$ 21,309	$ 18,997	$ 40,306

Provision for Loan and Lease Losses

The loan and lease loss provision was $19.0 million for the three months ended March 31, 2019 compared to $16.9 million for the three months ended March 31, 2018. The loan and lease loss provision was $24.6 million for the nine months ended March 31, 2019 compared to $21.9 million for the nine months ended March 31, 2018. The increase in the loan and lease loss provision for the three and nine months ended March 31, 2019 was primarily due to additional provision for Refund Advance loans consistent with increased originations in the loan product, overall loan portfolio growth and changes in the loan mix. Provisions for loan and lease losses are charged to income to bring the allowance for loan and lease losses to a level deemed appropriate by management based on the factors discussed under “Financial Condition—Asset Quality and Allowance for Loan and Lease Losses.”

Non-Interest Income

The following table sets forth information regarding our non-interest income for the periods shown:

(Dollars in thousands)	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, Inc (Dec)	For the Nine Months Ended March 31, 2019	For the Nine Months Ended March 31, 2018	For the Nine Months Ended March 31, Inc (Dec)
Total realized (loss) on securities	$ —	$ (101)	$ 101	$ (133)	$ (18)	$ (115)
Unrealized loss on securities:						
Total impairment losses	(1,666)	(173)	(1,493)	(1,666)	(6,271)	4,605
Loss recognized in other comprehensive loss	845	173	672	845	6,115	(5,270)
Total unrealized loss on securities	(821)	—	(821)	(821)	(156)	(665)
Prepayment penalty fee income	706	874	(168)	4,077	3,108	969
Gain on sale – other	535	522	13	5,611	2,888	2,723
Mortgage banking income	352	3,089	(2,737)	2,959	11,852	(8,893)
Broker dealer fee income	5,036	—	5,036	5,036	—	5,036
Banking and service fees	20,290	19,141	1,149	42,804	36,290	6,514
Total non-interest income	$ 26,098	$ 23,525	$ 2,573	$ 59,533	$ 53,964	$ 5,569

Our relationship with H&R Block began in fiscal 2016 and introduced seasonality into the banking and service fees category of non-interest income, with an increase during our second quarter and the peak income in this category typically occurring during our third fiscal quarter ended March 31. Therefore, banking and services fees for the three months ended March 31, 2019 are not indicative of results to be expected for other quarters during the fiscal year. Historically, the primary non-interest income generating H&R Block products and services that lead to the increased banking and service fees are Emerald Prepaid Mastercard® ("EPC") and Refund Transfer ("RT"). Non-interest income increased $2.6 million to $26.1 million for the three months ended March 31, 2019. The increase was the result of the addition of broker dealer fees of $5.0 million due to the acquisitions in our securities business segment, partially offset by a $2.7 million decrease in mortgage banking income and a $0.8 million increase in unrealized loss on securities. For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, EPC was flat at $3.0 million and RT revenue was $10.3 million compared to $10.5 million, respectively.

Non-interest income increased $5.6 million to $59.5 million for the nine months ended March 31, 2019. The increase was primarily the result of the addition of broker dealer fees of $5.0 million due to the acquisitions in our Securities Business segment, a $6.5 million increase in banking and service fees primarily due to fee income from Axos Fiduciary Services and increased fees from business loans and deposits, and an increase in gain on sale – other of $2.7 million due to sales of structured settlements, partially offset by a $8.9 million decrease in mortgage banking income. For the nine months ended March 31, 2019, EPC revenue decreased $0.2 million to $5.7 million from $5.9 million for the nine months ended March 31, 2018, RT revenue decreased $0.3 million to $10.4 million from $10.7 million for the nine months ended March 31, 2019.

Included in gain on sale – other are sales of correspondent loans that are collateralized by non-mortgage assets and sales of structured settlement annuity receivables. We engage in the wholesale and retail purchase of state lottery prize and structured settlement annuity payments. These payments are high credit quality deferred payment receivables having a state lottery commission or investment grade (top two tiers) insurance company payor. The Bank originates contracts for the retail purchase of such payments and classifies these under the heading of Factoring in the loan portfolio. Factoring yields are typically higher than mortgage loan rates. Typically, the gain received upon sale of these payment streams is greater than the gain received from an equivalent amount of mortgage loan sales. Since 2013, pools of structured settlement receivables have been originated for sale depending upon management's assessment of interest rate risk, liquidity, and offers containing favorable terms and are classified on our balance sheet as loans held for sale, lower of cost or fair value.

Non-Interest Expense

The following table sets forth information regarding our non-interest expense for the periods shown:

	For the Three Months Ended March 31,			For the Nine Months Ended March 31,		
(Dollars in thousands)	2019	2018	Inc (Dec)	2019	2018	Inc (Dec)
Salaries and related costs	$ 33,716	$ 25,871	$ 7,845	$ 93,524	$ 72,310	$ 21,214
Data processing and internet	7,144	4,216	2,928	16,792	12,191	4,601
Advertising and promotional	3,635	4,315	(680)	11,265	11,092	173
Depreciation and amortization	4,765	2,024	2,741	11,348	5,719	5,629
Professional services	4,286	1,474	2,812	8,489	3,954	4,535
Occupancy and equipment	2,584	1,543	1,041	5,983	4,461	1,522
FDIC and regulatory fees	2,133	1,242	891	6,587	3,338	3,249
Broker dealer clearing charges	1,095	—	1,095	1,095	—	1,095
Other general and administrative	22,457	4,749	17,708	30,587	11,198	19,389
Total non-interest expenses	$ 81,815	$ 45,434	$ 36,381	$ 185,670	$ 124,263	$ 61,407

Non-interest expense, which is comprised primarily of compensation, data processing and internet expenses, occupancy, advertising and promotional and other operating expenses, was $81.8 million for the three months ended March 31, 2019, up from $45.4 million for the three months ended March 31, 2018. Non-interest expense was $185.7 million for the nine months ended March 31, 2019, up from $124.3 million for the nine months ended March 31, 2018. Increases for the three and nine months ended March 31, 2019 were primarily due to the acquisitions in our Securities Business segment during the current quarter.

Total salaries and related costs increased $7.8 million to $33.7 million for the three months ended March 31, 2019 compared to $25.9 million for the three months ended March 31, 2018 and total salaries and related costs increased $21.2 million to $93.5 million for the nine months ended March 31, 2019 compared to $72.3 million for the nine months ended March 31, 2018. The increase in compensation expense for the three and nine months ended March 31, 2019 was primarily due to the staffing additions from the aforementioned acquisitions and increased staffing levels to support growth in the Banking segment, specifically for deposits, trustee and fiduciary services, lending, and infrastructure development. Our staff increased to 1,010 from 725, or 39.3% between March 31, 2019 and 2018, including the additional staff hired for trustee and fiduciary services and the newly acquired securities business.

Data processing and internet expense increased $2.9 million and $4.6 million for the three and nine months ended March 31, 2019, compared to the three and nine month periods ended March 31, 2018, respectively. The increases were primarily due to the acquisitions in our Securities Business segment and enhancements to customer interfaces and the Bank's core processing system.

Advertising and promotional expense decreased $0.7 million and increased $0.2 million for the three and nine months ended March 31, 2019, compared to the three and nine months ended March 31, 2018, respectively. The decrease for the three months ended March 31, 2019 was primarily related to decreased deposit marketing and lead generation costs partially offset by increased rebranding costs. The increases for the nine months ended March 31, 2019 were primarily related to increased deposit marketing and rebranding costs, partially offset by decreased lead generation costs.

Depreciation and amortization expense increased $2.7 million and $5.6 million for the three and nine months ended March 31, 2019, compared to the three and nine months ended March 31, 2018, respectively. The increases were primarily due to the amortization of intangibles and depreciation on lending and deposit platform enhancements and infrastructure development.

Professional services, which include accounting and legal fees, increased $2.8 million for the three months and $4.5 million for the nine months ended March 31, 2019, compared to the three and nine month periods last year, respectively. Professional services charges increased due primarily to increased legal and consulting fees for the three and six months ended March 31, 2019, respectively.

Occupancy and equipment expense increased $1.0 million and $1.5 million for the three and nine months ended March 31, 2019 compared to the three and nine months ended March 31, 2018, in order to support increased production and office space for additional employees and due to the acquisitions in our Securities Business segment.

Our cost of FDIC and regulatory fees increased $0.9 million and $3.2 million for the three and nine months ended March 31, 2019, compared to the three and nine month period last year, respectively. The increase for the three months ended March 31, 2019 was due to growth of the Bank's average liabilities and the increase for the nine months ended March 31, 2019 was primarily due to an increase in short term brokered deposit as we positioned the Bank for the acquisition of the Nationwide Bank deposits in addition to growth of the Bank's average liabilities. As an FDIC-insured institution, the Bank is required to pay deposit insurance premiums to the FDIC.

Other general and administrative costs increased by $17.7 million and $19.4 million for the three and nine months ended March 31, 2019, compared to the three and nine month period ended March 31, 2018, respectively. The increases were primarily due to a $15.3 million increase in our Securities Business bad debt reserve in order to cover potential losses resulting from unauthorized securities trades at a correspondent customer, costs to support loan and deposit production and increased insurance costs.

Provision for Income Taxes

Our effective income tax rates (income tax provision divided by net income before income tax) for the three months ended March 31, 2019 and 2018 were 28.71% and 34.18%, respectively. Our effective income tax rates for the nine months ended March 31, 2019 and 2018 were 27.29% and 39.08%, respectively. The primary reason for the change in the tax rates is the result of legislation commonly referred to as the Tax Cuts and Jobs Act that was enacted on December 22, 2017, which changed the federal statutory rate from 35.0% to 21.0%. The Company recorded $0 and $0.1 million of excess tax benefits from stock compensation for the three months ended March 31, 2019 and 2018, respectively, and recorded $1.4 million and $0.7 million of excess tax benefits from stock compensation for the six months ended March 31, 2019 and 2018, respectively.

SEGMENT RESULTS

The Company determines reportable segments based on the services offered, the significance of the services offered, the significance of those services to the Company's financial condition and operating results and management's regular review of the operating results of those services. The Company operates through two operating segments: Banking Business and Securities Business. In order to reconcile the two segments to the consolidated totals, the Company includes parent-only activities and intercompany eliminations. The following tables present the operating results of the segments:

	For the Three Months Ended March 31, 2019			
(Dollars in thousands)	Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 127,072	$ 2,951	$ (854)	$ 129,169
Provision for loan losses	19,000	—	—	19,000
Non-interest income	21,027	5,071	—	26,098
Non-interest expense	52,224	23,102	6,489	81,815
Income before taxes	$ 76,875	$ (15,080)	$ (7,343)	$ 54,452

	For the Three Months Ended March 31, 2018			
(Dollars in thousands)	Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 117,497	$ —	$ (814)	$ 116,683
Provision for loan losses	16,900	—	—	16,900
Non-interest income	23,372	—	153	23,525
Non-interest expense	40,273	—	5,161	45,434
Income before taxes	$ 83,696	$ —	$ (5,822)	$ 77,874

(Dollars in thousands)	For the Nine Months Ended March 31, 2019 Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 307,564	$ 2,951	$ (2,347)	$ 308,168
Provision for loan losses	24,550	—	—	24,550
Non-interest income	54,462	5,071	—	59,533
Non-interest expense	142,291	23,102	20,277	185,670
Income before taxes	$ 195,185	$ (15,080)	$ (22,624)	$ 157,481

(Dollars in thousands)	For the Nine Months Ended March 31, 2018 Banking Business	Securities Business	Corporate/Eliminations	Axos Consolidated
Net interest income	$ 283,786	$ —	$ (2,340)	$ 281,446
Provision for loan losses	21,900	—	—	21,900
Non-interest income	53,811	—	153	53,964
Non-interest expense	109,419	—	14,844	124,263
Income before taxes	$ 206,278	$ —	$ (17,031)	$ 189,247

Banking Business

For the three months ended March 31, 2019, our Banking Business segment had income before taxes of $76.9 million compared to net income of $83.7 million for the three months ended March 31, 2018. For the nine months ended March 31, 2019, we had net income of $195.2 million compared to net income of $206.3 million for the nine months ended March 31, 2018. For the three and nine months ended March 31, 2019, the decrease in net income was primarily related to increased operating costs.

We consider the ratios shown in the table below to be key indicators of the performance of our Banking Business segment:

	At or for the Three Months Ended		**At or for the Nine Months Ended**	
	March 31, 2019	**March 31, 2018**	**March 31, 2019**	**March 31, 2018**
Efficiency ratio	35.26%	28.59%	39.30%	32.41%
Return on average assets	2.08%	2.23%	1.88%	1.88%
Interest rate spread	4.46%	4.44%	3.83%	3.98%
Net interest margin	4.94%	4.80%	4.24%	4.28%

Our Banking segment's net interest margin exceeds our consolidated net interest margin. Our consolidated net interest margin includes certain items that are not reflected in the calculation of our net interest margin within our Banking Business and reduce our consolidated net interest margin, such as the borrowing costs at our Holding Company and the yields and costs associated with certain items within interest-earning assets and interest-bearing liabilities in our Securities Business, including items related to securities financing operations that particularly decrease net interest margin.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents our Banking segment's information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the three months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31,					
	2019			2018		
(Dollars in thousands)	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]
Assets:						
Loans and leases[3, 4]	$ 9,418,116	$ 157,171	6.68%	$ 8,226,346	$ 135,901	6.61%
Interest-earning deposits in other financial institutions	613,836	3,684	2.40%	1,314,249	5,221	1.59%
Mortgage-backed and other investment securities[4]	218,194	3,673	6.73%	186,712	2,639	5.65%
Stock of the regulatory agencies, at cost	39,311	678	6.90%	64,287	1,116	6.94%
Total interest-earning assets	10,289,457	165,206	6.42%	9,791,594	144,877	5.92%
Non-interest-earning assets	181,838			56,910		
Total assets	$ 10,471,295			$ 9,848,504		
Liabilities and Stockholders' Equity:						
Interest-bearing demand and savings	$ 3,688,840	$ 14,177	1.54%	$ 4,770,336	$ 14,018	1.18%
Time deposits	2,736,040	15,591	2.28%	1,092,585	6,865	2.51%
Advances from the FHLB	1,350,431	8,366	2.48%	1,546,569	6,496	1.68%
Borrowings, subordinated notes and debentures	—	—	—%	85	1	4.71%
Total interest-bearing liabilities	7,775,311	38,134	1.96%	7,409,575	27,380	1.48%
Non-interest-bearing demand deposits	1,644,474			1,463,953		
Other non-interest-bearing liabilities	67,969			68,924		
Stockholders' equity	983,541			906,052		
Total liabilities and stockholders' equity	$ 10,471,295			$ 9,848,504		
Net interest income		$ 127,072			$ 117,497	
Interest rate spread[5]			4.46%			4.44%
Net interest margin[6]			4.94%			4.80%

1 *Average balances are obtained from daily data.*
2 *Annualized.*
3 *Loans and leases include loans held for sale, loan premiums and unearned fees.*
4 *Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loans and leases include average balances of $28.6 million and $29.3 million of Community Reinvestment Act loans which are taxed at a reduced rate for the 2019 and 2018 three-month periods, respectively.*
5 *Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.*
6 *Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.*

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents our Banking segment's information regarding (i) average balances; (ii) the total amount of interest income from interest-earning assets and the weighted average yields on such assets; (iii) the total amount of interest expense on interest-bearing liabilities and the weighted average rates paid on such liabilities; (iv) net interest income; (v) interest rate spread; and (vi) net interest margin for the nine months ended March 31, 2019 and 2018:

	For the Nine Months Ended March 31,					
	2019			2018		
(Dollars in thousands)	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]	Average Balance[1]	Interest Income/ Expense	Average Yields Earned/Rates Paid[2]
Assets:						
Loans and leases[3, 4]	$ 8,888,331	$ 397,039	5.96%	$ 7,764,956	$ 335,509	5.76%
Interest-earning deposits in other financial institutions	545,243	9,157	2.24%	789,845	8,661	1.46%
Mortgage-backed and other investment securities[4]	202,723	10,150	6.68%	218,901	8,651	5.27%
Stock of the regulatory agencies, at cost	43,848	2,892	8.79%	63,562	3,346	7.02%
Total interest-earning assets	9,680,145	419,238	5.77%	8,837,264	356,167	5.37%
Non-interest-earning assets	190,095			78,527		
Total assets	$ 9,870,240			$ 8,915,791		
Liabilities and Stockholders' Equity:						
Interest-bearing demand and savings	$ 3,904,878	$ 44,881	1.53%	$ 4,869,780	$ 39,528	1.08%
Time deposits	2,221,137	39,915	2.40%	914,349	18,016	2.63%
Securities sold under agreements to repurchase	—	—	—%	7,427	229	4.11%
Advances from the FHLB	1,541,731	26,848	2.32%	1,169,810	14,605	1.66%
Borrowings, subordinated notes and debentures	1,474	30	2.71%	106	3	3.77%
Total interest-bearing liabilities	7,669,220	111,674	1.94%	6,961,472	72,381	1.39%
Non-interest-bearing demand deposits	1,185,532			1,027,423		
Other non-interest-bearing liabilities	53,394			63,799		
Stockholders' equity	962,094			863,097		
Total liabilities and stockholders' equity	$ 9,870,240			$ 8,915,791		
Net interest income		$ 307,564			$ 283,786	
Interest rate spread[5]			3.83%			3.98%
Net interest margin[6]			4.24%			4.28%

1 *Average balances are obtained from daily data.*
2 *Annualized.*
3 *Loans and leases include loans held for sale, loan premiums and unearned fees.*
4 *Interest income includes reductions for amortization of loan and investment securities premiums and earnings from accretion of discounts and loan fees. Loans and leases include average balances of $28.8 million and $29.5 million of Community Reinvestment Act loans which are taxed at a reduced rate for the 2019 and 2018 nine-month periods, respectively.*
5 *Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate paid on interest-bearing liabilities.*
6 *Net interest margin represents annualized net interest income as a percentage of average interest-earning assets.*

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth the effects of changing rates and volumes on our net interest income for our Banking segment. Information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); and (iii) changes in rate/volume (change in rate multiplied by change in volume) for the three and nine months ended March 31, 2019 and 2018:

	For the Three Months Ended March 31, 2019 2019 vs 2018 Increase (Decrease) Due to			For the Nine Months Ended March 31, 2019 2019 vs 2018 Increase (Decrease) Due to		
(Dollars in thousands)	Volume	Rate	Total Increase (Decrease)	Volume	Rate	Total Increase (Decrease)
Increase / (decrease) in interest income:						
Loans and leases	$ 19,821	$ 1,449	$ 21,270	$ 49,621	$ 11,909	$ 61,530
Federal funds sold	—	—	—			—
Interest-earning deposits in other financial institutions	(3,507)	1,970	(1,537)	(3,209)	3,705	496
Mortgage-backed and other investment securities	485	549	1,034	(677)	2,176	1,499
Stock of the regulatory agencies, at cost	(432)	(6)	(438)	(1,181)	727	(454)
	$ 16,367	$ 3,962	$ 20,329	$ 44,554	$ 18,517	$ 63,071
Increase / (decrease) in interest expense:						
Interest-bearing demand and savings	$ (3,592)	$ 3,751	$ 159	$ (8,869)	$ 14,222	$ 5,353
Time deposits	9,409	(683)	8,726	23,609	(1,710)	21,899
Securities sold under agreements to repurchase	—	—	—	(115)	(114)	(229)
Advances from the FHLB	(908)	2,778	1,870	5,440	6,803	12,243
Borrowings, subordinated notes and debentures	—	(1)	(1)	28	(1)	27
	$ 4,909	$ 5,845	$ 10,754	$ 20,093	$ 19,200	$ 39,293

The Banking segment's net interest income for the three and nine months ended March 31, 2019 totaled $127.1 million and $307.6 million, an increase of 8.1% and 8.4%, compared to net interest income of $117.5 million and $283.8 million for the three and nine months ended March 31, 2018, respectively. The growth of net interest income for both the three and nine months ended March 31, 2019 is primarily due to increased average earnings assets from net loan and lease portfolio growth and increased average yields earned on interest-earning assets, partially offset by volume increases in time deposits and increased rates on interest-bearing demand and savings deposits and FHLB advances.

The Banking segment's non-interest income decreased $2.3 million from $23.3 million to $21.0 million and increased $0.7 million from $53.8 million to $54.5 million for the three and nine months ended March 31, 2019 compared to the three and nine months ended March 31, 2018, respectively. The $2.3 million decrease in non-interest income for the three months ended March 31, 2019, was primarily the result of a decrease in mortgage banking income of $2.7 million and a $0.8 million increase in unrealized loss on securities, partially offset by an increase of $1.1 million in banking and service fees primarily due to fee income from Axos Fiduciary Services. The $0.7 million increase in non-interest income for the nine months ended March 31, 2019, was primarily the result of a $6.5 million increase in banking and service fees primarily due to fee income from Axos Fiduciary Services, an increase in gain on sale - other of $2.7 million, and an increase in prepayment penalty fee income of $1.0. million, partially offset by an $8.9 million decrease in mortgage banking income.

The Banking segment's non-interest expense increased $12.0 million and $32.9 million for the three and nine months ended March 31, 2019 compared to the three and nine months ended March 31, 2018, respectively. For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, the $12.0 million increase of non-interest expense was primarily due to a $3.2 million increase of salaries and related expenses related to staffing increase to support the overall growth of the Bank, a $2.4 million increase of depreciation and amortization, a $2.1 million increase in data processing and internet expense, a $1.2 million increase of professional services, and a $2.1 million increase in other and general expense. For the nine months ended March 31, 2019 compared to the nine months ended March 31, 2018, the $32.9 million increase was primarily due to a $12.6

million increase in salaries and related expenses related to staffing increases to support the overall growth of the Bank, a $5.2 million increase in depreciation and amortization, a $3.7 million increase in data processing and internet expense, and a $3.2 million increase in FDIC and OCC standard regulatory charges due to growth of the Bank's average liabilities and an increase in short-term brokered deposits as we positioned the Bank for the acquisition of the Nationwide Bank deposits. Additional contributing factors to the nine-month period increase were a $2.9 million increase in professional services and a $2.8 million increase in other and general expense.

Securities Business

For the three and nine months ended March 31, 2019, our Securities Business segment had a loss before taxes of $15.1 million. The Securities Business segment was created as a result of acquisitions during the three months ended March 31, 2019, meaning there is no comparative 2018 period. For the three and nine months ended March 31, 2019, the decrease in net income was primarily due to a $15.3 million bad debt expense related to a correspondent customer of our clearing broker-dealer.

The securities business is subject to interest rate risk as a consequence of maintaining inventory positions, trading in interest rate sensitive financial instruments and maintaining a matched stock loan book. Changes in interest rates are likely to have a meaningful impact on our overall financial performance. Rapid or significant changes in interest rates could adversely affect the securities business's interest spread-sensitive activities described above. The securities business also earns non-interest income by providing securities clearing services to clients. In addition, the profitability of the securities business depends, to an extent, on the spread between revenues earned on customer loans and excess customer cash balances, and the interest expense paid on customer cash balances, as well as the interest revenue earned.

The following table provides additional details regarding our Securities Business operating results:

(Dollars in thousands)	**Three Months Ended March 31, 2019**
Net interest income	$ 2,259
Non-interest income	5,763
Non-interest expense	23,102
Income (Loss) before income taxes	$ (15,080)

In the Securities business, interest is earned from securities lending activities, interest charged on customer margin loan balances and interest earned on investment securities used to support sales, underwriting and other customer activities.

The non-interest income during the three and nine months ended March 31, 2019, was $5.8 million primarily the result of $1.6 million in fees earned on FDIC insured bank deposits and $3.5 million of clearing and custodial related fees

Non-interest expenses was $23.1 million during the three and nine months ended March 31, 2019, primarily due a $15.3 million bad debt expense related to a correspondent customer of our clearing broker-dealer.

Selected information concerning the Securities segment follows:

(Dollars in thousands)	**Three Months Ended March 31, 2019**
Compensation as a % of net revenue	38.9%
FDIC insured program balances at the Bank (end of period)	$ 347,600
Customer margin balances (end of period)	$ 233,367
Customer funds on deposit, including short credits (end of period)	$ 233,088
Clearing:	
Total tickets	510,733
Correspondents (end of period)	62
Securities lending:	
Interest-earning assets – stock borrowed (end of period)	$ 127,167
Interest-bearing liabilities – stock loaned (end of period)	$ 201,574

FINANCIAL CONDITION

Balance Sheet Analysis

Total assets increased $1,336.1 million, or 14.0%, to $10,875.6 million, as of March 31, 2019, up from $9,539.5 million at June 30, 2018. The increase in total assets was primarily due to an increase of $666.2 million in net loans and leases held for investment and assets added from our acquisitions. Total liabilities increased $1,257.1 million, primarily from growth in deposits of $670.1 million and liabilities added from our acquisitions.

Loans and Leases

Net loans and leases held for investment increased 7.9% to $9,098.5 million at March 31, 2019 from $8,432.3 million at June 30, 2018. The increase in the loan and lease portfolio was primarily due to loan and lease originations and purchases of $5,443.9 million, partially offset by loan and lease repayments and other adjustments of $4,777.7 million during the nine months ended March 31, 2019.

The following table sets forth the composition of the loan and lease portfolio as of the dates indicated:

	March 31, 2019		June 30, 2018	
(Dollars in thousands)	Amount	Percent	Amount	Percent
Single family real estate secured:				
Mortgage	$ 4,315,545	47.0%	$ 4,198,941	49.3%
Home equity	3,511	—%	2,306	—%
Warehouse and other	716,048	7.8%	412,085	4.8%
Multifamily real estate secured	1,843,714	20.1%	1,800,919	21.1%
Commercial real estate secured	309,376	3.4%	220,379	2.6%
Auto and RV secured	272,301	3.0%	213,522	2.5%
Factoring	94,836	1.1%	169,885	2.1%
Commercial & Industrial	1,565,894	17.0%	1,481,051	17.4%
Other	58,986	0.6%	18,598	0.2%
Total gross loans and leases	9,180,211	100.0%	8,517,686	100.0%
Allowance for loan and lease losses	(71,746)		(49,151)	
Unaccreted discounts and loan and lease fees	(10,012)		(36,246)	
Total net loans and leases	$ 9,098,453		$ 8,432,289	

The Bank originates some interest only loans with terms that include repayments that are less than the repayments for fully amortizing loans. The Bank's lending guidelines for interest only loans are adjusted for the increased credit risk associated with these loans by requiring borrowers with such loans to borrow at LTVs that are lower than standard amortizing ARM loans and by calculating debt to income ratios for qualifying borrowers based upon a fully amortizing payment, not the interest only payment. The Bank monitors and performs reviews of interest only loans. Adverse trends reflected in delinquency statistics, grading and classification of interest only loans would be reported to management and the Board of Directors. As of March 31, 2019, the Company had $1,278.2 million of interest only mortgage loans. Through March 31, 2019, the net amount of deferred interest on interest only loans was not material to our financial position or operating results.

Asset Quality and Allowance for Loan and Lease Losses

Non-performing Assets

Non-performing loans and leases are comprised of loans and leases past due 90 days or more on nonaccrual status and other nonaccrual loans and leases. Non-performing assets include non-performing loans and leases plus other real estate owned and repossessed vehicles. At March 31, 2019, our non-performing loans and leases totaled $44.5 million, or 0.49% of total gross loans and leases and our non-performing loans and leases and foreclosed assets or “non-performing assets” totaled $52.1 million, or 0.48% of total assets.

Non-performing assets consisted of the following as of the dates indicated:

(Dollars in thousands)	March 31, 2019	June 30, 2018	Inc (Dec)
Non-performing assets:			
Non-accrual loans and leases:			
Single family real estate secured:			
Mortgage	$ 43,443	$ 28,446	$ 14,997
Home equity	—	16	(16)
Multifamily real estate secured	—	232	(232)
Total non-performing loans secured by real estate	43,443	28,694	14,749
Auto and RV secured	292	60	232
Commercial & Industrial	—	2,361	(2,361)
Other	798	111	687
Total non-performing loans and leases	44,533	31,226	13,307
Foreclosed real estate	7,470	9,385	(1,915)
Repossessed—Auto and RV	146	206	(60)
Total non-performing assets	$ 52,149	$ 40,817	$ 11,332
Total non-performing loans and leases as a percentage of total loans and leases	0.49%	0.37%	0.12%
Total non-performing assets as a percentage of total assets	0.48%	0.43%	0.05%

Total non-performing assets increased from $40.8 million at June 30, 2018 to $52.1 million at March 31, 2019. As a percentage of total assets, non-performing assets increased from 0.43% at June 30, 2018 to 0.48% at March 31, 2019. The non-performing assets increase of approximately $11.3 million, was primarily the result of increases in non-performing single family real estate secured mortgage loans.

A troubled debt restructuring is a concession made to a borrower experiencing financial difficulties, typically permanent or temporary modifications of principal and interest payments or an extension of maturity dates. When a loan is delinquent and classified as a troubled debt restructuring no interest is accrued until the borrower demonstrates over time (typically six months) that it can make payments. When a loan is considered a troubled debt restructuring and is on nonaccrual, it is considered non-performing and included in the table above. There were no performing troubled debt restructurings at March 31, 2019 and June 30, 2018.

Allowance for Loan and Lease Losses

We are committed to maintaining the allowance for loan and lease losses at a level that is considered to be commensurate with estimated and known risks in the portfolio. Although the adequacy of the allowance is reviewed quarterly, management performs an ongoing assessment of the risks inherent in the portfolio. While we believe that the allowance for loan and lease losses is adequate at March 31, 2019, future additions to the allowance will be subject to continuing evaluation of estimated and known, as well as inherent risks in the loan and lease portfolio.

The assessment of the adequacy of our allowance for loan and lease losses is based upon a number of quantitative and qualitative factors, including levels and trends of past due and nonaccrual loans and leases, change in volume and mix of loans and leases, collateral values and charge-off history.

The Company provide general loan loss reserves for our auto and RV loans based upon the borrower credit score at the time of origination and loss experience to date. The allowance for loan loss for the auto and RV loan portfolio at March 31, 2019 was determined by classifying each outstanding loan according to the semi-annually refreshed FICO score and providing loss rates. We had $272.0 million of auto and RV loan balances subject to general reserves as follows: FICO greater than or equal to 770: $124.7 million; 715 – 769: $99.6 million; 700 – 714: $25.8 million; 660 – 699: $20.2 million and less than 660: $1.7 million.

General loan loss reserves for mortgage loans are based upon the size and class of the mortgage loan and the loan-to-value ratio (“LTV”) at date of origination. The allowance for each class is determined by dividing the outstanding unpaid balance for each loan by the loan-to-value and applying quantitative and qualitative loss rates. The LTV groupings for each significant mortgage class are as follows:

The Company had $4,272.1 million of single family mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 60%: $2,469.9 million; 61% – 70%: $1,392.2 million; 71% – 80%: $408.9 million; greater than 80%: $1.1 million.

The Company had $1,843.7 million of multifamily mortgage portfolio loan balances subject to general reserves as follows: LTV less than or equal to 55%: $906.1 million; 56% – 65%: $613.9 million; 66% – 75%: $313.2 million; 76% – 80%: $9.4 million and greater than 80%: $1.2 million.

The Company had $309.4 million of commercial real estate loan balances subject to general reserves as follows: LTV less than or equal to 50%: $148.0 million; 51% – 60%: $70.9 million; 61% – 70%: $68.3 million; and 71% – 80%: $22.2 million.

The commercial secured portfolio consists of business loans well-collateralized by residential real estate. The other portfolio consists of receivables factoring for businesses and consumers. We allocate the allowance for loan loss for these asset types based on qualitative factors which consider the value of the collateral and the financial position of the issuer of the receivables.

The weighted average LTV percentage for our entire real estate loan portfolio was 55% at March 31, 2019. We believe that this percentage is lower and more conservative than most banks, which results in lower average mortgage loan charge-offs when compared to many other comparable banks.

While we anticipate that such level of charge-offs will continue into the future, given the uncertainties surrounding the improvement of the U.S. economy, we may experience an increase in the relative amount of charge-offs and we may be required to increase our loan and lease loss provisions in the future to provide a larger loss allowance for one or more of our loan and lease types.

Loans included in the other loan classification primarily consist of tax season H&R Block related products. These are generally short term in nature, in that they are intended to be repaid within a few weeks or months of origination; if they are not repaid timely, they are charged off in their entirety at 120 days delinquent, consistent with regulatory guidance for unsecured consumer loan products. While they do incur higher proportional default and charge-off rates than the remainder of our loan and lease portfolio, these asset quality attributes are within expectations of the design of the products. We provide general loan loss reserves for our H&R Block related loans based upon prior years’ loss experience with consideration for current year loan performance.

The following table summarizes impaired loans and leases as of:

(Dollars in thousands)	**March 31, 2019**	**June 30, 2018**
Non-performing loans and leases—90+ days past due plus other non-accrual loans and leases	$ 56,278	$ 30,197
Troubled debt restructuring loans—non-accrual	672	1,029
Total impaired loans and leases	$ 56,950	$ 31,226

The following table reflects management's allocation of the allowance for loan and lease losses by loan and lease category and the ratio of each loan and lease category to total loans and leases as of the dates indicated:

	March 31, 2019		June 30, 2018	
(Dollars in thousands)	Amount of Allowance	Allocation as a % of Allowance	Amount of Allowance	Allocation as a % of Allowance
Single family real estate secured:				
Mortgage	$ 21,006	29.3%	$ 20,368	41.5%
Home equity	19	—%	14	—%
Warehouse and other	4,128	5.8%	2,080	4.2%
Multifamily real estate secured	4,426	6.2%	5,010	10.2%
Commercial real estate secured	1,091	1.5%	849	1.7%
Auto and RV secured	4,422	6.1%	3,178	6.5%
Factoring	346	0.5%	445	0.9%
Commercial & Industrial	18,069	25.2%	16,238	33.0%
Other	18,239	25.4%	969	2.0%
Total	$ 71,746	100.0%	$ 49,151	100.0%

The loan and lease loss provision was $19.0 million and $16.9 million for the three months ended March 31, 2019 and 2018, respectively. The loan and lease loss provision was $24.6 million and $21.9 million for the nine months ended March 31, 2019 and 2018, respectively. The increase in the loan and lease loss provision was due to portfolio loan growth combined with an increased provision in the other loan classification from $14.1 million to $16.0 million for the three months ended March 31, 2018 and 2019, respectively, which was primarily due to additional provision for Refund Advance loans consistent with increased originations in the loan product, overall loan portfolio growth and changes in the loan mix. We believe that the lower average LTV in the mortgage loan portfolio will continue to result in future lower average mortgage loan charge-offs when compared to many other comparable banks. Our general loan and lease loss reserves are based upon historical losses and expected future trends. The resolution of our existing other real estate owned and non-performing loans should not have a significant adverse impact on operating results.

Investment Securities

Total investment securities were $219.2 million as of March 31, 2019, compared with $180.3 million at June 30, 2018. During the nine months ended March 31, 2019, we purchased 12 securities for $73.7 million, purchased $9.6 million through acquisition, sold $2.1 million of available for sale securities, and received principal repayments of approximately $41.8 million in our available-for-sale portfolio. The remainder of the change for the available-for-sale portfolio is attributable to accretion and other activities.

Deposits

Deposits increased a net $670.1 million, or 8.4%, to $8,655.5 million at March 31, 2019, from $7,985.4 million at June 30, 2018. Our deposit growth was the result of the acquisition of $2.4 billion of deposits from Nationwide Bank on November 16, 2018, partially offset by a planned reduction of maturing short-term brokered and municipal deposits and run-off of other higher cost deposits during the nine months ended March 31, 2019.

The following table sets forth the composition of the deposit portfolio as of the dates indicated:

(Dollars in thousands)	March 31, 2019 Amount	March 31, 2019 Rate[1]	June 30, 2018 Amount	June 30, 2018 Rate[1]
Non-interest bearing	$ 1,763,773	—%	$ 1,015,355	—%
Interest-bearing:				
Demand	1,780,744	1.85%	2,519,845	1.60%
Savings	2,414,305	1.48%	2,482,430	1.31%
Total interest-bearing demand and savings	4,195,049	1.63%	5,002,275	1.46%
Time deposits:				
$250 and under[2]	2,245,970	2.29%	1,837,274	2.34%
Greater than $250	450,663	2.24%	130,446	2.05%
Total time deposits	2,696,633	2.28%	1,967,720	2.32%
Total interest bearing[2]	6,891,682	1.89%	6,969,995	1.70%
Total deposits	$ 8,655,455	1.50%	$ 7,985,350	1.48%

[1] *Based on weighted-average stated interest rates at end of period.*

[2] *The total interest-bearing includes brokered deposits of $1,401.7 million and $2,055.9 million as of March 31, 2019 and June 30, 2018, respectively, of which $1,133.0 million and $1,692.8 million, respectively, are time deposits classified as $250 and under.*

The following table sets forth the number of deposit accounts by type as of the date indicated:

	March 31, 2019	June 30, 2018	March 31, 2018
Non-interest bearing, prepaid and other	2,996,075	3,535,904	4,358,429
Checking and savings accounts	315,671	270,082	271,318
Time deposits	24,655	2,309	2,486
Total number of deposit accounts	3,336,401	3,808,295	4,632,233

The net decrease of 539,829 of non-interest bearing, prepaid and other accounts for the nine months ended March 31, 2019 was primarily the result of the seasonality of the H&R Block-branded products. Our non-interest bearing, prepaid and other accounts contain two omnibus accounts that when condensed for regulatory reporting purposes result in 14,183 accounts as of March 31, 2019.

Borrowings

The following table sets forth the composition of our borrowings and the interest rates at the dates indicated:

(Dollars in thousands)	March 31, 2019 Balance	March 31, 2019 Weighted Average Rate	June 30, 2018 Balance	June 30, 2018 Weighted Average Rate	March 31, 2018 Balance	March 31, 2018 Weighted Average Rate
FHLB Advances	$ 443,500	2.39%	$ 457,000	2.14%	$ 968,000	1.99%
Borrowings, subordinated notes and debentures	214,477	6.20%	54,552	6.55%	54,528	6.56%
Total borrowings	$ 657,977	2.86%	$ 511,552	2.61%	$ 1,022,528	2.23%
Weighted average cost of borrowings during the quarter	2.08%		2.12%		1.85%	
Borrowings as a percent of total assets	6.1%		5.4%		10.2%	

At March 31, 2019, total borrowings amounted to $658.0 million, up $146.4 million, or 28.6%, from June 30, 2018 and down $364.6 million or 35.7% from March 31, 2018. Total borrowings represented 6.1% of total assets and had a weighted-average cost of 2.08% at March 31, 2019, compared with 5.4% of total assets at a weighted-average cost of 2.12% at June 30, 2018 and 10.2% of total assets at a weighted-average cost of 1.85% at March 31, 2018.

We regularly use advances from the FHLB to manage our interest rate risk and, to a lesser extent, manage our liquidity position. Generally, FHLB advances with terms between three and ten years have been used to fund the purchase of single family and multifamily mortgages and to provide us with interest rate risk protection should rates rise.

Stockholders' Equity

Stockholders' equity increased $79.0 million to $1,039.5 million at March 31, 2019 compared to $960.5 million at June 30, 2018. The increase was the result of our net income for the nine months ended March 31, 2019 of $114.5 million, vesting and issuance of RSUs of $12.5 million, partially offset by $47.9 million in stock repurchases and $0.2 million of dividends declared on preferred stock. On March 17, 2016, the Board of Directors of the Company, authorized a program to repurchase up to $100.0 million of common stock. As of June 30, 2018, there was $64.8 million remaining under the program. During the nine months ended March 31, 2019, the Company has repurchased a total of $27.9 million, or 1,704,528 common shares at an average price of $28.09 per share with $16.9 million remaining under the current board authorized stock repurchase program.

LIQUIDITY

Cash flow information is as follows:

	For the Nine Months Ended March 31,	
(Dollars in thousands)	**2019**	**2018**
Operating Activities	$ 126,611	$ 118,372
Investing Activities	$ (663,826)	$ (603,677)
Financing Activities	$ 677,704	$ 1,332,805

During the nine months ended March 31, 2019, we had net cash inflows from operating activities of $126.6 million compared to inflows of $118.4 million for the nine months ended March 31, 2018, primarily due to net income for each period. Net operating cash inflows and outflows fluctuate primarily due to the timing of originations of loans held for sale and proceeds from loan sales.

Net cash outflows from investing activities totaled $663.8 million for the nine months ended March 31, 2019, while outflows totaled $603.7 million for the same period in fiscal year 2018. The increase was primarily due to increased originations of loans and leases in the fiscal 2019 period compared to the same period in the prior year.

Our net cash provided by financing activities totaled $677.7 million for the nine months ended March 31, 2019, and $1,332.8 million for the nine months ended March 31, 2018. Net cash provided by financing activities decreased primarily from a lower level of net increase in deposits for the nine months ended March 31, 2019 compared to March 31, 2018.

During the nine months ended March 31, 2019, the Bank could borrow up to 40.0% of its total assets from the FHLB. Borrowings are collateralized by the pledge of certain mortgage loans and investment securities to the FHLB. At March 31, 2019, the Company had $2,708.0 million available immediately being fully collateralized. At March 31, 2019, we also had two unsecured federal funds purchase lines with two different banks totaling $35.0 million, under which no borrowings were outstanding.

The Bank has the ability to borrow short-term from the Federal Reserve Bank of San Francisco Discount Window. At March 31, 2019, the Bank did not have any borrowings outstanding and the amount available from this source was $1,927.0 million. The credit line is collateralized by consumer loans and mortgage-backed securities.

Axos Clearing has a total of $155.0 million uncommitted secured lines of credit available for borrowing as needed. As of March 31, 2019, there was $117.3 million outstanding. These credit facilities bear interest at rates based on the Federal Funds rate and are due upon demand.

Axos Clearing has a $35.0 million committed unsecured line of credit available for limited purpose borrowing. As of March 31, 2019, there was $35.0 million outstanding. This credit facility bears interest at rates based on the Federal Funds rate and are due upon demand.

In an effort to expand the Bank's liquidity options, we have issued brokered deposits of $1.4 billion at March 31, 2019. We believe our liquidity sources to be stable and adequate for our anticipated needs and contingencies. We believe we have the ability to increase our level of deposits and borrowings to address our liquidity needs for the foreseeable future.

OFF-BALANCE SHEET COMMITMENTS

At March 31, 2019, we had commitments to originate loans with an aggregate outstanding principal balance of $636.1 million, and commitments to sell loans with an aggregate outstanding principal balance of $38.9 million. We have no commitments to purchase loans, leases, investment securities or any other unused lines of credit.

In the normal course of business, Axos Clearing's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose Axos Clearing to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and Axos Clearing has to purchase or sell the financial instrument underlying the contract at a loss. Axos Clearing's clearing agreements with broker-dealers for which it provides clearing services requires them to indemnify Axos Clearing if customers fail to satisfy their contractual obligation.

Litigation. On October 15, 2015, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a putative class action lawsuit styled Golden v. BofI Holding, Inc., et al, and brought in United States District Court for the Southern District of California (the "Golden Case"). On November 3, 2015, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a second putative class action lawsuit styled Hazan v. BofI Holding, Inc., et al, and also brought in the United States District Court for the Southern District of California (the "Hazan Case"). On February 1, 2016, the Golden Case and the Hazan Case were consolidated as In re BofI Holding, Inc. Securities Litigation, Case #: 3:15-cv-02324-GPC-KSC (the "Class Action"), and the Houston Municipal Employees Pension System was appointed lead plaintiff. The plaintiffs allege that the Company and other named defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by failing to disclose wrongful conduct that was alleged in a complaint filed in connection with a wrongful termination of employment lawsuit filed on October 13, 2015 (the "Employment Matter") and that as a result the Company's statements regarding its internal controls, as well as portions of its financial statements, were false and misleading. On March 21, 2018, the Court entered a final order dismissing the Class Action with prejudice. Subsequently, the plaintiff filed a notice of appeal and opening brief and the Company has filed its answering brief.

On April 3, 2017, the Company, its Chief Executive Officer and its Chief Financial Officer were named defendants in a putative class action lawsuit styled Mandalevy v. BofI Holding, Inc., et al, and brought in United States District Court for the Southern District of California (the "Mandalevy Case"). The Mandalevy Case seeks monetary damages and other relief on behalf of a putative class that has not been certified by the Court. The complaint in the Mandalevy Case (the "Mandalevy Complaint") alleges a class period that differs from that alleged in the First Class Action, and that the Company and other named defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 promulgated thereunder, by failing to disclose wrongful conduct that was alleged in a March 2017 media article. The Mandalevy Case has not been consolidated into the First Class Action. On December 7, 2018, the Court entered a final order granting the defendants' motion and dismissing the Mandalevy Case with prejudice. Subsequently, the plaintiff filed a notice of appeal and opening brief and the Company is preparing its answering brief, which is due May 8, 2019.

The Company and the other named defendants dispute the allegations of wrongdoing advanced by the plaintiffs in the Class Action, the Mandalevy Case, and in the Employment Matter, as well as those plaintiffs' statement of the underlying factual circumstances, and are vigorously defending each case.

In addition to the First Class Action and the Mandalevy Case, two separate shareholder derivative actions were filed in December, 2015, purportedly on behalf of the Company. The first derivative action, *Calcaterra v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on December 3, 2015. The second derivative action, *Dow v. Micheletti, et al*, was filed in the San Diego County Superior Court on December 16, 2015. A third derivative action, *DeYoung v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on January 22, 2016, a fourth derivative action, *Yong v. Garrabrants, et al*, was filed in the United States District Court for the Southern District of California on January 29, 2016, a fifth derivative action, *Laborers Pension Trust Fund of Northern Nevada v. Allrich et al*, was filed in the United States District Court for the Southern District of California on February 2, 2016, and a sixth derivative action, *Garner v. Garrabrants, et al*, was filed in the San Diego County Superior Court on August 10, 2017. Each of these six derivative actions names the Company as a nominal defendant, and certain of its officers and directors as defendants. Each complaint sets forth allegations of breaches of fiduciary duties, gross mismanagement, abuse of control, and unjust enrichment against the defendant officers and directors. The plaintiffs in these derivative actions seek damages in unspecified amounts on the Company's behalf from the officer and director defendants, certain corporate governance actions, and an award of their costs and attorney's fees.

The United States District Court for the Southern District of California ordered the four above-referenced derivative actions pending before it to be consolidated and appointed lead counsel in the consolidated action. On June 7, 2018, the Court entered an order granting defendant's motion for judgment on the pleadings, but giving the plaintiffs limited leave to amend by June 28, 2018. The plaintiffs failed to file an amended complaint, and instead plaintiffs filed on June 28, 2018 a motion to stay the case pending resolution of the securities class action and Employment Matter. On August 10, 2018, defendants filed an opposition to plaintiffs' motion. On September 11, 2018, the plaintiffs filed a second amended complaint. On October 16, 2018, defendants filed a motion to dismiss the second amended complaint.

The two derivative actions pending before the San Diego County Superior Court have been consolidated and have been stayed by agreement of the parties.

In view of the inherent difficulty of predicting the outcome of each legal action, particularly since claimants seek substantial or indeterminate damages, it is not possible to reasonably predict or estimate the eventual loss or range of loss, if any, related to each legal action.

CONTRACTUAL OBLIGATIONS

The Company enters into contractual obligations in the normal course of business primarily as a source of funds for its asset growth and to meet required capital needs. Our time deposits due within one year of March 31, 2019 totaled $1,545.9 million. We believe the large percentage of time deposits that mature within one year reflects customers' hesitancy to invest their funds long term. If these maturing deposits do not remain with us, we may be required to seek other sources of funds, including other time deposits and borrowings. Depending on market conditions, we may be required to pay higher rates on deposits and borrowings than we currently pay on time deposits maturing within one year. However, based on past experience we believe a significant portion of our time deposits will remain with us. We believe we have the ability to attract and retain deposits by adjusting interest rates offered.

The following table presents certain of our contractual obligations as of the period indicated:

	As of March 31, 2019				
		Payments Due by Period[1]			
(Dollars in thousands)	Total	Less Than One Year	One To Three Years	Three To Five Years	More Than Five Years
Long-term debt obligations[2]	$ 540,003	$ 254,378	$ 113,245	$ 75,840	$ 96,540
Time deposits[2]	2,837,116	1,590,936	565,522	184,792	495,866
Operating lease obligations[3]	86,338,291	6,772,422	14,924,957	15,914,643	48,726,269
Total	$ 89,715,410	$ 8,617,736	$ 15,603,724	$ 16,175,275	$ 49,318,675

1 *Our contractual obligations include long-term debt, time deposits and operating leases as shown. We had no capitalized leases or material commitments for capital expenditures at March 31, 2019.*
2 *Amounts include principal and interest due to recipient.*
3 *Payments are for leases of real property.*

CAPITAL RESOURCES AND REQUIREMENTS

Our Company and Bank are subject to regulatory capital adequacy requirements promulgated by federal bank regulatory agencies. Failure by our Company or Bank to meet minimum capital requirements could result in certain mandatory and discretionary actions by regulators that could have a material adverse effect on our consolidated financial statements. The Federal Reserve establishes capital requirements for our Company and the OCC has similar requirements for our Bank. The following tables present regulatory capital information for our Company and Bank. Information presented for March 31, 2019, reflects the Basel III capital requirements that became effective January 1, 2015 for both our Company and Bank. Under these capital requirements and the regulatory framework for prompt corrective action, our Company and Bank must meet specific capital guidelines that involve quantitative measures of our Company and Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Our Company's and Bank's capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation require our Company and Bank to maintain certain minimum capital amounts and ratios. Federal bank regulators require our Company and Bank maintain minimum ratios of core capital to adjusted average assets of 4.0%, common equity tier 1 capital to risk-weighted assets of 4.5%, tier 1 capital to risk-weighted assets of 6.0% and total risk-based capital to risk-weighted assets of 8.0%. To be "well capitalized," our Company and Bank must maintain minimum leverage, common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratios of at least 5.0%, 6.5%, 8.0% and 10.0%, respectively. At March 31, 2019, our Company and Bank met all the capital adequacy requirements to which they were subject and were "well capitalized" under the regulatory framework for prompt corrective action. Management believes that no conditions or events have occurred since March 31, 2019 that would materially adversely change the Company's and Bank's capital classifications. From time to time, we may need to raise additional capital to support our Company's and Bank's further growth and to maintain their "well capitalized" status.

The Bank's capital amounts, capital ratios and capital requirements under Basel III were as follows:

(Dollars in thousands)	Axos Financial, Inc. March 31, 2019	Axos Financial, Inc. June 30, 2018	Axos Bank March 31, 2019	Axos Bank June 30, 2018	"Well Capitalized" Ratio	Minimum Capital Ratio
Regulatory Capital:						
Tier 1	$ 961,441	$ 893,338	$ 901,659	$ 837,985		
Common equity tier 1	$ 956,378	$ 888,275	$ 901,659	$ 837,985		
Total capital (to risk-weighted assets)	$ 1,091,933	$ 993,650	$ 973,651	$ 887,297		
Assets:						
Average adjusted	$ 10,392,195	$ 9,450,894	$ 10,392,233	$ 9,509,891		
Total risk-weighted	$ 7,843,633	$ 6,694,963	$ 7,313,872	$ 6,686,634		
Regulatory Capital Ratios:						
Tier 1 leverage (core) capital to adjusted average assets	9.25%	9.45%	8.68%	8.88%	5.00%	4.00%
Common equity tier 1 capital (to risk-weighted assets)	12.19%	13.27%	12.33%	12.53%	6.50%	4.50%
Tier 1 capital (to risk-weighted assets)	12.26%	13.34%	12.33%	12.53%	8.00%	6.00%
Total capital (to risk-weighted assets)	13.92%	14.84%	13.31%	13.27%	10.00%	8.00%

Beginning January 1, 2016, Basel III implemented a requirement for all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively composed of common equity tier 1 capital, and it applies to each of the three risk-based capital ratios but not the leverage ratio. At March 31, 2019, our Company and Bank are in compliance with the capital conservation buffer requirement. The three risk-based capital ratios will increase by 0.625% each year through 2019, at which point, the common equity tier 1 risk-based, tier 1 risk-based and total risk-based capital ratio minimums will be 7.0%, 8.5% and 10.5%, respectively.

Securities Business

Pursuant to the net capital requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Axos Clearing, is subject to the SEC Uniform Net Capital (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain minimum net capital of $250,000 or 2% of aggregate debit balances arising from client transactions, as defined. On March 31, 2019 Under the alternate method, the Company may not repay subordinated debt, pay cash distributions, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

At March 31, 2019, the net capital position of Axos Clearing was as follows:

(Dollars in thousands)	Axos Clearing
Net capital	$ 22,381
Less: required net capital	4,622
Excess capital	$ 17,759
Net capital as a percentage of aggregate debit items	9.68%
Net capital in excess of 5% aggregate debit items	$ 10,825

Axos Clearing as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the benefit of customers. At March 31, 2019, the Company had a deposit requirement of $200.2 million and maintained a deposit of $206.7 million.

Certain broker-dealers have chosen to maintain brokerage customer accounts at the Axos Clearing. To allow these broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Brokers (PAB). At March 31, 2019, the Company had a deposit requirement of $1.6 million and maintained a deposit of $0.5 million. On April 2, 2019, Axos Clearing made a deposit to satisfy the deposit requirement.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We measure interest rate sensitivity as the difference between amounts of interest-earning assets and interest-bearing liabilities that mature or contractually re-price within a given period of time. The difference, or the interest rate sensitivity gap, provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities and negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. In a rising interest rate environment, an institution with a positive gap would be in a better position than an institution with a negative gap to invest in higher yielding assets or to have its asset yields adjusted upward, which would cause the yield on its assets to increase at a faster pace than the cost of its interest-bearing liabilities. During a period of falling interest rates, however, an institution with a positive gap would tend to have its assets reprice at a faster rate than one with a negative gap, which would tend to reduce the growth in its net interest income.

Banking Business

The following table sets forth the amounts of interest earning assets and interest bearing liabilities that were outstanding at March 31, 2019 and the portions of each financial instrument that are expected to mature or reset interest rates in each future period:

	Term to Repricing, Repayment, or Maturity at March 31, 2019				
(Dollars in thousands)	Six Months or Less	Over Six Months Through One Year	Over One Year Through Five Years	Over Five Years	Total
Interest-earning assets:					
Cash and cash equivalents	$ 538,678	$ —	$ —	$ —	$ 538,678
Securities[1]	186,490	1,087	11,509	18,378	217,464
Stock of the regulatory agencies, at cost	17,250	—	—	—	17,250
Loans and leases—net of allowance for loan loss	3,653,037	1,019,852	4,376,953	48,598	9,098,440
Loans held for sale	18,981	—	—	—	18,981
Total interest-earning assets	4,414,436	1,020,939	4,388,462	66,976	9,890,813
Non-interest earning assets	—	—	—	—	275,251
Total assets	$ 4,414,436	$ 1,020,939	$ 4,388,462	$ 66,976	$ 10,166,064
Interest-bearing liabilities:					
Interest-bearing deposits	$ 1,398,917	$ 4,357,695	$ 680,901	$ 470,111	$ 6,907,624
Securities sold under agreements to repurchase	—	—	—	—	—
Advances from the FHLB	221,000	25,000	167,500	30,000	443,500
Borrowings, subordinated notes and debentures	5,084	—	—	59,048	64,132
Total interest-bearing liabilities	1,625,001	4,382,695	848,401	559,159	7,415,256
Other non-interest-bearing liabilities	—	—	—	—	1,771,104
Stockholders' equity	—	—	—	—	979,704
Total liabilities and equity	$ 1,625,001	$ 4,382,695	$ 848,401	$ 559,159	$ 10,166,064
Net interest rate sensitivity gap	$ 2,789,435	$ (3,361,756)	$ 3,540,061	$ (492,183)	$ 2,475,557
Cumulative gap	$ 2,789,435	$ (572,321)	$ 2,967,740	$ 2,475,557	$ 2,475,557
Net interest rate sensitivity gap—as a % of total interest earning assets	28.20%	(33.99)%	35.79%	(4.98)%	25.03%
Cumulative gap—as % of total interest earning assets	28.20%	(5.79)%	30.01%	25.03 %	25.03%

[1] *Comprised of agency and non-agency mortgage-backed securities, municipal securities and other non-agency debt securities, which are classified as available-for-sale.*

The above table provides an approximation of the projected re-pricing of assets and liabilities at March 31, 2019 on the basis of contractual maturities, adjusted for anticipated prepayments of principal and scheduled rate adjustments. The loan and securities prepayment rates reflected herein are based on historical experience. For the non-maturity deposit liabilities, we use decay rates and rate adjustments based upon our historical experience. Actual repayments of these instruments could vary substantially if future experience differs from our historic experience.

Although "gap" analysis is a useful measurement device available to management in determining the existence of interest rate exposure, its static focus as of a particular date makes it necessary to utilize other techniques in measuring exposure to changes in interest rates. For example, gap analysis is limited in its ability to predict trends in future earnings and makes no assumptions about changes in prepayment tendencies or deposit or loan maturity preferences.

The following table indicates the sensitivity of net interest income movements to parallel instantaneous shocks in interest rates for the future 1-12 months and 13-24 months' time periods. For purposes of modeling net interest income sensitivity the Bank assumes no growth in the balance sheet other than for retained earnings:

	As of March 31, 2019			
	First 12 Months		Next 12 Months	
(Dollars in thousands)	Net Interest Income	Percentage Change from Base	Net Interest Income	Percentage Change from Base
Up 200 basis points	$ 420,748	6.4 %	$ 427,354	4.8 %
Base	$ 395,616	— %	$ 407,961	— %
Down 200 basis points	$ 384,803	(2.7)%	$ 393,507	(3.5)%

We attempt to measure the effect market interest rate changes will have on the net present value of assets and liabilities, which is defined as market value of equity. The market value of equity for these purposes is not intended to refer to the trading pricing of our common stock. We analyze the market value of equity sensitivity to an immediate parallel and sustained shift in interest rates derived from the current treasury and LIBOR yield curves. For rising interest rate scenarios, the industry market interest rate forecast was increased by 100, 200 and 300 basis points.

The following table indicates the sensitivity of market value of equity to the interest rate movement described above:

	As of March 31, 2019		
(Dollars in thousands)	Net Present Value	Percentage Change from Base	Net Present Value as a Percentage of Assets
Up 300 basis points	$ 1,341,646	23.9 %	13.5%
Up 200 basis points	$ 1,301,127	20.1 %	12.9%
Up 100 basis points	$ 1,218,853	12.5 %	11.9%
Base	$ 1,083,276	— %	10.5%
Down 100 basis points	$ 905,905	(16.4)%	8.7%

The computation of the prospective effects of hypothetical interest rate changes is based on numerous assumptions, including relative levels of interest rates, asset prepayments, runoffs in deposits and changes in repricing levels of deposits to general market rates, and should not be relied upon as indicative of actual results. Furthermore, these computations do not take into account any actions that we may undertake in response to future changes in interest rates.

Securities Business

Our securities business is exposed to market risk primarily due to its role as a financial intermediary in customer transactions, which may include purchases and sales of securities, securities lending activities, and in our trading activities, which are used to support sales, underwriting and other customer activities. We are subject to the risk of loss that may result from the potential change in value of a financial instrument as a result of fluctuations in interest rates, market prices, investor expectations and changes in credit ratings of the issuer.

Our securities business is exposed to interest rate risk as a result of maintaining inventories of interest rate sensitive financial instruments and other interest earning assets including customer and correspondent margin loans and securities borrowing activities. Our exposure to interest rate risk is also from our funding sources including customer and correspondent cash balances, bank borrowings and securities lending activities. Interest rates on customer and correspondent balances and securities produce a positive spread with rates generally fluctuating in parallel.

With respect to securities held, our interest rate risk is managed by setting and monitoring limits on the size and duration of positions and on the length of time securities can be held. Much of the interest rates on customer and correspondent margin loans are indexed and can vary daily. Our funding sources are generally short term with interest rates that can vary daily.

At March 31, 2019, Axos Clearing held municipal obligations with $0.7 million at fair market value. These positions were classified as trading securities and had maturities greater than 10 years from March 31, 2019.

Our securities business is engaged in various brokerage and trading activities that expose us to credit risk arising from potential non-performance from counterparties, customers or issuers of securities. This risk is managed by setting and monitoring position limits for each counterparty, conducting periodic credit reviews of counterparties, reviewing concentrations of securities and conducting business through central clearing organizations.

Collateral underlying margin loans to customers and correspondents and with respect to securities lending activities is marked to market daily and additional collateral is required as necessary.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

For quantitative and qualitative disclosures regarding market risks in our portfolio, see, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk.”

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company’s disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company’s internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Management, including the Company’s Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Note 14 – "*Commitments And Contingencies*" to the Unaudited Condensed Consolidated Financial Statements is incorporated herein by reference.

In addition, from time to time we may be a party to other claims or litigation that arise in the ordinary course of business, such as claims to enforce liens, claims involving the origination and servicing of loans, and other issues related to the business of the Bank. None of such matters are expected to have a material adverse effect on the Company's financial condition, results of operations or business.

ITEM 1A. RISK FACTORS

We face a variety of risks that are inherent in our business and our industry. These risks are described in more detail under Part 1, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2018. We encourage you to read these factors in their entirety. Moreover, other factors may also exist that we cannot anticipate or that we currently do not consider to be significant based on information that is currently available. The following supplements the risk factors in our Annual Report on Form 10-K referenced above:

Our acquisition of a broker-dealer business subject us to a variety of risks associated with the securities industry.

On January 28, 2019, we acquired COR Securities, a leading full-service correspondent clearing firm for independent broker-dealers. In addition, in February 2019 we acquired an introducing broker as part of our acquisition of WiseBanyan. Our acquisition of these broker-dealer firms and entry into this business subject us to a number of risks and challenges, including risks related to our ability to integrate the acquired operations and the associated internal controls and regulatory functions into our current operations, our ability to retain key personnel of the acquired operations, our ability to limit the outflow of acquired deposits and successfully retain and manage acquired assets, our ability to retain existing correspondents of COR who may choose to perform their own clearing services, move their clearing business to one of our competitors or exit the business, our ability to attract new customers and generate new assets in areas not previously served, and the possible assumption of risks and liabilities related to litigation or regulatory proceedings involving the acquired operations.

In addition, entry into the broker-dealer business may subject us to new risks related to the movement of equity prices. For example, if securities prices decline rapidly the value of our collateral could fall below the amount of the indebtedness secured by these securities, and in rapidly appreciating markets, credit risk may increase due to short positions. The securities lending and securities trading and execution businesses also subject us to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions generally, we will be subject to credit risk during the period between the execution of a trade and the settlement by the customer. Significant failures by our customers, including correspondents, or clients to honor their obligations, or increases in their rates of default, together with insufficient collateral and reserves, could have a material adverse effect on our business, financial condition, results of operations and cash flows. For example, in March 2019, we suffered a $15.3 million bad debt expense due to a default by a correspondent customer arising from unauthorized securities trades by an employee of the customer.

Our broker-dealer business also subjects us to new risks and uncertainties that are common in the securities industry, including intense competition in public finance and other sectors of the securities industry, extensive governmental regulation by the Securities and Exchange Commission and FINRA and potentially new areas and types of litigation. The SEC, FINRA and other SROs and state securities commissions, among other regulatory bodies, can censure, fine, issue cease-and-desist orders or suspend or expel a broker-dealer or any of its officers or employees. Clearing securities firms are subject to substantially more regulatory control and examination than introducing brokers that rely on others to perform clearing functions. Similarly, the attorneys general of each state could bring legal action to ensure compliance with state securities laws, and regulatory agencies in foreign countries have similar authority. Our ability to comply with multiple laws and regulations pertaining to the securities industry depends in large part on our ability to establish and maintain an effective compliance function. The failure to establish and enforce reasonable compliance procedures, even if unintentional, could subject us to significant losses or disciplinary or other actions.

Our entry into the investment advisory business subjects us to a variety of risks associated with investment performance and advisory services.

On February 26, 2019, we acquired WiseBanyan, a registered investment adviser ("RIA") that provides personal financial and investment management services through a proprietary technology platform. Our investment advisory business is registered with the SEC under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Federally registered investment advisers are regulated and subject to examination by the SEC. The Advisers Act imposes numerous obligations on RIAs, including fiduciary duties, disclosure obligations, recordkeeping and reporting requirements, marketing restrictions and general anti-fraud prohibitions. Our failure to comply with the Advisers Act and associated rules and regulations of the SEC could subject us to enforcement proceedings and sanctions for violations, including censure or termination of SEC registration, litigation and reputational harm. In addition, our investment advisory business is subject to notice filings and the anti-fraud rules of state securities regulators.

Our investment advisory business is also subject to various data privacy and cybersecurity laws designed to protect client and employee personally identifiable information. These laws and regulations are increasing in complexity and number which has resulted in greater compliance risk and cost for the business. The unauthorized access, use, theft or destruction of client or employee personal, financial or other data could expose us to potential financial penalties and legal liability.

Additionally, poor investment returns and declines in client assets in our investment advisory business, due to either general market conditions or under-performance (relative to our competitors or to benchmarks) by investment products, may affect our ability to retain existing assets, prevent clients from transferring their assets out of products or their accounts, or inhibit our ability to attract new clients or additional assets from existing clients. Any such poor performance could adversely affect our investment advisory business and the advisory fees that we earn on client assets.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The table below sets forth our market repurchases of Axos common stock and the Axos common shares retained in connection with net settlement of restricted stock awards during the quarter ended March 31, 2019. On March 17, 2016, the Company’s Board of Directors approved a stock repurchase plan authorizing the repurchase of up to $100 million of the Company’s stock. The new share repurchase authorization replaces the previous share repurchase plan approved on July 5, 2005. The Company may repurchase shares of common stock on the open market or through privately negotiated transactions at times and prices considered appropriate, at the discretion of the Company, and subject to its assessment of alternative uses of capital, stock trading price, general market conditions and regulatory factors. The stock repurchase plan does not obligate the Company to acquire any specific number of shares and will continue in effect until terminated by the Board of Directors of the Company. Shares of common stock repurchased under this plan will be held as treasury shares. During the quarter ended March 31, 2019, there were 0 shares purchased under the plan.

(Dollars in thousands, except per share data)	Number of Shares Purchased	Average Price Paid Per Shares	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar value of Shares that May Yet be Purchased Under the Plans or Programs
Stock Repurchases				
Quarter Ended March 31, 2019				
January 1, 2019 to January 31, 2019	—	$ —	—	$ —
February 1, 2019 to February 28, 2019	—	$ —	—	$ —
March 1, 2019 to March 31, 2019	—	$ —	—	$ —
For the Three Months Ended March 31, 2019	—	$ —	—	$ 16,936
Stock Retained in Net Settlement				
January 1, 2019 to January 31, 2019	6,108			
February 1, 2019 to February 28, 2019	130			
March 1, 2019 to March 31, 2019	27			
For the Three Months Ended March 31, 2019	6,265			

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated By Reference to
31.1	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL	XBRL Taxonomy Calculation Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Definition Document	Filed herewith.
101.INS	XBRL Instance Document	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

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SIGNATURES

In accordance with 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.

Axos Financial, Inc.

Dated:	April 30, 2019	By:	/s/ Gregory Garrabrants
			Gregory Garrabrants President and Chief Executive Officer (Principal Executive Officer)
Dated:	April 30, 2019	By:	/s/ Andrew J. Micheletti
			Andrew J. Micheletti Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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Section 2: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory Garrabrants, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Axos Financial, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Dated: April 30, 2019

/s/ GREGORY GARRABRANTS

GREGORY GARRABRANTS
President and Chief Executive Officer (Principal Executive Officer)

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Section 3: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew J. Micheletti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Axos Financial, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d -15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Dated: April 30, 2019

/s/ ANDREW J. MICHELETTI

ANDREW J. MICHELETTI
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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Section 4: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

**PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Axos Financial, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2019, the (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Gregory Garrabrants, hereby certify in my capacity as President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such Report.

Dated: April 30, 2019

/s/ GREGORY GARRABRANTS

GREGORY GARRABRANTS
President and Chief Executive Officer (Principal Executive Officer)

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Section 5: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Axos Financial, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2019, the (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Andrew J. Micheletti, hereby certify in my capacity as Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 that:

a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such Report.

Dated: April 30, 2019	/s/ ANDREW J. MICHELETTI
	ANDREW J. MICHELETTI *Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

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