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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2022
or

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

For transition period from to
Commission File Number 001-33390

TFS FINANCIAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

United States of America
(State or Other Jurisdiction of
Incorporation or Organization)

52-2054948
(I.R.S. Employer
Identification No.)

7007 Broadway Avenue
Cleveland, Ohio
(Address of Principal Executive Offices)

44105
(Zip Code)

(216) 441-6000

Registrant's telephone number, including area code:
Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange in which registered
Common Stock, par value \$0.01 per share	TFSL	The NASDAQ Stock Market, LLC

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

As of August 4, 2022, there were 280,582,741 shares of the Registrant's common stock, par value \$0.01 per share, outstanding, of which 227,119,132 shares, or 80.9% of the Registrant's common stock, were held by Third Federal Savings and Loan Association of Cleveland, MHC, the Registrant's mutual holding company.

TFS Financial Corporation

INDEX

	<u>Page</u>
Glossary of Terms	<u>3</u>
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Consolidated Statements of Condition June 30, 2022 and September 30, 2021	<u>4</u>
Consolidated Statements of Income Three and Nine Months Ended June 30, 2022 and 2021	<u>5</u>
Consolidated Statements of Comprehensive Income Three and Nine Months Ended June 30, 2022 and 2021	<u>6</u>
Consolidated Statements of Shareholders’ Equity Three and Nine Months Ended June 30, 2022 and 2021	<u>7</u>
Consolidated Statements of Cash Flows Nine Months Ended June 30, 2022 and 2021	<u>9</u>
Notes to Unaudited Interim Consolidated Financial Statements	<u>10</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>35</u>
Item 3. Quantitative and Qualitative Disclosures about Market Risk	<u>67</u>
Item 4. Controls and Procedures	<u>71</u>
Part II — OTHER INFORMATION	
Item 1. Legal Proceedings	<u>71</u>
Item 1A. Risk Factors	<u>71</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>72</u>
Item 3. Defaults Upon Senior Securities	<u>72</u>
Item 4. Mine Safety Disclosures	<u>72</u>
Item 5. Other Information	<u>72</u>
Item 6. Exhibits	<u>73</u>
SIGNATURES	<u>74</u>

GLOSSARY OF TERMS

TFS Financial Corporation provides the following list of acronyms and defined terms as a tool for the reader. The acronyms and defined terms identified below are used throughout the document.

ACL: Allowance for Credit Losses	FICO: Fair Isaac Corporation
ACT: Tax Cuts and Jobs Act	FRB-Cleveland: Federal Reserve Bank of Cleveland
AOI: Accumulated Other Comprehensive Income	Freddie Mac: Federal Home Loan Mortgage Corporation
ARM: Adjustable Rate Mortgage	FRS: Board of Governors of the Federal Reserve System
ASC: Accounting Standards Codification	GAAP: Generally Accepted Accounting Principles
ASU: Accounting Standards Update	Ginnie Mae: Government National Mortgage Association
Association: Third Federal Savings and Loan Association of Cleveland	GVA: General Valuation Allowances
BOLI: Bank Owned Life Insurance	HARP: Home Affordable Refinance Program
CARES Act: Coronavirus Aid, Relief and Economic Security Act	HPI: Home Price Index
CDs: Certificates of Deposit	IRR: Interest Rate Risk
CECL: Current Expected Credit Losses	IRS: Internal Revenue Service
CFPB: Consumer Financial Protection Bureau	IVA: Individual Valuation Allowance
CLTV: Combined Loan-to-Value	LIHTC: Low Income Housing Tax Credit
Company: TFS Financial Corporation and its subsidiaries	LIP: Loans-in-Process
DFA: Dodd-Frank Wall Street Reform and Consumer Protection Act	LTV: Loan-to-Value
EaR: Earnings at Risk	MMK: Money Market Account
EPS: Earnings per Share	MGIC: Mortgage Guaranty Insurance Corporation
ESOP: Third Federal Employee (Associate) Stock Ownership Plan	OCC: Office of the Comptroller of the Currency
EVE: Economic Value of Equity	OCI: Other Comprehensive Income
Fannie Mae: Federal National Mortgage Association	OTS: Office of Thrift Supervision
FASB: Financial Accounting Standards Board	PMI: Private Mortgage Insurance
FDIC: Federal Deposit Insurance Corporation	PMIC: PMI Mortgage Insurance Co.
FHFA: Federal Housing Finance Agency	QTL: Qualified Thrift Lender
FHLB: Federal Home Loan Bank	REMICs: Real Estate Mortgage Investment Conduits
	REO: Real Estate Owned
	SEC: United States Securities and Exchange Commission
	TDR: Troubled Debt Restructuring
	Third Federal Savings, MHC: Third Federal Savings and Loan Association of Cleveland, MHC

Item 1. Financial Statements

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION (unaudited)
(In thousands, except share data)

	June 30, 2022	September 30, 2021
ASSETS		
Cash and due from banks	\$ 29,995	\$ 27,346
Other interest-earning cash equivalents	357,535	460,980
Cash and cash equivalents	387,530	488,326
Investment securities available for sale (amortized cost \$476,504 and \$420,542, respectively)	449,874	421,783
Mortgage loans held for sale (\$1,314 and \$0 measured at fair value, respectively)	1,314	8,848
Loans held for investment, net:		
Mortgage loans	13,913,354	12,525,687
Other loans	3,255	2,778
Deferred loan expenses, net	48,669	44,859
Allowance for credit losses on loans	(69,450)	(64,289)
Loans, net	13,895,828	12,509,035
Mortgage loan servicing rights, net	8,110	8,941
Federal Home Loan Bank stock, at cost	188,890	162,783
Real estate owned, net	253	289
Premises, equipment, and software, net	34,670	37,420
Accrued interest receivable	34,907	31,107
Bank owned life insurance contracts	302,334	297,332
Other assets	101,499	91,586
TOTAL ASSETS	\$ 15,405,209	\$ 14,057,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 9,157,648	\$ 8,993,605
Borrowed funds	4,246,188	3,091,815
Borrowers' advances for insurance and taxes	68,054	109,633
Principal, interest, and related escrow owed on loans serviced	18,713	41,476
Accrued expenses and other liabilities	101,552	88,641
Total liabilities	13,592,155	12,325,170
Commitments and contingent liabilities		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par value, 700,000,000 shares authorized; 332,318,750 shares issued; 280,603,723 and 280,761,299 outstanding at June 30, 2022 and September 30, 2021, respectively	3,323	3,323
Paid-in capital	1,749,819	1,746,887
Treasury stock, at cost; 51,715,027 and 51,557,451 shares at June 30, 2022 and September 30, 2021, respectively	(771,684)	(768,035)
Unallocated ESOP shares	(32,500)	(35,751)
Retained earnings—substantially restricted	859,142	853,657
Accumulated other comprehensive income (loss)	4,954	(67,801)
Total shareholders' equity	1,813,054	1,732,280
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 15,405,209	\$ 14,057,450

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (unaudited)
(In thousands, except share and per share data)

	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	\$ 99,576	\$ 93,584	\$ 280,820	\$ 289,885
Investment securities available for sale	1,282	828	3,597	2,781
Other interest and dividend earning assets	1,913	979	3,905	2,609
Total interest and dividend income	102,771	95,391	288,322	295,275
INTEREST EXPENSE:				
Deposits	17,214	23,461	53,361	75,702
Borrowed funds	14,255	14,852	43,074	45,341
Total interest expense	31,469	38,313	96,435	121,043
NET INTEREST INCOME	71,302	57,078	191,887	174,232
PROVISION (RELEASE) FOR CREDIT LOSSES	4,000	(1,000)	1,000	(7,000)
NET INTEREST INCOME AFTER PROVISION (RELEASE) FOR CREDIT LOSSES	67,302	58,078	190,887	181,232
NON-INTEREST INCOME:				
Fees and service charges, net of amortization	2,742	2,491	7,714	7,446
Net gain (loss) on the sale of loans	(51)	3,423	2,249	28,777
Increase in and death benefits from bank owned life insurance contracts	2,090	2,361	7,223	7,815
Other	896	1,174	2,236	2,580
Total non-interest income	5,677	9,449	19,422	46,618
NON-INTEREST EXPENSE:				
Salaries and employee benefits	28,756	26,945	82,133	81,955
Marketing services	4,830	4,073	17,007	15,131
Office property, equipment and software	6,762	6,427	20,225	19,257
Federal insurance premium and assessments	2,351	2,139	6,639	6,852
State franchise tax	1,197	1,151	3,658	3,461
Other expenses	7,860	7,115	19,742	21,733
Total non-interest expense	51,756	47,850	149,404	148,389
INCOME BEFORE INCOME TAXES	21,223	19,677	60,905	79,461
INCOME TAX EXPENSE	4,076	3,696	11,773	15,469
NET INCOME	\$ 17,147	\$ 15,981	\$ 49,132	\$ 63,992
Earnings per share—basic and diluted	\$ 0.06	\$ 0.06	\$ 0.17	\$ 0.23
Weighted average shares outstanding				
Basic	277,453,439	276,864,229	277,366,624	276,597,435
Diluted	278,555,759	278,931,432	278,767,989	278,492,283

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In thousands)

	For the Three Months Ended		For the Nine Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Net income	\$ 17,147	\$ 15,981	\$ 49,132	\$ 63,992
Other comprehensive income (loss), net of tax:				
Net change in unrealized (loss) on securities available for sale	(4,480)	(719)	(21,624)	(2,577)
Net change in cash flow hedges	19,540	1,485	93,476	46,773
Net change in defined benefit plan obligation	725	467	903	1,399
Total other comprehensive income	15,785	1,233	72,755	45,595
Total comprehensive income	\$ 32,932	\$ 17,214	\$ 121,887	\$ 109,587

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (unaudited)
(In thousands, except share and per share data)

For the Three Months Ended June 30, 2021							
	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at March 31, 2021	\$ 3,323	\$ 1,742,681	\$ (766,407)	\$ (37,917)	\$ 849,394	\$ (87,603)	\$ 1,703,471
Net income	—	—	—	—	15,981	—	15,981
Other comprehensive income (loss), net of tax	—	—	—	—	—	1,233	1,233
ESOP shares allocated or committed to be released	—	1,171	—	1,083	—	—	2,254
Compensation costs for equity incentive plans	—	1,202	—	—	—	—	1,202
Treasury stock allocated to equity incentive plan	—	290	(413)	—	—	—	(123)
Dividends declared to common shareholders (\$0.28 per common share)	—	—	—	—	(14,302)	—	(14,302)
Balance at June 30, 2021	<u>\$ 3,323</u>	<u>\$ 1,745,344</u>	<u>\$ (766,820)</u>	<u>\$ (36,834)</u>	<u>\$ 851,073</u>	<u>\$ (86,370)</u>	<u>\$ 1,709,716</u>
For the Three Months Ended June 30, 2022							
	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at March 31, 2022	\$ 3,323	\$ 1,748,589	\$ (768,304)	\$ (33,584)	\$ 856,555	\$ (10,831)	\$ 1,795,748
Net income	—	—	—	—	17,147	—	17,147
Other comprehensive income (loss), net of tax	—	—	—	—	—	15,785	15,785
ESOP shares allocated or committed to be released	—	513	—	1,084	—	—	1,597
Compensation costs for equity incentive plans	—	947	—	—	—	—	947
Purchase of treasury stock (243,200 shares)	—	—	(3,520)	—	—	—	(3,520)
Treasury stock allocated to equity incentive plan	—	(230)	140	—	—	—	(90)
Dividends declared to common shareholders (\$0.2825 per common share)	—	—	—	—	(14,560)	—	(14,560)
Balance at June 30, 2022	<u>\$ 3,323</u>	<u>\$ 1,749,819</u>	<u>\$ (771,684)</u>	<u>\$ (32,500)</u>	<u>\$ 859,142</u>	<u>\$ 4,954</u>	<u>\$ 1,813,054</u>

For the Nine Months Ended June 30, 2021

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at September 30, 2020	\$ 3,323	\$ 1,742,714	\$ (767,649)	\$ (40,084)	\$ 865,514	\$ (131,965)	\$ 1,671,853
Cumulative effect from changes in accounting principle, net of tax ¹	—	—	—	—	(35,763)	—	(35,763)
Net income	—	—	—	—	63,992	—	63,992
Other comprehensive income (loss), net of tax	—	—	—	—	—	45,595	45,595
ESOP shares allocated or committed to be released	—	2,907	—	3,250	—	—	6,157
Compensation costs for equity incentive plans	—	4,315	—	—	—	—	4,315
Treasury stock allocated to equity incentive plan	—	(4,592)	829	—	—	—	(3,763)
Dividends declared to common shareholders (\$0.84 per common share)	—	—	—	—	(42,670)	—	(42,670)
Balance at June 30, 2021	<u>\$ 3,323</u>	<u>\$ 1,745,344</u>	<u>\$ (766,820)</u>	<u>\$ (36,834)</u>	<u>\$ 851,073</u>	<u>\$ (86,370)</u>	<u>\$ 1,709,716</u>

¹Related to ASU 2016-13 adopted October 1, 2020.

For the Nine Months Ended June 30, 2022

	Common stock	Paid-in capital	Treasury stock	Unallocated common stock held by ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance at September 30, 2021	\$ 3,323	\$ 1,746,887	\$ (768,035)	\$ (35,751)	\$ 853,657	\$ (67,801)	\$ 1,732,280
Net income	—	—	—	—	49,132	—	49,132
Other comprehensive income (loss), net of tax	—	—	—	—	—	72,755	72,755
ESOP shares allocated or committed to be released	—	2,280	—	3,251	—	—	5,531
Compensation costs for equity incentive plans	—	2,906	—	—	—	—	2,906
Purchase of treasury stock (312,259 shares)	—	—	(4,710)	—	—	—	(4,710)
Treasury stock allocated to equity incentive plan	—	(2,254)	1,061	—	—	—	(1,193)
Dividends declared to common shareholders (\$0.8475 per common share)	—	—	—	—	(43,647)	—	(43,647)
Balance at June 30, 2022	<u>\$ 3,323</u>	<u>\$ 1,749,819</u>	<u>\$ (771,684)</u>	<u>\$ (32,500)</u>	<u>\$ 859,142</u>	<u>\$ 4,954</u>	<u>\$ 1,813,054</u>

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (In thousands)

	For the Nine Months Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 49,132	\$ 63,992
Adjustments to reconcile net income to net cash provided by operating activities:		
ESOP and stock-based compensation expense	8,437	10,480
Depreciation and amortization	20,808	29,113
Deferred income taxes	(993)	(351)
Provision (release) for credit losses	1,000	(7,000)
Net gain on the sale of loans	(2,249)	(28,777)
Net gain on sale of commercial property	(181)	—
Other net (gains) losses	552	111
Proceeds from sales of loans held for sale	26,536	46,797
Loans originated and principal repayments on loans for sale	(19,138)	(47,601)
Increase in bank owned life insurance contracts	(6,305)	(5,832)
Net (increase) decrease in interest receivable and other assets	(20,085)	7,418
Net (decrease) increase in accrued expenses and other liabilities	(6,401)	53,013
Net cash provided by operating activities	51,113	121,363
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated	(4,124,864)	(3,764,249)
Principal repayments on loans	2,652,578	3,647,652
Proceeds from sales, principal repayments and maturities of:		
Securities available for sale	137,185	254,748
Proceeds from sale of:		
Loans	78,015	640,148
Real estate owned	362	206
Premises, equipment and other assets	389	71
Purchases of:		
Bank-owned life insurance	—	(70,000)
FHLB stock	(26,107)	(25,990)
Securities available for sale	(197,328)	(229,862)
Premises and equipment	(1,502)	(1,235)
Other	1,162	3,013
Net cash (used in) provided by investing activities	(1,480,110)	454,502
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	164,914	(74,792)
Net decrease in borrowers' advances for insurance and taxes	(41,579)	(45,398)
Net decrease in principal and interest owed on loans serviced	(22,763)	(18,201)
Net increase (decrease) in short-term borrowed funds	755,000	(400,359)
Proceeds from long-term borrowed funds	400,000	25,000
Repayment of long-term borrowed funds	(2,789)	(3,681)
Cash collateral/settlements received from (provided to) derivative counterparties	125,277	69,801
Acquisition of treasury shares	(6,042)	(3,771)
Dividends paid to common shareholders	(43,817)	(42,352)
Net cash provided by (used in) financing activities	1,328,201	(493,753)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(100,796)	82,112
CASH AND CASH EQUIVALENTS—Beginning of period	488,326	498,033
CASH AND CASH EQUIVALENTS—End of period	\$ 387,530	\$ 580,145
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest on deposits	\$ 54,001	\$ 76,268
Cash paid for interest on borrowed funds	16,687	12,263
Cash paid for interest on interest rate swaps	28,026	33,897
Cash paid for income taxes	25,416	20,013
SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Transfer of loans to real estate owned	274	41
Transfer of loans from held for investment to held for sale	76,155	588,243
Transfer of loans from held for sale to held for investment	16,075	—
Treasury stock issued for stock benefit plans	2,328	(4,696)

See accompanying notes to unaudited interim consolidated financial statements.

TFS FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands unless otherwise indicated)

1. BASIS OF PRESENTATION

TFS Financial Corporation, a federally chartered stock holding company, conducts its principal activities through its wholly owned subsidiaries. The principal line of business of the Company is retail consumer banking, including mortgage lending, deposit gathering and, to a much lesser extent, other financial services. As of June 30, 2022, approximately 81% of the Company's outstanding shares were owned by the federally chartered mutual holding company, Third Federal Savings and Loan Association of Cleveland, MHC. The thrift subsidiary of TFS Financial Corporation is Third Federal Savings and Loan Association of Cleveland.

The accounting and financial reporting policies followed by the Company conform in all material respects to U.S. GAAP and to general practices in the financial services industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for credit losses, the valuation of deferred tax assets, and the determination of pension obligations are particularly subject to change.

The unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature which, in the opinion of management, are necessary to present fairly the consolidated financial condition of the Company at June 30, 2022, and its consolidated results of operations and cash flows for the periods presented. Such adjustments are the only adjustments reflected in the unaudited interim financial statements.

In accordance with SEC Regulation S-X for interim financial information, these financial statements do not include certain information and footnote disclosures required for complete audited financial statements. The Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021 contains audited consolidated financial statements and related notes, which should be read in conjunction with the accompanying interim consolidated financial statements. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2022 or for any other period.

Effective October 1, 2020, the Company adopted ASU 2016-13, Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, which replaces the incurred loss methodology with an expected loss methodology referred to as the CECL methodology. Refer to *NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES* for additional details.

Per ASC 606, Revenue from Contracts with Customers, an entity is required to 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 to receive in exchange for those goods or services. Three of the Company's revenue streams within scope of Topic 606 are the sales of REO, interchange income and deposit account and other transaction-based service fee income. Those streams are not material to the Company's consolidated financial statements and therefore quantitative information regarding these streams is not disclosed.

2. EARNINGS PER SHARE

Basic earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period. Diluted earnings per share is the amount of earnings available to each share of common stock outstanding during the reporting period adjusted to include the effect of potentially dilutive common shares. For purposes of computing earnings per share amounts, outstanding shares include shares held by the public, shares held by the ESOP that have been allocated to participants or committed to be released for allocation to participants, and the 227,119,132 shares held by Third Federal Savings, MHC. For purposes of computing dilutive earnings per share, stock options and restricted and performance share units with a dilutive impact are added to the outstanding shares used in the basic earnings per share calculation. Unvested shares awarded pursuant to the Company's restricted stock plans are treated as participating securities in the computation of EPS pursuant to the two-class method as they contain nonforfeitable rights to dividends. The two-class method is an earnings allocation that determines EPS for each class of common stock and participating security. Performance share units, determined to be contingently issuable and not participating securities, are excluded from the calculation of basic EPS. At June 30, 2022 and 2021, respectively, the ESOP held 3,250,046 and 3,683,386 shares, respectively, that were neither allocated to participants nor committed to be released to participants.

The following is a summary of the Company's earnings per share calculations.

	For the Three Months Ended June 30,					
	2022			2021		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	\$ 17,147			\$ 15,981		
Less: income allocated to restricted stock units	370			368		
Basic earnings per share:						
Income available to common shareholders	\$ 16,777	277,453,439	\$ 0.06	\$ 15,613	276,864,229	\$ 0.06
Diluted earnings per share:						
Effect of dilutive potential common shares		1,102,320			2,067,203	
Income available to common shareholders	\$ 16,777	278,555,759	\$ 0.06	\$ 15,613	278,931,432	\$ 0.06
	For the Nine Months Ended June 30,					
	2022			2021		
	Income	Shares	Per share amount	Income	Shares	Per share amount
	(Dollars in thousands, except per share data)					
Net income	\$ 49,132			\$ 63,992		
Less: income allocated to restricted stock units	1,107			1,181		
Basic earnings per share:						
Income available to common shareholders	\$ 48,025	277,366,624	\$ 0.17	\$ 62,811	276,597,435	\$ 0.23
Diluted earnings per share:						
Effect of dilutive potential common shares		1,401,365			1,894,848	
Income available to common shareholders	\$ 48,025	278,767,989	\$ 0.17	\$ 62,811	278,492,283	\$ 0.23

The following is a summary of outstanding stock options and restricted and performance share units that are excluded from the computation of diluted earnings per share because their inclusion would be anti-dilutive.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2022	2021	2022	2021
Options to purchase shares	2,043,575	—	407,900	403,900
Restricted and performance stock units	122,991	—	—	—

3. INVESTMENT SECURITIES

Investments available for sale are summarized in the tables below. Accrued interest in the periods presented is \$1,002 and \$852 as of June 30, 2022 and September 30, 2021, respectively, and is reported in accrued interest receivable on the unaudited *CONSOLIDATED STATEMENTS OF CONDITION*.

	June 30, 2022			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
REMICs	\$ 471,344	\$ 150	\$(26,525)	\$ 444,969
Fannie Mae certificates	1,099	44	—	1,143
U.S. government and agency obligations	4,061	—	(299)	3,762
Total	\$ 476,504	\$ 194	\$(26,824)	\$ 449,874

	September 30, 2021			
	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
REMICs	\$ 415,149	\$ 2,420	\$ (1,328)	\$ 416,241
Fannie Mae certificates	5,393	149	—	5,542
Total	\$ 420,542	\$ 2,569	\$ (1,328)	\$ 421,783

Gross unrealized losses on available for sale securities and the estimated fair value of the related securities, aggregated by the length of time the securities have been in a continuous loss position, at June 30, 2022 and September 30, 2021, were as follows:

	June 30, 2022					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	\$ 362,226	\$ 20,860	\$ 60,566	\$ 5,665	\$ 422,792	\$ 26,525
U.S. government and agency obligations	3,762	299	—	—	3,762	299
Total	\$ 365,988	\$ 21,159	\$ 60,566	\$ 5,665	\$ 426,554	\$ 26,824

	September 30, 2021					
	Less Than 12 Months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Available for sale—						
REMICs	\$ 201,279	\$ 1,290	\$ 6,261	\$ 38	\$ 207,540	\$ 1,328

The unrealized losses on investment securities were attributable to changes in market interest rates. The contractual terms of U.S. government and agency obligations do not permit the issuer to settle the security at a price less than the par value of the investment. The contractual cash flows of mortgage-backed securities are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. REMICs are issued by or backed by securities issued by these governmental agencies. It is expected that the securities would not be settled at a price substantially less than the amortized cost of the investment. The U.S. Treasury Department established financing agreements in 2008 to ensure Fannie Mae and Freddie Mac meet their obligations to holders of mortgage-backed securities that they have issued or guaranteed.

Since the decline in value is attributable to changes in market interest rates and not credit quality and because the Company has neither the intent to sell the securities nor is it more likely than not the Company will be required to sell the securities for the time periods necessary to recover the amortized cost, the Company expects to receive all contractual cash flows from these investments. Therefore, no allowance for credit losses is recorded with respect to securities as of June 30, 2022. At June 30, 2022, the amortized cost and fair value of U.S. government obligations, categorized as due in more than one year but less than five years, are \$4,061 and \$3,762, respectively.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

LOAN PORTFOLIOS

Loans held for investment consist of the following:

	June 30, 2022	September 30, 2021
Real estate loans:		
Residential Core	\$ 11,300,200	\$ 10,215,275
Residential Home Today	55,333	63,823
Home equity loans and lines of credit	2,514,232	2,214,252
Construction	112,167	80,537
Real estate loans	13,981,932	12,573,887
Other loans	3,255	2,778
Add (deduct):		
Deferred loan expenses, net	48,669	44,859
Loans in process	(68,578)	(48,200)
Allowance for credit losses on loans	(69,450)	(64,289)
Loans held for investment, net	<u>\$ 13,895,828</u>	<u>\$ 12,509,035</u>

Loans are carried at amortized cost, which includes outstanding principal balance adjusted for any unamortized premiums or discounts, net of deferred fees and expenses. Accrued interest is \$33,905 and \$30,255 as of June 30, 2022 and September 30, 2021, respectively, and is reported in accrued interest receivable on the unaudited *CONSOLIDATED STATEMENTS OF CONDITION*.

A large concentration of the Company's lending is in Ohio and Florida. As of June 30, 2022 and September 30, 2021, the percentage of aggregate Residential Core, Home Today and Construction loans secured by properties in Ohio was 56% and 55%, respectively, and the percentage of loans secured by properties in Florida was 18%, as of both dates. As of June 30, 2022 and September 30, 2021, home equity loans and lines of credit were concentrated in the states of Ohio (27% and 29% respectively), Florida (20% as of both dates), and California (16% and 15% respectively).

Residential Core mortgage loans represent the largest portion of the residential real estate portfolio. The Company believes overall credit risk is low based on the nature, composition, collateral, products, lien position and performance of the portfolio. The portfolio does not include loan types or structures that have experienced severe performance problems at other financial institutions (sub-prime, no documentation or pay-option adjustable-rate mortgages). The portfolio contains "Smart Rate" adjustable-rate mortgage loans whereby the interest rate is locked initially for three or five years then resets annually, subject to periodic rate adjustments caps and various re-lock options available to the borrower. Although the borrower is qualified for its loan at a higher rate than the initial rate offered, the adjustable-rate feature may impact a borrower's ability to afford the higher payments upon rate reset during periods of rising interest rates while this repayment risk may be reduced in a declining or low rate environment. With limited historical loss experience compared to other types of loans in the portfolio, judgment is required by management in assessing the allowance required on adjustable-rate mortgage loans. The principal amount of adjustable-rate mortgage loans included in the Residential Core portfolio was \$4,637,565 and \$4,646,760 at June 30, 2022 and September 30, 2021, respectively.

Home Today was an affordable housing program targeted to benefit low- and moderate-income home buyers and most loans under the program were originated prior to 2009. No new loans were originated under the Home Today program after September 30, 2016. Home Today loans have greater credit risk than traditional residential real estate mortgage loans.

Home equity loans and lines of credit, which are comprised primarily of home equity lines of credit, represent a significant portion of the residential real estate portfolio and include monthly principal and interest payments throughout the entire term. Once the draw period on lines of credit has expired, the accounts are included in the home equity loan balance. The full credit exposure on home equity lines of credit is secured by the value of the collateral real estate at the time of origination.

The Company originates construction loans to individuals for the construction of their personal single-family residence by a qualified builder (construction/permanent loans). The Company's construction/permanent loans generally provide for disbursements to the builder or sub-contractors during the construction phase as work progresses. During the construction

phase, the borrower only pays interest on the drawn balance. Upon completion of construction, the loan converts to a permanent amortizing loan without the expense of a second closing. The Company offers construction/permanent loans with fixed or adjustable-rates, and a current maximum loan-to-completed-appraised value ratio of 85%.

Other loans are comprised of loans secured by certificate of deposit accounts, which are fully recoverable in the event of non-payment, and forgivable down payment assistance loans, which are unsecured loans used as down payment assistance to borrowers qualified through partner housing agencies. The Company records a liability for the loans which are forgiven in equal increments over a pre-determined term, subject to residency requirements.

Loans held for sale include loans originated within the parameters of programs established by Fannie Mae, for sale to Fannie Mae, and loans originated for the held for investment portfolio that are later identified for sale. During the three and nine months ended June 30, 2022 and June 30, 2021, reclassifications to the held for sale portfolio included loans that were sold during the period, including those in contracts pending settlement at the end of the period, and loans originated for the held for investment portfolio that were later identified for sale. At June 30, 2022 and September 30, 2021, respectively, mortgage loans held for sale totaled \$1,314 and \$8,848. During the three and nine months ended June 30, 2022, the principal balance of loans sold was \$2,633 and \$104,299, including \$831 in contracts pending settlement. During the three and nine months ended June 30, 2021, the principal balance of loans sold was \$116,566 and \$634,034, respectively, including \$152 in contracts pending settlement. During the three and nine months ended June 30, 2022, the amortized cost of loans originated as held for sale that were subsequently transferred to the held for investment portfolio was \$0 and \$16,075. This transfer was due to recent changes in market pricing, affected by the rise in long-term interest rates, and managements' intent to hold the loans in portfolio until maturity or for the foreseeable future. During the three and nine months ended June 30, 2021, there were no transfers to the held for investment portfolio.

DELINQUENCY and NON-ACCRUAL

An aging analysis of the amortized cost in loan receivables that are past due at June 30, 2022 and September 30, 2021 is summarized in the following tables. When a loan is more than one month past due on its scheduled payments, the loan is considered 30 days or more past due, regardless of the number of days in each month. Balances are adjusted for deferred loan fees and expenses and any applicable loans-in-process.

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
June 30, 2022						
Real estate loans:						
Residential Core	\$ 4,308	\$ 1,703	\$ 8,920	\$ 14,931	\$11,304,332	\$11,319,263
Residential Home Today	1,075	208	1,193	2,476	52,406	54,882
Home equity loans and lines of credit	1,810	540	2,458	4,808	2,540,350	2,545,158
Construction	—	—	—	—	42,720	42,720
Total real estate loans	7,193	2,451	12,571	22,215	13,939,808	13,962,023
Other loans	—	—	—	—	3,255	3,255
Total	<u>\$ 7,193</u>	<u>\$ 2,451</u>	<u>\$ 12,571</u>	<u>\$ 22,215</u>	<u>\$13,943,063</u>	<u>\$13,965,278</u>

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total
September 30, 2021						
Real estate loans:						
Residential Core	\$ 3,642	\$ 2,263	\$ 9,370	\$ 15,275	\$10,218,347	\$10,233,622
Residential Home Today	948	961	2,068	3,977	59,432	63,409
Home equity loans and lines of credit	938	300	4,231	5,469	2,236,449	2,241,918
Construction	—	—	—	—	31,597	31,597
Total real estate loans	5,528	3,524	15,669	24,721	12,545,825	12,570,546
Other loans	—	—	—	—	2,778	2,778
Total	<u>\$ 5,528</u>	<u>\$ 3,524</u>	<u>\$ 15,669</u>	<u>\$ 24,721</u>	<u>\$12,548,603</u>	<u>\$12,573,324</u>

Loans are placed in non-accrual status when they are contractually 90 days or more past due. The number of days past due is determined by the number of scheduled payments that remain unpaid, assuming a period of 30 days between each scheduled payment. Loans with a partial charge-off are placed in non-accrual and will remain in non-accrual status until, at a minimum, the loss is recovered. Loans restructured in TDRs that were in non-accrual status prior to the restructurings and loans with forbearance plans that were subsequently modified in TDRs are reported in non-accrual status for a minimum of six months after restructuring. Loans restructured in TDRs with a high debt-to-income ratio at the time of modification are placed in non-accrual status for a minimum of 12 months. Additionally, home equity loans and lines of credit where the customer has a severely delinquent first mortgage loan and loans in Chapter 7 bankruptcy status where all borrowers have filed, and not reaffirmed or been dismissed, are placed in non-accrual status.

The amortized cost of loan receivables in non-accrual status is summarized in the following table. Non-accrual with no ACL describes non-accrual loans which have no quantitative or individual valuation allowance, primarily because they have already been collaterally reviewed and any required charge-offs have been taken, but may be included in consideration of qualitative allowance factors. Balances are adjusted for deferred loan fees and expenses. There are no loans 90 or more days past due and still accruing at June 30, 2022 or September 30, 2021.

	June 30, 2022		September 30, 2021	
	Non-accrual with No ACL	Total Non-accrual	Non-accrual with No ACL	Total Non-accrual
Real estate loans:				
Residential Core	\$ 20,800	\$ 23,131	\$ 23,748	\$ 24,892
Residential Home Today	6,526	6,723	7,730	8,043
Home equity loans and lines of credit	7,293	7,833	9,992	11,110
Total non-accrual loans	<u>\$ 34,619</u>	<u>\$ 37,687</u>	<u>\$ 41,470</u>	<u>\$ 44,045</u>

At June 30, 2022 and September 30, 2021, respectively, the amortized cost in non-accrual loans includes \$25,132 and \$28,385 which are performing according to the terms of their agreement, of which \$14,497 and \$16,495 are loans in Chapter 7 bankruptcy status, primarily where all borrowers have filed, and have not reaffirmed or been dismissed. At June 30, 2022 and September 30, 2021, real estate loans include \$9,324 and \$2,296, respectively, of loans that were in the process of foreclosure.

Interest on loans in accrual status is recognized in interest income as it accrues, on a daily basis. Accrued interest on loans in non-accrual status is reversed by a charge to interest income and income is subsequently recognized only to the extent cash payments are received. The Company has elected not to measure an allowance for credit losses on accrued interest receivable amounts since amounts are written off timely. Cash payments on loans in non-accrual status are applied to the oldest scheduled, unpaid payment first. The amount of interest income recognized on non-accrual loans was \$112 and \$549 for the three and nine months ended June 30, 2022 and \$201 and \$646 for three and nine months ended June 30, 2021, respectively. Cash payments on loans with a partial charge-off are applied fully to principal, then to recovery of the charged off amount prior to interest income being recognized, except cash payments may be applied to interest capitalized in a restructuring when collection of remaining amounts due is considered probable. A non-accrual loan is generally returned to accrual status when contractual payments are less than 90 days past due. However, a loan may remain in non-accrual status when collectability is uncertain, such as a TDR that has not met minimum payment requirements, a loan with a partial charge-off, a home equity loan or line of credit with a delinquent first mortgage greater than 90 days past due, or a loan in Chapter 7 bankruptcy status where all borrowers have filed and have not reaffirmed or been dismissed.

ALLOWANCE FOR CREDIT LOSSES

For all classes of loans, a loan is considered collateral-dependent when, based on current information and events, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale of the collateral or foreclosure is probable. Factors considered in determining that a loan is collateral-dependent may include the deteriorating financial condition of the borrower indicated by missed or delinquent payments, a pending legal action, such as bankruptcy or foreclosure, or the absence of adequate security for the loan.

Charge-offs on residential mortgage loans, home equity loans and lines of credit, and construction loans are recognized when triggering events, such as foreclosure actions, short sales, or deeds accepted in lieu of repayment, result in less than full repayment of the amortized cost in the loans.

Partial or full charge-offs are also recognized for the amount of credit losses on loans considered collateral-dependent when the borrower is experiencing financial difficulty as described by meeting the conditions below.

- For residential mortgage loans, payments are greater than 180 days delinquent;
- For home equity loans and lines of credit, and residential loans restructured in TDR, payments are greater than 90 days delinquent;
- For all classes of loans in a TDR COVID-19 forbearance plan, original contractual payments are greater than 150 days delinquent;
- For all classes of loans restructured in a TDR with a high debt-to-income ratio at time of modification;
- For all classes of loans, a sheriff sale is scheduled within 60 days to sell the collateral securing the loan;
- For all classes of loans, all borrowers have been discharged of their obligation through a Chapter 7 bankruptcy;
- For all classes of loans, within 60 days of notification, all borrowers obligated on the loan have filed Chapter 7 bankruptcy and have not reaffirmed or been dismissed;
- For all classes of loans, a borrower obligated on a loan has filed bankruptcy and the loan is greater than 30 days delinquent;
- For all classes of loans, a COVID-19 forbearance plan has been extended greater than 12 months;
- For all classes of loans in a COVID-19 repayment plan, modified contractual payments are greater than 90 days delinquent; and
- For all classes of loans, it becomes evident that a loss is probable.

Collateral-dependent residential mortgage loans and construction loans are charged-off to the extent the amortized cost in the loan, net of anticipated mortgage insurance claims, exceeds the fair value, less estimated costs to dispose of the underlying property. Management can determine if the loan is uncollectible for reasons such as foreclosures exceeding a reasonable time frame and recommend a full charge-off. Home equity loans or lines of credit are charged-off to the extent the amortized cost in the loan plus the balance of any senior liens exceeds the fair value, less estimated costs to dispose of the underlying property, or management determines the collateral is not sufficient to satisfy the loan. A loan in any portfolio identified as collateral-dependent will continue to be reported as such until it is no longer considered collateral-dependent, is less than 30 days past due and does not have a prior charge-off. A loan in any portfolio that has a partial charge-off will continue to be individually evaluated for credit loss until, at a minimum, the loss has been recovered.

Residential mortgage loans, home equity loans and lines of credit and construction loans restructured in TDRs that are not evaluated based on collateral are separately evaluated for credit losses on a loan by loan basis at each reporting date for as long as they are reported as TDRs. The credit loss evaluation is based on the present value of expected future cash flows discounted at the effective interest rate of the original loan. Expected future cash flows include a discount factor representing a potential for default. Valuation allowances are recorded for the excess of the amortized costs over the result of the cash flow analysis. Loans discharged in Chapter 7 bankruptcy are reported as TDRs and also evaluated based on the present value of expected future cash flows unless evaluated based on collateral. These loans are evaluated using expected future cash flows because the borrower, not liquidation of the collateral, is expected to be the source of repayment for the loan. Other loans are not considered for restructuring.

At June 30, 2022 and September 30, 2021, respectively, allowances on individually reviewed TDRs (IVAs), evaluated for credit losses based on the present value of cash flows, were \$10,744 and \$12,073. All other individually evaluated loans received a charge-off, if applicable.

The allowance for credit losses represents the estimate of lifetime losses in the loan portfolio and unfunded loan commitments. An allowance is established using relevant available information relating to past events, current conditions and supportable forecasts. The Company utilizes loan level regression models with forecasted economic data to derive the probability of default and loss given default factors. These factors are used to calculate the loan level credit loss over a 24-

month period with an immediate reversion to historical mean loss rates for the remaining life of the loans.

Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency status or likely recovery of previous loan charge-offs. Qualitative adjustments for expected changes in environmental conditions, such as changes in unemployment rates, property values or other relevant factors, are recognized when forecasted economic data used in the model differs from management's view or contains significant unobservable changes within a short period, particularly when those changes are directionally positive. Identifiable model limitations may also lead to qualitative adjustments, such as those made to reflect the expected recovery of loan amounts previously charged-off, beyond what the model is able to project. The qualitative adjustments resulted in a negative ending balance on the allowance for credit losses for the Home Today portfolio, where recoveries are expected to exceed charge-offs over the remaining life of that portfolio. The net qualitative adjustment at June 30, 2022 was a net reduction of \$7,575. Adjustments are evaluated quarterly based on current facts and circumstances.

Activity in the allowance for credit losses by portfolio segment is summarized as follows. See Note 11. *LOAN COMMITMENTS AND CONTINGENT LIABILITIES* for further details on the allowance for unfunded commitments.

For the Three Months Ended June 30, 2022					
	Beginning Balance	Provisions (Releases)	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	\$ 46,469	\$ 4,337	\$ (23)	\$ 669	\$ 51,452
Residential Home Today	(850)	(543)	(91)	592	(892)
Home equity loans and lines of credit	18,425	(1,162)	(191)	1,522	18,594
Construction	280	(159)	—	175	296
Total real estate loans	\$ 64,324	\$ 2,473	\$ (305)	\$ 2,958	\$ 69,450
Total Unfunded Loan Commitments ⁽¹⁾	\$ 26,601	\$ 1,527	\$ —	\$ —	\$ 28,128
Total Allowance for Credit Losses	\$ 90,925	\$ 4,000	\$ (305)	\$ 2,958	\$ 97,578

For the Three Months Ended June 30, 2021					
	Beginning Balance	Provisions (Releases)	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	\$ 46,546	\$ (156)	\$ (876)	\$ 546	\$ 46,060
Residential Home Today	(705)	(136)	(140)	720	(261)
Home equity loans and lines of credit	21,236	(1,811)	(587)	1,348	20,186
Construction	672	(222)	—	—	450
Total real estate loans	\$ 67,749	\$ (2,325)	\$ (1,603)	\$ 2,614	\$ 66,435
Total Unfunded Loan Commitments ⁽¹⁾	\$ 21,953	\$ 1,325	\$ —	\$ —	\$ 23,278
Total Allowance for Credit Losses	\$ 89,702	\$ (1,000)	\$ (1,603)	\$ 2,614	\$ 89,713

For the Nine Months Ended June 30, 2022					
	Beginning Balance	Provisions (Releases)	Charge-offs	Recoveries	Ending Balance
Real estate loans:					
Residential Core	\$ 44,523	\$ 4,811	\$ (181)	\$ 2,299	\$ 51,452
Residential Home Today	15	(2,789)	(197)	2,079	(892)
Home equity loans and lines of credit	19,454	(4,004)	(802)	3,946	18,594
Construction	297	(176)	—	175	296
Total real estate loans	\$ 64,289	\$ (2,158)	\$ (1,180)	\$ 8,499	\$ 69,450
Total Unfunded Loan Commitments ⁽¹⁾	\$ 24,970	\$ 3,158	\$ —	\$ —	\$ 28,128
Total Allowance for Credit Losses	\$ 89,259	\$ 1,000	\$ (1,180)	\$ 8,499	\$ 97,578

For the Nine Months Ended June 30, 2021							
	Beginning Balance	Adoption of ASU 2016-13	Provisions (Releases)	Charge-offs	Recoveries	Ending Balance	
Real estate loans:							
Residential Core	\$ 22,381	\$ 23,927	\$ (424)	\$ (1,345)	\$ 1,521	\$ 46,060	
Residential Home Today	5,654	(5,217)	(1,944)	(448)	1,694	(261)	
Home equity loans and lines of credit	18,898	5,258	(6,177)	(2,035)	4,242	20,186	
Construction	4	127	319	—	—	450	
Total real estate loans	\$ 46,937	\$ 24,095	\$ (8,226)	\$ (3,828)	\$ 7,457	\$ 66,435	
Total Unfunded Loan Commitments ⁽¹⁾	\$ —	\$ 22,052	\$ 1,226	\$ —	\$ —	\$ 23,278	
Total Allowance for Credit Losses	\$ 46,937	\$ 46,147	\$ (7,000)	\$ (3,828)	\$ 7,457	\$ 89,713	

(1) Total allowance for unfunded loan commitments is recorded in other liabilities on the *CONSOLIDATED STATEMENTS OF CONDITION* (unaudited) and primarily relates to undrawn home equity lines of credit

CLASSIFIED LOANS

The following tables provide information about the credit quality of residential loan receivables by an internally assigned grade as of the dates presented. Revolving loans reported at amortized cost include home equity lines of credit currently in their draw period. Revolving loans converted to term are home equity lines of credit that are in repayment. Home equity loans and bridge loans are segregated by origination year. Loans, or the portions of loans, classified as loss are fully charged-off in the period in which they are determined to be uncollectible; therefore they are not included in the following table. No Home Today loans are classified Special Mention and no construction loans are classified Substandard for either period presented. No construction loans are classified Special Mention at June 30, 2022. Balances are adjusted for deferred loan fees and expenses and any applicable loans-in-process.

	By fiscal year of origination						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2022	2021	2020	2019	2018	Prior			
June 30, 2022									
Real estate loans:									
Residential Core									
Pass	\$ 2,763,920	\$ 2,320,782	\$ 1,544,169	\$ 652,083	\$ 695,835	\$ 3,303,848	\$ —	\$ —	\$11,280,637
Special Mention	—	614	—	109	466	821	—	—	2,010
Substandard	—	1,077	2,893	2,022	1,997	28,627	—	—	36,616
Total Residential Core	2,763,920	2,322,473	1,547,062	654,214	698,298	3,333,296	—	—	11,319,263
Residential Home Today ⁽¹⁾									
Pass	—	—	—	—	—	46,549	—	—	46,549
Substandard	—	—	—	—	—	8,333	—	—	8,333
Total Residential Home Today	—	—	—	—	—	54,882	—	—	54,882
Home equity loans and lines of credit									
Pass	56,921	32,888	9,916	8,434	7,727	11,966	2,306,667	97,822	2,532,341
Special Mention	—	—	—	—	—	7	793	684	1,484
Substandard	—	—	—	21	21	261	3,536	7,494	11,333
Total Home equity loans and lines of credit	56,921	32,888	9,916	8,455	7,748	12,234	2,310,996	106,000	2,545,158
Construction									
Total Pass Construction	24,825	17,895	—	—	—	—	—	—	42,720
Total real estate loans									
Pass	2,845,666	2,371,565	1,554,085	660,517	703,562	3,362,363	2,306,667	97,822	13,902,247
Special Mention	—	614	—	109	466	828	793	684	3,494
Substandard	—	1,077	2,893	2,043	2,018	37,221	3,536	7,494	56,282
Total real estate loans	\$ 2,845,666	\$ 2,373,256	\$ 1,556,978	\$ 662,669	\$ 706,046	\$ 3,400,412	\$ 2,310,996	\$ 106,000	\$13,962,023

(1) No new originations of Home Today loans since fiscal 2016.

	By fiscal year of origination						Revolving Loans Amortized Cost Basis	Revolving Loans Converted To Term	Total
	2021	2020	2019	2018	2017	Prior			
September 30, 2021									
Real estate loans:									
Residential Core									
Pass	\$ 2,637,782	\$ 1,807,652	\$ 784,462	\$ 860,150	\$ 1,016,853	\$ 3,042,398	\$ —	\$ —	\$10,149,297
Special Mention	22,711	703	110	709	300	759	—	—	25,292
Substandard	—	4,029	4,470	4,860	4,813	40,861	—	—	59,033
Total Residential Core	2,660,493	1,812,384	789,042	865,719	1,021,966	3,084,018	—	—	10,233,622
Residential Home Today ⁽¹⁾									
Pass	—	—	—	—	—	53,076	—	—	53,076
Substandard	—	—	—	—	—	10,333	—	—	10,333
Total Residential Home Today	—	—	—	—	—	63,409	—	—	63,409
Home equity loans and lines of credit									
Pass	48,427	14,488	12,325	11,891	10,423	6,478	1,990,195	129,336	2,223,563
Special Mention	—	—	13	—	—	10	1,182	292	1,497
Substandard	—	—	148	57	304	33	4,746	11,570	16,858
Total Home equity loans and lines of credit	48,427	14,488	12,486	11,948	10,727	6,521	1,996,123	141,198	2,241,918
Construction									
Pass	26,587	3,890	—	—	—	—	—	—	30,477
Special Mention	1,120	—	—	—	—	—	—	—	1,120
Total Construction	27,707	3,890	—	—	—	—	—	—	31,597
Total real estate loans									
Pass	2,712,796	1,826,030	796,787	872,041	1,027,276	3,101,952	1,990,195	129,336	12,456,413
Special Mention	23,831	703	123	709	300	769	1,182	292	27,909
Substandard	—	4,029	4,618	4,917	5,117	51,227	4,746	11,570	86,224
Total real estate loans	\$ 2,736,627	\$ 1,830,762	\$ 801,528	\$ 877,667	\$ 1,032,693	\$ 3,153,948	\$ 1,996,123	\$ 141,198	\$12,570,546

(1) No new originations of Home Today loans since fiscal 2016.

The home equity lines of credit converted from revolving to term loans during the three and nine months ended June 30, 2022 totaled \$211 and \$462 and during the three and nine months ended June 30, 2021 totaled \$3,013 and \$8,808, respectively. The amount of conversions to term loans is expected to remain low for several years since the length of the draw period on new originations changed from five to ten years in 2016.

Residential loans are internally assigned a grade that complies with the guidelines outlined in the OCC's Handbook for Rating Credit Risk. Pass loans are assets well protected by the current paying capacity of the borrower. Special Mention loans have a potential weakness, as evaluated based on delinquency status or nature of the product, that the Company deems to deserve management's attention and may result in further deterioration in their repayment prospects and/or the Company's credit position. Included in Special Mention loans are residential mortgage loans purchased which were current and performing at the time of purchase, but due to the absence of mortgage insurance coverage are potentially weaker repayment prospects when compared with the Company's originated residential Core portfolio. Substandard loans are inadequately protected by the current payment capacity of the borrower or the collateral pledged with a defined weakness that jeopardizes the liquidation of the debt. Also included in Substandard are performing home equity loans and lines of credit where the customer has a severely delinquent first mortgage to which the performing home equity loan or line of credit is subordinate and all loans in Chapter 7 bankruptcy status where all borrowers have filed, and have not reaffirmed or been dismissed. Loss loans are considered uncollectible and are charged off when identified. Loss loans are of such little value that their continuance as bankable assets is not warranted even though partial recovery may be effected in the future.

At June 30, 2022 and September 30, 2021, respectively, \$77,714 and \$83,708 of TDRs individually evaluated for credit loss have adequately performed under the terms of the restructuring and are classified as Pass loans.

Other loans are internally assigned a grade of non-performing when they become 90 days or more past due. At June 30, 2022 and September 30, 2021, no other loans were graded as non-performing.

TROUBLED DEBT RESTRUCTURINGS

Initial concessions granted for loans restructured as TDRs may include reduction of interest rate, extension of amortization period, forbearance or other actions. Some TDRs have experienced a combination of concessions. TDRs also may occur as a result of bankruptcy proceedings. Loans discharged in Chapter 7 bankruptcy are classified as multiple restructurings if the loan's original terms had also been restructured by the Company. The amortized cost in TDRs by category as of June 30, 2022 and September 30, 2021 is shown in the tables below.

June 30, 2022	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 31,602	\$ 17,848	\$ 11,143	\$ 60,593
Residential Home Today	11,038	11,745	2,134	24,917
Home equity loans and lines of credit	23,568	2,800	1,354	27,722
Total	<u>\$ 66,208</u>	<u>\$ 32,393</u>	<u>\$ 14,631</u>	<u>\$ 113,232</u>

September 30, 2021	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 33,394	\$ 20,499	\$ 12,962	\$ 66,855
Residential Home Today	12,640	13,409	2,556	28,605
Home equity loans and lines of credit	26,550	3,424	1,675	31,649
Total	<u>\$ 72,584</u>	<u>\$ 37,332</u>	<u>\$ 17,193</u>	<u>\$ 127,109</u>

TDRs may be restructured more than once. Among other requirements, a subsequent restructuring may be available for a borrower upon the expiration of temporary restructuring terms if the borrower is unable to resume contractually scheduled loan payments. If the borrower is experiencing an income curtailment that temporarily has reduced their capacity to repay, such as loss of employment, reduction of work hours, non-paid leave or short-term disability, a temporary restructuring is considered. If the borrower lacks the capacity to repay the loan at the current terms due to a permanent condition, a permanent restructuring is considered. In evaluating the need for a subsequent restructuring, the borrower's ability to repay is generally assessed utilizing a debt to income and cash flow analysis.

For all TDRs restructured during the three and nine months ended June 30, 2022 and June 30, 2021 (set forth in the tables below), the pre-restructured outstanding amortized cost was not materially different from the post-restructured outstanding amortized cost.

The following tables set forth the amortized cost in TDRs restructured during the periods presented.

For the Three Months Ended June 30, 2022				
	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 1,276	\$ 606	\$ 268	\$ 2,150
Residential Home Today	6	396	—	402
Home equity loans and lines of credit	244	45	23	312
Total	<u>\$ 1,526</u>	<u>\$ 1,047</u>	<u>\$ 291</u>	<u>\$ 2,864</u>

For the Three Months Ended June 30, 2021				
	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 3,090	\$ 438	\$ 535	\$ 4,063
Residential Home Today	110	338	—	448
Home equity loans and lines of credit	969	122	163	1,254
Total	\$ 4,169	\$ 898	\$ 698	\$ 5,765

For the Nine Months Ended June 30, 2022				
	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 3,536	\$ 1,298	\$ 772	\$ 5,606
Residential Home Today	202	766	48	1,016
Home equity loans and lines of credit	478	95	165	738
Total	\$ 4,216	\$ 2,159	\$ 985	\$ 7,360

For the Nine Months Ended June 30, 2021				
	Initial Restructuring	Multiple Restructurings	Bankruptcy	Total
Residential Core	\$ 8,403	\$ 1,697	\$ 1,504	\$ 11,604
Residential Home Today	300	1,311	106	1,717
Home equity loans and lines of credit	1,326	801	227	2,354
Total	\$ 10,029	\$ 3,809	\$ 1,837	\$ 15,675

The tables below summarize information about TDRs restructured within 12 months of the period presented for which there was a subsequent payment default, at least 30 days past due on one scheduled payment, during the periods presented.

	For the Three Months Ended June 30,			
	2022		2021	
	Number of Contracts	Amortized Cost	Number of Contracts	Amortized Cost
<u>TDRs That Subsequently Defaulted</u>				
Residential Core	6	\$ 701	4	\$ 457
Residential Home Today	5	89	7	182
Home equity loans and lines of credit	3	254	1	46
Total	14	\$ 1,044	12	\$ 685

	For the Nine Months Ended June 30,			
	2022		2021	
	Number of Contracts	Amortized Cost	Number of Contracts	Amortized Cost
<u>TDRs That Subsequently Defaulted</u>				
Residential Core	6	\$ 701	4	\$ 457
Residential Home Today	7	97	7	181
Home equity loans and lines of credit	3	254	2	90
Total	16	\$ 1,052	13	\$ 728

5. DEPOSITS

Deposit account balances are summarized as follows:

	June 30, 2022	September 30, 2021
Checking accounts	\$ 1,504,778	\$ 1,132,910
Savings accounts, excluding money market accounts	1,350,176	1,263,309
Money market accounts	521,685	563,931
Certificates of deposit	5,779,797	6,031,603
	9,156,436	8,991,753
Accrued interest	1,212	1,852
Total deposits	<u>\$ 9,157,648</u>	<u>\$ 8,993,605</u>

Brokered deposits, which are used as a cost effective funding alternative, consist of certificates of deposit and checking accounts. Brokered certificates of deposits (exclusive of acquisition costs and subsequent amortization) totaled \$489,792 at June 30, 2022 and \$491,994 at September 30, 2021. Brokered checking accounts totaled \$300,109 at June 30, 2022. There were no brokered checking accounts at September 30, 2021. The FDIC places restrictions on banks with regard to issuing brokered deposits based on the bank's capital classification. As a well-capitalized institution at June 30, 2022 and September 30, 2021, the Association may accept brokered deposits without FDIC restrictions.

6. BORROWED FUNDS

Federal Home Loan Bank borrowings at June 30, 2022 are summarized in the table below.

	Amount	Weighted Average Rate
Maturing in:		
12 months or less	\$ 3,205,293	1.49 %
13 to 24 months	350,000	1.51 %
25 to 36 months	375,000	1.53 %
37 to 48 months	100,841	1.53 %
49 to 60 months	200,000	2.32 %
Over 60 months	11,459	1.58 %
Total FHLB Advances	4,242,593	1.54 %
Accrued interest	3,595	
Total	<u>\$ 4,246,188</u>	

All borrowings have fixed rates during their term ranging up to 240 months. Interest is payable monthly for long-term advances and at maturity for FHLB swap based three-month and overnight advances. For the three and nine month periods ended June 30, 2022 and June 30, 2021 net interest expense related to Federal Home Loan Bank short-term borrowings was \$10,425 and \$33,465, and \$12,559 and \$38,395 respectively. Due to the use of shorter-term borrowings, the average interest rate decreased over the three and nine month periods.

Through the use of interest rate swaps discussed in Note 13. *DERIVATIVE INSTRUMENTS*, \$1,750,000 of FHLB advances included in the table above as maturing in 12 months or less, have effective maturities, assuming no early terminations of the swap contracts, as shown below:

	Amount	Swap Adjusted Weighted Average Rate
Effective maturity:		
12 months or less	\$ 350,000	2.01 %
13 to 24 months	200,000	1.42 %
25 to 36 months	400,000	1.33 %
37 to 48 months	475,000	2.08 %
49 to 60 months	325,000	2.37 %
Total FHLB Advances under swap contracts	<u>\$ 1,750,000</u>	1.88 %

7. OTHER COMPREHENSIVE INCOME (LOSS)

The change in accumulated other comprehensive income (loss) by component is as follows:

	For the Three Months Ended June 30, 2022				For the Three Months Ended June 30, 2021			
	Unrealized Gains (Losses) on Securities Available for Sale	Cash Flow Hedges	Defined Benefit Plan	Total	Unrealized Gains (Losses) on Securities Available for Sale	Cash Flow Hedges	Defined Benefit Plan	Total
Balance at beginning of period	\$ (16,183)	\$ 15,726	\$(10,374)	\$ (10,831)	\$ 2,836	\$ (69,018)	\$(21,421)	\$ (87,603)
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$3,338 and \$(2,115)	(4,480)	16,073	630	12,223	(719)	(7,316)	—	(8,035)
Amounts reclassified, net of tax expense (benefit) of \$1,031 and \$2,476	—	3,467	95	3,562	—	8,801	467	9,268
Other comprehensive income (loss)	(4,480)	19,540	725	15,785	(719)	1,485	467	1,233
Balance at end of period	<u>\$ (20,663)</u>	<u>\$ 35,266</u>	<u>\$ (9,649)</u>	<u>\$ 4,954</u>	<u>\$ 2,117</u>	<u>\$ (67,533)</u>	<u>\$(20,954)</u>	<u>\$ (86,370)</u>

	For the Nine Months Ended				For the Nine Months Ended			
	June 30, 2022				June 30, 2021			
	Unrealized Gains (Losses) on Securities Available for Sale	Cash Flow Hedges	Defined Benefit Plan	Total	Unrealized Gains (Losses) on Securities Available for Sale	Cash Flow Hedges	Defined Benefit Plan	Total
Balance at beginning of period	\$ 961	\$ (58,210)	\$ (10,552)	\$ (67,801)	\$ 4,694	\$ (114,306)	\$ (22,353)	\$ (131,965)
Other comprehensive income (loss) before reclassifications, net of tax expense (benefit) of \$15,615 and \$5,825	(21,624)	74,683	616	53,675	(2,577)	20,410	—	17,833
Amounts reclassified, net of tax expense (benefit) of \$5,517 and \$7,423	—	18,793	287	19,080	—	26,363	1,399	27,762
Other comprehensive income (loss)	(21,624)	93,476	903	72,755	(2,577)	46,773	1,399	45,595
Balance at end of period	<u>\$ (20,663)</u>	<u>\$ 35,266</u>	<u>\$ (9,649)</u>	<u>\$ 4,954</u>	<u>\$ 2,117</u>	<u>\$ (67,533)</u>	<u>\$ (20,954)</u>	<u>\$ (86,370)</u>

The following table presents the reclassification adjustment out of accumulated other comprehensive income (loss) included in net income and the corresponding line item on the *CONSOLIDATED STATEMENTS OF INCOME* for the periods indicated:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income		Amounts Reclassified from Accumulated Other Comprehensive Income		Line Item in the Consolidated Statements of Income
	For the Three Months Ended June 30,		For the Nine Months Ended June 30,		
	2022	2021	2022	2021	
Cash flow hedges:					
Interest expense	\$ 4,469	\$ 11,140	\$ 24,225	\$ 33,371	Interest expense
Net income tax effect	(1,002)	(2,339)	(5,432)	(7,008)	Income tax expense
Net of income tax expense	3,467	8,801	18,793	26,363	
Amortization of defined benefit plan:					
Actuarial loss	124	604	372	1,814	(a)
Net income tax effect	(29)	(137)	(85)	(415)	Income tax expense
Net of income tax expense	95	467	287	1,399	
Total reclassifications for the period	\$ 3,562	\$ 9,268	\$ 19,080	\$ 27,762	

(a) This item is included in the computation of net periodic pension cost. See Note 9. *DEFINED BENEFIT PLAN* for additional disclosure.

8. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and in various state and city jurisdictions. The Company's combined federal and state effective income tax rate was 19.3% and 19.5% for the nine months ended June 30, 2022 and June 30, 2021, respectively.

The Company is no longer subject to income tax examinations in its major jurisdictions for tax years prior to 2018. The Company recognizes interest and penalties on income tax assessments or income tax refunds, where applicable, in the financial statements as a component of its provision for income taxes.

The Company makes certain investments in limited partnerships which invest in affordable housing projects that qualify for the Low Income Housing Tax Credit. The Company acts as a limited partner in these investments and does not exert control over the operating or financial policies of the partnership. The Company accounts for its interests in LIHTCs using the proportional amortization method. The impact of the Company's investments in tax credit entities on the provision for income taxes was not material during the nine months ended June 30, 2022 and June 30, 2021.

9. DEFINED BENEFIT PLAN

The Third Federal Savings Retirement Plan (the "Plan") is a defined benefit pension plan. Effective December 31, 2002, the Plan was amended to limit participation to employees who met the Plan's eligibility requirements on that date. Effective December 31, 2011, the Plan was amended to freeze future benefit accruals for participants in the Plan. After December 31, 2002, employees not participating in the Plan, upon meeting the applicable eligibility requirements, and those eligible participants who no longer receive service credits under the Plan, participate in a separate tier of the Company's defined contribution 401(k) Savings Plan. Benefits under the Plan are based on years of service and the employee's average annual compensation (as defined in the Plan) through December 31, 2011. The funding policy of the Plan is consistent with the funding requirements of U.S. federal and other governmental laws and regulations.

The components of net periodic cost recognized in other non-interest expense in the *UNAUDITED CONSOLIDATED STATEMENTS OF INCOME* are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Interest cost	\$ 611	\$ 609	\$ 1,832	\$ 1,827
Expected return on plan assets	(1,301)	(1,175)	(3,903)	(3,526)
Amortization of net loss	124	604	372	1,814
Recognized net loss due to settlement	815	187	815	594
Net periodic (benefit) cost	<u>\$ 249</u>	<u>\$ 225</u>	<u>\$ (884)</u>	<u>\$ 709</u>

There were no required minimum employer contributions during the nine months ended June 30, 2022. There are no required minimum employer contributions expected during the remainder of the fiscal year ending September 30, 2022.

10. EQUITY INCENTIVE PLAN

In December 2021, 126,200 restricted stock units were granted to certain directors, officers and managers of the Company and 53,100 performance share units were granted to certain officers of the Company. During the nine months ended June 30, 2022, there were 6,477 performance shares earned and added to those granted in December 2019, according to the targeted performance formula. The awards were made pursuant to the Amended and Restated 2008 Equity Incentive Plan, which was approved at the annual meeting of shareholders held on February 22, 2018.

The following table presents share-based compensation expense recognized during the periods presented.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Stock option expense	\$ —	\$ —	\$ —	\$ 68
Restricted stock units expense	760	957	2,406	3,291
Performance share units expense	187	245	500	956
Total stock-based compensation expense	<u>\$ 947</u>	<u>\$ 1,202</u>	<u>\$ 2,906</u>	<u>\$ 4,315</u>

At June 30, 2022, 2,363,775 shares were subject to vested options, with a weighted average exercise price of \$15.14 per share and a weighted average grant date fair value of \$2.55 per share. At June 30, 2022, 485,938 restricted stock units and 169,954 performance share units with a weighted average grant date fair value of \$17.75 and \$18.46 per unit, respectively, are unvested. Expected future compensation expense relating to the 1,259,465 restricted stock units and 169,954 performance share

units outstanding as of June 30, 2022 is \$4,428 over a weighted average period of 2.0 years and \$1,220 over a weighted average period of 2.0 years, respectively. Each unit is equivalent to one share of common stock.

11. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, the Company enters into commitments with off-balance sheet risk to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments to originate loans generally have fixed expiration dates of 60 to 360 days or other termination clauses and may require payment of a fee. Unfunded commitments related to home equity lines of credit generally expire from five to 10 years following the date that the line of credit was established, subject to various conditions, including compliance with payment obligations, adequacy of collateral securing the line and maintenance of a satisfactory credit profile by the borrower. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Off-balance sheet commitments to extend credit involve elements of credit risk and interest rate risk in excess of the amount recognized in assets on the *CONSOLIDATED STATEMENTS OF CONDITION*. The Company's exposure to credit loss in the event of nonperformance by the other party to the commitment is represented by the contractual amount of the commitment. The Company generally uses the same credit policies in making commitments as it does for on-balance sheet instruments. The allowance related to off-balance sheet commitments is recorded in other liabilities in the *CONSOLIDATED STATEMENTS OF CONDITION*. Refer to Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* for discussion on credit loss methodology. Interest rate risk on commitments to extend credit results from the possibility that interest rates may move unfavorably from the position of the Company since the time the commitment was made.

At June 30, 2022, the Company had commitments to originate loans and related allowances as follows:

	Commitment	Allowance
Fixed-rate mortgage loans	\$ 376,536	\$ 1,489
Adjustable-rate mortgage loans	252,842	1,025
Home equity loans and lines of credit	288,530	3,160
Total	<u>\$ 917,908</u>	<u>\$ 5,674</u>

At June 30, 2022, the Company had unfunded commitments outstanding and related allowances as follows:

	Commitment	Allowance
Home equity lines of credit	\$ 3,861,635	\$ 21,848
Construction loans	68,578	606
Total	<u>\$ 3,930,213</u>	<u>\$ 22,454</u>

At June 30, 2022, the unfunded commitment on home equity lines of credit, including commitments for accounts suspended as a result of material default or a decline in equity, was \$3,881,677.

At June 30, 2022 and September 30, 2021, the Company had \$1,385 and \$0, respectively, in commitments to sell mortgage loans.

The above commitments are expected to be funded through normal operations.

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company's consolidated financial condition, results of operation, or statements of cash flows.

12. FAIR VALUE

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date under current market conditions. A fair value framework is established whereby assets and liabilities measured at fair value are grouped into three levels of a fair value hierarchy, based on the transparency of inputs and the reliability of assumptions used to estimate fair value.

As permitted under the fair value guidance in U.S. GAAP, the Company elects to measure at fair value mortgage loans classified as held for sale that are subject to pending agency contracts to securitize and sell loans. This election is expected to reduce volatility in earnings related to market fluctuations between the contract trade and settlement dates. At June 30, 2022 and September 30, 2021, respectively, there were \$831 and \$0 loans held for sale, all of which were current, with unpaid principal balances of \$834 and \$0, subject to pending agency contracts for which the fair value option was elected. Included in the net loss on the sale of loans is \$6 for both the three and nine months ending June 30, 2022, and a net gain of \$40 and a net loss of \$134 for the three and nine months ending June 30, 2021, respectively, related to the changes during the period in fair value of loans held for sale subject to pending agency contracts.

Presented below is a discussion of the methods and significant assumptions used by the Company to estimate fair value.

Investment Securities Available for Sale—Investment securities available for sale are recorded at fair value on a recurring basis. At June 30, 2022 and September 30, 2021, respectively, this includes \$449,874 and \$421,783 of investments in U.S. government and agency obligations including U.S. Treasury notes and investments in highly liquid collateralized mortgage obligations issued by Fannie Mae, Freddie Mac and Ginnie Mae, measured using the market approach. The fair values of investment securities represent unadjusted price estimates obtained from third party independent nationally recognized pricing services using pricing models or quoted prices of securities with similar characteristics and are included in Level 2 of the hierarchy. Third party pricing is reviewed on a monthly basis for reasonableness based on the market knowledge and experience of company personnel that interact daily with the markets for these types of securities.

Mortgage Loans Held for Sale—The fair value of mortgage loans held for sale is estimated on an aggregate basis using a market approach based on quoted secondary market pricing for loan portfolios with similar characteristics. Loans held for sale are carried at the lower of cost or fair value except, as described above, the Company elects the fair value measurement option for mortgage loans held for sale subject to pending agency contracts to securitize and sell loans. Loans held for sale are included in Level 2 of the hierarchy. At June 30, 2022 and September 30, 2021, there were \$1,314 and \$0, respectively, of loans held for sale measured at fair value and \$0 and \$8,848, respectively, of loans held for sale carried at cost. Interest income on mortgage loans held for sale is recorded in interest income on loans.

Collateral-dependent Loans—Collateral-dependent loans represent certain loans held for investment that are subject to a fair value measurement under U.S. GAAP because they are individually evaluated using a fair value measurement, such as the fair value of the underlying collateral. Credit loss is measured using a market approach based on the fair value of the collateral, less estimated costs to dispose, for loans the Company considers to be collateral-dependent due to a delinquency status or other adverse condition severe enough to indicate that the borrower can no longer be relied upon as the continued source of repayment. These conditions are described more fully in Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES*. To calculate the credit loss of collateral-dependent loans, the fair market values of the collateral, estimated using exterior appraisals in the majority of instances, are reduced by calculated estimated costs to dispose, derived from historical experience and recent market conditions. Any indicated credit loss is recognized by a charge to the allowance for credit losses. Subsequent increases in collateral values or principal pay downs on loans with recognized credit loss could result in a collateral-dependent loan being carried below its fair value. When no credit loss is indicated, the carrying amount is considered to approximate the fair value of that loan to the Company because contractually that is the maximum recovery the Company can expect. The amortized cost of loans individually evaluated for credit loss based on the fair value of the collateral are included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis. The range and weighted average impact of estimated costs to dispose on fair values is determined at the time of credit loss or when additional credit loss is recognized and is included in quantitative information about significant unobservable inputs later in this note.

Loans held for investment that have been restructured in TDRs, are performing according to the restructured terms of the loan agreement and not evaluated based on collateral are individually evaluated for credit loss using the present value of future cash flows based on the loan's effective interest rate, which is not a fair value measurement. At June 30, 2022 and September 30, 2021, respectively, this included \$78,721 and \$84,594 in amortized cost of TDRs with related allowances for loss of \$10,744 and \$12,073.

Real Estate Owned—Real estate owned includes real estate acquired as a result of foreclosure or by deed in lieu of foreclosure and is carried at the lower of the cost basis or fair value, less estimated costs to dispose. The carrying amounts of real estate owned at June 30, 2022 and September 30, 2021 were \$253 and \$289, respectively. Fair value is estimated under the market approach using independent third party appraisals. As these properties are actively marketed, estimated fair values may be adjusted by management to reflect current economic and market conditions. At June 30, 2022 and September 30, 2021, these adjustments were not significant to reported fair values. At June 30, 2022 and September 30, 2021, respectively, \$109 and \$66 of real estate owned is included in Level 3 of the hierarchy with assets measured at fair value on a non-recurring basis, where the cost basis equals or exceeds the estimated fair values less costs to dispose of \$11 and \$9, respectively. Real estate owned

includes \$155 and \$231 of properties carried at their original or adjusted cost basis at June 30, 2022 and September 30, 2021, respectively.

Derivatives—Derivative instruments include interest rate locks on commitments to originate loans for the held for sale portfolio, forward commitments on contracts to deliver mortgage loans and interest rate swaps designated as cash flow hedges. Derivatives not designated as cash flow hedges are reported at fair value in Other assets or Other liabilities on the *CONSOLIDATED STATEMENTS OF CONDITION* with changes in value recorded in current earnings. Derivatives qualifying as cash flow hedges are settled daily, bringing the fair value to \$0. Refer to Note 13. *DERIVATIVE INSTRUMENTS* for additional information on cash flow hedges and other derivative instruments. The fair value of interest rate lock commitments is adjusted by a closure rate based on the estimated percentage of commitments that will result in closed loans. The range and weighted average impact of the closure rate is included in quantitative information about significant unobservable inputs later in this note. A significant change in the closure rate may result in a significant change in the ending fair value measurement of these derivatives relative to their total fair value. Because the closure rate is a significantly unobservable assumption, interest rate lock commitments are included in Level 3 of the hierarchy. Forward commitments on contracts to deliver mortgage loans are included in Level 2 of the hierarchy.

Assets and liabilities carried at fair value on a recurring basis in the *CONSOLIDATED STATEMENTS OF CONDITION* at June 30, 2022 and September 30, 2021 are summarized below. There were no liabilities carried at fair value on a recurring basis at September 30, 2021.

		Recurring Fair Value Measurements at Reporting Date Using		
	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investment securities available for sale:				
REMICs	\$ 444,969	\$ —	\$ 444,969	\$ —
Fannie Mae certificates	1,143	—	1,143	—
U.S. government and agency obligations	3,762	—	3,762	—
Mortgage loans held for sale	831	—	831	—
Total	<u>\$ 450,705</u>	<u>\$ —</u>	<u>\$ 450,705</u>	<u>\$ —</u>
Liabilities				
Derivatives:				
Interest rate lock commitments	\$ 72	\$ —	\$ —	\$ 72
Forward commitments for the sale of mortgage loans	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ —</u>
Total	<u>\$ 85</u>	<u>\$ —</u>	<u>\$ 13</u>	<u>\$ 72</u>

		Recurring Fair Value Measurements at Reporting Date Using		
	September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investment securities available for sale:				
REMIC's	\$ 416,241	\$ —	\$ 416,241	\$ —
Fannie Mae certificates	5,542	—	5,542	—
Derivatives:				
Interest rate lock commitments	525	—	—	525
Total	\$ 422,308	\$ —	\$ 421,783	\$ 525

The table below presents a reconciliation of the beginning and ending balances and the location within the *CONSOLIDATED STATEMENTS OF INCOME* where gains (losses) due to changes in fair value are recognized on interest rate lock commitments which are measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Beginning balance	\$ 247	\$ 821	\$ 525	\$ 1,194
(Loss)/Gain during the period due to changes in fair value:				
Included in other non-interest income	(319)	282	(597)	(91)
Ending balance	\$ (72)	\$ 1,103	\$ (72)	\$ 1,103
Change in unrealized gains for the period included in earnings for assets held at end of the reporting date	\$ (72)	\$ 1,103	\$ (72)	\$ 1,103

Summarized in the tables below are those assets measured at fair value on a nonrecurring basis.

Nonrecurring Fair Value Measurements at Reporting Date Using				
	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans, net of allowance	\$ 52,648	\$ —	\$ —	\$ 52,648
Mortgage loans held for sale	483	—	483	—
Real estate owned ⁽¹⁾	109	—	—	109
Total	\$ 53,240	\$ —	\$ 483	\$ 52,757

Nonrecurring Fair Value Measurements at Reporting Date Using				
	September 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans, net of allowance	\$ 83,854	\$ —	\$ —	\$ 83,854
Real estate owned ⁽¹⁾	66	—	—	66
Total	\$ 83,920	\$ —	\$ —	\$ 83,920

⁽¹⁾ Amounts represent fair value measurements of properties before deducting estimated costs to dispose.

The following provides quantitative information about significant unobservable inputs categorized within Level 3 of the Fair Value Hierarchy. The interest rate lock commitments include both mortgage origination applications and preapprovals. Preapprovals generally have a much lower closure rate than origination applications which is reflected in the aggregate weighted average closure rates shown below.

Fair Value		Valuation Technique(s)	Unobservable Input	Range	Weighted Average
	June 30, 2022				
Collateral-dependent loans, net of allowance	\$52,648	Market comparables of collateral discounted to estimated net proceeds	Discount appraised value to estimated net proceeds based on historical experience:		
			• Residential Properties	0 - 28%	4.9%
Interest rate lock commitments	\$(72)	Quoted Secondary Market pricing	Closure rate	0 - 100%	51.0%

	Fair Value September 30, 2021	Valuation Technique(s)	Unobservable Input	Range	Weighted Average
Collateral-dependent loans, net of allowance	\$83,854	Market comparables of collateral discounted to estimated net proceeds	Discount appraised value to estimated net proceeds based on historical experience: • Residential Properties	0 - 34%	4.0%
Interest rate lock commitments	\$525	Quoted Secondary Market pricing	Closure rate	0 - 100%	66.1%

The following tables present the estimated fair value of the Company's financial instruments and their carrying amounts as reported in the *CONSOLIDATED STATEMENTS OF CONDITION*.

	June 30, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks	\$ 29,995	\$ 29,995	\$ 29,995	\$ —	\$ —
Interest earning cash equivalents	357,535	357,535	357,535	—	—
Investment securities available for sale	449,874	449,874	—	449,874	—
Mortgage loans held for sale	1,314	1,314	—	1,314	—
Loans, net:					
Mortgage loans held for investment	13,892,573	13,200,480	—	—	13,200,480
Other loans	3,255	3,255	—	—	3,255
Federal Home Loan Bank stock	188,890	188,890	N/A	—	—
Accrued interest receivable	34,907	34,907	—	34,907	—
Cash collateral received from or held by counterparty	19,529	19,529	19,529	—	—
Liabilities:					
Checking and passbook accounts	\$ 3,376,639	\$ 3,376,639	\$ —	\$ 3,376,639	\$ —
Certificates of deposit	5,781,009	5,744,090	—	5,744,090	—
Borrowed funds	4,246,188	4,220,836	—	4,220,836	—
Borrowers' advances for insurance and taxes	68,054	68,054	—	68,054	—
Principal, interest and escrow owed on loans serviced	18,713	18,713	—	18,713	—
Derivatives	85	85	—	13	72

	September 30, 2021				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and due from banks	\$ 27,346	\$ 27,346	\$ 27,346	\$ —	\$ —
Interest earning cash equivalents	460,980	460,980	460,980	—	—
Investment securities available for sale	421,783	421,783	—	421,783	—
Mortgage loans held for sale	8,848	8,982	—	8,982	—
Loans, net:					
Mortgage loans held for investment	12,506,257	12,777,375	—	—	12,777,375
Other loans	2,778	2,778	—	—	2,778
Federal Home Loan Bank stock	162,783	162,783	N/A	—	—
Accrued interest receivable	31,107	31,107	—	31,107	—
Cash collateral received from or held by counterparty	24,236	24,236	24,236	—	—
Derivatives	525	525	—	—	525
Liabilities:					
Checking and passbook accounts	\$ 2,960,150	\$ 2,960,150	\$ —	\$ 2,960,150	\$ —
Certificates of deposit	6,033,455	6,118,018	—	6,118,018	—
Borrowed funds	3,091,815	3,106,277	—	3,106,277	—
Borrowers' advances for insurance and taxes	109,633	109,633	—	109,633	—
Principal, interest and escrow owed on loans serviced	41,476	41,476	—	41,476	—

Presented below is a discussion of the valuation techniques and inputs used by the Company to estimate fair value.

Cash and Due from Banks, Interest Earning Cash Equivalents, Cash Collateral Received from or Held by Counterparty— The carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale— Estimated fair value for investment and mortgage-backed securities is based on quoted market prices, when available. If quoted prices are not available, management will use as part of their estimation process fair values which are obtained from third party independent nationally recognized pricing services using pricing models, quoted prices of securities with similar characteristics or discounted cash flows.

Mortgage Loans Held for Sale— Fair value of mortgage loans held for sale is based on quoted secondary market pricing for loan portfolios with similar characteristics.

Loans— For mortgage loans held for investment, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. The use of current rates to discount cash flows reflects current market expectations with respect to credit exposure. For other loans, the fair value is the principal outstanding at the reporting date. Collateral-dependent loans are measured at the lower of cost or fair value as described earlier in this footnote.

Federal Home Loan Bank Stock— It is not practical to estimate the fair value of FHLB stock due to restrictions on its transferability. The fair value is estimated to be the carrying value, which is par. All transactions in capital stock of the FHLB Cincinnati are executed at par.

Deposits— The fair value of demand deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flows and rates currently offered for deposits of similar remaining maturities.

Borrowed Funds— Estimated fair value for borrowed funds is estimated using discounted cash flows and rates currently charged for borrowings of similar remaining maturities.

Accrued Interest Receivable, Borrowers' Advances for Insurance and Taxes, and Principal, Interest and Related Escrow Owed on Loans Serviced— The carrying amount is a reasonable estimate of fair value.

Derivatives— Fair value is estimated based on the valuation techniques and inputs described earlier in this footnote.

13. DERIVATIVE INSTRUMENTS

The Company enters into interest rate swaps to add stability to interest expense and manage exposure to interest rate movements as part of an overall risk management strategy. For hedges of the Company's borrowing program, interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed payments. These derivatives are used to hedge the forecasted cash outflows associated with the Company's FHLB borrowings. At June 30, 2022 and September 30, 2021, the interest rate swaps used in the Company's asset/liability management strategy have weighted average terms of 2.6 years and 2.5 years and weighted average fixed-rate interest payments of 1.88% for both periods.

Cash flow hedges are initially assessed for effectiveness using regression analysis. Changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in OCI and are subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Quarterly, a qualitative analysis is performed to monitor the ongoing effectiveness of the hedging instrument. All derivative positions were initially and continue to be highly effective at June 30, 2022.

The Company enters into forward commitments for the sale of mortgage loans principally to protect against the risk of lost revenue from adverse interest rate movements on net income. The Company recognizes the fair value of such contracts when the characteristics of those contracts meet the definition of a derivative. These derivatives are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the *CONSOLIDATED STATEMENTS OF INCOME*.

In addition, the Company is party to derivative instruments when it enters into interest rate lock commitments to originate a portion of its loans, which when funded, are classified as held for sale. Such commitments are not designated in a hedging relationship; therefore, gains and losses are recognized immediately in the *CONSOLIDATED STATEMENTS OF INCOME*.

The following tables provide the notional values and fair values, and the locations of the fair values within the *CONSOLIDATED STATEMENTS OF CONDITION*, at the reporting dates, for all derivative instruments.

	June 30, 2022		September 30, 2021	
	Notional Value	Fair Value	Notional Value	Fair Value
Derivatives designated as hedging instruments				
Cash flow hedges: Interest rate swaps				
Other Assets	\$ 1,350,000	\$ —	\$ 250,000	\$ —
Other Liabilities	400,000	—	2,200,000	—
Total cash flow hedges: Interest rate swaps	<u>\$ 1,750,000</u>	<u>\$ —</u>	<u>\$ 2,450,000</u>	<u>\$ —</u>
Derivatives not designated as hedging instruments				
Interest rate lock commitments				
Other Assets	\$ —	\$ —	\$ 24,826	\$ 525
Other Liabilities	15,425	(72)	—	—
Forward Commitments for the sale of mortgage loans				
Other Liabilities	1,388	(13)	—	—
Total derivatives not designated as hedging instruments	<u>\$ 16,813</u>	<u>\$ (85)</u>	<u>\$ 24,826</u>	<u>\$ 525</u>

The following tables present the net gains and losses recorded within the *CONSOLIDATED STATEMENTS OF INCOME* and the *CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME* relating to derivative instruments.

		Three Months Ended		Nine Months Ended	
		June 30,		June 30,	
		2022	2021	2022	2021
Location of Gain or (Loss) Recognized in Income					
Cash flow hedges					
Amount of gain/(loss) recognized	Other comprehensive income	\$ 20,520	\$ (9,223)	\$ 96,345	\$ 26,982
Amount of gain/(loss) reclassified from AOCI	Interest expense: Borrowed funds	<u>(4,469)</u>	<u>(11,140)</u>	<u>(24,225)</u>	<u>(33,371)</u>
Derivatives not designated as hedging instruments					
Interest rate lock commitments	Other non-interest income	\$ (319)	\$ 282	(597)	\$ (91)
Forward commitments for the sale of mortgage loans	Net gain/(loss) on the sale of loans	<u>(13)</u>	<u>—</u>	<u>(13)</u>	<u>(162)</u>

The Company estimates that \$18,515 of the amounts reported in AOCI will be reclassified as a reduction to interest expense during the twelve months ending June 30, 2023.

Derivatives contain an element of credit risk which arises from the possibility that the Company will incur a loss because a counterparty fails to meet its contractual obligations. The Company's exposure is limited to the replacement value of the contracts rather than the notional or principal amounts. Credit risk is minimized through counterparty margin payments, transaction limits and monitoring procedures. All of the Company's swap transactions are cleared through a registered clearing broker to a central clearing organization. The clearing organization establishes daily cash and upfront cash or securities margin requirements to cover potential exposure in the event of default. This process shifts the risk away from the counterparty, since the clearing organization acts as the middleman on each cleared transaction. At June 30, 2022 and September 30, 2021, there was \$19,529 and \$24,236, respectively, included in other assets related to initial margin requirements held by the central clearing organization. For derivative transactions cleared through certain clearing parties, variation margin payments are recognized as settlements on a daily basis. The fair value of derivative instruments are presented on a gross basis, even when the derivative instruments are subject to master netting arrangements.

14. RECENT ACCOUNTING PRONOUNCEMENTS

Adopted during the nine months ended June 30, 2022

In March of 2022, the FASB issued ASU 2022-01, Derivatives and Hedging (Topic 815), Fair Value Hedging – Portfolio Layer Method. The amendments in this Update amend the guidance in ASU 2017-12 relating to the “last-of-layer” method and rename the method as the “portfolio layer” method. It expands the scope of existing guidance so that entities can apply the portfolio layer method to portfolios of all financial assets, including both prepayable and nonprepayable financial assets. Additionally, the standards expands the current model to explicitly allow entities to designate multiple layers in a single portfolio as individual hedged items. This allows a larger portion of the interest rate risk associated with such a portfolio to be hedged. The Update is effective for fiscal years beginning after December 15, 2022, with early adoption permitted in any interim period after its issuance. The Company early adopted this Update effective April 1, 2022. This Update did not have a material impact on the Company's consolidated financial condition or results of operations.

Issued but not yet adopted as of June 30, 2022

In March 2022, the FASB issued ASU 2022-02, Financial Instruments - Credit Losses (Topic 326). The amendments in this Update eliminate the accounting guidance for TDR by creditors, while enhancing disclosure requirements for certain loan refinancings and restructuring by creditors when the borrower is experiencing financial difficulty. This will be done by applying the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, this amendment requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20. This update is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the impact that this accounting guidance may have on its consolidated financial condition or results of operations.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on the Company's consolidated financial statements or do not apply to its operations.

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

Forward Looking Statements

This report contains forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, expect and similar expressions. These forward-looking statements include, among other things:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements concerning trends in our provision for credit losses and charge-offs on loans and off-balance sheet exposures;
- statements regarding the trends in factors affecting our financial condition and results of operations, including credit quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions, including with respect to our ability to charge overdraft fees;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments, or our ability to originate loans;
- general economic conditions, either globally, nationally or in our market areas, including employment prospects, real estate values and conditions that are worse than expected;
- the strength or weakness of the real estate markets and of the consumer and commercial credit sectors and its impact on the credit quality of our loans and other assets, and changes in estimates of the allowance for credit losses;
- decreased demand for our products and services and lower revenue and earnings because of a recession or other events;
- changes in consumer spending, borrowing and savings habits;
- adverse changes and volatility in the securities markets, credit markets or real estate markets;
- our ability to manage market risk, credit risk, liquidity risk, reputational risk, and regulatory and compliance risk;
- our ability to access cost-effective funding;
- legislative or regulatory changes that adversely affect our business, including changes in regulatory costs and capital requirements and changes related to our ability to pay dividends and the ability of Third Federal Savings, MHC to waive dividends;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board;
- the adoption of implementing regulations by a number of different regulatory bodies, and uncertainty in the exact nature, extent and timing of such regulations and the impact they will have on us;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible short-term dilutive effect of potential acquisitions or de novo branches, if any;
- our ability to retain key employees;
- future adverse developments concerning Fannie Mae or Freddie Mac;
- changes in monetary and fiscal policy of the U.S. Government, including policies of the U.S. Treasury and the FRS and changes in the level of government support of housing finance;
- the continuing governmental efforts to restructure the U.S. financial and regulatory system;
- the ability of the U.S. Government to remain open, function properly and manage federal debt limits;
- changes in policy and/or assessment rates of taxing authorities that adversely affect us or our customers;
- changes in accounting and tax estimates;
- changes in our organization, or compensation and benefit plans and changes in expense trends (including, but not limited to trends affecting non-performing assets, charge-offs and provisions for credit losses);
- the inability of third-party providers to perform their obligations to us;
- the effects of global or national war, conflict or acts of terrorism;
- civil unrest;
- cyber-attacks, computer viruses and other technological risks that may breach the security of our websites or other systems to obtain unauthorized access to confidential information, destroy data or disable our systems; and
- the impact of wide-spread pandemic, including COVID-19, and related government action, on our business and the economy.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by any forward-looking statements. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise, except as may be required by law. Please see Part II *Other Information* Item 1A. *Risk Factors* for a discussion of certain risks related to our business.

Overview

Our business strategy is to operate as a well-capitalized and profitable financial institution dedicated to providing exceptional personal service to our customers.

Since being organized in 1938, we grew to become, at the time of our initial public offering of stock in 2007, the nation's largest mutually-owned savings and loan association based on total assets. We credit our success to our continued emphasis on our primary values: "Love, Trust, Respect, and a Commitment to Excellence, along with Having Fun." Our values are reflected in the design and pricing of our loan and deposit products, as described below. Our values are further reflected in a long-term revitalization program encompassing the three-mile corridor of the Broadway-Slavic Village neighborhood in Cleveland, Ohio where our main office was established and continues to be located, and where the educational programs we have established and/or support are located. We intend to continue to adhere to our primary values and to support our customers and the communities in which we operate as we pursue our mission to help people achieve the dream of home ownership and financial security while creating value for our shareholders, our customers, our communities and our associates.

Management believes that the following matters are those most critical to our success: (1) controlling our interest rate risk exposure; (2) monitoring and limiting our credit risk; (3) maintaining access to adequate liquidity and diverse funding sources to support our growth; and (4) monitoring and controlling our operating expenses.

Controlling Our Interest Rate Risk Exposure. Historically, our greatest risk has been our exposure to changes in interest rates. When we hold longer-term, fixed-rate assets, funded by liabilities with shorter-term re-pricing characteristics, we are exposed to potentially adverse impacts from changing interest rates, and most notably rising interest rates. Generally, and particularly over extended periods of time that encompass full economic cycles, interest rates associated with longer-term assets, like fixed-rate mortgages, have been higher than interest rates associated with shorter-term funding sources, like deposits. This difference has been an important component of our net interest income and is fundamental to our operations. We manage the risk of holding longer-term, fixed-rate mortgage assets primarily by maintaining regulatory capital in excess of levels required to be well capitalized, by promoting adjustable-rate loans and shorter-term fixed-rate loans, by marketing home equity lines of credit, which carry an adjustable rate of interest indexed to the prime rate, by opportunistically extending the duration of our funding sources and selectively selling a portion of our long-term, fixed-rate mortgage loans in the secondary market. The decision to extend the duration of some of our funding sources through interest rate swap contracts in the past has also caused additional interest rate risk exposure, when market interest rates are lower than the rates in effect at the time the swap contracts were executed. Any rate difference is reflected in the level of cash flow hedges included in accumulated other comprehensive loss.

Levels of Regulatory Capital

At June 30, 2022, the Company's Tier 1 (leverage) capital totaled \$1.81 billion, or 12.11% of net average assets and 20.94% of risk-weighted assets, while the Association's Tier 1 (leverage) capital totaled \$1.59 billion, or 10.63% of net average assets and 18.38% of risk-weighted assets. Each of these measures was more than twice the requirements currently in effect for the Association for designation as "well capitalized" under regulatory prompt corrective action provisions, which set minimum levels of 5.00% of net average assets and 8.00% of risk-weighted assets. Refer to the *Liquidity and Capital Resources* section of this Item 2 for additional discussion regarding regulatory capital requirements.

Promotion of Adjustable-Rate Loans and Shorter-Term Fixed-Rate Loans

We market an adjustable-rate mortgage loan that provides us with improved interest rate risk characteristics when compared to a 30-year, fixed-rate mortgage loan. Our "Smart Rate" adjustable-rate mortgage offers borrowers an interest rate lower than that of a 30-year, fixed-rate loan. The interest rate of the Smart Rate mortgage is locked for three or five years then resets annually. The Smart Rate mortgage contains a feature to re-lock the rate an unlimited number of times at our then-current interest rate and fee schedule, for another three or five years (which must be the same as the original lock period) without having to complete a full refinance transaction. Re-lock eligibility is subject to a satisfactory payment performance history by the borrower (current at the time of re-lock, and no foreclosures or bankruptcies since the Smart Rate application was taken). In addition to a satisfactory payment history, re-lock eligibility requires that the property continues to be the borrower's primary residence. The loan term cannot be extended in connection with a re-lock nor can new funds be advanced. All interest rate caps and floors remain as originated.

We also offer a ten-year, fully amortizing fixed-rate, first mortgage loan. The ten-year, fixed-rate loan has a more desirable interest rate risk profile when compared to loans with fixed-rate terms of 15 to 30 years and can help to more effectively manage interest rate risk exposure, yet provides our borrowers with the certainty of a fixed interest rate throughout the life of the obligation.

The following tables set forth our first mortgage loan production and balances segregated by loan structure at origination.

	For the Nine Months Ended June 30, 2022		For the Nine Months Ended June 30, 2021	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
First Mortgage Loan Originations:				
ARM (all Smart Rate) production	\$ 788,047	27.1 %	\$ 909,363	31.3 %
Fixed-rate production:				
Terms less than or equal to 10 years	429,778	14.8 %	463,724	15.9 %
Terms greater than 10 years	1,691,472	58.1 %	1,535,166	52.8 %
Total fixed-rate production	2,121,250	72.9 %	1,998,890	68.7 %
Total First Mortgage Loan Originations	\$ 2,909,297	100.0 %	\$ 2,908,253	100.0 %

	June 30, 2022		September 30, 2021	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Balance of Residential Mortgage Loans Held For Investment:				
ARM (primarily Smart Rate) Loans	\$ 4,637,565	40.9 %	\$ 4,646,760	45.2 %
Fixed-rate:				
Terms less than or equal to 10 years	1,399,361	12.3 %	1,309,407	12.7 %
Terms greater than 10 years	5,318,606	46.8 %	4,322,931	42.1 %
Total fixed-rate	6,717,967	59.1 %	5,632,338	54.8 %
Total Residential Mortgage Loans Held For Investment	\$ 11,355,532	100.0 %	\$ 10,279,098	100.0 %

The following table sets forth the balances as of June 30, 2022 for all ARM loans segregated by the next scheduled interest rate reset date.

	Current Balance of ARM Loans Scheduled for Interest Rate Reset
(In thousands)	
During the Fiscal Years Ending September 30,	
2022	\$ 14
2023	297,172
2024	330,701
2025	731,540
2026	1,567,442
2027	1,710,696
Total	\$ 4,637,565

At June 30, 2022 and September 30, 2021, mortgage loans held for sale, all of which were long-term, fixed-rate first mortgage loans and all of which were held for sale to Fannie Mae, totaled \$1.3 million and \$8.8 million, respectively.

Loan Portfolio Yield

The following tables set forth the balance and interest yield as of June 30, 2022 for the portfolio of loans held for investment, by type of loan, structure and geographic location.

	June 30, 2022		
	Balance	Percent	Yield
	(Dollars in thousands)		
Total Loans:			
Fixed Rate			
Terms less than or equal to 10 years	\$ 1,399,361	10.0 %	2.61 %
Terms greater than 10 years	5,318,606	38.0 %	3.44 %
Total Fixed-Rate loans	6,717,967	48.0 %	3.27 %
ARMs	4,637,566	33.2 %	2.69 %
Home Equity Loans and Lines of Credit	2,514,232	18.0 %	3.90 %
Construction and Other Loans	115,422	0.8 %	2.89 %
Total Loans Receivable	<u>\$ 13,985,187</u>	<u>100.0 %</u>	<u>3.18 %</u>
	June 30, 2022		
	Balance	Percent	Yield
	(Dollars in thousands)		
Residential Mortgage Loans			
Ohio	\$ 6,289,175	45.0 %	3.22 %
Florida	2,093,059	15.0 %	2.94 %
Other	2,973,299	21.2 %	2.67 %
Total Residential Mortgage Loans	11,355,533	81.2 %	3.03 %
Home Equity Loans and Lines of Credit			
Ohio	669,306	4.8 %	3.94 %
Florida	501,799	3.6 %	3.87 %
California	412,037	2.9 %	3.87 %
Other	931,090	6.7 %	3.89 %
Total Home Equity Loans and Lines of Credit	2,514,232	18.0 %	3.90 %
Construction and Other Loans	115,422	0.8 %	2.89 %
Total Loans Receivable	<u>\$ 13,985,187</u>	<u>100.0 %</u>	<u>3.18 %</u>

Marketing of Home Equity Lines of Credit

We actively market home equity lines of credit, which carry an adjustable rate of interest indexed to the prime rate, that provides interest rate sensitivity to that portion of our assets and is a meaningful strategy to manage our interest rate risk profile. At June 30, 2022, the principal balance of home equity lines of credit with the ability to draw totaled \$2.28 billion. Our home equity lending is discussed in the *Allowance for Credit Losses* section of the *Lending Activities*.

Extending the Duration of Funding Sources

As a complement to our strategies to shorten the duration of our interest earning assets, as described above, we also seek to lengthen the duration of our interest bearing funding sources. These efforts include monitoring the relative costs of alternative funding sources such as retail deposits, brokered certificates of deposit, longer-term (e.g. four to six years) fixed-rate advances from the FHLB of Cincinnati, and shorter-term (e.g. three months) advances from the FHLB of Cincinnati, the durations of which are extended by correlated interest rate exchange contracts. Each funding alternative is monitored and evaluated based on its effective interest payment rate, options exercisable by the creditor (early withdrawal, right to call, etc.), and collateral requirements. The interest payment rate is a function of market influences that are specific to the nuances and

market competitiveness/breadth of each funding source. Generally, early withdrawal options are available to our retail CD customers but not to holders of brokered CDs; issuer call options are not provided on our advances from the FHLB of Cincinnati; and we are not subject to early termination options with respect to our interest rate exchange contracts. Additionally, collateral pledges are not provided with respect to our retail CDs or our brokered CDs, but are required for our advances from the FHLB of Cincinnati as well as for our interest rate exchange contracts. We will continue to evaluate the structure of our funding sources based on current needs.

During the nine months ended June 30, 2022, the balance of deposits increased \$164.0 million, which included a \$2.2 million decrease in the balance of brokered CDs (which is inclusive of acquisition costs and subsequent amortization). Additionally, during the nine months ended June 30, 2022, we increased total FHLB of Cincinnati advances \$1.2 billion, by adding \$400.0 million of new two-to-five year advances and \$1.46 billion in overnight borrowings, partially offset by a \$700.0 million decrease in 90 day advances and their related swap contracts which matured and were paid off. The balance of our advances from the FHLB of Cincinnati at June 30, 2022 consist of both overnight and term advances from the FHLB of Cincinnati; as well as shorter-term advances from the FHLB of Cincinnati that were matched/correlated to interest rate exchange contracts that extended the effective durations of those shorter-term advances. Interest rate swaps are discussed later in Part I, Item 3. *Quantitative and Qualitative Disclosures About Market Risk*.

Other Interest Rate Risk Management Tools

We also manage interest rate risk by selectively selling a portion of our long-term, fixed-rate mortgage loans in the secondary market. The sales of first mortgage loans increased significantly during fiscal 2020 and fiscal 2021 due to an increase in the number of fixed-rate refinances. At June 30, 2022, we serviced \$2.09 billion of loans for others. In deciding whether to sell loans to manage interest rate risk, we also consider the level of gains to be recognized in comparison to the impact to our net interest income. We are planning on expanding our ability to sell certain fixed rate loans to Fannie Mae in fiscal 2022 and beyond, through the use of more traditional mortgage banking activities, including risk-based pricing and loan-level pricing adjustments. This concept will be tested in markets outside of Ohio and Florida, and some additional startup and marketing costs will be incurred, but is not expected to significantly impact our financial results in fiscal 2022. We can also manage interest rate risk by selling non-Fannie Mae compliant mortgage loans to private investors, although those transactions are dependent upon favorable market conditions, including motivated private investors, and involve more complicated negotiations and longer settlement timelines. Loan sales are discussed later in this Part I, Item 2. under the heading *Liquidity and Capital Resources*, and in Part I, Item 3. *Quantitative and Qualitative Disclosures About Market Risk*.

Notwithstanding our efforts to manage interest rate risk, a rapid and substantial increase in general market interest rates or an extended period of a flat or inverted yield curve market, could adversely impact the level of our net interest income, prospectively and particularly over a multi-year time horizon.

Monitoring and Limiting Our Credit Risk. While, historically, we had been successful in limiting our credit risk exposure by generally imposing high credit standards with respect to lending, the memory of the 2008 housing market collapse and financial crisis is a constant reminder to focus on credit risk. In response to the evolving economic landscape, we continuously revise and update our quarterly analysis and evaluation procedures, as needed, for each category of our lending with the objective of identifying and recognizing all appropriate credit losses. Continuous analysis and evaluation updates will be important as we monitor the potential impacts of the economic environment. At June 30, 2022, 90% of our assets consisted of residential real estate loans (both “held for sale” and “held for investment”) and home equity loans and lines of credit, which were originated predominantly to borrowers in Ohio and Florida. Our analytic procedures and evaluations include specific reviews of all home equity loans and lines of credit that become 90 or more days past due, as well as specific reviews of all first mortgage loans that become 180 or more days past due. We transfer performing home equity lines of credit subordinate to first mortgages delinquent greater than 90 days to non-accrual status. We also charge-off performing loans to collateral value and classify those loans as non-accrual within 60 days of notification of all borrowers filing Chapter 7 bankruptcy, that have not reaffirmed or been dismissed, regardless of how long the loans have been performing. Loans where at least one borrower has been discharged of their obligation in Chapter 7 bankruptcy are classified as TDRs. At June 30, 2022, \$12.6 million of loans in Chapter 7 bankruptcy status with no other modification to terms were included in total TDRs. At June 30, 2022, the amortized cost in non-accrual status loans included \$14.5 million of performing loans in Chapter 7 bankruptcy status, of which \$14.0 million were also reported as TDRs.

In an effort to limit our credit risk exposure and maintain the credit performance of new customers, we continually evaluate our credit eligibility criteria and revise the design of our loan products, such as limiting the products available for condominiums and eliminating certain product features (such as interest-only). We use stringent, conservative lending standards for underwriting to reduce our credit risk. For first mortgage loans originated during the current fiscal year, the average credit score was 776, and the average LTV was 61%. The delinquency level related to loan originations prior to 2009, compared to originations in 2009 and after, reflects the higher credit standards to which we have subjected all newer originations. As of

June 30, 2022, loans originated prior to 2009 had a balance of \$354.6 million, of which \$8.3 million, or 2.3%, were delinquent, while loans originated in 2009 and after had a balance of \$13.61 billion, of which \$13.9 million, or 0.1%, were delinquent.

One aspect of our credit risk concern relates to high concentrations of our loans that are secured by residential real estate in specific states, particularly Ohio and Florida, in light of the difficulties that arose in connection with the 2008 housing crisis with respect to the real estate markets in those two states. At June 30, 2022, approximately 55.5% and 18.4% of the combined total of our Residential Core and construction loans held for investment and approximately 26.6% and 20.0% of our home equity loans and lines of credit were secured by properties in Ohio and Florida, respectively. In an effort to moderate the concentration of our credit risk exposure in individual states, particularly Ohio and Florida, we have utilized direct mail marketing, our internet site and our customer service call center to extend our lending activities to other attractive geographic locations. Currently, in addition to Ohio and Florida, we are actively lending in 23 other states and the District of Columbia. As a result of that geographic expansion, the concentration ratios of the combined total of our residential, Core and construction loans held for investment in Ohio and Florida have trended downward from their September 30, 2010 levels when the concentrations were 79.1% in Ohio and 19.0% in Florida. Of the total mortgage loans originated in the nine months ended June 30, 2022, 25.6% are secured by properties in states other than Ohio or Florida.

Home equity loans and lines of credit generally have higher credit risk than traditional residential mortgage loans. These loans and credit lines are usually in a second lien position and when combined with the first mortgage, result in generally higher overall loan-to-value ratios. In a stressed housing market with high delinquencies and decreasing housing prices, these higher loan-to-value ratios represent a greater risk of loss to the Company. A borrower with more equity in the property has a vested interest in keeping the loan current when compared to a borrower with little or no equity in the property. In light of the past weakness in the housing market and uncertainty with respect to future employment levels and economic prospects, we conduct an expanded loan level evaluation of our home equity loans and lines of credit, including bridge loans used to aid borrowers in buying a new home before selling their old one, which are delinquent 90 days or more. This expanded evaluation is in addition to our traditional evaluation procedures. Our home equity loan and line of credit portfolios continue to comprise a significant portion of our gross charge-offs. At June 30, 2022, we had an amortized cost of \$2.55 billion in home equity loans and lines of credit outstanding, of which \$2.5 million, or 0.1% were delinquent 90 days or more.

Our residential Home Today loans are another area of credit risk concern. Through the Home Today program, the Company provided the majority of loans to borrowers who would not otherwise qualify for the Company's loan products, generally because of low credit scores. Because the Company applied less stringent underwriting and credit standards to the majority of Home Today loans, loans originated under the program have greater credit risk than its traditional residential real estate mortgage loans in the Residential Core portfolio. Since the vast majority of Home Today loans were originated prior to March 2009 and we are no longer originating loans under our Home Today program, the Home Today portfolio will continue to decline in balance, primarily due to contractual amortization. Although the amortized cost in these loans has declined to \$54.9 million at June 30, 2022, from a peak of \$306.6 million at December 31, 2007, and constitutes only 0.4% of our total "held for investment" loan portfolio balance, they comprised 9.5% and 11.1% of our 90 days or greater delinquencies and our total delinquencies, respectively, at that date. At June 30, 2022, approximately 95.8% and 4.1% of our residential Home Today loans were secured by properties in Ohio and Florida, respectively. At June 30, 2022, the percentages of those loans delinquent 30 days or more in Ohio and Florida were 4.7% and 0.4%, respectively. We attempted to manage our Home Today credit risk by requiring private mortgage insurance for some loans. At June 30, 2022, 8.2% of Home Today loans included private mortgage insurance coverage. Our allowance for credit losses for the Home Today portfolio, which includes a lifetime view of expected losses, is reduced by expected future recoveries of loan amounts previously charged off. To supplant the Home Today product and to continue to meet the credit needs of our customers and the communities that we serve, we have offered Fannie Mae eligible, Home Ready loans since fiscal 2016. These loans are originated in accordance with Fannie Mae's underwriting standards. The Company does not offer, and has not offered, loan products frequently considered to be designed to target sub-prime borrowers containing features such as higher fees or higher rates, negative amortization, an LTV ratio greater than 100%, or pay-option adjustable-rate mortgages.

Maintaining Access to Adequate Liquidity and Diverse Funding Sources to Support our Growth. For most insured depositories, customer and community confidence are critical to their ability to maintain access to adequate liquidity and to conduct business in an orderly manner. We believe that a well capitalized institution is one of the most important factors in nurturing customer and community confidence. Accordingly, we have managed the pace of our growth in a manner that reflects our emphasis on high capital levels. At June 30, 2022, the Association's ratio of Tier 1 (leverage) capital to net average assets (a basic industry measure that deems 5.00% or above to represent a "well capitalized" status) was 10.63%. The Association's Tier 1 (leverage) capital ratio at June 30, 2022 included the negative impact of a \$56 million cash dividend payment that the Association made to the Company, its sole shareholder, in December 2021. Because of its intercompany nature, this dividend payment did not impact the Company's consolidated capital ratios which are reported in the *Liquidity and Capital Resources* section of this Item 2. We expect to continue to remain a well capitalized institution.

In managing its level of liquidity, the Company monitors available funding sources, which include attracting new deposits (including brokered CDs and brokered checking accounts), borrowings from others, the conversion of assets to cash and the generation of funds through profitable operations. The Company has traditionally relied on retail deposits as its primary means in meeting its funding needs. At June 30, 2022, deposits totaled \$9.16 billion (including \$489.8 million of brokered CDs and \$300.1 million of brokered checking accounts), while borrowings totaled \$4.25 billion and borrowers' advances and servicing escrows totaled \$86.8 million, combined. In evaluating funding sources, we consider many factors, including cost, collateral, duration and optionality, current availability, expected sustainability, impact on operations and capital levels.

To attract deposits, we offer our customers attractive rates of interest on our deposit products. Our deposit products typically offer rates that are highly competitive with the rates on similar products offered by other financial institutions. We intend to continue this practice, subject to market conditions.

We preserve the availability of alternative funding sources through various mechanisms. First, by maintaining high capital levels, we retain the flexibility to increase our balance sheet size without jeopardizing our capital adequacy. Effectively, this permits us to increase the rates that we offer on our deposit products thereby attracting more potential customers. Second, we pledge available real estate mortgage loans and investment securities with the FHLB of Cincinnati and the FRB-Cleveland. At June 30, 2022, these collateral pledge support arrangements provided the Association with the ability to borrow a maximum of \$8.14 billion from the FHLB of Cincinnati and \$186.7 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity for additional borrowings at June 30, 2022 was \$3.89 billion. Third, we have the ability to purchase overnight Fed Funds up to \$630 million through various arrangements with other institutions. Fourth, we invest in high quality marketable securities that exhibit limited market price variability, and to the extent that they are not needed as collateral for borrowings, can be sold in the institutional market and converted to cash. At June 30, 2022, our investment securities portfolio totaled \$449.9 million. Finally, cash flows from operating activities have been a regular source of funds. During the nine months ended June 30, 2022 and 2021, cash flows from operations provided \$51.1 million and \$121.4 million, respectively.

First mortgage loans (primarily fixed-rate, mortgage refinances with terms of 15 years or more, and Home Ready) originated under Fannie Mae compliant procedures are eligible for sale to Fannie Mae either as whole loans or within mortgage-backed securities. We expect that certain loan types (i.e. our Smart Rate adjustable-rate loans, home purchase fixed-rate loans and 10-year fixed-rate loans) will continue to be originated under our legacy procedures, which are not eligible for sale to Fannie Mae. For loans that are not originated under Fannie Mae procedures, the Association's ability to reduce interest rate risk via loan sales is limited to those loans that have established payment histories, strong borrower credit profiles and are supported by adequate collateral values that meet the requirements of the FHLB's Mortgage Purchase Program or of private third-party investors. Refer to the *Liquidity and Capital Resources* section of the *Overview* for information on loan sales.

Overall, while customer and community confidence can never be assured, the Company believes that its liquidity is adequate and that it has access to adequate alternative funding sources.

Monitoring and Controlling Our Operating Expenses. We continue to focus on managing operating expenses. Our ratio of annualized non-interest expense to average assets was 1.38% for the nine months ended June 30, 2022 and 1.36% for the nine months ended June 30, 2021. As of June 30, 2022, our average assets per full-time employee and our average deposits per full-time employee were \$15.4 million and \$9.1 million, respectively. We believe that each of these measures compares favorably with industry averages. Our relatively high average of deposits (exclusive of brokered CDs and brokered checking accounts) held at our branch offices (\$226.2 million per branch office as of June 30, 2022) contributes to our expense management efforts by limiting the overhead costs of serving our customers. We will continue our efforts to control operating expenses as we grow our business.

Critical Accounting Policies

Critical accounting policies are defined as those that involve significant judgments, estimates and uncertainties, and could potentially give rise to materially different results under different assumptions and conditions. We believe that the most critical accounting policies upon which our financial condition and results of operations depend, and which involve the most complex subjective decisions or assessments, are our policies with respect to our allowance for credit losses, income taxes and pension benefits as described in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

Lending Activities

Allowance for Credit Losses

We provide for credit losses based on a life of loan methodology. Accordingly, all credit losses are charged to, and all recoveries are credited to, the related allowance. Additions to the allowance for credit losses are provided by charges to income based on various factors which, in our judgment, deserve current recognition in estimating life of credit losses. We regularly review the loan portfolio and off-balance sheet exposures and make provisions (or releases) for losses in order to maintain the allowance for credit losses in accordance with U.S. GAAP. Our allowance for credit losses consists of three components:

- (1) individual valuation allowances (IVAs) established for any loans dependent on cash flows, such as performing TDRs;
- (2) general valuation allowances (GVAs) for loans, which are comprised of quantitative GVAs, general allowances for credit losses for each loan type based on historical loan loss experience, and qualitative GVAs, which are adjustments to the quantitative GVAs, maintained to cover uncertainties that affect the estimate of expected credit losses for each loan type; and
- (3) GVAs for off-balance sheet credit exposures, which are comprised of expected lifetime losses on unfunded loan commitments to extend credit where the obligations are not unconditionally cancellable.

The qualitative GVAs expand our ability to identify and estimate probable losses and are based on our evaluation of the following factors, some of which are consistent with factors that impact the determination of quantitative GVAs. For example, delinquency statistics (both current and historical) are used in developing the quantitative GVAs while the trending of the delinquency statistics is considered and evaluated in the determination of the qualitative GVAs. Factors impacting the determination of qualitative GVAs include:

- changes in lending policies and procedures including underwriting standards, collection, charge-off or recovery practices;
- management's view of changes in national, regional, and local economic and business conditions and trends including treasury yields, housing market factors and trends, such as the status of loans in foreclosure, real estate in judgment and real estate owned, and unemployment statistics and trends and how it aligns with economic modeling forecasts;
- changes in the nature and volume of the portfolios including home equity lines of credit nearing the end of the draw period and adjustable-rate mortgage loans nearing a rate reset;
- changes in the experience, ability or depth of lending management;
- changes in the volume or severity of past due loans, volume of non-accrual loans, or the volume and severity of adversely classified loans including the trending of delinquency statistics (both current and historical), historical loan loss experience and trends, the frequency and magnitude of multiple restructurings of loans previously the subject of TDRs, and uncertainty surrounding borrowers' ability to recover from temporary hardships for which short-term loan restructurings are granted;
- changes in the quality of the loan review system;
- changes in the value of the underlying collateral including asset disposition loss statistics (both current and historical) and the trending of those statistics, and additional charge-offs and recoveries on individually reviewed loans;
- existence of any concentrations of credit;
- effect of other external factors such as competition, market interest rate changes or legal and regulatory requirements including market conditions and regulatory directives that impact the entire financial services industry; and
- limitations within our models to predict life of loan net losses.

When loan restructurings qualify as TDRs and the loans are performing according to the terms of the restructuring, we record an IVA based on the present value of expected future cash flows, which includes a factor for potential subsequent defaults, discounted at the effective interest rate of the original loan contract. Potential defaults are distinguished from multiple

restructurings as borrowers who default are generally not eligible for subsequent restructurings. At June 30, 2022, the balance of such individual valuation allowances were \$10.7 million. In instances when loans require multiple restructurings, additional valuation allowances may be required. The new valuation allowance on a loan that has multiple restructurings is calculated based on the present value of the expected cash flows, discounted at the effective interest rate of the original loan contract, considering the new terms of the restructured agreement. The estimated exposure for additional loss related to multiple loan restructurings is included as a component of our qualitative GVA.

The allowance for credit losses is evaluated based upon the combined total of the quantitative and qualitative GVAs and IVAs. Periodically, the carrying value of loans and factors impacting our credit loss analysis are evaluated and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future additions to the allowance may be necessary based on unforeseen changes in loan quality and economic conditions.

The following table sets forth activity for credit losses segregated by geographic location for the periods indicated. The majority of our Home Today loan portfolio is secured by properties located in Ohio, therefore was not segregated.

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2022	2021	2022	2021
(Dollars in thousands)				
Allowance balance for credit losses on loans (beginning of the period)	\$64,324	\$67,749	\$64,289	\$46,937
Adoption of ASU 2016-13 for allowance for credit losses on loans	—	—	—	24,095
Charge-offs on real estate loans:				
Residential Core				
Ohio	11	616	168	1,083
Florida	—	260	—	261
Other	12	—	13	1
Total Residential Core	23	876	181	1,345
Total Residential Home Today	91	140	197	448
Home equity loans and lines of credit				
Ohio	129	189	546	793
Florida	41	179	111	639
California	15	15	29	153
Other	6	204	116	450
Total Home equity loans and lines of credit	191	587	802	2,035
Total charge-offs	305	1,603	1,180	3,828
Recoveries on real estate loans:				
Residential Core	669	546	2,299	1,521
Residential Home Today	592	720	2,079	1,694
Home equity loans and lines of credit	1,522	1,348	3,946	4,242
Construction	175	—	175	—
Total recoveries	2,958	2,614	8,499	7,457
Net recoveries	2,653	1,011	7,319	3,629
Provision (release) of allowance for credit losses on loans	2,473	(2,325)	(2,158)	(8,226)
Allowance balance for loans (end of the period)	<u>\$69,450</u>	<u>\$66,435</u>	<u>\$69,450</u>	<u>\$66,435</u>
Allowance balance for credit losses on unfunded commitments (beginning of the period)	\$26,601	\$21,953	\$24,970	\$ —
Adoption of ASU 2016-13 for allowance for credit losses on unfunded commitments	—	—	—	22,052
Provision for credit losses on unfunded loan commitments	1,527	1,325	3,158	1,226
Allowance balance for unfunded loan commitments (end of the period)	28,128	23,278	28,128	23,278
Allowance balance for all credit losses (end of the period)	<u>\$97,578</u>	<u>\$89,713</u>	<u>\$97,578</u>	<u>\$89,713</u>
Ratios:				
Net recoveries to average loans outstanding (annualized)	0.08 %	0.03 %	0.08 %	0.04 %
Allowance for credit losses on loans to non-accrual loans at end of the period	184.28 %	135.07 %	184.28 %	135.07 %
Allowance for credit losses on loans to the total amortized cost in loans at end of the period	0.50 %	0.52 %	0.50 %	0.52 %

Net recoveries continued, totaling \$7.3 million during the nine months ended June 30, 2022 compared to \$3.6 million during the nine months ended June 30, 2021. We reported net recoveries in each quarter for the last four years, primarily due to improvements in the values of properties used to secure loans that were fully or partially charged off after the 2008 collapse of the housing market. Charge-offs are recognized on loans identified as collateral-dependent and subject to individual review when the collateral value does not sufficiently support full repayment of the obligation. Recoveries are recognized on

previously charged-off loans as borrowers perform their repayment obligations or as loans with improved collateral positions reach final resolution.

Gross charge-offs decreased and remained at relatively low levels, during the nine months ended June 30, 2022 when compared to the nine months ended June 30, 2021. Delinquent loans continue to be evaluated for potential losses, and provisions are recorded for the estimate of potential losses of those loans. Subject to changes in the economic environment, a moderate level of charge-offs are expected as delinquent loans are resolved in the future and uncollected balances are charged against the allowance.

During the three months ended June 30, 2022, the total allowance for credit losses increased \$6.7 million, to \$97.6 million from \$90.9 million at March 31, 2022, as we recorded a \$4.0 million provision for the allowance for credit losses. During the three months ended June 30, 2022, we recorded net recoveries of \$2.7 million. Refer to the "*Activity in the Allowance for Credit Losses*" and "*Analysis of the Allowance for Credit Losses*" tables in Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* of the *NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS* for more information.

Because many variables are considered in determining the appropriate level of general valuation allowances, directional changes in individual considerations do not always align with the directional change in the balance of a particular component of the general valuation allowance. Changes during the three months ended June 30, 2022 in the allowance for credit loss balances of loans are described below. The allowance for credit losses on off-balance sheet exposures increased by \$1.5 million related to an increase in undrawn equity line of credit exposures and commitments to originate. Other than the less significant construction and other loans segments, the changes related to the significant loan segments are described as follows:

- **Residential Core** – The amortized cost of this segment increased 5.7%, or \$609.8 million, and its total allowance increased 10.7% or \$5.0 million as of June 30, 2022 as compared to March 31, 2022. Total delinquencies decreased 1.0% to \$14.9 million at June 30, 2022 from \$15.1 million at March 31, 2022. Delinquencies greater than 90 days increased by 0.9% to \$8.9 million at June 30, 2022 from \$8.8 million at March 31, 2022. Net recoveries were \$0.6 million for the quarter ended June 30, 2022 and there were net charge-offs of \$0.3 million for the quarter ended June 30, 2021. With some deterioration in the economic forecasts and new growth in the portfolio this quarter, the allowance increased.
- **Residential Home Today** – The amortized cost of this segment decreased 4.7%, or \$2.7 million, as we are no longer originating loans under the Home Today program. The expected net recovery position for this segment was \$0.9 million at June 30, 2022 and at March 31, 2022. Total delinquencies decreased 27.3% to \$2.5 million at June 30, 2022 from \$3.4 million at March 31, 2022. Delinquencies greater than 90 days decreased 43.9% to \$1.2 million from \$2.1 million at March 31, 2022. There were net recoveries of \$0.5 million recorded during the current quarter and net recoveries of \$0.6 million during the quarter ended June 30, 2021. This allowance reflects not only the declining portfolio balance, but the lower historical loss rates applied to the remaining balance and the higher expected recoveries related to the loans as they age. Under the CECL methodology, the life of loan concept allows for qualitative adjustments for the expected future recoveries of previously charged-off loans which is driving the current allowance balance for Home Today loans negative.
- **Home Equity Loans and Lines of Credit** – The amortized cost of this segment increased 5.8%, or \$139.9 million, to \$2.55 billion at June 30, 2022 from \$2.41 billion at March 31, 2022. The total allowance for this segment increased by 0.9% to \$18.6 million from \$18.4 million at March 31, 2022. Total delinquencies for this portfolio segment increased 9.8% to \$4.8 million at June 30, 2022 as compared to \$4.4 million at March 31, 2022. Delinquencies greater than 90 days decreased 7.0% to \$2.5 million at June 30, 2022 from \$2.6 million at March 31, 2022. Net recoveries for this loan segment during the current quarter were \$1.3 million and \$0.8 million during the quarter ended June 30, 2021. The increase in allowance this quarter is primarily due to new portfolio growth, along with some deterioration in the economic forecasts.

The following tables set forth the allowance for credit losses on loans allocated by loan category, the percent of allowance in each category to the total allowance on loans, and the percent of loans in each category to total loans at the dates indicated. The allowance for credit losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories. This table does not include allowances for credit losses on unfunded loan commitments, which are primarily related to undrawn home equity lines of credit.

	June 30, 2022			March 31, 2022		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
(Dollars in thousands)						
Real estate loans:						
Residential Core	\$ 51,452	74.1%	80.8%	\$ 46,469	72.2%	80.8%
Residential Home Today	(892)	(1.3)	0.4	(850)	(1.3)	0.4
Home equity loans and lines of credit	18,594	26.8	18.0	18,425	28.7	18.0
Construction	296	0.4	0.8	280	0.4	0.8
Allowance for credit losses on loans	<u>\$ 69,450</u>	<u>100.0%</u>	<u>100.0%</u>	<u>\$ 64,324</u>	<u>100.0%</u>	<u>100.0%</u>
	September 30, 2021			June 30, 2021		
	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loans in Category to Total Loans
(Dollars in thousands)						
Real estate loans:						
Residential Core	\$ 44,523	69.2%	81.2%	\$ 46,060	69.3%	81.8%
Residential Home Today	15	—	0.6	(261)	(0.4)	0.6
Home equity loans and lines of credit	19,454	30.3	17.6	20,186	30.4	17.0
Construction	297	0.5	0.6	450	0.7	0.6
Allowance for credit losses on loans	<u>\$ 64,289</u>	<u>100.0%</u>	<u>100.0%</u>	<u>\$ 66,435</u>	<u>100.0%</u>	<u>100.0%</u>

Loan Portfolio Composition

The following table sets forth the composition of the portfolio of loans held for investment, by type of loan segregated by geographic location at the indicated dates, excluding loans held for sale. The majority of our Home Today loan portfolio is secured by properties located in Ohio and the balances of other loans are immaterial. Therefore, neither was segregated by geographic location.

	June 30, 2022		March 31, 2022		September 30, 2021		June 30, 2021	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in thousands)								
Real estate loans:								
Residential Core								
Ohio	\$ 6,236,177		\$ 5,859,198		\$ 5,603,998		\$ 5,630,540	
Florida	2,090,799		1,984,467		1,838,259		1,853,703	
Other	2,973,224		2,831,997		2,773,018		2,882,408	
Total Residential Core	11,300,200	80.8 %	10,675,662	80.8 %	10,215,275	81.2 %	10,366,651	81.8 %
Total Residential Home Today	55,333	0.4	58,006	0.4	63,823	0.6	67,124	0.6
Home equity loans and lines of credit								
Ohio	669,306		644,421		630,815		624,843	
Florida	501,799		473,009		438,212		425,603	
California	412,037		381,565		335,240		317,050	
Other	931,090		876,478		809,985		791,636	
Total Home equity loans and lines of credit	2,514,232	18.0	2,375,473	18.0	2,214,252	17.6	2,159,132	17.0
Construction loans								
Ohio	102,870		90,888		71,651		69,085	
Florida	9,246		8,366		6,604		6,560	
Other	51		2,286		2,282		1,839	
Total Construction	112,167	0.8	101,540	0.8	80,537	0.6	77,484	0.6
Other loans	3,255	—	2,589	—	2,778	—	2,701	—
Total loans receivable	13,985,187	100.0 %	13,213,270	100.0 %	12,576,665	100.0 %	12,673,092	100.0 %
Deferred loan expenses, net	48,669		47,372		44,859		43,922	
Loans in process	(68,578)		(60,343)		(48,200)		(49,299)	
Allowance for credit losses on loans	(69,450)		(64,324)		(64,289)		(66,435)	
Total loans receivable, net	<u>\$13,895,828</u>		<u>\$13,135,975</u>		<u>\$12,509,035</u>		<u>\$12,601,280</u>	

The following table provides an analysis of our residential mortgage loans disaggregated by FICO score refreshed quarterly, year of origination and portfolio as of the periods presented. The Company treats the FICO score information as demonstrating that underwriting guidelines reduce risk rather than as a credit quality indicator utilized in the evaluation of credit risk. Balances are adjusted for deferred loan fees, expenses and any applicable loans-in-process.

	By fiscal year of origination						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
	2022	2021	2020	2019	2018	Prior			Total
(Dollars in thousands)									
<u>June 30, 2022</u>									
Real estate loans:									
Residential Core									
<680	\$ 60,390	\$ 70,298	\$ 43,332	\$ 23,993	\$ 27,030	\$ 173,394	\$ —	\$ —	\$ 398,437
680-740	502,258	276,454	204,285	81,945	89,773	391,557	—	—	1,546,272
741+	2,191,175	1,941,021	1,279,537	541,675	572,245	2,669,339	—	—	9,194,992
Unknown ⁽¹⁾	10,097	34,700	19,908	6,601	9,250	99,006	—	—	179,562
Total Residential Core	2,763,920	2,322,473	1,547,062	654,214	698,298	3,333,296	—	—	11,319,263
Residential Home Today ⁽²⁾									
<680	—	—	—	—	—	29,616	—	—	29,616
680-740	—	—	—	—	—	10,795	—	—	10,795
741+	—	—	—	—	—	11,354	—	—	11,354
Unknown ⁽¹⁾	—	—	—	—	—	3,117	—	—	3,117
Total Residential Home Today	—	—	—	—	—	54,882	—	—	54,882
Home equity loans and lines of credit									
<680	602	892	498	492	360	815	71,884	18,227	93,770
680-740	8,856	4,098	818	1,181	1,898	1,738	362,113	23,632	404,334
741+	47,463	27,824	8,552	6,762	5,375	9,030	1,858,011	56,836	2,019,853
Unknown ⁽¹⁾	—	74	48	20	115	651	18,988	7,305	27,201
Total Home equity loans and lines of credit	56,921	32,888	9,916	8,455	7,748	12,234	2,310,996	106,000	2,545,158
Construction									
<680	406	1,229	—	—	—	—	—	—	1,635
680-740	2,387	354	—	—	—	—	—	—	2,741
741+	22,032	16,312	—	—	—	—	—	—	38,344
Total Construction	24,825	17,895	—	—	—	—	—	—	42,720
Total net real estate loans	\$2,845,666	\$2,373,256	\$1,556,978	\$ 662,669	\$ 706,046	\$3,400,412	\$2,310,996	\$ 106,000	\$ 13,962,023

(1) Data necessary for stratification is not readily available.

(2) No new originations of Home Today loans since fiscal 2016.

The following table provides an analysis of our residential mortgage loans by origination LTV, origination year and portfolio as of the periods presented. LTVs are not updated subsequent to origination except as part of the charge-off process. Balances are adjusted for deferred loan fees, expenses and any applicable loans-in-process.

	By fiscal year of origination					Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2022	2021	2020	2019	2018				
(Dollars in thousands)									
June 30, 2022									
Real estate loans:									
Residential Core									
<80%	\$1,784,373	\$1,620,607	\$ 844,611	\$ 303,576	\$ 370,254	\$1,966,497	\$ —	\$ —	\$ 6,889,918
80-89.9%	823,667	651,644	637,850	316,705	304,779	1,260,973	—	—	3,995,618
90-100%	153,939	48,766	64,396	33,665	23,146	103,499	—	—	427,411
>100%	—	—	—	—	119	669	—	—	788
Unknown ⁽¹⁾	1,941	1,456	205	268	—	1,658	—	—	5,528
Total Residential Core	2,763,920	2,322,473	1,547,062	654,214	698,298	3,333,296	—	—	11,319,263
Residential Home Today ⁽²⁾									
<80%	—	—	—	—	—	10,921	—	—	10,921
80-89.9%	—	—	—	—	—	17,567	—	—	17,567
90-100%	—	—	—	—	—	26,394	—	—	26,394
Total Residential Home Today	—	—	—	—	—	54,882	—	—	54,882
Home equity loans and lines of credit									
<80%	53,161	32,031	9,876	8,111	7,083	8,542	2,142,759	69,474	2,331,037
80-89.9%	3,725	857	40	290	516	1,289	166,726	33,098	206,541
90-100%	—	—	—	—	56	856	725	418	2,055
>100%	35	—	—	54	93	1,539	484	531	2,736
Unknown ⁽¹⁾	—	—	—	—	—	8	302	2,479	2,789
Total Home equity loans and lines of credit	56,921	32,888	9,916	8,455	7,748	12,234	2,310,996	106,000	2,545,158
Construction									
<80%	9,815	12,415	—	—	—	—	—	—	22,230
80-89.9%	15,010	5,480	—	—	—	—	—	—	20,490
Unknown ⁽¹⁾	—	—	—	—	—	—	—	—	—
Total Construction	24,825	17,895	—	—	—	—	—	—	42,720
Total net real estate loans	\$2,845,666	\$2,373,256	\$1,556,978	\$ 662,669	\$ 706,046	\$3,400,412	\$2,310,996	\$ 106,000	\$ 13,962,023

(1) Market data necessary for stratification is not readily available.

(2) No new originations of Home Today loans since fiscal 2016.

At June 30, 2022, the unpaid principal balance of the home equity loans and lines of credit portfolio consisted of \$233.3 million in home equity loans (including \$106.2 million of home equity lines of credit, which are in repayment and no longer eligible to be drawn upon, and \$8.4 million in bridge loans) and \$2.28 billion in home equity lines of credit.

The following table sets forth credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the estimated current mean CLTV percent of home equity loans, home equity lines of credit and bridge loans as of June 30, 2022. Home equity lines of credit in the draw period are reported according to geographic distribution.

	Credit Exposure	Principal Balance	Percent Delinquent 90 Days or More	Mean CLTV Percent at Origination (2)	Current Mean CLTV Percent (3)
(Dollars in thousands)					
Home equity lines of credit in draw period (by state)					
Ohio	\$1,924,080	\$ 587,047	0.04 %	60 %	46 %
Florida	1,063,101	441,232	0.03 %	56 %	42 %
California	947,858	367,967	0.05 %	60 %	51 %
Other (1)	2,207,506	884,664	0.07 %	63 %	51 %
Total home equity lines of credit in draw period	6,142,545	2,280,910	0.05 %	60 %	47 %
Home equity lines in repayment, home equity loans and bridge loans					
	233,322	233,322	0.58 %	61 %	37 %
Total	<u>\$6,375,867</u>	<u>\$2,514,232</u>	0.10 %	60 %	47 %

- (1) No other individual state has a committed or drawn balance greater than 10% of our total home equity lending portfolio and 5% of total loan balances.
- (2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.
- (3) Current Mean CLTV is based on best available first mortgage and property values as of June 30, 2022. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

At June 30, 2022, 38.0% of the home equity lending portfolio was either in a first lien position (21.6%), in a subordinate (second) lien position behind a first lien that we held (13.8%) or behind a first lien that was held by a loan that we originated, sold and now serviced for others (2.6%). At June 30, 2022, 13.2% of the home equity line of credit portfolio in the draw period were making only the minimum payment on the outstanding line balance.

The following table sets forth by calendar year of origination the credit exposure, principal balance, percent delinquent 90 days or more, the mean CLTV percent at the time of origination and the estimated current mean CLTV percent of the home equity loans, home equity lines of credit and bridge loan portfolio as of June 30, 2022. Home equity lines of credit in the draw period are included in the year originated:

	Credit Exposure	Principal Balance	Percent Delinquent 90 Days or More	Mean CLTV Percent at Origination (1)	Current Mean CLTV Percent (2)
	(Dollars in thousands)				
Home equity lines of credit in draw period					
2014 and Prior	\$ 69,471	\$ 14,593	— %	58 %	31 %
2015	100,707	25,819	— %	57 %	32 %
2016	263,308	79,276	— %	59 %	36 %
2017	546,815	190,718	0.17 %	58 %	38 %
2018	689,959	275,007	0.13 %	58 %	40 %
2019	909,548	406,473	0.11 %	61 %	45 %
2020	854,796	328,630	— %	58 %	45 %
2021	1,677,323	667,304	— %	62 %	56 %
2022	1,030,618	293,090	— %	62 %	62 %
Total home equity lines of credit in draw period	6,142,545	2,280,910	0.05 %	60 %	47 %
Home equity lines in repayment, home equity loans and bridge loans	233,322	233,322	0.58 %	61 %	37 %
Total	\$ 6,375,867	\$ 2,514,232	0.10 %	60 %	47 %

- (1) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.
- (2) Current Mean CLTV is based on best available first mortgage and property values as of June 30, 2022. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

The following table sets forth, by fiscal year of the draw period expiration, the principal balance of home equity lines of credit in the draw period as of June 30, 2022, segregated by the estimated current combined LTV range. Home equity lines of credit with an end of draw date in the current fiscal year include accounts with draw privileges that have been temporarily suspended.

Home equity lines of credit in draw period (by end of draw fiscal year):	Estimated Current CLTV Category					Total
	< 80%	80 - 89.9%	90 - 100%	>100%	Unknown (1)	
	(Dollars in thousands)					
2022	\$ 43,804	\$ 313	\$ —	\$ —	\$ —	\$ 44,117
2023	1,002	42	8	—	—	1,052
2024	8,989	—	—	—	—	8,989
2025	25,769	—	—	—	13	25,782
2026	43,097	7	—	—	—	43,104
2027	160,550	6	—	—	123	160,679
Post 2027	1,990,951	4,962	155	56	1,063	1,997,187
Total	\$ 2,274,162	\$ 5,330	\$ 163	\$ 56	\$ 1,199	\$ 2,280,910

- (1) Market data necessary for stratification is not readily available.

The following table sets forth the breakdown of estimated current mean CLTV percentages for home equity lines of credit in the draw period as of June 30, 2022.

	Credit Exposure	Principal Balance	Percent of Total Principal Balance	Percent Delinquent 90 Days or More	Mean CLTV Percent at Origination (2)	Current Mean CLTV Percent (3)
	(Dollars in thousands)					
Home equity lines of credit in draw period (by estimated current mean CLTV)						
< 80%	\$ 6,114,534	\$ 2,274,162	99.7 %	0.04 %	60 %	47 %
80 - 89.9%	23,491	5,330	0.2 %	3.26 %	76 %	81 %
90 - 100%	364	163	— %	— %	79 %	93 %
> 100%	700	56	— %	— %	50 %	117 %
Unknown (1)	3,455	1,199	0.1 %	— %	53 %	(1)
	<u>\$ 6,142,544</u>	<u>\$ 2,280,910</u>	<u>100.0 %</u>	0.05 %	60 %	47 %

- (1) Market data necessary for stratification is not readily available.
- (2) Mean CLTV percent at origination for all home equity lines of credit is based on the committed amount.
- (3) Current Mean CLTV is based on best available first mortgage and property values as of June 30, 2022. Property values are estimated using HPI data published by the FHFA. Current Mean CLTV percent for home equity lines of credit in the draw period is calculated using the committed amount. Current Mean CLTV on home equity lines of credit in the repayment period is calculated using the principal balance.

Delinquent Loans

The following tables set forth the amortized cost in loan delinquencies by type, segregated by geographic location and duration of delinquency as of the dates indicated. The majority of the Home Today loan portfolio is secured by properties located in Ohio, and therefore was not segregated by geographic location. There are no construction or other loans with delinquent balances.

	Loans Delinquent for		Total
	30-89 Days	90 Days or More	
	(Dollars in thousands)		
June 30, 2022			
Real estate loans:			
Residential Core			
Ohio	\$ 3,978	\$ 4,604	\$ 8,582
Florida	1,226	650	1,876
Other	807	3,666	4,473
Total Residential Core	6,011	8,920	14,931
Residential Home Today	1,283	1,193	2,476
Home equity loans and lines of credit			
Ohio	502	965	1,467
Florida	386	457	843
California	622	444	1,066
Other	840	592	1,432
Total Home equity loans and lines of credit	2,350	2,458	4,808
Total	\$ 9,644	\$ 12,571	\$ 22,215

		Loans Delinquent for		
		30-89 Days	90 Days or More	Total
		(Dollars in thousands)		
March 31, 2022				
Real estate loans:				
Residential Core				
Ohio	\$	4,427	\$ 4,879	\$ 9,306
Florida		1,108	894	2,002
Other		712	3,068	3,780
Total Residential Core		6,247	8,841	15,088
Residential Home Today		1,279	2,128	3,407
Home equity loans and lines of credit				
Ohio		721	771	1,492
Florida		242	768	1,010
California		407	425	832
Other		365	680	1,045
Total Home equity loans and lines of credit		1,735	2,644	4,379
Total	\$	9,261	\$ 13,613	\$ 22,874

	Loans Delinquent for		Total
	30-89 Days	90 Days or More	
(Dollars in thousands)			
<u>September 30, 2021</u>			
Real estate loans:			
Residential Core			
Ohio	\$ 3,217	\$ 5,729	\$ 8,946
Florida	874	1,093	1,967
Other	1,814	2,548	4,362
Total Residential Core	5,905	9,370	15,275
Residential Home Today	1,909	2,068	3,977
Home equity loans and lines of credit			
Ohio	333	1,348	1,681
Florida	432	787	1,219
California	278	1,074	1,352
Other	195	1,022	1,217
Total Home equity loans and lines of credit	1,238	4,231	5,469
Total	\$ 9,052	\$ 15,669	\$ 24,721

	Loans Delinquent for		Total
	30-89 Days	90 Days or More	
	(Dollars in thousands)		
<u>June 30, 2021</u>			
Real estate loans:			
Residential Core			
Ohio	\$ 3,656	\$ 6,280	\$ 9,936
Florida	766	1,969	2,735
Other	866	1,758	2,624
Total Residential Core	5,288	10,007	15,295
Residential Home Today	1,956	2,034	3,990
Home equity loans and lines of credit			
Ohio	440	1,502	1,942
Florida	475	793	1,268
California	217	847	1,064
Other	526	1,433	1,959
Total Home equity loans and lines of credit	1,658	4,575	6,233
Total	\$ 8,902	\$ 16,616	\$ 25,518

Total loans seriously delinquent (i.e. delinquent 90 days or more) were 0.09% of total net loans at June 30, 2022, 0.10% at March 31, 2022, 0.12% at September 30, 2021 and 0.13% at June 30, 2021. Total loans delinquent (i.e. delinquent 30 days or more) were 0.16% of total net loans at June 30, 2022, 0.17% at March 31, 2022 and 0.20% at both September 30, 2021, and June 30, 2021.

Non-Performing Assets and Troubled Debt Restructurings

The following table sets forth the amortized costs and categories of non-performing assets and TDRs as of the dates indicated.

	June 30, 2022	March 31, 2022	September 30, 2021	June 30, 2021
(Dollars in thousands)				
Non-accrual loans:				
Real estate loans:				
Residential Core	\$ 23,131	\$ 23,109	\$ 24,892	\$ 28,825
Residential Home Today	6,723	7,661	8,043	8,817
Home equity loans and lines of credit	7,833	8,504	11,110	11,543
Total non-accrual loans (1)(2)	37,687	39,274	44,045	49,185
Real estate owned	253	131	289	—
Total non-performing assets	\$ 37,940	\$ 39,405	\$ 44,334	\$ 49,185
Ratios:				
Total non-accrual loans to total loans	0.27 %	0.30 %	0.35 %	0.39 %
Total non-accrual loans to total assets	0.24 %	0.27 %	0.31 %	0.35 %
Total non-performing assets to total assets	0.25 %	0.27 %	0.32 %	0.35 %
TDRs: (not included in non-accrual loans above)				
Real estate loans:				
Residential Core	\$ 44,016	\$ 45,151	\$ 48,300	\$ 47,150
Residential Home Today	18,683	19,473	21,307	22,173
Home equity loans and lines of credit	22,605	23,184	24,941	25,373
Total	\$ 85,304	\$ 87,808	\$ 94,548	\$ 94,696

(1) At June 30, 2022, March 31, 2022, September 30, 2021, and June 30, 2021, the totals include \$23.6 million, \$24.1 million, \$25.7 million, and \$29.9 million, respectively, in TDRs that are less than 90 days past due but included with

non-accrual loans for a minimum period of six months from the restructuring date due to their non-accrual status or forbearance plan prior to restructuring, because of a prior partial charge-off or because all borrowers have filed Chapter 7 bankruptcy and have not been reaffirmed or dismissed.

- (2) At June 30, 2022, March 31, 2022, September 30, 2021, and June 30, 2021, the totals include \$4.3 million, \$5.6 million, \$6.9 million and \$7.0 million in TDRs that are 90 days or more past due, respectively.

The gross interest income that would have been recorded during the nine months ended June 30, 2022 and June 30, 2021 on non-accrual loans, if they had been accruing during the entire period, and TDRs, if they had been current and performing in accordance with their original terms during the entire period, was \$4.6 million and \$5.4 million, respectively. The interest income recognized on those loans included in net income for the nine months ended June 30, 2022 and June 30, 2021 was \$3.2 million and \$3.3 million, respectively.

The amortized cost of collateral-dependent loans includes accruing TDRs and loans that are returned to accrual status when contractual payments are less than 90 days past due. These loans continue to be individually evaluated based on collateral until, at a minimum, contractual payments are less than 30 days past due. Also, the amortized cost of non-accrual loans includes loans that are not included in the amortized cost of collateral-dependent loans because they are included in loans collectively evaluated for credit losses.

The table below sets forth a reconciliation of the amortized costs and categories between non-accrual loans and collateral-dependent loans at the dates indicated. The decrease in other accruing collateral-dependent loans at June 30, 2022 from September 30, 2021 was primarily related to forbearance plans that had been extended past 12 months that are now performing and no longer collateral-dependent.

	June 30, 2022	March 31, 2022	September 30, 2021	June 30, 2021
	(Dollars in thousands)			
Non-Accrual Loans	\$ 37,687	\$ 39,274	\$ 44,045	49,185
Accruing Collateral-Dependent TDRs	7,246	8,653	10,428	10,275
Other Accruing Collateral-Dependent Loans	10,783	27,208	31,956	31,392
Less: Loans Collectively Evaluated	(3,068)	(3,335)	(2,575)	(3,796)
Total Collateral-Dependent loans	<u>\$ 52,648</u>	<u>\$ 71,800</u>	<u>\$ 83,854</u>	<u>\$ 87,056</u>

In response to the economic challenges facing many borrowers, we continue to restructure loans. Loan restructuring is a method used to help families keep their homes and to preserve neighborhoods. This involves making changes to the borrowers' loan terms through interest rate reductions, either for a specific period or for the remaining term of the loan; term extensions including those beyond that provided in the original agreement; principal forgiveness; capitalization of delinquent payments in special situations; or some combination of the aforementioned. Loans discharged through Chapter 7 bankruptcy are also reported as TDRs per OCC interpretive guidance. For discussion on TDR measurement, see Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* of the *NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS*. We had \$113.2 million of TDRs (accrual and non-accrual) recorded at June 30, 2022. This was a decrease in the amortized cost of TDRs of \$4.3 million, \$13.9 million and \$18.3 million from March 31, 2022, September 30, 2021 and June 30, 2021, respectively.

The following table sets forth the amortized cost in accrual and non-accrual TDRs, by the types of concessions granted, as of June 30, 2022. Initial concessions granted by loans restructured as TDRs can include reduction of interest rate, extension of amortization period, forbearance or other actions. Some TDRs have experienced a combination of concessions. TDRs also can occur as a result of bankruptcy proceedings. Loans discharged in Chapter 7 bankruptcy are classified as multiple restructurings if the loan's original terms had also been restructured by the Company.

	Initial Restructurings	Multiple Restructurings	Bankruptcy	Total
	(In thousands)			
Accrual				
Residential Core	\$ 27,839	\$ 11,880	\$ 4,297	\$ 44,016
Residential Home Today	10,180	7,608	895	18,683
Home equity loans and lines of credit	21,239	919	447	22,605
Total	<u>\$ 59,258</u>	<u>\$ 20,407</u>	<u>\$ 5,639</u>	<u>\$ 85,304</u>
Non-Accrual, Performing				
Residential Core	\$ 2,234	\$ 5,123	\$ 6,255	\$ 13,612
Residential Home Today	555	3,495	1,219	5,269
Home equity loans and lines of credit	2,031	1,826	907	4,764
Total	<u>\$ 4,820</u>	<u>\$ 10,444</u>	<u>\$ 8,381</u>	<u>\$ 23,645</u>
Non-Accrual, Non-Performing				
Residential Core	\$ 1,529	\$ 845	\$ 591	\$ 2,965
Residential Home Today	303	642	20	965
Home equity loans and lines of credit	298	55	—	353
Total	<u>\$ 2,130</u>	<u>\$ 1,542</u>	<u>\$ 611</u>	<u>\$ 4,283</u>
Total TDRs				
Residential Core	\$ 31,602	\$ 17,848	\$ 11,143	\$ 60,593
Residential Home Today	11,038	11,745	2,134	24,917
Home equity loans and lines of credit	23,568	2,800	1,354	27,722
Total	<u>\$ 66,208</u>	<u>\$ 32,393</u>	<u>\$ 14,631</u>	<u>\$ 113,232</u>

TDRs in accrual status are loans accruing interest and performing according to the terms of the restructuring. To be performing, a loan must be less than 90 days past due as of the report date. Non-accrual, performing status indicates that a loan was not accruing interest or in a forbearance plan at the time of restructuring, continues to not accrue interest, and is performing according to the terms of the restructuring but has not been current for at least six consecutive months since its restructuring, has a partial charge-off, or is being classified as non-accrual per the OCC guidance on loans in Chapter 7 bankruptcy status where all borrowers have filed and have not reaffirmed or been dismissed. Non-accrual, non-performing status includes loans that are not accruing interest because they are greater than 90 days past due and therefore not performing according to the terms of the restructuring.

Comparison of Financial Condition at June 30, 2022 and September 30, 2021

Total assets increased \$1.35 billion, or 10%, to \$15.41 billion at June 30, 2022 from \$14.06 billion at September 30, 2021. This increase was mainly the result of new loan origination levels exceeding the total of loan sales and principal repayments, partially offset by a decrease in cash and cash equivalents.

Cash and cash equivalents decreased \$100.8 million, or 21%, to \$387.5 million at June 30, 2022 from \$488.3 million at September 30, 2021. Cash is managed to maintain the level of liquidity described later in the *Liquidity and Capital Resources* section. Balances decreased as proceeds from loan sales and principal repayments decreased for the nine months ended June 30, 2022.

Investment securities, all of which are classified as available for sale, increased \$28.1 million to \$449.9 million at June 30, 2022 from \$421.8 million at September 30, 2021. Investment securities increased as \$197.3 million in purchases exceeded \$137.2 million in principal paydowns, a \$27.9 million decrease in unrealized gains to an unrealized loss position during the current year, and \$4.1 million of net acquisition premium amortization that occurred in the mortgage-backed

securities portfolio during the nine months ended June 30, 2022. Pay downs on mortgage-backed securities decreased due to the increase in interest rates. There were no sales of investment securities during the nine months ended June 30, 2022.

Loans held for investment, net of deferred loan fees and allowance for credit losses, increased \$1.39 billion, or 11%, to \$13.90 billion at June 30, 2022 from \$12.51 billion at September 30, 2021. This increase was based on a combination of a \$1.08 billion, or 10%, increase in residential mortgage loans to \$11.36 billion at June 30, 2022 from \$10.28 billion at September 30, 2021 and a \$300.0 million increase in the balance of home equity loans and lines of credit during the nine months ended June 30, 2022, as new originations and additional draws on existing accounts exceeded loan sales and repayments. During the nine months ended June 30, 2022, \$788.0 million of three- and five-year “Smart Rate” loans were originated while \$2.12 billion of 10-, 15-, and 30-year fixed-rate first mortgage loans were originated. Between September 30, 2021 and June 30, 2022, the total fixed-rate portion of the first mortgage loan portfolio increased \$1.09 billion and was comprised of an increase of \$995.7 million in the balance of fixed-rate loans with original terms greater than 10 years, as well as an increase of \$90.0 million in the balance of fixed-rate loans with original terms of 10 years or less. During the nine months ended June 30, 2022, \$104.3 million were sold or committed to sell, which consisted of \$25.8 million of agency-compliant Home Ready loans and \$78.5 million of long-term, fixed-rate, agency-compliant, non-Home Ready first mortgage loans sold to Fannie Mae.

Commitments originated for home equity loans and lines of credit, and bridge loans were \$1.60 billion for the nine months ended June 30, 2022 compared to \$1.23 billion for the nine months ended June 30, 2021. At June 30, 2022, pending commitments to originate new home equity loans and lines of credit were \$288.5 million. Refer to the *Controlling Our Interest Rate Risk Exposure* section of the *Overview* for additional information.

The allowance for credit losses was \$97.6 million, or 0.70% of total loans receivable, at June 30, 2022, including a \$28.1 million liability for unfunded commitments. The allowance for credit losses was \$89.3 million, or 0.71% of total loans receivable, at September 30, 2021, including a \$25.0 million liability for unfunded commitments. The allowance for credit losses was \$89.7 million, or 0.71% of total loans receivable, at June 30, 2021 and included a \$23.3 million liability for unfunded commitments. The increase in the allowance for credit losses was primarily attributable to loan growth in both the mortgage loan and home equity line of credit and loan portfolios. Refer to Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* of the *NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS* for additional discussion.

The amount of FHLB stock owned was \$188.9 million at June 30, 2022 compared to \$162.8 million from the prior year ended September 30, 2021. FHLB stock ownership requirements dictate the amount of stock owned at any given time.

Total bank owned life insurance contracts increased \$5.0 million, to \$302.3 million at June 30, 2022, from \$297.3 million at September 30, 2021.

Other assets, including prepaid expenses, increased \$9.9 million to \$101.5 million at June 30, 2022 from \$91.6 million at September 30, 2021. The increase included a \$10.9 million increase in the federal tax asset, a \$2.4 million increase in the margin requirement on active swap contracts and a \$2.0 million increase in the investment in low income housing, partially offset by an \$8.7 million decrease in net deferred taxes, which is a net liability at June 30, 2022, and a \$1.3 million decrease in funds accrued for the ESOP.

Deposits increased \$164.0 million, or 2%, to \$9.16 billion at June 30, 2022 from \$8.99 billion at September 30, 2021. The increase in deposits resulted primarily from a \$371.9 million increase in our checking accounts, inclusive of \$300.1 million of new brokered checking accounts and a \$44.6 million increase in savings accounts, partially offset by a \$251.8 million decrease in CDs, inclusive of brokered CDs, as the current market interest rates have reduced customers' desires to maintain longer-term CDs. The balance of brokered CDs included in total deposits at June 30, 2022 decreased by \$2.2 million to \$489.8 million, during the nine months ended June 30, 2022, compared to a balance of \$492.0 million at September 30, 2021.

Borrowed funds, all from the FHLB of Cincinnati, increased \$1.15 billion, or 37%, to \$4.25 billion at June 30, 2022 from \$3.09 billion at September 30, 2021. The increase was primarily used to fund loan growth. Activity included the addition of \$1.46 billion of overnight advances and \$400.0 million of long-term advances, partially offset by principal repayments and \$700.0 million of shorter-term advances and their related swap contracts that matured and were paid off. The total balance of borrowed funds at June 30, 2022 consisted of \$1.46 billion of overnight advances, \$1.03 billion of term advances with a weighted average maturity of approximately 2.7 years and shorter-term advances of \$1.75 billion, aligned with interest rate swap contracts, with a remaining weighted average effective maturity of approximately 2.6 years. Interest rate swaps have been used to extend the duration of short-term borrowings, at inception, by paying a fixed rate of interest and receiving the variable rate. Refer to the *Extending the Duration of Funding Sources* section of the *Overview* and Part I, Item 3. *Quantitative and Qualitative Disclosures About Market Risk* for additional discussion regarding short-term borrowings and interest-rate swaps.

Borrowers' advances for insurance and taxes decreased by \$41.6 million to \$68.1 million at June 30, 2022 from \$109.6 million at September 30, 2021. This change primarily reflects the cyclical nature of real estate tax payments that have been collected from borrowers and are in the process of being remitted to various taxing agencies.

Total shareholders' equity increased \$80.8 million, or 5%, to \$1.81 billion at June 30, 2022 from \$1.73 billion at September 30, 2021. Activity reflects \$49.1 million of net income in the current year reduced by quarterly dividends of \$43.6 million and \$4.7 million of repurchases of outstanding common stock. Other changes include \$72.8 million of unrealized net gain recognized in accumulated other comprehensive income, primarily related to changes in market values and maturities of swap contracts, and a \$7.2 million net positive impact related to activity in the Company's stock compensation and employee stock ownership plans. The Company declared and paid a quarterly dividend of \$0.2825 per share during each of the quarters ended December 31, 2021, March 31, 2022 and June 30, 2022. As a result of a mutual member vote, Third Federal Savings and Loan Association of Cleveland, MHC (the "MHC"), the mutual holding company that owns approximately 81% of the outstanding stock of the Company, was able to waive its receipt of its share of the dividend paid. Refer to Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds* for additional details regarding the repurchase of shares of common stock and the dividend waiver.

Comparison of Operating Results for the Three Months Ended June 30, 2022 and 2021

Average balances and yields. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effects thereof were not material. Average balances are derived from daily average balances. Non-accrual loans are included in the computation of loan average balances, but only cash payments received on those loans during the period presented are reflected in the yield. The yields set forth below include the effect of deferred fees, deferred expenses, discounts and premiums that are amortized or accreted to interest income or interest expense.

	Three Months Ended June 30, 2022			Three Months Ended June 30, 2021		
	Average Balance	Interest Income/ Expense	Yield/ Cost (1)	Average Balance	Interest Income/ Expense	Yield/ Cost (1)
(Dollars in thousands)						
Interest-earning assets:						
Interest-earning cash equivalents	\$ 337,551	\$ 709	0.84 %	\$ 726,485	\$ 197	0.11 %
Investment securities	3,836	12	1.25 %	—	—	— %
Mortgage-backed securities	444,972	1,270	1.14 %	413,649	828	0.80 %
Loans (2)	13,497,362	99,576	2.95 %	12,674,284	93,584	2.95 %
Federal Home Loan Bank stock	170,155	1,204	2.83 %	162,783	782	1.92 %
Total interest-earning assets	14,453,876	102,771	2.84 %	13,977,201	95,391	2.73 %
Noninterest-earning assets	467,329			523,620		
Total assets	<u>\$14,921,205</u>			<u>\$14,500,821</u>		
Interest-bearing liabilities:						
Checking accounts	\$ 1,475,586	958	0.26 %	\$ 1,120,195	260	0.09 %
Savings accounts	1,882,881	931	0.20 %	1,775,702	673	0.15 %
Certificates of deposit	5,711,412	15,325	1.07 %	6,325,022	22,528	1.42 %
Borrowed funds	3,774,204	14,255	1.51 %	3,245,274	14,852	1.83 %
Total interest-bearing liabilities	12,844,083	31,469	0.98 %	12,466,193	38,313	1.23 %
Noninterest-bearing liabilities	250,437			314,808		
Total liabilities	13,094,520			12,781,001		
Shareholders' equity	1,826,685			1,719,820		
Total liabilities and shareholders' equity	<u>\$14,921,205</u>			<u>\$14,500,821</u>		
Net interest income		<u>\$71,302</u>			<u>\$57,078</u>	
Interest rate spread (1)(3)			<u>1.86 %</u>			<u>1.50 %</u>
Net interest-earning assets (4)	<u>\$ 1,609,793</u>			<u>\$ 1,511,008</u>		
Net interest margin (1)(5)		<u>1.97 %</u>			<u>1.63 %</u>	
Average interest-earning assets to average interest-bearing liabilities	<u>112.53 %</u>			<u>112.12 %</u>		
Selected performance ratios:						
Return on average assets (1)		0.46 %			0.44 %	
Return on average equity (1)		3.75 %			3.72 %	
Average equity to average assets		<u>12.24 %</u>			<u>11.86 %</u>	

(1) Annualized.

(2) Loans include both mortgage loans held for sale and loans held for investment.

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

(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by total interest-earning assets.

General. Net income increased \$1.1 million, or 7%, to \$17.1 million for the quarter ended June 30, 2022 from \$16.0 million for the quarter ended June 30, 2021. The increase in net income was attributable primarily to an increase in net interest income, partially offset by an increase in the provision for loan losses, a decrease in total non-interest income and an increase in non-interest expense.

Interest and Dividend Income. Interest and dividend income increased \$7.4 million, or 8%, to \$102.8 million during the current quarter compared to \$95.4 million during the same quarter in the prior year. The increase in interest and dividend income was primarily the result of an increase in interest income on loans and mortgage-backed securities and other interest-bearing cash equivalents.

Interest income on loans increased \$6.0 million, or 6%, to \$99.6 million during the current quarter compared to \$93.6 million during the same quarter in the prior year. This change was attributed to a 6%, or \$823.1 million, increase in the average balance of loans to \$13.50 billion for the quarter ended June 30, 2022 compared to \$12.67 billion during the same quarter last year as new loan production exceeded principal repayments and loan sales during the current quarter.

Interest Expense. Interest expense decreased \$6.8 million, or 18%, to \$31.5 million during the current quarter compared to \$38.3 million during the quarter ended June 30, 2021. The decrease resulted from a decline in interest expense on deposits as well as borrowed funds.

Interest expense on CDs decreased \$7.2 million, or 32%, to \$15.3 million during the current quarter compared to \$22.5 million during the quarter ended June 30, 2021. The decrease was attributed to a 35 basis point decrease in the average rate paid on CDs to 1.07% for the current quarter from 1.42% for the same quarter last year. Additionally, there was a \$613.6 million, or 10%, decrease in the average balance of CDs to \$5.71 billion during the current quarter from \$6.33 billion during the same quarter of the prior year. Partially offsetting the decrease in expense on CDs was an increase to the NOW accounts expense by \$0.7 million to \$1.0 million during the current quarter compared to \$0.3 million during the quarter ended June 30, 2021. The increase was mainly attributable to a \$356 million increase in the average balance of NOW accounts to \$1.48 billion from \$1.12 billion as well as a 17 basis point increase in the average rate paid on NOW accounts to 0.26% for the current quarter from 0.09% for the same quarter last year. Rates were adjusted on deposits in response to changes in market interest rates as well as the rates paid by our competition.

Interest expense on borrowed funds decreased \$0.6 million, or 4%, to \$14.3 million during the current quarter compared to \$14.9 million during the quarter ended June 30, 2021. This decrease was mainly attributed to a 32 basis point decrease in the average rate paid on these funds, to 1.51% for the current quarter from 1.83% for the same quarter last year, partially offset by a \$528.9 million, or 16%, increase in the average balance of borrowed funds to \$3.77 billion during the current quarter from an average balance of \$3.25 billion during the same quarter of the prior year. Refer to the *Extending the Duration of Funding Sources* section of the *Overview and Comparison of Financial Condition* for further discussion.

Net Interest Income. Net interest income increased \$14.2 million to \$71.3 million during the current quarter when compared to \$57.1 million for the three months ended June 30, 2021. Both the average balance and the yield of interest earning assets increased when compared to the same period last year, which was in addition to a decrease in the cost of interest-bearing liabilities when compared to the same period last year. Average interest earning assets during the current quarter increased \$476.7 million, or 3%, when compared to the quarter ended June 30, 2021. The increase in average interest-earning assets was attributed primarily to an increase in the average balances of loans. In addition to the increase in average interest earning assets was an eleven basis point increase in the yield on those assets to 2.84% from 2.73%, as a result of market rate changes. The interest rate spread increased 36 basis points to 1.86% compared to 1.50% during the same quarter last year. The net interest margin increased 34 basis points to 1.97% in the current quarter compared to 1.63% for the same quarter last year.

Provision (Release) for Credit Losses. We recorded a provision of the allowance for credit losses on loans and off-balance sheet exposures of \$4.0 million during the quarter ended June 30, 2022, compared to a \$1.0 million release of allowance for credit losses during the quarter ended June 30, 2021. Growth in both the core residential and equity line of credit portfolios was the primary reason for increases in provision. As delinquencies in the portfolio have been resolved through pay-offs, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan balance, uncollected balances have been charged against the allowance for credit losses previously provided. Recoveries of amounts charged against the allowance for credit losses occur when collateral values increase and homes are sold or when borrowers repay the amounts previously charged-off. In the current quarter, we recorded net recoveries of \$2.7 million compared to net recoveries of \$1.0 million in the quarter ended June 30, 2021. Credit loss provisions (releases) are recorded with the objective of aligning our allowance for credit loss balances with our current estimates of loss in the portfolio. The allowance for credit losses on loans was \$69.5 million, or 0.50% of total amortized cost in loans receivable, at June 30, 2022, compared to \$66.4 million or 0.52% of total amortized cost in loans receivable at June 30, 2021. The total allowance for credit losses was \$97.6 million at June 30, 2022, compared to \$89.7 million at June 30, 2021. Under the CECL methodology, the allowance for credits losses at June 30,

2022 included a \$28.1 million liability for unfunded commitments compared to \$23.3 million at June 30, 2021, primarily undrawn home equity lines of credit commitments. Refer to the *Lending Activities* section of Item 2. and Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* of the *NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS* for further discussion.

Non-Interest Income. Non-interest income decreased \$3.7 million, or 39%, to \$5.7 million during the current quarter compared to \$9.4 million during the quarter ended June 30, 2021 mainly as a result of a decrease in the net gain on sale of loans and a decrease in income on bank owned life insurance contracts. Activity from the sale of loans decreased \$3.5 million to a \$0.1 million loss for the current quarter compared to a \$3.4 million gain for the same quarter in the prior year as there were \$2.6 million of loan sales during the current quarter compared to \$116.6 million of loan sales during the quarter ended June 30, 2021. Loan sale gains have decreased from the prior year, as the rise in longer term market interest rates has impacted our interest rate risk management decision on whether to sell future loans or hold them in portfolio to improve net interest income. The cash surrender value and death benefits from bank owned life insurance decreased \$0.3 million to \$2.1 million during the quarter ended June 30, 2022 from \$2.4 million during the quarter ended June 30, 2021.

Non-Interest Expense. Non-interest expense increased \$3.9 million, or 8%, to \$51.8 million during the current quarter compared to \$47.9 million during the quarter ended June 30, 2021. The increase primarily consisted of a \$1.8 million increase in salaries and employee benefits as the result of a one-time after-tax bonus of \$2,000 to all associates in recognition of their special efforts during the year. Additionally, there was a \$0.7 million increase in marketing expenses due to the timing of media campaigns supporting our lending activities and a \$0.3 million increase in office property and equipment.

Income Tax Expense. The provision for income taxes increased \$0.4 million to \$4.1 million during the current quarter compared to \$3.7 million during the quarter ended June 30, 2021 reflecting the higher level of pre-tax income during the more recent period. The provision for the current quarter included \$3.9 million of federal income tax provision and \$0.1 million of state income tax expense. The provision for the quarter ended June 30, 2021 included \$3.8 million of federal income tax provision and \$0.1 million of state income tax release. Our effective federal tax rate was 18.6% during the current quarter and 19.2% during the quarter ended June 30, 2021.

Comparison of Operating Results for the Nine Months Ended June 30, 2022 and 2021

Average balances and yields. The following table sets forth average balances, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effects thereof were not material. Average balances are derived from daily average balances. Non-accrual loans are included in the computation of loan average balances, but only cash payments received on those loans during the period presented are reflected in the yield. The yields set forth below include the effect of deferred fees, deferred expenses, discounts and premiums that are amortized or accreted to interest income or interest expense.

	Nine Months Ended June 30, 2022			Nine Months Ended June 30, 2021		
	Average Balance	Interest Income/ Expense	Yield/ Cost (1)	Average Balance	Interest Income/ Expense	Yield/ Cost (1)
(Dollars in thousands)						
Interest-earning assets:						
Interest-earning cash equivalents	\$ 389,884	\$ 1,060	0.36 %	\$ 565,745	\$ 452	0.11 %
Investment securities	3,604	32	1.18 %	—	—	— %
Mortgage-backed securities	432,781	3,565	1.10 %	432,347	2,781	0.86 %
Loans (2)	12,975,292	280,820	2.89 %	12,885,802	289,885	3.00 %
Federal Home Loan Bank stock	165,240	2,845	2.30 %	152,835	2,157	1.88 %
Total interest-earning assets	13,966,801	288,322	2.75 %	14,036,729	295,275	2.80 %
Noninterest-earning assets	485,123			532,387		
Total assets	<u>\$14,451,924</u>			<u>\$14,569,116</u>		
Interest-bearing liabilities:						
Checking accounts	\$ 1,306,720	1,516	0.15 %	\$ 1,066,967	877	0.11 %
Savings accounts	1,862,449	1,973	0.14 %	1,720,925	2,347	0.18 %
Certificates of deposit	5,814,710	49,872	1.14 %	6,404,396	72,478	1.51 %
Borrowed funds	3,410,751	43,074	1.68 %	3,356,395	45,341	1.80 %
Total interest-bearing liabilities	12,394,630	96,435	1.04 %	12,548,683	121,043	1.29 %
Noninterest-bearing liabilities	267,142			332,753		
Total liabilities	12,661,772			12,881,436		
Shareholders' equity	1,790,152			1,687,680		
Total liabilities and shareholders' equity	<u>\$14,451,924</u>			<u>\$14,569,116</u>		
Net interest income		<u>\$191,887</u>			<u>\$174,232</u>	
Interest rate spread (1)(3)			<u>1.71 %</u>			<u>1.51 %</u>
Net interest-earning assets (4)	<u>\$ 1,572,171</u>			<u>\$ 1,488,046</u>		
Net interest margin (1)(5)		<u>1.83 %</u>			<u>1.66 %</u>	
Average interest-earning assets to average interest-bearing liabilities	<u>112.68 %</u>			<u>111.86 %</u>		
Selected performance ratios:						
Return on average assets (1)		0.45 %			0.59 %	
Return on average equity (1)		3.66 %			5.06 %	
Average equity to average assets		<u>12.39 %</u>			<u>11.58 %</u>	

(1) Annualized.

(2) Loans include both mortgage loans held for sale and loans held for investment.

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

(4) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(5) Net interest margin represents net interest income divided by total interest-earning assets.

General. Net income decreased \$14.9 million to \$49.1 million for the nine months ended June 30, 2022 compared to \$64.0 million for the nine months ended June 30, 2021. The decrease in net income was primarily driven from a lower net gain on the sale of loans and a provision for the allowance for credit losses verse a release of allowance the prior year, partially offset by an increase in net interest income and a decline in income tax expense.

Interest and Dividend Income. Interest and dividend income decreased \$7.0 million, or 2%, to \$288.3 million during the nine months ended June 30, 2022 compared to \$295.3 million during the same nine months in the prior year. The decrease in interest and dividend income resulted mainly from a decrease in interest income on loans, partially offset by increases in income earned on mortgage backed securities and FHLB stock.

Interest income on loans decreased \$9.1 million, or 3%, to \$280.8 million for the nine months ended June 30, 2022 compared to \$289.9 million for the nine months ended June 30, 2021. This decrease was attributed mainly to an 11 basis point decrease in the average yield on loans to 2.89% for the nine months ended June 30, 2022 from 3.00% for the same nine months in the prior fiscal year, partially offset by a \$89.5 million increase in the average balance of loans to \$12.98 billion for the current nine months compared to \$12.89 billion for the prior fiscal year period as new loan production exceeded repayments and loan sales during the current fiscal year.

Interest Expense. Interest expense decreased \$24.6 million, or 20%, to \$96.4 million during the current nine months compared to \$121.0 million during the nine months ended June 30, 2021. This decrease resulted from decreases in interest expense on both deposits and borrowed funds.

Interest expense on CDs decreased \$22.6 million, or 31%, to \$49.9 million during the nine months ended June 30, 2022 compared to \$72.5 million during the nine months ended June 30, 2021. The decrease was attributed primarily to a 37 basis point decrease in the average rate we paid on CDs to 1.14% during the current nine months from 1.51% during the same nine months last fiscal year. In addition, there was a \$589.7 million, or 9%, decrease in the average balance of CDs to \$5.81 billion from \$6.40 billion during the same nine months of the prior fiscal year. Interest expense on savings accounts decreased \$0.3 million to \$2.0 million during the nine months ended June 30, 2022, compared to interest expense of \$2.3 million for the same nine-month period during the prior fiscal year. Interest expense on checking accounts increased \$0.6 million mainly as a result of a \$239.8 million increase in the average balance of checking accounts as well as a 4 basis point increase in the rate paid. Rates were adjusted for deposits in response to changes in market interest rates as well as to changes in the rates paid by our competitors.

Interest expense on borrowed funds, as impacted by related interest rate swap contracts, decreased \$2.2 million, or 5%, to \$43.1 million during the nine months ended June 30, 2022 from \$45.3 million during the nine months ended June 30, 2021. The decrease was primarily the result of lower average interest rates for the nine months ended June 30, 2022. There was a twelve basis point decrease in the average rate paid for these funds to 1.68% from 1.80% for the nine months ended June 30, 2022 and June 30, 2021, respectively. The average balance of borrowed funds increased \$54.4 million, or 2%, to \$3.41 billion during the current nine months from \$3.36 billion during the same nine months of the prior fiscal year. During the nine months ended June 30, 2022, additional borrowings included \$1.46 billion of overnight advances and \$400.0 million of long term advances, partially offset by \$700.0 million of maturing short-term advances and their related swap contracts and other principal repayments. Refer to the *Extending the Duration of Funding Sources* section of the Overview and *Comparison of Financial Condition* for further discussion.

Net Interest Income. Net interest income increased \$17.7 million, or 10%, to \$191.9 million during the nine months ended June 30, 2022 from \$174.2 million during the nine months ended June 30, 2021. Average interest-earning assets decreased during the current nine months by \$69.9 million, or less than 1%, to \$13.97 billion when compared to the nine months ended June 30, 2021. The decrease in average assets was attributed primarily to a \$175.8 million decrease in cash and cash equivalents partially offset by an \$89.5 million increase in the average balance of our loans and a \$12.4 million increase in FHLB stock. The yield on average interest earning assets decreased 5 basis points to 2.75% for the nine months ended June 30, 2022 from 2.80% for the nine months ended June 30, 2021. Average interest-bearing liabilities decreased \$154.1 million to \$12.39 billion for the nine months ended June 30, 2022 compared to \$12.55 billion for the nine months ended June 30, 2021. Average interest-bearing liabilities experienced a 25 basis point decrease in cost as our interest rate spread increased 20 basis points to 1.71% compared to 1.51% during the same nine months last fiscal year. The net interest margin was 1.83% for the current nine months and 1.66% for the same nine months in the prior fiscal year period.

Provision (Release) for Credit Losses. We recorded a provision of the allowance for credit losses on loans and off-balance sheet exposures of \$1.0 million during the nine months ended June 30, 2022 compared to a \$7.0 million release of allowance for credit losses for the nine months ended June 30, 2021. In the current nine months, we recorded net recoveries of \$7.3 million, as compared to net recoveries of \$3.6 million for the nine months ended June 30, 2021. Credit loss provisions (releases) are recorded with the objective of aligning our allowance for credit loss balances with our current estimates of loss in

the portfolio. The allowance for credit losses on loans was \$69.5 million, or 0.50% of total amortized cost in loans receivable, at June 30, 2022, compared to \$66.4 million or 0.52% of total amortized cost in loans receivable at June 30, 2021. The total allowance for credit losses was \$97.6 million at June 30, 2022, compared to \$89.7 million at June 30, 2021. Under the CECL methodology, the allowance for credit losses at June 30, 2022 included a \$28.1 million liability for unfunded commitments compared to \$23.3 million at June 30, 2021, primarily undrawn home equity lines of credit commitments. As delinquencies in the portfolio have been resolved through pay-off, short sale or foreclosure, or management determines the collateral is not sufficient to satisfy the loan balance, uncollected balances have been charged against the allowance for credit losses previously provided. Refer to the *Lending Activities* section of the *Overview* and Note 4. *LOANS AND ALLOWANCES FOR CREDIT LOSSES* of the *NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS* for further discussion.

Non-Interest Income. Non-interest income decreased \$27.2 million, or 58%, to \$19.4 million during the nine months ended June 30, 2022 compared to \$46.6 million during the nine months ended June 30, 2021. The decrease in non-interest income was primarily due to a \$26.6 million decrease in the net gain on sale of loans as well as a \$0.6 million decrease in income from bank owned life insurance contracts during the most recent nine months. The decrease in net gain on the sale of loans was generally attributable to both lower volumes of sales as well as less favorable market pricing on loan delivery contracts settled during the current period. There were loan sales of \$104.3 million, including commitments to sell, during the nine months ended June 30, 2022, compared to loan sales of \$634.0 million during the nine months ended June 30, 2021.

Non-Interest Expense. Non-interest expense increased \$1.0 million, or 1%, to \$149.4 million during the nine months ended June 30, 2022 compared to \$148.4 million during the nine months ended June 30, 2021. This increase was primarily driven from a \$1.9 million increase in marketing expenses due to the timing of marketing efforts as well as a \$1.0 million increase in office property and equipment. Partially offsetting the increase was a \$2.3 million decrease in other operating expenses which included a \$1.6 million decline in appraisal and third party fees on equity line of credit originations as well as a \$1.6 million decline in actuarial adjustments for the pension plan.

Income Tax Expense. The provision for income taxes decreased \$3.7 million to \$11.8 million during the nine months ended June 30, 2022 from \$15.5 million for the nine months ended June 30, 2021 reflecting the lower level of pre-tax income during the more recent period. The provision for the current nine months included \$11.1 million of federal income tax provision and \$0.7 million of state income tax provision. The provision for the nine months ended June 30, 2021 included \$14.2 million of federal income tax provision and \$1.3 million of state income tax provision. Our effective federal tax rate was 18.4% during the nine months ended June 30, 2022 and 18.1% during the nine months ended June 30, 2021.

Liquidity and Capital Resources

Liquidity is the ability to meet current and future financial obligations of a short-term nature. Our primary sources of funds consist of deposit inflows, loan repayments, advances from the FHLB of Cincinnati, borrowings from the FRB-Cleveland Discount Window, overnight Fed Funds through various arrangements with other institutions, proceeds from brokered CD and checking account transactions, principal repayments and maturities of securities, and sales of loans.

In addition to the primary sources of funds described above, we have the ability to obtain funds through the use of collateralized borrowings in the wholesale markets and from sales of securities. Also, debt issuance by the Company and access to the equity capital markets via a supplemental minority stock offering or a full conversion (second-step) transaction remain as other potential sources of liquidity, although these channels generally require up to nine months of lead time.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by interest rates, economic conditions and competition. The Association's Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs and deposit withdrawals of our customers as well as unanticipated contingencies. We generally seek to maintain a minimum liquidity ratio of 5% (which we compute as the sum of cash and cash equivalents plus unencumbered investment securities for which ready markets exist, divided by total assets). For the three months ended June 30, 2022, our liquidity ratio averaged 5.46%. We believe that we had sufficient sources of liquidity to satisfy our short- and long-term liquidity needs as of June 30, 2022.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, scheduled liability maturities and the objectives of our asset/liability management program. Excess liquid assets are generally invested in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are dependent on our operating, financing, lending and investing activities during any given period. At June 30, 2022, cash and cash equivalents totaled \$387.5 million, which represented a decrease of 20.6% from \$488.3 million at September 30, 2021.

Investment securities classified as available-for-sale, which provide additional sources of liquidity, totaled \$449.9 million at June 30, 2022.

During the nine-month period ended June 30, 2022, loan sales totaled \$104.3 million, which includes sales to Fannie Mae, consisting of \$78.5 million of long-term, fixed-rate, agency-compliant, non-Home Ready first mortgage loans and \$25.8 million of loans that qualified under Fannie Mae's Home Ready initiative. Loans originated under the Home Ready initiative for sale to Fannie Mae are classified as "held for sale" at origination. Loans originated under Fannie Mae compliant procedures, including Home Ready loans that management intends to retain until maturity or for the foreseeable future, are classified as "held for investment" until they are specifically identified for sale. At June 30, 2022, \$1.3 million of long-term, fixed-rate residential first mortgage loans classified as "held for sale".

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our *CONSOLIDATED STATEMENTS OF CASH FLOWS* (unaudited) included in the *UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS*.

At June 30, 2022, we had \$917.9 million in outstanding commitments to originate loans. In addition to commitments to originate loans, we had \$3.86 billion in unfunded home equity lines of credit to borrowers. CDs due within one year of June 30, 2022 totaled \$3.27 billion, or 35.7% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including loan sales, sales of investment securities, other deposit products, including new CDs, brokered CDs, brokered checking, FHLB advances, borrowings from the FRB-Cleveland Discount Window or other collateralized borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the CDs due on or before June 30, 2023. We believe, however, based on past experience, that a significant portion of such deposits will remain with us. Generally, we have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are originating residential mortgage loans, home equity loans and lines of credit and purchasing investments. During the nine months ended June 30, 2022, we originated \$2.91 billion of residential mortgage loans, and \$1.60 billion of commitments for home equity loans and lines of credit, while during the nine months ended June 30, 2021, we originated \$2.91 billion of residential mortgage loans and \$1.23 billion of commitments for home equity loans and lines of credit. We purchased \$197.3 million of securities during the nine months ended June 30, 2022, and \$229.9 million during the nine months ended June 30, 2021.

Financing activities consist primarily of changes in deposit accounts, changes in the balances of principal and interest owed on loans serviced for others, FHLB advances, including any collateral requirements related to interest rate swap agreements and borrowings from the FRB-Cleveland Discount Window. We experienced a net increase in total deposits of \$164.0 million during the nine months ended June 30, 2022, which reflected the active management of the offered rates on maturing CDs, compared to a net decrease of \$74.8 million during the nine months ended June 30, 2021. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors, and by other factors. During the nine months ended June 30, 2022, there was a \$2.2 million decrease in the balance of brokered CDs (exclusive of acquisition costs and subsequent amortization), which had a balance of \$489.8 million at June 30, 2022. At June 30, 2021 the balance of brokered CDs was \$530.9 million. During the nine months ended June 30, 2022 checking accounts increased \$371.9 million, which included \$300.1 million in brokered checking accounts. Principal and interest owed on loans serviced for others experienced a net decrease of \$22.8 million to \$18.7 million during the nine months ended June 30, 2022 compared to a net decrease of \$18.2 million to \$27.7 million during the nine months ended June 30, 2021. During the nine months ended June 30, 2022 we increased our advances from the FHLB of Cincinnati by \$1.2 billion as we funded: new loan originations, our capital initiatives, and actively managed our liquidity ratio. During the nine months ended June 30, 2021, our advances from the FHLB of Cincinnati decreased by \$379.0 million.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the FHLB of Cincinnati and the FRB-Cleveland Discount Window, each of which provides an additional source of funds. Also, in evaluating funding alternatives, we may participate in the brokered deposit market. At June 30, 2022 we had \$4.25 billion of FHLB of Cincinnati advances and no outstanding borrowings from the FRB-Cleveland Discount Window. During the nine months ended June 30, 2022, we had average outstanding advances from the FHLB of Cincinnati of \$3.41 billion as compared to average outstanding advances of \$3.36 billion during the nine months ended June 30, 2021. Refer to the *Extending the Duration of Funding Sources* section of the *Overview* and the *General* section of Item 3. *Quantitative and Qualitative Disclosures About Market Risk* for further discussion.

At June 30, 2022, we had the ability to borrow a maximum of \$8.14 billion from the FHLB of Cincinnati and \$186.7 million from the FRB-Cleveland Discount Window. From the perspective of collateral value securing FHLB of Cincinnati advances, our capacity limit for collateral based additional borrowings beyond the outstanding balance at June 30, 2022 was \$3.89 billion, subject to satisfaction of the FHLB of Cincinnati common stock ownership requirement.

The Association and the Company are subject to various regulatory capital requirements, including a risk-based capital measure. The Basel III capital framework for U.S. banking organizations ("Basel III Rules") includes both a revised definition of capital and guidelines for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories.

In 2019, a final rule adopted by the federal banking agencies provided banking organizations with the option to phase in, over a three-year period, the adverse day-one regulatory capital effects of the adoption of the CECL accounting standard. In 2020, as part of its response to the impact of COVID-19, U.S. federal banking regulatory agencies issued a final rule which provides banking organizations that implement CECL during the 2020 calendar year the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period, which the Association and Company have adopted. During the two-year delay, the Association and Company will add back to common equity tier 1 capital ("CET1") 100% of the initial adoption impact of CECL plus 25% of the cumulative quarterly changes in the allowance for credit losses. After two years the quarterly transitional amounts along with the initial adoption impact of CECL will be phased out of CET1 capital over the three-year period.

The Association is subject to the "capital conservation buffer" requirement level of 2.5%. The requirement limits capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" in addition to the minimum capital requirements. At June 30, 2022, the Association exceeded the regulatory requirement for the "capital conservation buffer".

As of June 30, 2022, the Association exceeded all regulatory requirements to be considered "Well Capitalized" as presented in the table below (dollar amounts in thousands).

	Actual		Well Capitalized Levels	
	Amount	Ratio	Amount	Ratio
Total Capital to Risk-Weighted Assets	\$ 1,636,953	18.96 %	\$ 863,417	10.00 %
Tier 1 (Leverage) Capital to Net Average Assets	1,586,646	10.63 %	746,361	5.00 %
Tier 1 Capital to Risk-Weighted Assets	1,586,646	18.38 %	690,734	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	<u>1,586,646</u>	<u>18.38 %</u>	<u>561,221</u>	<u>6.50 %</u>

The capital ratios of the Company as of June 30, 2022 are presented in the table below (dollar amounts in thousands).

	Actual	
	Amount	Ratio
Total Capital to Risk-Weighted Assets	\$ 1,859,368	21.52 %
Tier 1 (Leverage) Capital to Net Average Assets	1,809,061	12.11 %
Tier 1 Capital to Risk-Weighted Assets	1,809,061	20.94 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	<u>1,809,061</u>	<u>20.94 %</u>

In addition to the operational liquidity considerations described above, which are primarily those of the Association, the Company, as a separate legal entity, also monitors and manages its own, parent company-only liquidity, which provides the source of funds necessary to support all of the parent company's stand-alone operations, including its capital distribution strategies which encompass its share repurchase and dividend payment programs. The Company's primary source of liquidity is dividends received from the Association. The amount of dividends that the Association may declare and pay to the Company in any calendar year, without the receipt of prior approval from the OCC but with prior notice to the FRB-Cleveland, cannot exceed net income for the current calendar year-to-date period plus retained net income (as defined) for the preceding two calendar years, reduced by prior dividend payments made during those periods. In December 2021, the Company received a \$56.0 million cash dividend from the Association. Because of its intercompany nature, this dividend payment had no impact on the Company's capital ratios or its *CONSOLIDATED STATEMENTS OF CONDITION* but reduced the Association's reported capital ratios. At June 30, 2022, the Company had, in the form of cash and a demand loan from the Association, \$200.0 million of funds readily available to support its stand-alone operations.

The Company's eighth stock repurchase program, which authorized the repurchase of up to 10,000,000 shares of the Company's outstanding common stock was approved by the Board of Directors on October 27, 2016 and repurchases began on January 6, 2017. There were 4,421,180 shares repurchased under that program between its start date and June 30, 2022. During the nine months ended June 30, 2022, the Company repurchased \$4.7 million of its common stock.

On July 12, 2022, Third Federal Savings, MHC received the approval of its members with respect to the waiver of dividends on the Company's common stock the MHC owns, up to a total of \$1.13 per share, to be declared on the Company's common stock during the 12 months subsequent to the members' approval (*i.e.*, through July 12, 2023). The members approved the waiver by casting 61% of the eligible votes, with 97% of the votes cast, voting in favor of the waiver. Third Federal Savings, MHC is the 81% majority shareholder of the Company. Both the non-objection from the FRB-Cleveland and the timing of the non-objection are unknown as of the filing date of this quarterly report.

Following the receipt of the members' approval at the July 13, 2021 meeting, Third Federal Savings, MHC filed a notice with, and received the non-objection from the FRB-Cleveland for the proposed dividend waivers. Third Federal Savings, MHC waived its right to receive \$0.2825 per share dividend payments on September 21, 2021, December 14, 2021 and March 22, 2022 and June 21, 2022.

The payment of dividends, support of asset growth and strategic stock repurchases are planned to continue in the future as the focus for future capital deployment activities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

General. The majority of our assets and liabilities are monetary in nature. Consequently, our most significant form of market risk has historically been interest rate risk. In general, our assets, consisting primarily of mortgage loans, have longer maturities than our liabilities, consisting primarily of deposits and advances from the FHLB of Cincinnati. As a result, a fundamental component of our business strategy is to manage interest rate risk and limit the exposure of our net interest income to changes in market interest rates. Accordingly, our Board of Directors has established risk parameter limits deemed appropriate given our business strategy, operating environment, capital, liquidity and performance objectives. Additionally, our Board of Directors has authorized the formation of an Asset/Liability Management Committee comprised of key operating personnel, which is responsible for managing this risk in a manner that is consistent with the guidelines and risk limits approved by the Board of Directors. Further, the Board has established the Directors Risk Committee, which, among other responsibilities, conducts regular oversight and review of the guidelines, policies and deliberations of the Asset/Liability Management Committee. We have sought to manage our interest rate risk in order to control the exposure of our earnings and capital to changes in interest rates. As part of our ongoing asset-liability management, we use the following strategies to manage our interest rate risk:

- (i) marketing adjustable-rate and shorter-maturity (10-year, fixed-rate mortgage) loan products;
- (ii) lengthening the weighted average remaining term of major funding sources, primarily by offering attractive interest rates on deposit products, particularly longer-term certificates of deposit, and through the use of longer-term advances from the FHLB of Cincinnati (or shorter-term advances converted to longer-term durations via the use of interest rate exchange contracts that qualify as cash flow hedges) and longer-term brokered certificates of deposit;
- (iii) investing in shorter- to medium-term investments and mortgage-backed securities;
- (iv) maintaining the levels of capital required for "well capitalized" designation; and
- (v) securitizing and/or selling long-term, fixed-rate residential real estate mortgage loans.

During the nine months ended June 30, 2022, \$104.3 million of agency-compliant, long-term (15 to 30 years), fixed-rate mortgage loans were sold, or committed to be sold, to Fannie Mae on a servicing retained basis. Of the agency-compliant loan sales during the nine months ended June 30, 2022, \$25.8 million were sold under Fannie Mae's Home Ready program, and \$78.5 million were sold to Fannie Mae, as described in the next paragraph.

First mortgage loans (primarily fixed-rate, mortgage refinances with terms of 15 years or more, and Home Ready) are originated under Fannie Mae procedures and are eligible for sale to Fannie Mae either as whole loans or within mortgage-backed securities. We expect that certain loan types (*i.e.* our Smart Rate adjustable-rate loans, home purchase fixed-rate loans and 10-year fixed-rate loans) will continue to be originated under our legacy procedures, which are not eligible for sale to Fannie Mae. For loans that are not originated under Fannie Mae procedures, the Association's ability to reduce interest rate risk via loan sales is limited to those loans that have established payment histories, strong borrower credit profiles and are supported by adequate collateral values that meet the requirements of the FHLB's Mortgage Purchase Program or of private third-party investors.

The Association actively markets home equity lines of credit, an adjustable-rate mortgage loan product, and a 10-year fixed-rate mortgage loan product. Each of these products provides us with improved interest rate risk characteristics when compared to longer-term, fixed-rate mortgage loans. Shortening the average maturity of our interest-earning assets by increasing our investments in shorter-term loans and investments, as well as loans and investments with variable rates of interest, helps to better match the maturities and interest rates of our assets and liabilities, thereby reducing the exposure of our net interest income to changes in market interest rates.

The Association evaluates funding source alternatives as it seeks to extend its liability duration. Extended duration funding sources that are currently considered include: retail certificates of deposit (which, subject to a fee, generally provide depositors with an early withdrawal option, but do not require pledged collateral); brokered certificates of deposit (which generally do not provide an early withdrawal option and do not require collateral pledges); collateralized borrowings which are not subject to creditor call options (generally advances from the FHLB of Cincinnati); and interest rate exchange contracts ("swaps") which are subject to collateral pledges and which require specific structural features to qualify for hedge accounting treatment. Hedge accounting treatment directs that periodic mark-to-market adjustments be recorded in other comprehensive income (loss) in the equity section of the balance sheet rather than being included in operating results of the income statement. The Association's intent is that any swap to which it may be a party will qualify for hedge accounting treatment. The Association attempts to be opportunistic in the timing of its funding duration deliberations and when evaluating alternative funding sources, compares effective interest rates, early withdrawal/call options and collateral requirements.

The Association is a party to interest rate swap agreements. Each of the Association's swap agreements is registered on the Chicago Mercantile Exchange and involves the exchange of interest payment amounts based on a notional principal balance. No exchange of principal amounts occur and the notional principal amount does not appear on our balance sheet. The Association uses swaps to extend the duration of its funding sources. In each of the Association's agreements, interest paid is based on a fixed rate of interest throughout the term of each agreement while interest received is based on an interest rate that resets at a specified interval (generally three months) throughout the term of each agreement. On the initiation date of the swap, the agreed upon exchange interest rates reflect market conditions at that point in time. Swaps generally require counterparty collateral pledges that ensure the counterparties' ability to comply with the conditions of the agreement. The notional amount of the Association's swap portfolio at June 30, 2022 was \$1.75 billion. The swap portfolio's weighted average fixed pay rate was 1.88% and the weighted average remaining term was 2.6 years. Concurrent with the execution of each swap, the Association entered into a short-term borrowing from the FHLB of Cincinnati in an amount equal to the notional amount of the swap and with interest rate resets aligned with the reset interval of the swap. Each individual swap agreement has been designated as a cash flow hedge of interest rate risk associated with the Company's variable rate borrowings from the FHLB of Cincinnati.

Economic Value of Equity. Using customized modeling software, the Association prepares periodic estimates of the amounts by which the net present value of its cash flows from assets, liabilities and off-balance sheet items (the institution's economic value of equity or EVE) would change in the event of a range of assumed changes in market interest rates. The simulation model uses a discounted cash flow analysis and an option-based pricing approach in measuring the interest rate sensitivity of EVE. The model estimates the economic value of each type of asset, liability, and off-balance sheet contract under the assumption that instantaneous changes (measured in basis points) occur at all maturities along the United States Treasury yield curve and other relevant market interest rates. A basis point equals one, one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 2% to 3% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below. The model is tailored specifically to our organization, which, we believe, improves its predictive accuracy. The following table presents the estimated changes in the Association's EVE at June 30, 2022 that would result from the indicated instantaneous changes in the United States Treasury yield curve and other relevant market interest rates. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay, and should not be relied upon as indicative of actual results.

Change in Interest Rates (basis points) (1)				EVE as a Percentage of Present Value of Assets (3)	
				EVE Ratio (4)	Increase (Decrease) (basis points)
	Estimated EVE (2)	Estimated Increase (Decrease) in EVE			
		Amount	Percent		
(Dollars in thousands)					
+300	\$ 948,089	\$ (534,805)	(36.06)%	6.98 %	(311)
+200	1,152,587	(330,307)	(22.27)%	8.25 %	(184)
+100	1,334,022	(148,872)	(10.04)%	9.30 %	(79)
0	1,482,894	—	— %	10.09 %	—
-100	1,586,855	103,961	7.01 %	10.54 %	45

- (1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) EVE is the discounted present value of expected cash flows from assets, liabilities, and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at June 30, 2022, in the event of an increase of 200 basis points in all interest rates, the Association would experience a 22.27% decrease in EVE. In the event of a 100 basis point decrease in interest rates, the Association would experience a 7.01% increase in EVE.

The following table is based on the calculations contained in the previous table, and sets forth the change in the EVE at a +200 basis point rate of shock at June 30, 2022, with comparative information as of September 30, 2021. By regulation, the Association must measure and manage its interest rate risk for interest rate shocks relative to established risk tolerances in EVE.

Risk Measure (+200 Basis Points Rate Shock)	At June 30, 2022	At September 30, 2021
Pre-Shock EVE Ratio	10.09 %	12.97 %
Post-Shock EVE Ratio	8.25 %	12.46 %
Sensitivity Measure in basis points	(184)	(51)
Percentage Change in EVE	(22.27)%	(8.21)%

Certain shortcomings are inherent in the methodologies used in measuring interest rate risk through changes in EVE. Modeling changes in EVE require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the EVE tables presented above assume:

- no new growth or business volumes;
- that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, except for reductions to reflect mortgage loan principal repayments along with modeled prepayments and defaults; and
- that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities.

Accordingly, although the EVE tables provide an indication of our interest rate risk exposure as of the indicated dates, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our EVE and will differ from actual results. In addition to our core business activities, which seek to originate Smart Rate (adjustable) loans, home equity lines of credit (adjustable) and 10-year fixed-rate loans funded by borrowings from the FHLB and intermediate term CDs (including brokered CDs), and which are intended to have a favorable impact on our IRR profile, the impact of several other items and events resulted in the 2.88% deterioration in the Pre-Shock EVE Ratio (base valuation) measure at June 30, 2022 when compared to the measure at September 30, 2021. Factors contributing to this deterioration included changes in market rates, capital actions by the Association and changes due to business activity. Movement in market interest rates included an increase of 268 basis points for the two-year term, an increase of 207 basis points for the five-year term and an increase of 153 basis points for the ten-year term. Negatively impacting the Percentage Change in EVE was a \$56.0 million cash dividend that the Association paid to the Company. Because of its intercompany nature, this payment had no impact on the Company's capital position, or the Company's overall IRR profile, but reduced the Association's regulatory capital and regulatory capital ratios and negatively impacted the Association's Percentage Change in EVE. While our core business activities, as described at the beginning of this paragraph, are generally intended to have a positive impact on our IRR profile, the actual impact is determined by a number of factors, including the pace of mortgage asset additions to our balance

sheet (including consideration of outstanding commitments to originate those assets) in comparison to the pace of the addition of duration extending funding sources. The IRR simulation results presented above were in line with management's expectations and were within the risk limits established by our Board of Directors.

Our simulation model possesses random patterning capabilities and accommodates extensive regression analytics applicable to the prepayment and decay profiles of our borrower and depositor portfolios. The model facilitates the generation of alternative modeling scenarios and provides us with timely decision making data that is integral to our IRR management processes. Modeling our IRR profile and measuring our IRR exposure are processes that are subject to continuous revision, refinement, modification, enhancement, backtesting, and validation. We continually evaluate, challenge, and update the methodology and assumptions used in our IRR model; including behavioral equations that have been derived based on third-party studies of our customer historical performance patterns. Changes to the methodology and/or assumptions used in the model will result in reported IRR profiles and reported IRR exposures that will be different, and perhaps significantly, from the results reported above.

Earnings at Risk. In addition to EVE calculations, we use our simulation model to analyze the sensitivity of our net interest income to changes in interest rates (the institution's EaR). Net interest income is the difference between the interest income that we earn on our interest-earning assets, such as loans and securities, and the interest that we pay on our interest-bearing liabilities, such as deposits and borrowings. In our model, we estimate what our net interest income would be for prospective 12 and 24 month periods using customized (based on our portfolio characteristics) assumptions with respect to loan prepayment rates, default rates and deposit decay rates, and the implied forward yield curve as of the market date for assumptions related to projected interest rates. We then calculate what the estimated net interest income would be for the same period under numerous interest rate scenarios. The simulation process is subject to continual enhancement, modification, refinement and adaptation, in order that it might most accurately reflect our current circumstances, factors and expectations. As of June 30, 2022, we estimated that our EaR for the 12 months ending June 30, 2023 would decrease by 1.81% in the event that market interest rates used in the simulation were adjusted in incremental amounts (termed a "ramped" format) during the 12 month measurement period to an aggregate increase in 200 basis points. The Association uses the "ramped" assumption in preparing the EaR simulation estimates for use in its public disclosures. In addition to conforming to predominate industry practice, the Association also believes that the ramped assumption provides a more probable/plausible scenario for net interest income simulations than instantaneous shocks which provide a theoretical analysis but a much less credible economic scenario. The Association continues to calculate instantaneous scenarios, and as of June 30, 2022, we estimated that our EaR for the 12 months ending June 30, 2023, would decrease by 5.92% in the event of an instantaneous 200 basis point increase in market interest rates.

Certain shortcomings are also inherent in the methodologies used in determining interest rate risk through changes in EaR. Modeling changes in EaR require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the interest rate risk information presented above assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although interest rate risk calculations provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results. In addition to the preparation of computations as described above, we also formulate simulations based on a variety of non-linear changes in interest rates and a variety of non-constant balance sheet composition scenarios.

Other Considerations. The EVE and EaR analyses are similar in that they both start with the same month end balance sheet amounts, weighted average coupon and maturity. The underlying prepayment, decay and default assumptions are also the same and they both start with the same month-end "markets" (Treasury and FHLB yield curves, etc.). From that similar starting point, the models follow divergent paths. EVE is a stochastic model using 150 different interest rate paths to compute market value at the account level for each of the categories on the balance sheet whereas EaR uses the implied forward curve to compute interest income/expense at the account level for each of the categories on the balance sheet.

EVE is considered as a point in time calculation with a "liquidation" view of the Association where all the cash flows (including interest, principal and prepayments) are modeled and discounted using discount factors derived from the current market yield curves. It provides a long term view and helps to define changes in equity and duration as a result of changes in interest rates. On the other hand, EaR is based on balance sheet projections going one year and two years forward and assumes new business volume and pricing to calculate net interest income under different interest rate environments. EaR is calculated to determine the sensitivity of net interest income under different interest rate scenarios. With each of these models, specific policy limits have been established that are compared with the actual month-end results. These limits have been approved by the Association's Board of Directors and are used as benchmarks to evaluate and moderate interest rate risk. In the event that there is a breach of policy limits that extends beyond two consecutive quarter-end measurement periods, management is responsible for taking such action, similar to those described under the preceding heading of *General*, as may be necessary in

order to return the Association's interest rate risk profile to a position that is in compliance with the policy. At June 30, 2022, the IRR profile as disclosed above was within our internal limits.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of the Company's management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management as of June 30, 2022, the resolution of these legal actions is not expected to have a material adverse effect on the Company's consolidated financial condition or results of operations.

Item 1A. Risk Factors

There have been no material changes in the "Risk Factors" previously disclosed in our Annual Report on Form 10-K, filed with the SEC on November 24, 2021 (File No. 001-33390).

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

- (a) Not applicable
- (b) Not applicable
- (c) The following table summarizes our stock repurchase activity during the quarter ended June 30, 2022.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)	Maximum Number of Shares that May Yet be Purchased Under the Plans
April 1, 2022 through April 30, 2022	36,200	\$ 15.60	36,200	5,785,820
May 1, 2022 through May 31, 2022	102,000	14.45	102,000	5,683,820
June 1, 2022 through June 30, 2022	105,000	14.10	105,000	5,578,820
	<u>243,200</u>	<u>\$ 14.47</u>	<u>243,200</u>	

- (1) On October 27, 2016, the Company announced that the Board of Directors approved the Company's eighth stock repurchase program, which authorized the repurchase of up to 10,000,000 shares of the Company's outstanding common stock. Purchases under the program will be on an ongoing basis and subject to the availability of stock, general market conditions, the trading price of the stock, alternative uses of capital, and our financial performance. Repurchased shares will be held as treasury stock and be available for general corporate use. The repurchase program commenced in January 2017, and in response to COVID-19, was restricted significantly in March, 2020 and suspended in April, 2020. On February 25, 2021, due to financial results and economic forecasts, the Company lifted its internal suspension. Stock price limitations in the plan had prevented any repurchases until November 2021. This program has no expiration date.

At the July 12, 2022 special meeting of members of Third Federal Savings and Loan Association of Cleveland, MHC (the "MHC"), the mutual holding company of TFS Financial Corporation (the "Company"), the members of the MHC (depositors and certain loan customers of Third Federal Savings and Loan Association of Cleveland) voted to approve the MHC's proposed waiver of dividends, aggregating up to \$1.13 per share, to be declared on the Company's common stock during the twelve months subsequent to the members' approval (i.e., through July 12, 2023). The members approved the waiver by casting 61% of the total eligible votes. Of the votes cast, 97% were in favor of the proposal. The MHC is the 81% majority shareholder of the Company.

Following the receipt of the members' approval at the July 12, 2022 special meeting, the MHC filed a notice with, and a request for non-objection from, the Federal Reserve Bank of Cleveland for the proposed dividend waivers. Both the non-objection from the Federal Reserve Bank and the timing of the non-objection are unknown at this point.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6.

(a) Exhibits

[31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

[32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)

101 The following unaudited financial statements from TFS Financial Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, filed on August 8, 2022, formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) Consolidated Statements of Condition, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, (vi) Notes to Unaudited Interim Consolidated Financial Statements.

101.INS	Interactive datafile	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.
101.SCH	Interactive datafile	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Interactive datafile	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Interactive datafile	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Interactive datafile	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Interactive datafile	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Interactive datafile	Cover Page Interactive Datafile (embedded within the Inline XBRL document and included in Exhibit 101)

SIGNATURES

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

TFS Financial Corporation

Dated: August 8, 2022

/s/ Marc A. Stefanski

Marc A. Stefanski
Chairman of the Board, President
and Chief Executive Officer

Dated: August 8, 2022

/s/ Timothy W. Mulhern

Timothy W. Mulhern
Chief Financial Officer

Exhibit 31.1

Certification of Chief Executive Officer

Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Marc A. Stefanski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TFS Financial Corporation;
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 periods 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; and
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 the 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 control over financial reporting.

Dated: August 8, 2022

/S/ MARC A. STEFANSKI

Marc A. Stefanski

**Chairman of the Board, President
and Chief Executive Officer**

Exhibit 31.2

**Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Timothy W. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of TFS Financial Corporation;
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 periods 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; and
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 the 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 control over financial reporting.

Dated: August 8, 2022

/S/ TIMOTHY W. MULHERN

Timothy W. Mulhern
Chief Financial Officer

Exhibit 32

**Certification of Chief Executive Officer and Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Marc A. Stefanski, Chairman of the Board, President and Chief Executive Officer, and Timothy W. Mulhern, Chief Financial Officer of TFS Financial Corporation (the "Company") each certify in his capacity as an officer of the Company that he has reviewed the Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 and that to the best of his knowledge:

- (1) the report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 8, 2022

/S/ MARC A. STEFANSKI

Marc A. Stefanski
Chairman of the Board, President
and Chief Executive Officer

Dated: August 8, 2022

/S/ TIMOTHY W. MULHERN

Timothy W. Mulhern
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to TFS Financial Corporation and will be retained by TFS Financial Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
