

WASHINGTON FEDERAL INC
Form 10-Q
May 08, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from _____ to _____
Commission file number 001-34654

WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1661606
(I.R.S. Employer
Identification No.)

425 Pike Street Seattle, Washington 98101
(Address of principal executive offices and zip code)
(206) 624-7930
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of class: _____ at May 6, 2015

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Common stock, \$1.00 par value

94,832,451

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART IItem 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

Consolidated Statements of Financial Condition as of March 31, 2015 and September 30, 2014 3

Consolidated Statements of Operations for the quarter and six months ended March 31, 2015 and March 31, 2014 4

Consolidated Statements of Comprehensive Income for the quarter and six months ended March 31, 2015 and March 31, 2014 5

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	March 31, 2015	September 30, 2014
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$675,064	\$781,843
Available-for-sale securities, at fair value	2,756,906	3,049,442
Held-to-maturity securities, at amortized cost	1,479,781	1,548,265
Loans receivable, net	8,420,988	8,148,322
Covered loans, net	138,005	176,476
Interest receivable	40,359	52,037
Premises and equipment, net	264,063	257,543
Real estate held for sale	60,822	55,072
Real estate held for investment	4,068	4,808
Covered real estate held for sale	15,668	24,082
FDIC indemnification asset	23,115	36,860
FHLB & FRB stock	150,918	158,839
Bank owned life insurance	100,961	—
Intangible assets, net	300,903	302,909
Federal and state income tax assets, net	7,908	16,515
Other assets	171,490	143,028
	\$14,611,019	\$14,756,041
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	\$5,707,797	\$5,490,687
Time deposit accounts	4,984,828	5,226,241
	10,692,625	10,716,928
FHLB advances	1,830,000	1,930,000
Advance payments by borrowers for taxes and insurance	18,008	29,004
Accrued expenses and other liabilities	102,246	106,826
	12,642,879	12,782,758
Stockholders' equity		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 133,622,663 and 133,322,909 shares issued; 95,088,294 and 98,404,705 shares outstanding	133,623	133,323
Paid-in capital	1,640,984	1,638,211
Accumulated other comprehensive income, net of taxes	23,485	20,708
Treasury stock, at cost; 38,534,369 and 34,918,204 shares	(602,463	) (525,108
Retained earnings	772,511	706,149
	1,968,140	1,973,283
	\$14,611,019	\$14,756,041

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(In thousands, except per share data)			
INTEREST INCOME				
Loans & covered assets	\$109,274	\$106,334	\$217,567	\$213,561
Mortgage-backed securities	18,143	20,968	37,318	40,360
Investment securities and cash equivalents	5,213	5,049	11,029	9,688
	132,630	132,351	265,914	263,609
INTEREST EXPENSE				
Customer accounts	12,574	14,780	26,018	30,279
FHLB advances and other borrowings	16,176	16,935	33,832	34,383
	28,750	31,715	59,850	64,662
Net interest income	103,880	100,636	206,064	198,947
Reversal of provision for loan losses	(3,949)	) (4,336)	) (9,449)	) (8,936)
Net interest income after reversal of provision for loan losses	107,829	104,972	215,513	207,883
OTHER INCOME				
Loan fee income	2,048	1,324	4,112	3,370
Deposit fee income	5,405	3,381	11,383	5,084
Other income	3,388	1,997	726	4,036
	10,841	6,702	16,221	12,490
OTHER EXPENSE				
Compensation and benefits	30,469	27,836	59,629	52,962
Occupancy	8,239	7,346	16,374	14,396
FDIC insurance premiums	2,380	2,767	3,055	5,701
Information technology	3,882	3,931	7,912	6,860
Product delivery	5,420	4,066	11,047	5,384
Other expense	6,934	6,113	12,909	10,876
	57,324	52,059	110,926	96,179
Gain (loss) on real estate acquired through foreclosure, net	1,473	553	1,788	(1,398)
Income before income taxes	62,819	60,168	122,596	122,796
Income tax provision	22,458	21,511	43,828	43,903
NET INCOME	\$40,361	\$38,657	\$78,768	\$78,893
PER SHARE DATA				
Basic earnings	\$0.42	\$0.38	\$0.81	\$0.77
Diluted earnings	0.42	0.38	0.81	0.77
Dividends paid on common stock per share	0.13	0.10	0.28	0.20
Basic weighted average number of shares outstanding	96,373,366	102,013,857	97,270,403	102,173,829
Diluted weighted average number of shares outstanding, including dilutive stock options	96,725,234	102,488,844	97,635,201	102,652,984
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS				

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Quarter Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(In thousands)			
Net income	\$40,361	\$38,657	\$78,768	\$78,893
Other comprehensive income (loss) net of tax:				
Net unrealized gain on available-for-sale securities	5,063	16,277	13,623	6,501
Net unrealized (loss) on long-term borrowing hedge	(4,985	) —	(9,233) —
Related tax expense	(28	) (5,982	) (1,613	) (2,389
Other comprehensive income net of tax	50	10,295	2,777	4,112
Comprehensive income	\$40,411	\$48,952	\$81,545	\$83,005
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS				

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
Balance at October 1, 2014	\$ 133,323	\$ 1,638,211	\$ 706,149	\$ 20,708	\$(525,108)	\$ 1,973,283
Net income			78,768			78,768
Other comprehensive income				2,777		2,777
Dividends on common stock			(12,406)			(12,406)
Compensation expense related to common stock options		600				600
Proceeds from exercise of common stock options	35	457				492
Restricted stock expense	265	1,716				1,981
Treasury stock acquired					(77,355)	(77,355)
Balance at March 31, 2015	\$ 133,623	\$ 1,640,984	\$ 772,511	\$ 23,485	\$(602,463)	\$ 1,968,140
	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
Balance at October 1, 2013	\$ 132,573	\$ 1,625,051	\$ 594,450	\$ 6,378	\$(420,817)	\$ 1,937,635
Net income			78,893			78,893
Other comprehensive income				4,112		4,112
Dividends on common stock			(20,372)			(20,372)
Compensation expense related to common stock options		600				600
Proceeds from exercise of common stock options	727	9,184				9,911
Restricted stock expense	—	1,680				1,680
Treasury stock acquired					(31,776)	(31,776)
Balance at March 31, 2014	\$ 133,300	\$ 1,636,515	\$ 652,971	\$ 10,490	\$(452,593)	\$ 1,980,683

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended March 31,	
	2015	2014
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$78,768	\$78,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,566	5,993
Cash received from (paid to) FDIC under loss share	(738	) 1,629
Stock option compensation expense	600	600
Reversal of provision for loan losses	(9,449	) (8,936
Gain on real estate held for sale	(12,338	) (1,042
Decrease (increase) in accrued interest receivable	11,678	(2,066
Increase in FDIC loss share receivable	1,795	(1,896
Decrease in federal and state income tax	6,995	5,043
Increase in cash surrender value in bank owned life insurance	(961) —
Decrease (increase) in other assets	(28,462	) 6,113
Increase (decrease) in accrued expenses and other liabilities	586	(7,753
Net cash provided by operating activities	59,040	76,578
CASH FLOWS FROM INVESTING ACTIVITIES		
Net loan originations	(78,301	) (127,918
Loans purchased	(146,832) —
FHLB & FRB stock redemption	7,921	5,682
Available-for-sale securities purchased	(163,126	) (930,476
Principal payments and maturities of available-for-sale securities	466,991	185,050
Principal payments and maturities of held-to-maturity securities	65,913	42,253
Net cash received from acquisitions	—	1,254,517
Proceeds from sales of real estate owned and held for investment	28,354	28,489
Proceeds from sales of covered REO	9,050	17,216
Purchase of bank owned life insurance	(100,000) —
Premises and equipment purchased and REO improvements	(16,897	) (19,659
Net cash provided by investing activities	73,073	455,154
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(24,227	) (59,630
Repayments of borrowings	(100,000) —
Proceeds from exercise of common stock options and related tax benefit	492	9,911
Dividends paid on common stock	(26,806	) (20,372
Treasury stock purchased	(77,355	) (31,776
Decrease in advance payments by borrowers for taxes and insurance	(10,996	) (25,192
Net cash used in financing activities	(238,892	) (127,059
Increase (decrease) in cash and cash equivalents	(106,779	) 404,673
Cash and cash equivalents at beginning of period	781,843	203,563
Cash and cash equivalents at end of period	\$675,064	\$608,236

(CONTINUED)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 (UNAUDITED)

	Six Months Ended March 31,	
	2015	2014
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	\$ 18,991	\$ 20,898
Covered real estate acquired through foreclosure	936	836
Cash paid during the period for		
Interest	62,193	65,499
Income taxes	32,517	37,572
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets and intangibles acquired, including goodwill	\$—	\$ 63,111
Fair value of liabilities assumed	—	(1,317,628)
Net fair value of assets (liabilities)	\$—	\$(1,254,517)

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED MARCH 31, 2015 AND 2014
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential real estate loans, multi-family real estate loans and commercial loans. As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal, National Association.

Basis of Presentation - The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2014 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2014 Annual Report on Form 10-K ("2014 Form 10-K") as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2014 Form 10-K. Other than the reclassifications discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2014 Form 10-K disclosure for the year ended September 30, 2014.

Correction of Immaterial Errors Related to Prior Periods - During the three months ended December 31, 2014, the Company made an \$8,200,000 adjustment which increased the value of real estate owned and other income to correct an error in prior years. The adjustment reflects a one-time correction necessary to change the accounting for real estate owned to be in conformity with GAAP. The Company also made an \$8,900,000 adjustment which decreased accrued interest receivable and other income as a result of the Company identifying a reconciliation error which had overstated interest income and accrued interest receivable. Based upon an evaluation of all relevant factors, management believes these correcting adjustments did not have a material impact on the Company's current quarter financial statement or on any previously reported quarterly or yearly results.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at March 31, 2015 and September 30, 2014, of \$613,219,000 and \$583,838,000, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

Reclassifications - Reclassification of Other Expenses into Product Delivery and Information Technology line items have been made to the financial statements for years prior to September 30, 2014 to conform to current year classifications.

NOTE B - Acquisitions

There were no acquisitions completed during the six months ended March 31, 2015. During the 2014 fiscal year, the Bank acquired seventy-four branches from Bank of America, National Association. Effective as of the close of

business on October 31, 2013, the Bank completed the acquisition of eleven branches that are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches that are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of another twenty-three branches that are located in Arizona and Nevada. Management believes that these transactions represent a significant enhancement of our branch network. These transactions have brought new customers to the Company and improved the deposit mix and reduced overall funding costs.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014
(UNAUDITED)

The combined acquisitions provided \$1,853,798,000 in deposit accounts, \$12,881,000 of loans, and \$25,097,000 in branch properties. The Bank paid a 1.99% premium on the total deposits and received \$1,776,660,000 in cash from the transactions. The acquisition method of accounting was used to account for the acquisitions. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The Bank recorded \$11,040,000 in core deposit intangible and \$31,225,000 in goodwill related to these transactions.

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to March 31, 2015, for the additional forty branches from December 7, 2013 to March 31, 2015, and for the most recent twenty-three branches from May 3, 2014 to March 31, 2015.

The table below displays the adjusted fair value as of the acquisition date for each major class of assets acquired and liabilities assumed during fiscal year 2014:

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash	\$ 1,776,660
Loans receivable, net	12,881
Property and equipment, net	25,097
Core deposit intangible	11,040
Goodwill	31,225
Other assets	70
Total Assets	1,856,973
Liabilities:	
Customer accounts	1,853,798
Other liabilities	3,175
Total Liabilities	1,856,973
Net assets acquired	\$—

NOTE C – Dividends

On February 16, 2015, the Company paid its 128th consecutive quarterly cash dividend on common stock. Dividends per share were \$.13 and \$.10 for the quarters ended March 31, 2015 and 2014, respectively.

On May 4, 2015, the Company announced its 129th consecutive quarterly cash dividend on common stock of \$0.13 per share. The current dividend will be paid on May 29, 2015, to common shareholders of record on May 14, 2015.

The Company also announced the authorization of an additional 5 million shares that may be repurchased under Washington Federal's share repurchase program. For the six months ending March 31, 2015, the Company has repurchased 3.9 million shares or 4.0 percent of the shares that were outstanding at the beginning of the year at an

average price of \$21.44. The last authorization of 10 million shares was made in September 2013, and had 1.1 million shares remaining authorized to be repurchased as of May 4, 2015.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014
(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

	March 31, 2015 (In thousands)		September 30, 2014		
Non-acquired loans					
Single-family residential	\$5,535,104	61.4	% \$5,560,203	64.1	%
Construction - speculative	163,657	1.8	140,060	1.6	
Construction - custom	370,693	4.1	385,824	4.5	
Land - acquisition & development	105,058	1.2	77,832	0.9	
Land - consumer lot loans	102,082	1.2	108,623	1.3	
Multi-family	1,010,003	11.2	917,286	10.6	
Commercial real estate	741,137	8.2	591,336	6.9	
Commercial & industrial	408,358	4.6	379,226	4.4	
HELOC	120,901	1.3	116,042	1.4	
Consumer	218,680	2.5	132,590	1.5	
Total non-acquired loans	8,775,673	97.5	8,409,022	97.2	
Non-impaired acquired loans					
Single-family residential	10,977	0.1	11,716	0.1	
Construction - speculative	—	—	—	—	
Construction - custom	—	—	—	—	
Land - acquisition & development	728	—	905	—	
Land - consumer lot loans	2,476	—	2,507	—	
Multi-family	2,912	—	2,999	—	
Commercial real estate	87,313	1.0	97,898	1.1	
Commercial & industrial	55,659	0.6	51,386	0.6	
HELOC	6,700	0.1	8,274	0.1	
Consumer	2,794	—	5,670	0.1	
Total non-impaired acquired loans	169,559	1.8	181,355	2.0	
Credit-impaired acquired loans					
Single-family residential	322	—	325	—	
Construction - speculative	—	—	—	—	
Land - acquisition & development	1,395	—	1,622	—	
Multi-family	—	—	—	—	
Commercial real estate	56,727	0.6	63,723	0.7	
Commercial & industrial	2,190	—	3,476	—	
HELOC	8,838	0.1	10,139	0.1	
Consumer	51	—	55	—	
Total credit-impaired acquired loans	69,523	0.7	79,340	0.8	
Total loans					
Single-family residential	5,546,403	61.5	5,572,244	64.2	
Construction - speculative	163,657	1.8	140,060	1.6	
Construction - custom	370,693	4.1	385,824	4.5	
Land - acquisition & development	107,181	1.2	80,359	0.9	
Land - consumer lot loans	104,558	1.2	111,130	1.3	
Multi-family	1,012,915	11.2	920,285	10.6	

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Commercial real estate	885,177	9.8	752,957	8.7
Commercial & industrial	466,207	5.2	434,088	5.0

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014
(UNAUDITED)

HELOC	136,439	1.5	134,455	1.6	
Consumer	221,525	2.5	138,315	1.6	
Total Loans	9,014,755	100	% 8,669,717	100	%
Less:					
Allowance for probable losses	108,323		112,347		
Loans in process	426,836		346,172		
Discount on acquired loans	20,845		25,391		
Deferred net origination fees	37,763		37,485		
	593,767		521,395		
	\$8,420,988		\$8,148,322		

Changes in the carrying amount and accretable yield for acquired non-impaired and credit-impaired loans (excluding covered loans) for the six months ended March 31, 2015 and the fiscal year ended September 30, 2014 were as follows:

March 31, 2015	Acquired Impaired		Acquired Non-impaired		
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	
	(In thousands)				
Balance as of beginning of period	\$32,591	\$57,771	\$4,254	\$177,440	
Additions	—	—	346	—	
Accretion	(6,036	) 6,036	(1,810	) 1,810
Transfers to REO	—	—	—	—	
Payments received, net	—	(12,362) —	(12,516)
Balance as of end of period	\$26,555	\$51,445	\$2,790	\$166,734	
September 30, 2014	Acquired Impaired		Acquired Non-impaired		
	Accretable Yield	Net Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	
	(In thousands)				
Balance as of beginning of period	\$37,236	\$69,718	\$4,977	\$245,373	
Reclassification from nonaccretable balance, net (1)	7,300	—	—	—	
Accretion	(11,945	) 11,945	(723	) 723
Transfers to REO	—	(1,188) —	(4,710)
Payments received, net	—	(22,704) —	(63,946)
Balance as of end of period	\$32,591	\$57,771	\$4,254	\$177,440	

(1) reclassification due to improvements in expected cash flows of the underlying loans.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014
(UNAUDITED)

The following table sets forth information regarding non-accrual loans (excluding covered loans) held by the Company as of the dates indicated:

	March 31, 2015 (In thousands)		September 30, 2014		
Non-accrual loans:					
Single-family residential	\$59,948	79.0	% \$74,067	84.8	%
Construction - speculative	1,152	1.5	1,477	1.7	
Land - acquisition & development	—	—	811	0.9	
Land - consumer lot loans	2,246	3.0	2,637	3.0	
Multi-family	—	—	1,742	2.0	
Commercial real estate	5,735	7.6	5,106	5.8	
Commercial & industrial	5,018	6.6	7	—	
HELOC	1,175	1.5	795	0.9	
Consumer	576	0.8	789	0.9	
Total non-accrual loans	\$75,850	100	% \$87,431	100	%

The Company recognized interest income on nonaccrual loans of approximately \$4,220,000 in the six months ended March 31, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$3,108,000 for the six months ended March 31, 2015. The recognized interest income may include more than six months of interest for some of the loans that were brought current.

In addition to the nonaccrual loans reflected in the above table, the Company had \$77,912,000 of loans that were less than 90 days delinquent at March 31, 2015 but which it had classified as substandard for one or more reasons. The following tables provide an analysis of the age of loans (excluding covered loans) in past due status as of March 31, 2015 and September 30, 2014, respectively.

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March 31, 2015 Type of Loan	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Non-acquired loans									
Single-Family Residential	\$5,532,553	\$5,450,820	\$19,822	\$8,082	\$53,829	\$81,733	1.48	%	
Construction - Speculative	105,392	103,044	2,348	—	—	2,348	2.23		
Construction - Custom Land - Acquisition & Development	201,777	200,608	355	814	—	1,169	0.58		
Land - Consumer Lot Loans	90,838	90,838	—	—	—	—	—		
Land - Consumer Lot Loans	102,003	98,717	466	478	2,342	3,286	3.22		
Multi-Family	941,122	940,175	620	—	327	947	0.10		
Commercial Real Estate	627,843	627,209	62	93	479	634	0.10		
Commercial & Industrial	407,763	407,698	65	—	—	65	0.02		
HELOC	120,904	120,098	150	74	582	806	0.67		
Consumer	218,700	218,084	414	160	42	616	0.28		
Total non-acquired loans	8,348,895	8,257,291	24,302	9,701	57,601	91,604	1.10	%	
Non-impaired acquired loans									
Single-Family Residential	10,976	10,819	133	—	24	157	1.43	%	
Land - Acquisition & Development	728	728	—	—	—	—	—		
Land - Consumer Lot Loans	2,474	2,139	218	—	117	335	13.54		
Multi-Family	2,912	2,912	—	—	—	—	—		
Commercial Real Estate	87,290	85,063	492	1,561	174	2,227	2.55		
Commercial & Industrial	55,670	55,670	—	—	—	—	—		
HELOC	6,700	6,201	275	—	224	499	7.45		
Consumer	2,774	2,326	54	—	394	448	16.15		
Total non-impaired acquired loans	169,524	165,858	1,172	1,561	933	3,666	2.16	%	
Credit-impaired acquired loans									
Single-Family Residential	322	322	—	—	—	—	—	%	
Land - Acquisition & Development	1,395	1,395	—	—	—	—	—		
Commercial Real Estate	56,717	54,366	387	516	1,448	2,351	4.15		
Commercial & Industrial	2,179	2,179	—	—	—	—	—		

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HELOC	8,836	8,748	—	—	88	88	1.00	
Consumer	51	51	—	—	—	—	—	
Total credit-impaired acquired loans	69,500	67,061	387	516	1,536	2,439	3.51	%
Total Loans	\$8,587,919	\$8,490,210	\$25,861	\$11,778	\$60,070	\$97,709	1.14	%

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September 30, 2014 Type of Loan	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on \$ Amount of Loans				Total	% based on \$	
		Current	30	60	90			
Non-acquired loans								
Single-Family Residential	\$5,557,753	\$5,467,239	\$15,926	\$9,139	\$65,449	\$90,514	1.63	%
Construction - Speculative	87,035	87,035	—	—	—	—	—	
Construction - Custom	192,098	191,262	836	—	—	836	0.44	
Land - Acquisition & Development	68,066	67,911	155	—	—	155	0.23	
Land - Consumer Lot Loans	108,589	104,571	1,246	304	2,468	4,018	3.70	
Multi-Family	892,196	891,372	205	16	603	824	0.09	
Commercial Real Estate	529,453	513,409	67	15,118	859	16,044	3.03	
Commercial & Industrial	379,226	377,848	53	1,318	7	1,378	0.36	
HELOC	116,262	115,262	335	292	373	1,000	0.86	
Consumer	132,686	131,642	654	262	128	1,044	0.79	
Total non-acquired loans	8,063,364	7,947,551	19,477	26,449	69,887	115,813	1.44	%
Non-impaired acquired loans								
Single-Family Residential	11,716	11,693	—	—	23	23	0.20	%
Land - Acquisition & Development	905	905	—	—	—	—	—	
Land - Consumer Lot Loans	2,502	2,132	—	370	—	370	14.79	
Multi-Family	2,999	2,999	—	—	—	—	—	
Commercial Real Estate	97,715	96,948	104	—	663	767	0.78	
Commercial & Industrial	51,329	51,229	—	100	—	100	0.19	
HELOC	8,056	8,056	—	—	—	—	—	
Consumer	5,670	4,983	22	4	661	687	12.12	
Total non-impaired acquired loans	180,892	178,945	126	474	1,347	1,947	1.08	%
Credit-impaired acquired loans								
Single-Family Residential	325	325	—	—	—	—	—	%
Land - Acquisition & Development	1,581	1,581	—	—	—	—	—	
Commercial Real Estate	63,713	61,713	152	909	939	2,000	3.14	

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Commercial & Industrial	3,477	3,470	7	—	—	7	0.20	
HELOC	10,138	9,641	—	75	422	497	4.90	
Consumer	54	54	—	—	—	—	—	
Total credit-impaired acquired loans	79,288	76,784	159	984	1,361	2,504	3.16	%
Total Loans	\$8,323,544	\$8,203,280	\$19,762	\$27,907	\$72,595	\$120,264	1.44	%

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Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of March 31, 2015, single-family residential loans comprised 85.6% of TDRs.

The Company reserves for restructured loans within its allowance for loan loss methodology by taking into account the following performance indicators: 1) time since modification, 2) current payment status and 3) geographic area.

The following tables provide information related to loans that were restructured during the periods indicated:

	Quarter Ended March 31, 2015		2014		2014	
	Number of Contracts	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Contracts	Pre-Modification Outstanding	Post-Modification Outstanding
		Recorded Investment (In thousands)	Recorded Investment (In thousands)		Recorded Investment (In thousands)	Recorded Investment (In thousands)
Troubled Debt Restructurings:						
Single-Family Residential	14	\$2,664	\$ 2,664	23	\$4,218	\$ 4,218
Land - Consumer Lot	4	720	720	1	83	83
Loans						
Commercial Real Estate	3	3,175	3,175	—	—	—
	21	\$6,559	\$ 6,559	24	\$4,301	\$ 4,301

	Six Months Ended March 31, 2015		2014		2014	
	Number of Contracts	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Contracts	Pre-Modification Outstanding	Post-Modification Outstanding
		Recorded Investment (In thousands)	Recorded Investment (In thousands)		Recorded Investment (In thousands)	Recorded Investment (In thousands)
Troubled Debt Restructurings:						
Single-Family Residential	49	12,264	12,264	38	7,067	7,067
Construction -						
Speculative	2	718	718	—	—	—
Construction - Custom	—	—	—	—	—	—
Land - Consumer Lot	6	1,252	1,252	4	358	358
Loans						

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Commercial Real Estate	3	3,175	3,175	—	—	—
Consumer	1	85	85	—	—	—
	61	\$17,494	\$ 17,494	42	\$7,425	\$ 7,425

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The following tables provide information on restructured loans for which a payment default occurred during the periods indicated that had been modified as a TDR within 12 months or less of the payment default:

	Quarter Ended March 31, 2015		2014	
	Number of Contracts (In thousands)	Recorded Investment	Number of Contracts (In thousands)	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	2	\$304	23	\$4,218
Land - Consumer Lot Loans	2	301	1	83
	4	\$605	24	\$4,301
	Six Months Ended March 31, 2015		2014	
	Number of Contracts (In thousands)	Recorded Investment	Number of Contracts (In thousands)	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	7	\$1,237	38	\$7,067
Land - Consumer Lot Loans	3	389	4	358
	10	\$1,626	42	\$7,425

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NOTE E – Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses (excluding acquired and covered loans) for the three and six months ended March 31, 2015 and 2014:

Three Months Ended March 31, 2015	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$55,495	\$(1,409)	) \$4,122	\$(3,446)	) \$54,762
Construction - speculative	5,451	—	) 75	(81)	) 5,445
Construction - custom	965	—	—	3	968
Land - acquisition & development	6,671	—	) 204	530	) 7,405
Land - consumer lot loans	3,113	(52)	) 34	(60)	) 3,035
Multi-family	4,500	—	—	173	4,673
Commercial real estate	5,872	—	) 453	409	) 6,734
Commercial & industrial	23,328	(355)	) 18	(1,845)	) 21,146
HELOC	892	—	—	(42)	) 850
Consumer	2,413	(701)	) 734	859	) 3,305
	\$108,700	\$(2,517)	) \$5,640	\$(3,500)	) \$108,323
Three Months Ended March 31, 2014	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$67,692	\$(2,444)	) \$2,088	\$(3,988)	) \$63,348
Construction - speculative	8,142	(488)	) \$—	(881)	) 6,773
Construction - custom	1,474	—	—	125	1,599
Land - acquisition & development	7,084	(85)	) 299	(1,271)	) 6,027
Land - consumer lot loans	3,274	(231)	) —	(69)	) 2,974
Multi-family	4,109	—	—	78	4,187
Commercial real estate	5,868	(73)	) —	129	) 5,924
Commercial & industrial	16,505	(444)	) 2,852	1,490	) 20,403
HELOC	943	—	—	32	975
Consumer	3,067	(1,010)) 1,059	(395)) 2,721
	\$118,158	\$(4,775)) \$6,298	\$(4,750)) \$114,931

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Six Months Ended March 31, 2015	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$62,763	\$(3,103)	) \$6,675	\$(11,573)	) \$54,762
Construction - speculative	6,742	(388)	) \$75	(984)	) 5,445
Construction - custom	1,695	—	—	(727)	) 968
Land - acquisition & development	5,592	(38)	) 205	1,646	7,405
Land - consumer lot loans	3,077	(87)	) 34	11	3,035
Multi-family	4,248	—	220	205	4,673
Commercial real estate	7,548	(27)	) 481	(1,268)	) 6,734
Commercial & industrial	16,527	(355)	) 52	4,922	21,146
HELOC	928	—	—	(78)	) 850
Consumer	3,227	(1,128)	) 1,349	(143)	) 3,305
	\$112,347	\$(5,126)	) \$9,091	\$(7,989)	) \$108,323
Six Months Ended March 31, 2014	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$64,184	\$(4,777)	) \$10,913	\$(6,972)	) \$63,348
Construction - speculative	8,407	(938)	) \$95	(791)	) 6,773
Construction - custom	882	—	—	717	1,599
Land - acquisition & development	9,165	(541)	) 738	(3,335)	) 6,027
Land - consumer lot loans	3,552	(474)	) 22	(126)	) 2,974
Multi-family	3,816	—	—	371	4,187
Commercial real estate	5,595	(73)	) —	402	5,924
Commercial & industrial	16,614	(692)	) 3,273	1,208	20,403
HELOC	1,002	—	—	(27)	) 975
Consumer	3,524	(2,091)	) 2,085	(797)	) 2,721
	\$116,741	\$(9,586)	) \$17,126	\$(9,350)	) \$114,931

The Company recorded a \$3,949,000 reversal of the provision for loan losses during the quarter ended March 31, 2015, while a \$4,336,000 reversal was recorded for the same quarter one year ago. The reason is that the credit quality of the portfolio has been improving significantly and economic conditions are more favorable. During the fiscal year ended September 30, 2014, there was a transfer of \$2,910,000 from the general allowance to establish a reserve for unfunded commitments. This reserve was \$1,898,000 as of March 31, 2015.

Non-performing assets (“NPAs”) amounted to \$143,223,000, or 0.98%, of total assets at March 31, 2015, compared to \$147,311,000, or 1.00%, of total assets as of September 30, 2014. Including the covered assets from the Horizon Bank acquisition in 2010 that will not be covered after March 31, 2015, the NPAs would amount to \$153,202,000 or 1.05% of total assets.

Acquired loans, including covered loans, are usually not classified as non-performing loans because at acquisition, the carrying value of these loans is adjusted to reflect fair value. As of March 31, 2015, \$34,695,000 in acquired loans were subject to the general allowance as the discount related to these balances is no longer sufficient to absorb potential losses. There was a \$449,000 reversal of provision for loan losses recorded on acquired or covered loans during the quarter ended March 31, 2015. The reversal of allowance for credit losses related to the acquired loans resulted increased expectations of future cash flows due to decreased credit losses for certain acquired loan pools.

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Non-accrual loans decreased from \$87,431,000 at September 30, 2014, to \$75,850,000 at March 31, 2015, a 13.2% decrease.

A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations. The Company had net recoveries of \$3,123,000 for the quarter ended March 31, 2015, compared with \$1,523,000 of net recoveries for the same quarter one year prior.

As of March 31, 2015, \$108,323,000 of the allowance was calculated under the formulas contained in our general allowance methodology. As of September 30, 2014, \$112,287,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$60,000 was made up of specific reserves on loans which were deemed to be impaired.

The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of March 31, 2015 and September 30, 2014:

March 31, 2015	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio	Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)			(In thousands)			
Single-family residential	\$54,762	\$ 5,476,667	1.0	% \$—	\$ 55,886	—	%
Construction - speculative	5,445	97,987	5.6	—	7,405	—	
Construction - custom	968	201,777	0.5	—	—	—	
Land - acquisition & development	7,405	87,541	8.5	—	3,298	—	
Land - consumer lot loans	3,035	89,279	3.4	—	12,723	—	
Multi-family	4,673	936,010	0.5	—	5,112	—	
Commercial real estate	6,734	617,633	1.1	—	10,210	—	
Commercial & industrial	21,146	442,459	4.8	—	—	—	
HELOC	850	119,235	0.7	—	1,669	—	
Consumer	3,305	218,605	1.5	—	95	—	
	\$108,323	\$ 8,287,193	1.3	% \$—	\$ 96,398	—	%

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

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September 30, 2014	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio	Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)			(In thousands)			
Single-family residential	\$62,067	\$ 5,487,331	1.1	% \$—	\$ 72,869	—	%
Construction - speculative	6,682	130,901	5.5	60	9,159	0.7	
Construction - custom	1,695	385,464	0.5	—	360	—	
Land - acquisition & development	5,592	73,999	7.6	—	3,833	—	
Land - consumer lot loans	3,077	95,684	3.2	—	12,939	—	
Multi-family	4,248	911,162	0.5	—	6,124	—	
Commercial real estate	7,548	563,534	1.4	—	27,802	—	
Commercial & industrial	17,223	421,816	4.6	—	—	—	
HELOC	928	114,393	0.9	—	1,650	—	
Consumer	3,227	132,590	2.4	—	—	—	
	\$112,287	\$ 8,316,874	1.4	% \$60	\$ 134,736	—	%

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

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The Company has an asset quality review function that analyzes its loan portfolios and reports the results of the review to the Board of Directors on a quarterly basis. The single-family residential, HELOC and consumer portfolios are evaluated based on their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. The construction, land, multi-family, commercial real estate and commercial and industrial loans are risk rated on a loan by loan basis to determine the relative risk inherent in specific borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

Pass – the credit does not meet one of the definitions below.

Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.

Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss – Credits classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future. Losses should be taken in the period in which they are identified as uncollectible. Partial charge-off versus full charge-off may be taken if the collateral offers some identifiable protection.

The following tables provide information on loans (excluding covered loans) based on credit quality indicators as defined above as of March 31, 2015 and September 30, 2014.

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March 31, 2015	Internally Assigned Grade					Total Gross Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Non-acquired loans						
Single-family residential	\$5,426,579	\$2,343	\$106,182	\$—	\$—	\$5,535,104
Construction - speculative	157,847	—	5,810	—	—	163,657
Construction - custom	370,693	—	—	—	—	370,693
Land - acquisition & development	99,686	—	5,372	—	—	105,058
Land - consumer lot loans	101,505	—	577	—	—	102,082
Multi-family	1,004,149	—	5,854	—	—	1,010,003
Commercial real estate	728,274	—	12,863	—	—	741,137
Commercial & industrial	353,998	13,949	35,542	4,869	—	408,358
HELOC	120,653	—	248	—	—	120,901
Consumer	218,500	—	180	—	—	218,680
	8,581,884	16,292	172,628	4,869	—	8,775,673
Non-impaired acquired loans						
Single-family residential	10,977	—	—	—	—	10,977
Land - acquisition & development	343	—	385	—	—	728
Land - consumer lot loans	2,476	—	—	—	—	2,476
Multi-family	2,912	—	—	—	—	2,912
Commercial real estate	81,059	514	5,740	—	—	87,313
Commercial & industrial	53,666	1,870	123	—	—	55,659
HELOC	6,700	—	—	—	—	6,700
Consumer	2,794	—	—	—	—	2,794
	160,927	2,384	6,248	—	—	169,559
Credit-impaired acquired loans						
Pool 1 - Construction and land A&D	1,146	—	249	—	—	1,395
Pool 2 - Single-family residential	322	—	—	—	—	322
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	8,889	—	—	—	—	8,889
Pool 5 - Commercial real estate	45,472	1,773	9,482	—	—	56,727
Pool 6 - Commercial & industrial	2,190	—	—	—	—	2,190
Total credit impaired acquired loans	58,019	1,773	9,731	—	—	69,523
Total gross loans	\$8,800,830	\$20,449	\$188,607	\$4,869	\$—	\$9,014,755
	97.6	% 0.2	% 2.1	% 0.1	% —	%

Total grade as a % of total gross
loans

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September 30, 2014	Internally Assigned Grade					Total Gross Loans
	Pass (In thousands)	Special mention	Substandard	Doubtful	Loss	
Non-acquired loans						
Single-family residential	\$5,426,895	\$2,793	\$130,515	\$—	\$—	\$5,560,203
Construction - speculative	134,950	—	5,110	—	—	140,060
Construction - custom	385,824	—	—	—	—	385,824
Land - acquisition & development	71,692	—	6,140	—	—	77,832
Land - consumer lot loans	108,013	—	610	—	—	108,623
Multi-family	912,728	—	4,558	—	—	917,286
Commercial real estate	557,914	1,971	31,451	—	—	591,336
Commercial & industrial	359,221	14,740	5,265	—	—	379,226
HELOC	115,794	—	248	—	—	116,042
Consumer	132,349	—	241	—	—	132,590
	8,205,380	19,504	184,138	—	—	8,409,022
Non-impaired acquired loans						
Single-family residential	11,716	—	—	—	—	11,716
Land - acquisition & development	503	—	402	—	—	905
Land - consumer lot loans	2,507	—	—	—	—	2,507
Multi-family	2,999	—	—	—	—	2,999
Commercial real estate	88,974	2,571	6,353	—	—	97,898
Commercial & industrial	36,311	13,642	1,375	58	—	51,386
HELOC	8,274	—	—	—	—	8,274
Consumer	5,670	—	—	—	—	5,670
	156,954	16,213	8,130	58	—	181,355
Credit-impaired acquired loans						
Pool 1 - Construction and land A&D	1,292	—	330	—	—	1,622
Pool 2 - Single-family residential	325	—	—	—	—	325
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	10,194	—	—	—	—	10,194
Pool 5 - Commercial real estate	48,878	2,143	12,702	—	—	63,723
Pool 6 - Commercial & industrial	643	—	2,833	—	—	3,476
Total credit impaired acquired loans	61,332	2,143	15,865	—	—	79,340
Total gross loans	\$8,423,666	\$37,860	\$208,133	\$58	\$—	\$8,669,717

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Total grade as a % of total gross loans 97.2 % 0.4 % 2.4 % — % — %

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Credit Risk Profile Based on Payment Activity (excludes acquired and covered loans):

March 31, 2015	Performing Loans		Non-Performing Loans			
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans		
	(In thousands)					
Single-family residential	\$5,474,323	98.9	%	\$60,781	1.1	%
Construction - speculative	162,505	99.3		1,152	0.7	
Construction - custom	370,693	100.0		—	—	
Land - acquisition & development	105,058	100.0		—	—	
Land - consumer lot loans	99,624	97.6		2,458	2.4	
Multi-family	1,010,003	100.0		—	—	
Commercial real estate	735,402	99.2		5,735	0.8	
Commercial & industrial	403,340	98.8		5,018	1.2	
HELOC	119,726	99.0		1,175	1.0	
Consumer	218,104	99.7		576	0.3	
	\$8,698,778	99.1	%	\$76,895	0.9	%
September 30, 2014	Performing Loans		Non-Performing Loans			
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans		
	(In thousands)					
Single-family residential	\$5,486,136	98.7	%	\$74,067	1.3	%
Construction - speculative	138,583	98.9		1,477	1.1	
Construction - custom	385,824	100.0		—	—	
Land - acquisition & development	77,021	99.0		811	1.0	
Land - consumer lot loans	105,986	97.6		2,637	2.4	
Multi-family	915,544	99.8		1,742	0.2	
Commercial real estate	586,230	99.1		5,106	0.9	
Commercial & industrial	379,219	100.0		7	—	
HELOC	115,247	99.3		795	0.7	
Consumer	131,801	99.4		789	0.6	
	\$8,321,591	99.0	%	\$87,431	1.0	%

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The following table provides information on impaired loan balances and the related allowances by loan types as of March 31, 2015 and September 30, 2014:

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	\$23,164	\$25,986	\$—	\$21,135
Construction - speculative	997	1,192	—	1,001
Land - acquisition & development	685	1,229	—	738
Land - consumer lot loans	1,353	1,451	—	1,144
Multi-family	1,079	1,079	—	1,080
Commercial real estate	9,768	14,145	—	9,587
Commercial & industrial	6,988	18,865	—	5,091
HELOC	1,112	1,898	—	931
Consumer	414	614	—	369
	45,560	66,459	—	41,076
With an allowance recorded:				
Single-family residential	290,951	295,408	8,597	289,495
Construction - speculative	6,408	7,198	—	6,260
Land - acquisition & development	4,179	5,119	—	4,208
Land - consumer lot loans	12,501	12,884	—	12,376
Multi-family	3,862	3,862	—	3,547
Commercial real estate	20,673	21,323	—	19,160
HELOC	1,394	1,394	—	1,390
Consumer	123	293	—	124
	340,091	347,481	8,597	(1) 336,560
Total:				
Single-family residential	314,115	321,394	8,597	310,630
Construction - speculative	7,405	8,390	—	7,261
Land - acquisition & development	4,864	6,348	—	4,946
Land - consumer lot loans	13,854	14,335	—	13,520
Multi-family	4,941	4,941	—	4,627
Commercial real estate	30,441	35,468	—	28,747
Commercial & industrial	6,988	18,865	—	5,091
HELOC	2,506	3,292	—	2,321
Consumer	537	907	—	493
	\$385,651	\$413,940	\$8,597	(1) \$377,636

(1)Included in the general reserves.

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September 30, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	\$24,044	\$26,628	\$—	\$16,843
Construction - speculative	1,603	2,173	—	1,804
Land - acquisition & development	837	2,325	—	1,038
Land - consumer lot loans	974	1,072	—	713
Multi-family	1,111	1,111	—	327
Commercial real estate	13,234	20,085	—	11,720
Commercial & industrial	3,195	17,166	—	3,900
HELOC	1,019	1,730	—	612
Consumer	663	833	—	517
	46,680	73,123	—	37,474
With an allowance recorded:				
Single-family residential	322,320	327,869	10,527	316,348
Construction - speculative	7,556	7,986	60	7,532
Land - acquisition & development	4,696	5,636	—	4,114
Land - consumer lot loans	13,002	13,385	—	12,858
Multi-family	5,243	5,463	—	4,957
Commercial real estate	34,159	35,028	—	18,572
HELOC	1,486	1,486	—	1,204
Consumer	43	214	—	79
	388,505	397,067	10,587	(1) 365,664
Total:				
Single-family residential	346,364	354,497	10,527	333,191
Construction - speculative	9,159	10,159	60	9,336
Land - acquisition & development	5,533	7,961	—	5,152
Land - consumer lot loans	13,976	14,457	—	13,571
Multi-family	6,354	6,574	—	5,284
Commercial real estate	47,393	55,113	—	30,292
Commercial & industrial	3,195	17,166	—	3,900
HELOC	2,505	3,216	—	1,816
Consumer	706	1,047	—	596
	\$435,185	\$470,190	\$10,587	(1) \$403,138

(1) Includes \$60,000 of specific reserves and \$10,527,000 included in the general reserves.

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NOTE F – New Accounting Pronouncements

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-01,

Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The ASU eliminates the concept of extraordinary items. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. Early adoption is permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. Under this new accounting guidance, repurchase-to-maturity transactions will be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with contemporaneous repurchase financings will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged in repurchase financings accounted for as secured borrowings. The amendments in this update was effective for the first interim or annual period beginning after December 31, 2014, with the exception of the collateral disclosures which will be effective for interim periods beginning after March 15, 2015. This guidance does not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new accounting guidance clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance does not apply to financial instruments. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The Company does not expect the new guidance to have a material impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The new guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE G – Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

We have established and documented the Company's process for determining the fair values of the Company's assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, fair value is determined using valuation models or third-party appraisals. The following is a description of the valuation methodologies used to measure and report the fair value of financial assets and liabilities on a recurring or nonrecurring basis:

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Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. Most securities at fair value are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Securities that are traded on active exchanges are considered a Level 1 input method.

The following tables present the balance of assets measured at fair value on a recurring basis at March 31, 2015 and September 30, 2014:

	Fair Value at March 31, 2015			Total
	Level 1 (In thousands)	Level 2	Level 3	
Financial Assets				
Available-for-sale securities				
Equity securities	\$102,277	\$—	\$—	\$102,277
Obligations of U.S. government	—	534,445	—	534,445
Obligations of states and political subdivisions	—	24,013	—	24,013
Corporate debt securities	—	528,564	—	528,564
Agency pass-through certificates	—	1,456,945	—	1,456,945
Other Commercial MBS	—	110,662	—	110,662
Total available-for-sale securities	102,277	2,654,629	—	2,756,906
Bank owned life insurance	—	100,961	—	100,961
Total financial assets	\$102,277	\$2,755,590	\$—	\$2,857,867
Financial Liabilities				
FDIC liability	—	29,825	—	29,825
Long term borrowing hedge	—	(9,503	) —	(9,503
Total financial liabilities	\$—	\$20,322	\$—	\$20,322

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended March 31, 2015.

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	Fair Value at September 30, 2014			Total
	Level 1 (In thousands)	Level 2	Level 3	
Financial Assets				
Available-for-sale securities				
Equity securities	\$ 101,387	\$—	\$—	\$ 101,387
Obligations of U.S. government	—	731,943	—	731,943
Obligations of states and political subdivisions	—	23,681	—	23,681
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	509,007	—	509,007
Mortgage-backed securities				
Agency pass-through certificates	—	1,584,508	—	1,584,508
Other Commercial MBS	—	98,916	—	98,916
Total financial assets	\$ 101,387	\$ 2,948,055	\$—	\$ 3,049,442
Financial Liabilities				
FDIC liability	—	28,823	—	28,823
Long term borrowing hedge	—	(268	) —	(268
Total financial liabilities	\$—	\$ 28,555	\$—	\$ 28,555

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2014.

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Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Held for Sale

From time to time, and on a nonrecurring basis, fair value adjustments to collateral-dependent loans and real estate held for sale are recorded to reflect write-downs of principal balances based on the current appraised or estimated value of the collateral.

Real estate held for sale consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, fair value adjustments are recorded to reflect write-downs or write-ups, but only up to the fair value of the real estate owned as of the initial transfer date, of principal balances based on the current appraisal or estimated value of the collateral.

When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2015 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at estimated fair value on a nonrecurring basis at March 31, 2015 and March 31, 2014, and the total losses (gains) resulting from those fair value adjustments for the quarters and six months ended March 31, 2015 and March 31, 2014. These estimated fair values are shown gross of estimated selling costs.

	March 31, 2015				Quarter Ended March 31, 2015	Six Months Ended March 31, 2015
	Level 1	Level 2	Level 3	Total	Total Losses (Gains)	
	(In thousands)					
Impaired loans (1)	\$—	\$—	\$3,478	\$3,478	\$515	\$580
Covered REO (2)	—	—	1,558	1,558	112	188
Real estate held for sale (2)	—	—	46,697	46,697	(2,645	) (10,957
Balance at end of period	\$—	\$—	\$51,733	\$51,733	\$(2,018	) \$(10,189

(1) The losses represent remeasurements of collateral-dependent loans.

(2) The gains represents net valuation adjustments on real estate held for sale.

	March 31, 2014				Quarter Ended March 31, 2014	Six Months Ended March 31, 2014
	Level 1	Level 2	Level 3	Total	Total Losses (Gains)	
	(In thousands)					
Impaired loans (1)	\$—	\$—	\$7,066	\$7,066	\$269	\$(536
Covered REO (2)	—	—	2,760	2,760	64	129
Real estate held for sale (2)	—	—	26,725	26,725	2,657	6,382
Balance at end of period	\$—	\$—	\$36,551	\$36,551	\$2,990	\$5,975

(1) The losses represents remeasurements of collateral-dependent loans.

(2) The losses represent aggregate net writedowns and charge-offs on real estate held for sale.

Impaired loans - The Company adjusts the carrying amount of impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral.

Impaired loans with a specific reserve allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets.

The evaluations for impairment are prepared by the Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group

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executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for probable loan & lease losses process.

Applicable loans that were included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary.

The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following method is used to value impaired loans:

The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, assessments provided by third-party appraisers and other valuation models. The Company performs or reaffirms valuations of collateral-dependent impaired loans at least annually. Adjustments are made if management believes that more recent information is available and relevant with respect to the fair value of the collateral.

Real estate held for sale ("REO") - These assets are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Assets that are acquired through foreclosure are recorded initially at the lower of the loan balance or fair value at the date of foreclosure. After foreclosure, valuations are updated periodically, and current market conditions may require the assets to be written down further to a new cost basis. The following method is used to value real estate held for sale:

The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the lower of cost or fair value less selling costs as necessary. After foreclosure, valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer.

The carrying balance of REO assets are also written down or up once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the cost established on the transfer date.

Fair Values of Financial Instruments

U. S. GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

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	Level in Fair Value Hierarchy	March 31, 2015		September 30, 2014	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)					
Financial assets					
Cash and cash equivalents	1	\$675,064	\$675,064	\$781,843	\$781,843
Available-for-sale securities					
Equity securities	1	102,277	102,277	101,387	101,387
Obligations of U.S. government	2	534,445	534,445	731,943	731,943
Obligations of states and political subdivisions	2	24,013	24,013	23,681	23,681
Corporate debt securities	2	528,564	528,564	509,007	509,007
Mortgage-backed securities					
Agency pass-through certificates	2	1,456,945	1,456,945	1,584,508	1,584,508
Other Commercial MBS	2	110,662	110,662	98,916	98,916
Total available-for-sale securities		2,756,906	2,756,906	3,049,442	3,049,442
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	2	1,479,781	1,480,477	1,548,265	1,499,218
Total held-to-maturity securities		1,479,781	1,480,477	1,548,265	1,499,218
Loans receivable					
Covered loans	3	8,420,988	9,038,242	8,148,322	8,667,771
FDIC indemnification asset	3	138,005	144,672	176,476	176,761
FHLB and FRB stock	3	23,115	22,543	36,860	35,976
FHLB and FRB stock	2	150,918	150,918	158,839	158,839
Bank owned life insurance	1	100,961	100,961	—	—
Financial liabilities					
Customer accounts	2	10,692,625	10,057,164	10,716,928	9,946,586
FHLB advances	2	1,830,000	1,962,356	1,930,000	2,054,437
FDIC liability	2	29,825	29,825	28,823	28,823
Other liabilities - long term borrowing	2	—	(9,503)	—	(268)
hedge					

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

Cash and cash equivalents – The carrying amount of these items is a reasonable estimate of their fair value.

Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Equity securities which are exchange traded are considered a Level 1 input method.

Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan characteristics, using the same methodology described above for AFS and HTM securities. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some

loan types were valued at carrying value because of their floating rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount. FDIC indemnification asset and liability – The fair value of the indemnification asset is estimated by discounting the expected future cash flows using the current rates.

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FHLB and FRB stock – The fair value is based upon the par value of the stock which equates to its carrying value.

Bank owned life insurance – Fair values of insurance policies owned are based on the insurance contracts' cash surrender values.

Customer accounts – The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the estimated future cash flows using the rates currently offered for deposits with similar remaining maturities.

FHLB advances – The fair value of FHLB advances and other borrowings is estimated by discounting the estimated future cash flows using rates currently available to the Company for debt with similar remaining maturities.

Long Term Borrowing Hedges – The fair value of the forward starting interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.

The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of March 31, 2015, and September 30, 2014:

	March 31, 2015					
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield	
	(In thousands)					
Available-for-sale securities						
U.S. government and agency securities due						
1 to 5 years	\$142,283	\$2,300	\$(119)	) \$144,464	1.41	%
5 to 10 years	107,717	403	—	) 108,120	1.19	
Over 10 years	281,951	436	(526)	) 281,861	1.14	
Equity Securities						
Within 1 year	500	17	—	) 517	1.80	
1 to 5 years	100,000	1,760	—	) 101,760	1.90	
5 to 10 years	—	—	—) —	—	
Corporate bonds due						
Within 1 year	15,000	—	(15)	) 14,985	1.00	
1 to 5 years	327,715	1,860	—	) 329,575	0.74	
5 to 10 years	133,271	1,432	(949)	) 133,754	1.48	
Over 10 years	50,000	250	—	) 50,250	3.00	
Municipal bonds due						
Over 10 years	20,392	3,621	—	) 24,013	6.45	
Mortgage-backed securities						
Agency pass-through certificates	1,420,784	38,053	(1,892)	) 1,456,945	2.57	
Other Commercial MBS	110,662	—	—	) 110,662	1.45	
	2,710,275	50,132	(3,501)	) 2,756,906	1.99	%
Held-to-maturity securities						
Mortgage-backed securities						
Agency pass-through certificates	1,479,781	11,732	(11,036)) 1,480,477	3.13	
	\$4,190,056	\$61,864	\$(14,537)) \$4,237,383	2.39	%

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	September 30, 2014					
	Amortized	Gross Unrealized		Fair	Yield	
	Cost	Gains	Losses	Value		
	(In thousands)					
Available-for-sale securities						
U.S. government and agency securities due						
1 to 5 years	\$171,154	\$2,585	\$(748)	) \$172,991	1.26	%
5 to 10 years	203,317	300	(102)	) 203,515	1.45	
Over 10 years	354,828	1,028	(419)	) 355,437	1.25	
Equity Securities						
1 to 5 years	100,500	887	—	101,387	1.90	
Corporate bonds due						
Within 1 year	15,000	75	—	15,075	1.00	
1 to 5 years	302,540	2,372	—	304,912	0.71	
5 to 10 years	138,201	1,789	(970)	) 139,020	1.43	
Over 10 years	50,000	—	—	50,000	3.00	
Municipal bonds due						
Over 10 years	20,402	3,279	—	23,681	6.45	
Mortgage-backed securities						
Agency pass-through certificates	1,561,639	24,893	(2,024)	) 1,584,508	2.57	
Other Commercial MBS	98,851	65	—	98,916	1.49	
	3,016,432	37,273	(4,263)	) 3,049,442	1.99	%
Held-to-maturity securities						
Mortgage-backed securities						
Agency pass-through certificates	1,548,265	4,855	(53,902)	) 1,499,218	3.13	
	\$4,564,697	\$42,128	\$(58,165)	) \$4,548,660	2.38	%

During the quarter ended March 31, 2015, there were no available-for-sale securities sold. There were also no available-for-sale securities sold during the quarter ended March 31, 2014. Substantially all of the agency mortgage-backed securities have contractual due dates that exceed 10 years.

The following tables show the unrealized gross losses and fair value of securities as of March 31, 2015 and September 30, 2014, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value is attributable to changes in interest rates. Because the Company does not intend to sell these securities and does not consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other than temporarily impaired.

March 31, 2015	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate bonds due	\$(15)	) \$14,985	\$(949)	) \$34,051	\$(964)	) \$49,036
U.S. government and agency securities due	(533)) 182,146	(112)) 58,083	(645)) 240,229

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Agency pass-through certificates (252)	14,489	(12,676)	1,431,457	(12,928)	1,445,946
\$ (800)	\$ 211,620	\$ (13,737)	\$ 1,523,591	\$ (14,537)	\$ 1,735,211

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September 30, 2014	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate bonds due	\$(125	) \$24,875	\$(845	) \$24,155	\$(970	) \$49,030
U.S. government and agency securities due	(472	) 316,578	(797	) 109,354	(1,269	) 425,932
Agency pass-through certificates	(215) 19,212	(55,711) 1,509,209	(55,926) 1,528,421
	\$(812) \$360,665	\$(57,353) \$1,642,718	\$(58,165) \$2,003,383

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NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and these net balances were \$153,673,000 as of March 31, 2015 compared to \$200,558,000 as of September 30, 2014. The FDIC loss share coverage for the acquired commercial loans will expire during fiscal year 2015. There are \$83,077,000 of covered assets from the former Horizon Bank that will lose their FDIC loss share coverage after March 31, 2015. As of March 31, 2015, there are \$53,181,000 of commercial loans from the former Home Valley Bank which are scheduled to expire on September 30, 2015. The FDIC loss share coverage for single family residential loans will continue for another five years.

Changes in the net carrying amount and accretible yield for acquired impaired and non-impaired covered loans for the year to date period ended March 31, 2015 and the fiscal year ended September 30, 2014 were as follows:

March 31, 2015	Acquired Impaired		Acquired Non-impaired	
	Accretible Yield	Net Carrying Amount of Loans	Accretible Yield	Net Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	\$64,534	\$78,055	\$10,259	\$98,422
Reclassification from nonaccretible balance, net	6,307	—	—	—
Accretion	(9,392)	) 9,392	(4,016)	) 4,016
Transfers to REO	—	(936)) —	—
Payments received, net	—	(11,049)	) —	(40,452)
Balance at end of period	\$61,449	\$75,462	\$6,243	\$61,986
September 30, 2014	Acquired Impaired		Acquired Non-impaired	
	Accretible Yield	Net Carrying Amount of Loans	Accretible Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	\$78,277	\$138,091	\$17,263	\$157,856
Reclassification from nonaccretible balance, net	10,186	(2,069)) —	—
Accretion	(23,929)	) 23,929	(7,004)	) 7,004
Transfers to REO	—	(8,943)) —	—
Payments received, net	—	(72,953)	) —	(66,438)
Balance at end of period	\$64,534	\$78,055	\$10,259	\$98,422

At March 31, 2015, none of the acquired impaired or non-impaired covered loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans. The allowance for credit losses related to the acquired loans as of September 30, 2014 results from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools.

The outstanding principal balance of acquired covered loans was \$159,018,000 and \$213,203,000 as of March 31, 2015 and September 30, 2014, respectively. The discount balance related to the acquired covered loans was \$21,013,000 and \$34,483,000 as of March 31, 2015 and September 30, 2014, respectively. There is no allowance for

covered loans as of March 31, 2015. There was an allowance of \$2,244,000 as of September 30, 2014.

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The following table shows the year to date activity for the FDIC indemnification asset:

	March 31, 2015	September 30, 2014
	(In thousands)	
Balance at beginning of fiscal year 2015 and 2014	\$36,860	\$64,615
Additions and deletions (1)	(1,795	) 1,795
Payments made (received)	738	(2,502)
Amortization	(12,972	) (27,850)
Accretion	284	802
Balance at end of period	\$23,115	\$36,860

(1) reclassification of ALLL allowance due to changes in cash flows

The following tables provide information on covered loans based on credit quality indicators (defined in Note E) as of March 31, 2015 and September 30, 2014:

March 31, 2015	Internally Assigned Grade					Total Net Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Acquired non-impaired loans:						
Single-family residential	\$19,975	\$—	\$775	\$—	\$—	\$20,750
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	349	—	—	—	—	349
Land - consumer lot loans	72	—	—	—	—	72
Multi-family	903	—	—	—	—	903
Commercial real estate	14,188	—	8,779	—	—	22,967
Commercial & industrial	2,241	—	2,142	—	—	4,383
HELOC	10,093	—	—	—	—	10,093
Consumer	336	—	—	—	—	336
	\$48,157	\$—	\$11,696	\$—	\$—	\$59,853
Total grade as a % of total net loans	80.5	%	—	%	19.5	%
Acquired credit-impaired loans:						
Pool 1 - Construction and land A&D	\$6,639	\$—	\$9,424	\$—	\$—	\$16,063
Pool 2 - Single-family residential	14,700	—	228	—	—	14,928
Pool 3 - Multi-family	49	—	409	—	—	458
Pool 4 - HELOC & other consumer	2,728	—	581	—	—	3,309
Pool 5 - Commercial real estate	32,425	685	24,224	1,734	—	59,068
Pool 6 - Commercial & industrial	3,423	—	1,916	—	—	5,339
	\$59,964	\$685	\$36,782	\$1,734	\$—	99,165

Total covered loans	159,018
Discount	(21,013)
Allowance	—
Covered loans, net	\$ 138,005

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September 30, 2014	Internally Assigned Grade					Total Net Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Acquired non-impaired loans:						
Single-family residential	\$21,311	\$ —	\$1,756	\$—	\$—	\$23,067
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	972	—	392	—	—	1,364
Land - consumer lot loans	73	—	—	—	—	73
Multi-family	6,598	—	—	—	—	6,598
Commercial real estate	26,940	115	24,281	—	—	51,336
Commercial & industrial	2,801	—	2,691	—	—	5,492
HELOC	11,777	—	—	—	—	—