WASHINGTON FEDERAL INC
Form 10-Q
May 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
o 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	91-1661606
(State or other jurisdiction of incorporation or organization)	(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 x No o
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 x No o
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 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

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

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

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:	April 30, 2018
Common stock, $1.00 par value	84,474,615

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1.	Financial Statements (Unaudited)	
	The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:	
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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	March 31, 2018	September 30, 2017
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$256,808	$313,070
Available-for-sale securities, at fair value	1,269,271	1,266,209
Held-to-maturity securities, at amortized cost	1,716,566	1,646,856
Loans receivable, net of allowance for loan losses of $127,576 and $123,073	11,224,088	10,882,622
Interest receivable	43,931	41,643
Premises and equipment, net	265,388	263,694
Real estate owned	15,904	20,658
FHLB and FRB stock	126,990	122,990
Bank owned life insurance	213,274	211,330
Intangible assets, including goodwill of $301,368 and $293,153	312,303	298,682
Federal and state income tax assets, net	1,414	—
Other assets	187,193	185,826
	$15,633,130	$15,253,580
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$6,463,301	$6,361,158
Time deposit accounts	4,675,555	4,473,850
	11,138,856	10,835,008
FHLB advances	2,325,000	2,225,000
Advance payments by borrowers for taxes and insurance	41,285	56,631
Accrued expenses and other liabilities	139,316	131,253
	13,644,457	13,247,892
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 135,334,158 and 134,957,511 shares issued; 84,749,203 and 87,193,362 shares outstanding	135,334	134,958
Additional paid-in capital	1,664,275	1,660,885
Accumulated other comprehensive income (loss), net of taxes	8,899	5,015
Treasury stock, at cost; 50,584,955 and 47,764,149 shares	(935,039)	(838,060)
Retained earnings	1,115,204	1,042,890
	1,988,673	2,005,688
	$15,633,130	$15,253,580

SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands, except share data)		(In thousands, except share data)	
INTEREST INCOME				
Loans receivable	$ 126,529	$ 116,034	$ 251,040	$ 230,869
Mortgage-backed securities	17,667	16,226	34,566	29,015
Investment securities and cash equivalents	4,883	3,938	9,253	9,078
	149,079	136,198	294,859	268,962
INTEREST EXPENSE				
Customer accounts	16,414	12,392	31,052	25,409
FHLB advances	15,364	16,079	30,771	32,674
	31,778	28,471	61,823	58,083
Net interest income	117,301	107,727	233,036	210,879
Provision (release) for loan losses	(950)	(1,600)	(950)	(1,600)
Net interest income after provision (release) for loan losses	118,251	109,327	233,986	212,479
OTHER INCOME				
Gain on sale of investment securities	—	—	—	968
FDIC loss share valuation adjustments	—	—	(8,550)	—
Loan fee income	780	1,087	1,815	2,421
Deposit fee income	6,403	4,904	13,089	10,089
Other income	5,404	4,145	13,028	8,554
	12,587	10,136	19,382	22,032
OTHER EXPENSE				
Compensation and benefits	31,625	28,833	61,244	55,827
Occupancy	9,013	9,091	17,684	17,541
FDIC insurance premiums	2,852	2,910	5,672	5,749
Product delivery	3,665	3,489	7,621	6,850
Information technology	8,781	6,686	16,710	13,137
Other expense	9,851	6,458	18,797	12,704
	65,787	57,467	127,728	111,808
Gain (loss) on real estate owned, net	(278)	795	(232)	1,193
Income before income taxes	64,773	62,791	125,408	123,896
Income tax expense	15,502	20,721	24,467	40,580
NET INCOME	$ 49,271	$ 42,070	$ 100,941	$ 83,316
PER SHARE DATA				
Basic earnings per share	$ 0.58	$ 0.47	$ 1.17	$ 0.93
Diluted earnings per share	0.57	0.47	1.17	0.93
Dividends paid on common stock per share	0.17	0.40	0.32	0.54
Basic weighted average number of shares outstanding	85,647,494	89,382,416	86,299,885	89,346,294
Diluted weighted average number of shares outstanding	85,747,167	89,736,320	86,422,077	89,732,042

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Net income	$49,271	$42,070	$100,941	$83,316
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale investment securities	(11,467)	5,685	(13,431)	(11,394)
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	—	—	—	968
Related tax benefit (expense)	3,681	(2,089)	4,403	3,832
	(7,786)	3,596	(9,028)	(6,594)
Net unrealized gain (loss) on cash flow hedges of borrowings	10,332	2,395	17,022	31,666
Related tax benefit (expense)	(1,651)	(880)	(4,110)	(11,637)
	8,681	1,515	12,912	20,029
Other comprehensive income (loss) net of tax	895	5,111	3,884	13,435
Comprehensive income	$50,166	$47,181	$104,825	$96,751

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

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2017	$134,958	$1,660,885	$1,042,890	$ 5,015	$(838,060)	$2,005,688
Adjustment pursuant to adoption of ASU 2018-02	—	—	(1,772)	1,772	—	—
Net income	—	—	100,941	—	—	100,941
Other comprehensive income (loss)	—	—	—	2,112	—	2,112
Dividends on common stock	—	—	(26,855)	—	—	(26,855)
Proceeds from exercise of common stock options	56	1,176	—	—	—	1,232
Restricted stock expense	211	2,323	—	—	—	2,534
Exercise of stock warrants	109	(109)				—
Treasury stock acquired	—	—	—	—	(96,979)	(96,979)
Balance at March 31, 2018	$135,334	$1,664,275	$1,115,204	$ 8,899	$(935,039)	$1,988,673

(in thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2016	$134,308	$1,648,388	$943,877	$ (11,156)	$(739,686)	$1,975,731
Net income	—	—	83,316	—	—	83,316
Other comprehensive income (loss)	—	—	—	13,435	—	13,435
Dividends on common stock	—	—	(47,995)	—	—	(47,995)
Proceeds from exercise of common stock options	282	6,223	—	—	—	6,505
Restricted stock expense	110	4,061	—	—	—	4,171
Exercise of stock warrants	124	(124)	—	—	—	—
Treasury stock acquired	—	—	—	—	(20,401)	(20,401)
Balance at March 31, 2017	$134,824	$1,658,548	$979,198	$ 2,279	$(760,087)	$2,014,762

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

	Six Months Ended March 31,	
	2018	2017
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$100,941	$83,316
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion expense, net	26,756	18,770
Cash received from (paid to) FDIC under loss share agreements, net	1,595	264
Stock based compensation expense	2,534	4,171
Provision (release) for loan losses	(950)	(1,600)
Loss (gain) on sale of investment securities	—	(968)
Decrease (increase) in accrued interest receivable	(2,288)	(2,904)
Decrease (increase) in federal and state income tax receivable	(1,414)	16,047
Decrease (increase) in cash surrender value of bank owned life insurance	(3,012)	(3,332)
Gain on bank owned life insurance	(2,416)	(649)
Net realized (gain) loss on sales of premises, equipment, and real estate owned	(1,022)	(2,587)
Decrease (increase) in other assets	(8,797)	15,275
Increase (decrease) in accrued expenses and other liabilities	8,277	(41,839)
Net cash provided by (used in) operating activities	120,204	83,964
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(199,526)	(477,029)
Loans purchased	(143,605)	(72,856)
FHLB & FRB stock purchased	(259,400)	(17,209)
FHLB & FRB stock redeemed	255,400	14,424
Available-for-sale securities purchased	(123,324)	—
Principal payments and maturities of available-for-sale securities	104,733	169,937
Proceeds from sales of available-for-sale securities	—	350,890
Held-to-maturity securities purchased	(170,836)	(415,729)
Principal payments and maturities of held-to-maturity securities	98,781	131,556
Proceeds from sales of real estate owned	6,803	10,222
Proceeds from settlement of bank owned life insurance	3,484	1,231
Cash paid for acquisitions	(2,211)	—
Proceeds from sales of premises and equipment	1	3,956
Premises and equipment purchased and REO improvements	(12,819)	(4,872)
Net cash provided by (used in) investing activities	(442,519)	(305,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	304,001	30,107
Proceeds from borrowings	6,485,000	430,000
Repayments of borrowings	(6,385,000)	(360,000)
Proceeds from exercise of common stock options and related tax benefit	1,232	6,505
Dividends paid on common stock	(26,855)	(47,995)
Treasury stock purchased	(96,979)	(20,401)
Increase (decrease) in borrower advances related to taxes and insurance, net	(15,346)	(672)
Net cash provided by (used in) financing activities	266,053	37,544
Increase (decrease) in cash and cash equivalents	(56,262)	(183,971)

Cash and cash equivalents at beginning of period	313,070	450,368
Cash and cash equivalents at end of period	$256,808	$266,397

(CONTINUED)

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

	Six Months Ended March 31,	
	2018	2017
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	$1,329	$2,134
Non-cash financing activities		
Stock issued upon exercise of warrants	3,761	4,036
Cash paid during the period for		
Interest	60,870	55,599
Income taxes	25,265	16,903

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. (the "Company") is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through its national bank subsidiary, Washington Federal, National Association (the "Bank"). The Bank is principally engaged in the business of attracting deposits from businesses and the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential mortgage and construction loans, home equity loans, lines of credit, commercial real estate loans, commercial and industrial loans, multi-family and other forms of real estate 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 Company has prepared the consolidated unaudited interim financial statements included in this report. 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. Certain amounts in the financial statements from prior periods have been reclassified to conform to the current financial statement presentation.

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2017 Annual Report on Form 10-K (“2017 Annual Financial Statements”). Interim results are not necessarily indicative of results for a full year.

During the six months ended March 31, 2018, an immaterial correction was recorded related to acquisitions of insurance agency businesses in prior years. The balance sheet classification correction resulted in an increase in goodwill of $7,135,000 and finite-lived intangible assets of $5,106,000 and a corresponding decrease in other assets of $12,241,000.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2017 Annual Financial Statements. There have not been any material changes in our significant accounting policies compared to those contained in our 2017 Annual Financial Statements for the year ended September 30, 2017.

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 of $2,157,589,000 and $1,992,905,000 at March 31, 2018 and September 30, 2017, 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.

NOTE B – New Accounting Pronouncements

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The ASU was issued to address certain stranded tax effects in

accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act of 2017. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods, therein, and early adoption is permitted. During the quarter ended March 31, 2018, the Company adopted the ASU and made a reclassification adjustment of $1,772,000 to increase accumulated other comprehensive income and decrease retained earnings on the Consolidated Statements of Changes in Stockholders' Equity.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The ASU expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. The effective date of the new standard for public companies is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition

with a cumulative effect adjustment recorded to opening retained earnings as of the initial adoption date. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments should be applied on a modified retrospective basis, with a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The ASU clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments also define the term in substance nonfinancial asset. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. A contract that includes the transfer of ownership interests in one or more consolidated subsidiaries is within the scope of Subtopic 610-20 if substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets. The amendments clarify that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The ASU is effective for public business entities for annual periods beginning after December 15, 2017, and interim periods therein. Entities may use either a full or modified approach to adopt the ASU. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The ASU also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The ASU is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption being permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017. During the quarter ended March 31, 2018, the Company adopted the ASU and there was no impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations Clarifying the Definition of a Business (Topic 805), for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted for transactions that occurred before the issuance date or effective date of the standard if the transactions were not reported in financial statements that have been issued or made available for issuance. The ASU must be applied prospectively and upon adoption the standard will impact how we

assess acquisitions (or disposals) of assets or businesses. During the quarter ended March 31, 2018, the Company adopted the ASU and there was no impact on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash: a Consensus of the FASB Emerging Issues Task Force. This ASU requires a company's cash flow statement to explain the changes during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, amounts for restricted cash and restricted cash equivalents are to be included with cash and cash equivalents if the cash flow statement includes a reconciliation of the total cash balances for a reporting period. This ASU is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, with early application permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing diversity in practice. The specific issues identified include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds

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from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period; however, early adoption is permitted. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. The amendments in this ASU were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investments in leases and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The ASU eliminates the current framework of recognizing probable incurred losses and instead requires an entity to use its current estimate of all expected credit losses over the contractual life. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the cost basis of the asset. Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security's cost basis.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. While the Company is currently in the process of evaluating the impact of the amended guidance on its consolidated financial statements, it currently expects the ALLL to increase upon adoption given that the allowance will be required to cover the full remaining expected life of the portfolio upon adoption, rather than the incurred loss model under current U.S. GAAP. The extent of this increase is still being evaluated and will depend on economic conditions and the composition of the Company’s loan and lease portfolio at the time of adoption.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective

approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently in the process of accumulating the lease data necessary to apply the amended guidance. The Company is continuing to evaluate the impact of the amended guidance on its consolidated financial statements, but the effects of recognizing most operating leases is not expected to be material. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for fiscal years beginning

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after December 15, 2017, including interim periods within that reporting period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The guidance in this update supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, and most industry-specific guidance throughout the industry topics of the codification. For public companies, this update was to be effective for interim and annual periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which delayed the effective date of ASU 2014-09 by one year and permits companies to voluntarily adopt the new standard as of the original effective date. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

NOTE C – Dividends and Share Repurchases

On February 23, 2018, the Company paid a regular dividend on common stock of $0.17 per share, which represented the 140th consecutive quarterly cash dividend. Dividends per share were $0.17 and $0.40 for the quarters ended March 31, 2018 and 2017, respectively. On April 30, 2018, the Company declared a regular dividend on common stock of $0.17 per share, which represents its 141st consecutive quarterly cash dividend. This dividend will be paid on May 25, 2018 to common shareholders of record on May 11, 2018.

For the three months ended March 31, 2018, the Company repurchased 1,673,436 shares at an average price of $34.66. No shares of common stock were issued during the three months ended March 31, 2018 to investors holding warrants previously issued as part of the 2008 Troubled Asset Relief Program ("TARP"). As of March 31, 2018, 112,649 such warrants remain outstanding. Net of warrant cash repurchase activity, there are 4,080,149 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

	March 31, 2018 (In thousands)		September 30, 2017 (In thousands)	
Gross loans by category				
Single-family residential	$5,705,350	45.5%	$5,711,004	46.8%
Construction	1,732,202	13.8	1,597,996	13.1
Construction - custom	597,671	4.8	602,631	4.9
Land - acquisition & development	141,628	1.1	124,308	1.0
Land - consumer lot loans	102,779	0.8	104,405	0.9
Multi-family	1,328,049	10.6	1,303,148	10.7
Commercial real estate	1,443,437	11.5	1,434,610	11.8
Commercial & industrial	1,151,108	9.2	1,093,360	9.0
HELOC	135,119	1.1	144,850	1.2
Consumer	202,911	1.6	85,075	0.7
Total gross loans	12,540,254	100 %	12,201,387	100 %
Less:				
Allowance for loan losses	127,576		123,073	

Loans in process	1,141,018	1,149,934
Net deferred fees, costs and discounts	47,572	45,758
Total loan contra accounts	1,316,166	1,318,765
Net loans	$11,224,088	$10,882,622

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The following table sets forth information regarding non-accrual loans.

	March 31, 2018		September 30, 2017	
	(In thousands)			
Non-accrual loans:				
Single-family residential	$25,319	47.1%	$27,930	56.3%
Construction	2,296	4.3	—	—
Construction - custom	—	—	91	0.2
Land - acquisition & development	2,004	3.7	296	0.6
Land - consumer lot loans	1,045	1.9	605	1.2
Multi-family	—	—	139	0.3
Commercial real estate	9,527	17.7	11,815	23.8
Commercial & industrial	13,362	24.8	8,082	16.3
HELOC	217	0.4	531	1.1
Consumer	38	0.1	91	0.2
Total non-accrual loans	$53,808	100 %	$49,580	100 %
% of total net loans	0.48 %		0.46 %	

The Company recognized interest income on non-accrual loans of approximately $3,228,000 in the six months ended March 31, 2018. Had these loans been on accrual status and performed according to their original contract terms, the Company would have recognized interest income of approximately $1,073,000 for the six months ended March 31, 2018. Interest cash flows collected on non-accrual loans vary from period to period as those loans are brought current or are paid off.

The following tables provide details regarding delinquent loans.

March 31, 2018	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based
Type of Loan	Net of Loans In Process	Current	30	60	90	Total Delinquent	on $
	(In thousands)						
Single-family residential	$5,704,505	$5,675,605	$6,268	$3,621	$19,011	$ 28,900	0.51 %
Construction	916,662	913,419	948	—	2,295	3,243	0.35
Construction - custom	295,699	295,699	—	—	—	—	—
Land - acquisition & development	119,063	117,200	—	—	1,863	1,863	1.56
Land - consumer lot loans	102,705	101,837	328	—	540	868	0.85
Multi-family	1,328,027	1,327,864	29	134	—	163	0.01
Commercial real estate	1,443,437	1,441,459	1,275	98	605	1,978	0.14
Commercial & industrial	1,151,108	1,143,385	1,850	5,752	121	7,723	0.67
HELOC	135,119	134,866	163	30	60	253	0.19
Consumer	202,911	202,413	348	127	23	498	0.25
Total Loans	$11,399,236	$11,353,747	$11,209	$9,762	$24,518	$ 45,489	0.40 %
Delinquency %		99.60%	0.10%	0.09%	0.22%	0.40%	

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September 30, 2017	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based
Type of Loan	Net of Loans In Process	Current	30	60	90	Total Delinquent	on $
	(In thousands)						
Single-family residential	$5,709,690	$5,671,933	$10,925	$4,810	$22,022	$ 37,757	0.66 %
Construction	793,959	793,959	—	—	—	—	—
Construction - custom	277,599	277,508	—	—	91	91	0.03
Land - acquisition & development	104,856	104,526	—	—	330	330	0.31
Land - consumer lot loans	104,335	103,389	112	680	154	946	0.91
Multi-family	1,303,119	1,302,720	5	255	139	399	0.03
Commercial real estate	1,434,610	1,432,052	507	—	2,051	2,558	0.18
Commercial & industrial	1,093,360	1,092,735	—	51	574	625	0.06
HELOC	144,850	143,974	221	342	313	876	0.60
Consumer	85,075	84,644	245	107	79	431	0.51
Total Loans	$11,051,453	$11,007,440	$12,015	$6,245	$25,753	$ 44,013	0.40 %
Delinquency %		99.60%	0.11%	0.06%	0.23%	0.40%	

The percentage of total delinquent loans was 0.40% as of September 30, 2017 and 0.40% as of March 31, 2018. There are no loans greater than 90 days delinquent and still accruing interest as of either date.

The following table provides information related to loans that were restructured in a troubled debt restructuring ("TDR") during the periods presented:

	Three Months Ended March 31,					
	2018			2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-family residential	12	$ 2,183	$ 2,183	8	$ 1,712	$ 1,712
	12	$ 2,183	$ 2,183	8	$ 1,712	$ 1,712

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	Six Months Ended March 31,					
	2018			2017		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-family residential	20	$4,195	$ 4,195	20	$3,846	$ 3,846
Land - consumer lot loans	—	—	—	1	204	204
Commercial & Industrial	3	7,256	7,256	—	—	—
HELOC	—	—	—	1	228	228
	23	$11,451	$ 11,451	22	$4,278	$ 4,278

The following table provides information on payment defaults occurring during the periods presented where the loan had been modified in a TDR within 12 months of the payment default.

	Three Months Ended March 31,			
	2018		2017	
	Number of Contracts	Recorded Investment (In thousands)	Number of Contracts	Recorded Investment (In thousands)
Trouble Debt Restructurings That Subsequently Defaulted:				
Single-family residential	1	$ 162	7	$ 1,192
	1	$ 162	7	$ 1,192

	Six Months Ended March 31,			
	2018		2017	
	Number of Contracts	Recorded Investment (In thousands)	Number of Contracts	Recorded Investment (In thousands)
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-family residential	2	$ 206	13	$ 3,185
Commercial real estate	—	—	2	267
	2	$ 206	15	$ 3,452

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of March 31, 2018, 97.7% of the

Company's $190,519,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four 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, 2018, single-family residential loans comprised 85.5% 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.

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The Company's remaining outstanding balance of assets subject to FDIC loss share agreements was $54,626,000 (including $50,777,000 of loans receivable) at March 31, 2018 compared to $67,914,000 (including $61,810,000 of loans receivable) as of September 30, 2017. As of March 31, 2018, the associated FDIC indemnification asset was $0 compared to a balance of $8,967,000 as of September 30, 2017. The FDIC clawback liability was $39,906,000 as of March 31, 2018 and $37,143,000 as of September 30, 2017. In March 2018, the Company reached a preliminary agreement with the FDIC to terminate its remaining FDIC loss share agreements early, which relate to the Horizon Bank and Home Valley Bank acquisitions. The preliminary agreement is consistent with the estimates recorded by the Company as of December 31, 2017 and final settlement is expected to occur in the third fiscal quarter of 2018. All future recoveries, gains, losses and expenses related to the previously covered assets will now be recognized entirely by the Company and the FDIC will no longer share in such gains or losses.

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NOTE E – Allowance for Losses on Loans
The following tables summarize the activity in the allowance for loan losses.

Three Months Ended March 31, 2018	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$35,928	$ (290)	$ 211	$ (1,705)	$ 34,144
Construction	25,214	—	—	2,175	27,389
Construction - custom	2,052	—	—	29	2,081
Land - acquisition & development	7,355	—	1,207	(940)	7,622
Land - consumer lot loans	2,906	(18)	—	(35)	2,853
Multi-family	7,904	—	—	78	7,982
Commercial real estate	11,625	(36)	1	(2)	11,588
Commercial & industrial	29,268	—	115	(53)	29,330
HELOC	808	(1)	—	(5)	802
Consumer	4,095	(94)	276	(492)	3,785
	$127,155	$ (439)	$ 1,810	$ (950)	$ 127,576
Three Months Ended March 31, 2017	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$38,206	$ (381)	$ 223	$ (884)	$ 37,164
Construction	21,934	—	—	3,127	25,061
Construction - custom	1,110	(3)	—	69	1,176
Land - acquisition & development	6,665	(43)	4,211	(4,164)	6,669
Land - consumer lot loans	2,501	—	180	(168)	2,513
Multi-family	7,629	—	—	300	7,929
Commercial real estate	10,168	—	1,164	(560)	10,772
Commercial & industrial	27,736	(105)	217	517	28,365
HELOC	832	(53)	—	47	826
Consumer	1,675	(508)	314	(34)	1,447
	$118,456	$ (1,093)	$ 6,309	$ (1,750)	$ 121,922

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Six Months Ended March 31, 2018	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$36,892	$ (750)	$ 331	$ (2,329)	$ 34,144
Construction	24,556	—	—	2,833	27,389
Construction - custom	1,944	(50)	—	187	2,081
Land - acquisition & development	6,829	—	4,579	(3,786)	7,622
Land - consumer lot loans	2,649	(66)	—	270	2,853
Multi-family	7,862	—	—	120	7,982
Commercial real estate	11,818	(36)	1	(195)	11,588
Commercial & industrial	28,524	(116)	170	752	29,330
HELOC	855	(1)	1	(53)	802
Consumer	1,144	(172)	562	2,251	3,785
	$123,073	$ (1,191)	$ 5,644	$ 50	$ 127,576

Six Months Ended March 31, 2017	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$37,796	$ (496)	$ 374	$ (510)	$ 37,164
Construction	19,838	—	—	5,223	25,061
Construction - custom	1,080	(3)	—	99	1,176
Land - acquisition & development	6,023	(63)	8,229	(7,520)	6,669
Land - consumer lot loans	2,535	(17)	250	(255)	2,513
Multi-family	6,925	—	—	1,004	7,929
Commercial real estate	8,588	(11)	1,520	675	10,772
Commercial & industrial	28,008	(163)	942	(422)	28,365
HELOC	813	(90)	1	102	826
Consumer	1,888	(654)	693	(480)	1,447
	$113,494	$ (1,497)	$ 12,009	$ (2,084)	$ 121,922

The Company recorded a release of allowance for loan losses of $950,000 for the three months ended March 31, 2018, compared to a $1,600,000 release of allowance for loan losses for the three months ended March 31, 2017. A release of allowance for loan losses of $950,000 and $1,600,000 was recorded during the six months ended March 31, 2018 and March 31, 2017, respectively. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled $1,371,000 for the three months ended March 31, 2018, compared to net recoveries of $5,216,000 during the three months ended March 31, 2017. Recoveries, net of charge-offs, totaled $4,453,000 for the six months ended March 31, 2018, compared to net recoveries of $10,512,000 during the six months ended March 31, 2017.

Non-performing assets were $69,712,000, or 0.45%, of total assets at March 31, 2018, compared to $70,238,000, or 0.46%, of total assets at September 30, 2017. Non-accrual loans were $53,808,000 at March 31, 2018, compared to $49,580,000 at September 30, 2017. Delinquencies, as a percent of total loans, were 0.40% at March 31, 2018, compared to 0.40% at September 30, 2017.

The reserve for unfunded commitments was $6,750,000 as of March 31, 2018, which is a decrease from $7,750,000 at September 30, 2017.

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $134,326,000, or 1.07% of gross loans as of March 31, 2018, is sufficient to absorb estimated inherent losses.

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The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

March 31, 2018	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 34,144	$ 5,684,940	0.6 %	$ —	$ 27,608	— %
Construction	27,389	911,650	3.0	—	5,012	—
Construction - custom	2,081	295,699	0.7	—	—	—
Land - acquisition & development	7,622	116,877	6.5	—	2,186	—
Land - consumer lot loans	2,853	95,482	3.0	—	495	—
Multi-family	7,978	1,324,959	0.6	4	3,068	0.1
Commercial real estate	11,484	1,385,851	0.8	104	39,861	0.3
Commercial & industrial	28,784	1,114,171	2.6	546	36,888	1.5
HELOC	802	133,152	0.6	—	273	—
Consumer	3,785	202,766	1.9	—	38	—
	$ 126,922	$ 11,265,547	1.1 %	$ 654	$ 115,429	0.6 %

September 30, 2017	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 36,892	$ 5,713,576	0.7 %	$ —	$ 5,552	— %
Construction	24,556	793,958	3.1	—	—	—
Construction - custom	1,944	277,495	0.7	—	105	—
Land - acquisition & development	6,828	104,767	6.5	1	89	1.0
Land - consumer lot loans	2,649	96,337	2.8	—	171	—
Multi-family	7,857	1,302,625	0.6	5	493	1.0
Commercial real estate	11,698	1,391,668	0.8	120	21,765	0.6
Commercial & industrial	28,524	1,093,210	2.6	—	81	—
HELOC	855	141,689	0.6	—	215	—
Consumer	1,144	84,887	1.4	—	82	—
	$ 122,947	$ 11,000,212	1.1 %	$ 126	$ 28,553	0.4 %

As of March 31, 2018, $126,922,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $654,000 was specific reserves on loans deemed to be individually impaired. As of September 30, 2017, $122,947,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $126,000 was specific reserves on loans deemed to be individually impaired.

The Company has an asset quality review function that analyzes its loan portfolio 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 collection or 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.

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The following tables provide information on loans based on risk rating categories as defined above.

March 31, 2018	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,670,826	$ —	$34,524	$ —	$ —	$5,705,350
Construction	1,727,190	—	5,012	—	—	1,732,202
Construction - custom	597,671	—	—	—	—	597,671
Land - acquisition & development	139,442	—	2,186	—	—	141,628
Land - consumer lot loans	101,733	—	1,046	—	—	102,779
Multi-family	1,325,076	379	2,594	—	—	1,328,049
Commercial real estate	1,410,194	634	32,609	—	—	1,443,437
Commercial & industrial	1,101,878	9,958	39,272	—	—	1,151,108
HELOC	134,763	—	356	—	—	135,119
Consumer	202,873	—	38	—	—	202,911
Total gross loans	$12,411,646	$ 10,971	$117,637	$ —	$ —	$12,540,254
Total grade as a % of total gross loans	99.0 %	0.1 %	0.9 %	— %	—%	

September 30, 2017	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,671,229	$ —	$39,775	$ —	$ —	$5,711,004
Construction	1,594,926	—	3,070	—	—	1,597,996
Construction - custom	602,540	—	91	—	—	602,631
Land - acquisition & development	123,028	207	1,073	—	—	124,308
Land - consumer lot loans	103,787	—	618	—	—	104,405
Multi-family	1,295,261	5,795	2,092	—	—	1,303,148
Commercial real estate	1,391,996	5,944	36,670	—	—	1,434,610
Commercial & industrial	1,054,972	14,814	23,574	—	—	1,093,360
HELOC	144,229	—	621	—	—	144,850
Consumer	84,984	—	91	—	—	85,075
Total gross loans	$12,066,952	$ 26,760	$107,675	$ —	$ —	$12,201,387
Total grade as a % of total gross loans	98.9 %	0.2 %	0.9 %	— %	—%	

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The following tables provide information on gross loans based on borrower payment activity.

March 31, 2018	Performing Loans		Non-Performing Loans	
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans
	(In thousands)			
Single-family residential	$5,680,031	99.6 %	$ 25,319	0.4 %
Construction	1,729,906	99.9	2,296	0.1
Construction - custom	597,671	100.0	—	—
Land - acquisition & development	139,624	98.6	2,004	1.4
Land - consumer lot loans	101,734	99.0	1,045	1.0
Multi-family	1,328,049	100.0	—	—
Commercial real estate	1,433,910	99.3	9,527	0.7
Commercial & industrial	1,137,746	98.8	13,362	1.2
HELOC	134,902	99.8	217	0.2
Consumer	202,873	100.0	38	—
	$12,486,446	99.6 %	$ 53,808	0.4 %

September 30, 2017	Performing Loans		Non-Performing Loans	
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans
	(In thousands)			
Single-family residential	$5,683,074	99.5 %	$ 27,930	0.5 %
Construction	1,597,996	100.0	—	—
Construction - custom	602,540	99.9	91	0.1
Land - acquisition & development	124,012	99.8	296	0.2
Land - consumer lot loans	103,800	99.4	605	0.6
Multi-family	1,303,009	99.9	139	0.1
Commercial real estate	1,422,795	99.2	11,815	0.8
Commercial & industrial	1,085,278	99.3	8,082	0.7
HELOC	144,319	99.6	531	0.4
Consumer	84,984	99.9	91	0.1
	$12,151,807	99.6 %	$ 49,580	0.4 %

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The following tables provide information on impaired loan balances and the related allowances by loan types.

March 31, 2018	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (Year-To-Date)
	(In thousands)			
Impaired loans with no related allowance recorded:				
Single-family residential	$23,936	$25,229	$ —	$ 21,889
Construction	5,898	5,898	—	2,289
Construction - custom	—	—	—	49
Land - acquisition & development	2,186	2,230	—	1,297
Land - consumer lot loans	386	432	—	298
Multi-family	2,616	2,616	—	1,002
Commercial real estate	33,272	38,372	—	20,845
Commercial & industrial	29,882	29,989	—	14,200
HELOC	273	366	—	461
Consumer	38	104	—	65
	98,487	105,236	—	62,395
Impaired loans with an allowance recorded:				
Single-family residential	162,875	166,405	2,942	171,831
Land - acquisition & development	—	—	—	30
Land - consumer lot loans	6,837	7,431	—	7,397
Multi-family	473	473	4	482
Commercial real estate	11,818	12,673	104	12,936
Commercial & industrial	7,006	7,006	546	4,754
HELOC	1,424	1,506	—	1,503
Consumer	86	273	—	91
	190,519	195,767	3,596	(1) 199,024
Total impaired loans:				
Single-family residential	186,811	191,634	2,942	193,720
Construction	5,898	5,898	—	2,289
Construction - custom	—	—	—	49
Land - acquisition & development	2,186	2,230	—	1,327
Land - consumer lot loans	7,223	7,863	—	7,695
Multi-family	3,089	3,089	4	1,484
Commercial real estate	45,090	51,045	104	33,781
Commercial & industrial	36,888	36,995	546	18,954
HELOC	1,697	1,872	—	1,964
Consumer	124	377	—	156
	$289,006	$301,003	$ 3,596	(1) $ 261,419

(1) Includes $654,000 of specific reserves and $2,942,000 included in the general reserves.

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September 30, 2017	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment (Year-To-Date)
	(In thousands)			
Impaired loans with no related allowance recorded:				
Single-family residential	$21,325	$23,880	$ —	$ 19,371
Construction - custom	148	165	—	231
Land - acquisition & development	330	8,208	—	176
Land - consumer lot loans	208	330	—	431
Multi-family	139	3,231	—	748
Commercial real estate	12,890	22,487	—	11,466
Commercial & industrial	8,279	14,321	—	7,425
HELOC	490	1,212	—	487
Consumer	88	1,433	—	57
	43,897	75,267	—	40,392
Impaired loans with an allowance recorded:				
Single-family residential	181,941	186,167	4,030	204,723
Land - acquisition & development	90	90	1	576
Land - consumer lot loans	7,949	8,526	—	8,976
Multi-family	493	493	5	1,024
Commercial real estate	15,079	16,707	120	16,991
Commercial & industrial	—	—	—	297
HELOC	1,728	1,806	—	1,451
Consumer	97	284	—	100
	207,377	214,073	4,156	(1) 234,138
Total impaired loans:				
Single-family residential	203,266	210,047	4,030	224,094
Construction - custom	148	165	—	231
Land - acquisition & development	420	8,298	1	752
Land - consumer lot loans	8,157	8,856	—	9,407
Multi-family	632	3,724	5	1,772
Commercial real estate	27,969	39,194	120	28,457
Commercial & industrial	8,279	14,321	—	7,722
HELOC	2,218	3,018	—	1,938
Consumer	185	1,717	—	157
	$251,274	$289,340	$ 4,156	(1) $ 274,530

(1) Includes $126,000 of specific reserves and $4,030,000 included in the general reserves.

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NOTE F – Fair Value Measurements

ASC 820 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. ASC 820 also establishes a fair value hierarchy that 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.

Measured on a Recurring Basis

Available-for-Sale Securities and Derivative Contracts

Securities available for sale are recorded at fair value on a recurring basis. The fair value of debt securities are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under GAAP are considered a Level 2 input method. Securities that are traded on active exchanges, including the Company's equity securities, are measured using the closing price in an active market and are considered a Level 1 input method.

The Company offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the Company enters into the opposite trade with a counter party to offset its interest rate risk. The Company has also entered into commercial loan hedges as well as borrowings hedges using interest rate swaps. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique. These are considered a Level 2 input method.

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The following tables present the balance of assets and liabilities measured at fair value on a recurring basis.

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
Equity securities	$495	$—	$ —	$495
U.S. government and agency securities	—	183,939	—	183,939
Municipal bonds	—	26,196	—	26,196
Corporate debt securities	—	183,457	—	183,457
Mortgage-backed securities				
Agency pass-through certificates	—	866,822	—	866,822
Commercial MBS	—	8,362	—	8,362
Total available-for-sale securities	495	1,268,776	—	1,269,271
Interest rate contracts	—	8,617	—	8,617
Commercial loan hedges	—	2,217	—	2,217
Borrowings hedges	—	15,328	—	15,328
Total financial assets	$495	$1,294,938	$ —	$1,295,433
Financial Liabilities				
Interest rate contracts	$—	$8,617	$ —	$8,617
Total financial liabilities	$—	$8,617	$ —	$8,617

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the six months ended March 31, 2018.

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	September 30, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
Equity securities	$522	$—	$ —	$522
U.S. government and agency securities	—	211,077	—	211,077
Municipal bonds	—	26,624	—	26,624
Corporate debt securities	—	185,298	—	185,298
Mortgage-backed securities				
Agency pass-through certificates	—	834,297	—	834,297
Commercial MBS	—	8,391	—	8,391
Total available-for-sale securities	522	1,265,687	—	1,266,209
Interest rate contracts	—	1,139	—	1,139
Total financial assets	$522	$1,266,826	$ —	$1,267,348
Financial Liabilities				
Interest rate contracts	$—	$1,139	$ —	$1,139
Commercial loan hedges	—	174	—	174
Borrowings hedges	—	1,693	—	1,693
Total financial liabilities	$—	$3,006	$ —	$3,006

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2017.

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Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Owned

Real estate owned ("REO") consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, adjustments using fair value measurements are recorded to reflect increases or decreases based on the discounted cash flows, the current appraisal or estimated value of the collateral, but only up to the fair value of the real estate owned as of the initial transfer date less selling costs.

When management determines that the fair value of the collateral or the real estate owned requires additional adjustments, either as a result of an updated appraised value or when there is no observable market price, the Company classifies the impaired loan or real estate owned as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2018 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 real estate owned where the fair value of the property was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at fair value on a nonrecurring basis at March 31, 2018 and March 31, 2017, and the total gains (losses) resulting from those fair value adjustments for the three and six months ended March 31, 2018 and March 31, 2017. The estimated fair value measurements are shown gross of estimated selling costs.

	March 31, 2018				Three Months Ended March 31, 2018	Six Months Ended March 31, 2018
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)	
	(In thousands)					
Impaired loans (1)	$—	$—	$7,343	$7,343	$(466)	$(973)
Real estate owned (2)	—	—	5,520	5,520	(379)	(559)
Balance at end of period	$—	$—	$12,863	$12,863	$(845)	$(1,532)

(1) The gains (losses) represent remeasurements of collateral-dependent loans.
(2) The gains (losses) represent aggregate writedowns and charge-offs on REO.

	March 31, 2017				Three Months Ended March 31, 2017	Six Months Ended March 31, 2017
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)	
	(In thousands)					

Impaired loans (1)	$—	$—	$5,701	$5,701	$(939)	$(1,361)
Real estate owned (2)	—	—	5,822	5,822	(378)	(619)
Balance at end of period	$—	$—	$11,523	$11,523	$(1,317)	$(1,980)

(1) The gains (losses) represent remeasurements of collateral-dependent loans.
(2) The gains (losses) represent aggregate writedowns and charge-offs on REO.

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 executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for loan loss process.

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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 methods are 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.
- The present value of the expected future cash flows of the loans is used for measurement of non collateral-dependent loans to test for impairment.

Real estate owned - When a loan is reclassified from loan status to real estate owned due to the Company taking possession of the collateral, a special credits officer, along with the special credits manager, obtains a valuation, which may include appraisals or third-party price opinions, which is used to establish the fair value of the underlying collateral. The determined fair value, less selling costs, becomes the carrying value of the REO asset.

The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the fair value as necessary. After foreclosure, the 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 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

ASC 825 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, 2018 Carrying Amount	March 31, 2018 Estimated Fair Value	September 30, 2017 Carrying Amount	September 30, 2017 Estimated Fair Value
		(In thousands)			
Financial assets					
Cash and cash equivalents	1	$256,808	$256,808	$313,070	$313,070
Available-for-sale securities					
Equity securities	1	495	495	522	522
U.S. government and agency securities	2	183,939	183,939	211,077	211,077
Municipal bonds	2	26,196	26,196	26,624	26,624
Corporate debt securities	2	183,457	183,457	185,298	185,298
Mortgage-backed securities					
Agency pass-through certificates	2	866,822	866,822	834,297	834,297
Commercial MBS	2	8,362	8,362	8,391	8,391
Total available-for-sale securities		1,269,271	1,269,271	1,266,209	1,266,209
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	2	1,701,566	1,652,787	1,646,856	1,635,913
Commercial MBS	2	15,000	15,000	—	—
Total held-to-maturity securities		1,716,566	1,667,787	1,646,856	1,635,913
Loans receivable	3	11,224,088	11,514,350	10,882,622	11,247,586
FDIC indemnification asset	3	—	—	8,968	8,564
FHLB and FRB stock	2	126,990	126,990	122,990	122,990
Other assets - interest rate contracts	2	8,617	8,617	1,139	1,139
Other assets - commercial loan hedges	2	2,217	2,217	—	—
Other assets - borrowings hedges	2	15,328	15,328	—	—
Financial liabilities					
Customer accounts	2	11,138,856	10,627,045	10,835,008	10,411,686
FHLB advances	2	2,325,000	2,327,701	2,225,000	2,266,791
Other liabilities - interest rate contracts	2	8,617	8,617	1,139	1,139
Other liabilities - commercial loan hedges	2	—	—	174	174
Other liabilities - borrowings hedges	2	—	—	1,693	1,693

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 are considered a Level 2 input method. Equity securities that are exchange traded are considered a Level 1 input method.

Loans receivable – 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.

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

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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.

Interest rate contracts – The bank offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the bank enters into the opposite trade with a counterparty to offset its interest rate risk. The fair value of these interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.

Commercial loan hedges – The fair value of the interest rate swaps is estimated by a third party pricing service using a discounted cash flow technique.

Borrowings hedges – The fair value of the interest rate swaps is 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.

	March 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$3,300	$3	$—	$3,303	9.80%
5 to 10 years	65,997	—	(1,432)	64,565	2.33
Over 10 years	116,463	27	(419)	116,071	2.46
Equity securities due					
1 to 5 years	500	—	(5)	495	1.80
Corporate debt securities due					
1 to 5 years	63,692	1,768	—	65,460	3.63
5 to 10 years	119,963	78	(2,044)	117,997	2.93
Municipal bonds due					
Within 1 year	2,359	—	(2)	2,357	1.23
1 to 5 years	1,382	—	(10)	1,372	2.05
Over 10 years	20,333	2,134	—	22,467	6.45
Mortgage-backed securities					
Agency pass-through certificates	870,741	3,400	(7,319)	866,822	3.24
Commercial MBS	8,350	12	—	8,362	3.85
	1,273,080	7,422	(11,231)	1,269,271	3.18
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,701,566	1,112	(49,891)	1,652,787	3.16
Commercial MBS	15,000	—	—	15,000	2.66
	1,716,566	1,112	(49,891)	1,667,787	3.16
	$2,989,646	$8,534	$(61,122)	$2,937,058	3.17%

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	September 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$9,300	$146	$—	$9,446	10.38%
1 to 5 years	5,688	2	—	5,690	1.51
5 to 10 years	69,108	—	(1,238)	67,870	1.93
Over 10 years	127,936	353	(218)	128,071	1.92
Equity securities					
1 to 5 years	500	22	—	522	1.80
Corporate bonds due					
1 to 5 years	63,622	2,083	—	65,705	2.96
5 to 10 years	119,960	210	(577)	119,593	2.62
Municipal bonds due					
Within 1 year	2,344	10	—	2,354	1.23
1 to 5 years	1,367	55	—	1,422	2.05
Over 10 years	20,343	2,505	—	22,848	6.45
Mortgage-backed securities					
Agency pass-through certificates	828,069	8,402	(2,174)	834,297	2.96
Commercial MBS	8,350	41	—	8,391	3.31
	1,256,587	13,829	(4,207)	1,266,209	2.86
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,646,856	7,143	(18,086)	1,635,913	3.14
	1,646,856	7,143	(18,086)	1,635,913	3.14
	$2,903,443	$20,972	$(22,293)	$2,902,122	3.02 %

For available-for-sale investment securities, there were no sales during the six months ended March 31, 2018 and sales totaling $350,890,000 during the six months ended March 31, 2017. There were purchases of $123,324,000 of available-for-sale investment securities during the six months ended March 31, 2018 and no purchases during the six months ended March 31, 2017. For held-to-maturity investment securities, there were purchases totaling $170,836,000 during the six months ended March 31, 2018 and purchases of $415,729,000 during the six months ended March 31, 2017. There were no sales of held-to-maturity investment securities during either period. 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, 2018 and September 30, 2017, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value since purchase 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.

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March 31, 2018	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 debt securities	$—	$—	$(2,044)	$97,956	$(2,044)	97,956
Municipal bonds	(12)	3,729	—	—	(12)	3,729
U.S. government and agency securities	—	—	(1,851)	164,140	(1,851)	164,140
Equity securities	(5)	495	—	—	(5)	495
Agency pass-through certificates	(8,768)	583,301	(48,442)	1,428,150	(57,210)	2,011,451
	$(8,785)	$587,525	$(52,337)	$1,690,246	$(61,122)	$2,277,771

September 30, 2017	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 debt securities	$—	$—	$(577)	$49,423	$(577)	$49,423
U.S. government and agency securities	(759)	24,400	(697)	96,195	(1,456)	120,595
Agency pass-through certificates	(17,683)	1,163,358	(2,577)	249,304	(20,260)	1,412,662
	$(18,442)	$1,187,758	$(3,851)	$394,922	$(22,293)	$1,582,680

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NOTE G – Derivatives and Hedging Activities

The Company periodically enters into certain interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the Company retains a variable rate loan. Under these agreements, the Company enters into a variable rate loan agreement and a swap agreement with the client. The swap agreement effectively converts the client's variable rate loan into a fixed rate. The Company enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the client's swap agreement. The Company had $808,981,000 and $1,035,573,000 notional in interest rate swaps to hedge this exposure as of March 31, 2018 and September 30, 2017, respectively. The interest rate swaps are derivatives under FASB ASC 815, Derivatives and Hedging, with changes in fair value recorded in earnings. There was no net impact to the statement of operations for the six months ended March 31, 2018 and 2017 as the changes in value for the asset and liability side of the swaps offset each other.

The Company has entered into interest rate swaps to convert certain existing and future short-term borrowings to fixed rate payments. The primary purpose of these hedges is to mitigate the risk of rising interest rates, specifically LIBOR rates, which are a benchmark for the short-term borrowings. The hedging program qualifies as a cash flow hedge under ASC 815, which provides for offsetting of the recognition of gains and losses of the interest rate swaps and the hedged items. The hedged item is the LIBOR portion of the series of existing or future short-term fixed rate borrowings over the term of the interest rate swap. The change in the fair value of the interest rate swaps is recorded in other comprehensive income. The Company had $700,000,000 notional in interest rate swaps to hedge existing and anticipated future borrowings as of March 31, 2018 and September 30, 2017.

The Company also enters into interest rate swaps to hedge the interest rate risk of individual fixed rate commercial loans and these relationships qualify as fair value hedges under ASC 815, which provides for offsetting of the recognition of gains and losses of the respective interest rate swap and the hedged item. The interest rate swaps in these hedging relationships had a notional amount of $97,927,000 and $52,936,000 as of March 31, 2018 and September 30, 2017, respectively.

The following table presents the fair value and balance sheet classification of derivatives at March 31, 2018 and September 30, 2017:

	Asset Derivatives				Liability Derivatives			
	March 31, 2018		September 30, 2017		March 31, 2018		September 30, 2017	
	Balance Sheet		Balance Sheet		Balance Sheet		Balance Sheet	
	Location	Fair Value	Location	Fair Value	Location	Fair Value	Location	Fair Value
	(In thousands)							
Interest rate contracts	Other assets	$8,617	Other assets	$1,139	Other liabilities	$8,617	Other liabilities	$1,139
Commercial loan hedges	Other assets	2,217	Other assets	—	Other liabilities	—	Other liabilities	174
Borrowings hedges	Other assets	15,328	Other assets	—	Other liabilities	—	Other liabilities	1,693
		$26,162		$1,139		$8,617		$3,006

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NOTE H – Income Taxes

On December 22, 2017, the U.S. Government enacted significant tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). For businesses, the Tax Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate. The corporate tax rate reduction was effective January 1, 2018. Because the Company has a fiscal year end of September 30, the reduced corporate tax rate will result in the application of a blended federal statutory tax rate of 24.53% for its fiscal year 2018 and then a flat 21% thereafter.

Under generally accepted accounting principles, the Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

At September 30, 2017, the Company's deferred tax assets and liabilities were determined based on the then-current enacted federal tax rate of 35%. As a result of the reduction in the corporate income tax rate under the Tax Act, the Company revalued its deferred tax assets and liabilities at December 31, 2017. Deferred tax assets and liabilities expected to be realized in fiscal year 2018 were re-measured using the aforementioned blended rate. All remaining deferred tax assets and liabilities were re-measured using the new statutory federal rate of 21%. These re-measurements resulted in a discrete tax benefit estimate of $3,743,000 that was recognized during the three months ended December 31, 2017. The Company's revaluation of its deferred tax assets and liabilities is subject to further clarification of the Tax Act and refinements of its estimates.

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PART I – Financial Information
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

Washington Federal, Inc. (the "Company") makes statements in this Quarterly Report on Form 10-Q that constitute forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates,” “intends,” “forecasts,” “projects” other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could” are intended to help identify such forward-looking statements. These statements are not historical facts, but instead represent current expectations, plans or forecasts of the Company and are based on the beliefs and assumptions of the management of the Company and the information available to management at the time that these disclosures were prepared. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Company's forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, including under Item 1A. “Risk Factors,” and in any of the Company's other subsequent Securities and Exchange Commission filings, which could cause the Company's future results to differ materially from the plans, objectives, goals, estimates, intentions and expectations expressed in forward-looking statements:

- a deterioration in economic conditions, including declines in the real estate market and home sale volumes and financial stress on borrowers (consumers and businesses) as a result of the uncertain economic environment;
- the effects of a severe economic downturn, including high unemployment rates and declines in housing prices and property values, in the Company's primary market areas;
- the effects of and changes in monetary and fiscal policies of the Board of Governors of the Federal Reserve System and the U.S. Government;
- fluctuations in interest rate risk and changes in market interest rates;
- the Company's ability to make accurate assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the assets securing these loans;
- the Company's ability to successfully complete merger and acquisition activities and realize expected strategic and operating efficiencies associated with such activities;
- legislative and regulatory limitations, including those arising under the Dodd-Frank Act and potential limitations in the manner in which the Company conducts its business and undertake new investments and activities;
- the ability of the Company to obtain external financing to fund its operations or obtain this financing on favorable terms;
- changes in other economic, competitive, governmental, regulatory and technological factors affecting the Company's markets, operations, pricing, products, services and fees;
- the success of the Company at managing the risks involved in the remediation efforts associated with its Bank Secrecy Act program, costs of enhancements to the Bank’s BSA program are greater than anticipated; and governmental authorities undertake enforcement actions or legal proceedings with respect to the Bank’s BSA program beyond those contemplated by the Consent Order, and the potential impact of such matters on the success, timing and ability to pursue the Company’s growth or other business initiatives;
- the success of the Company at managing the risks involved in the foregoing and managing its business; and
- the timing and occurrence or non-occurrence of events that may be subject to circumstances beyond the Company's control.

All forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, changes to future operating results over time, or the impact of circumstances arising after the date the forward-looking statement was made.

GENERAL & BUSINESS DESCRIPTION

Washington Federal, Inc. (“Company” or “Washington Federal”) is a bank holding company headquartered in Seattle, Washington that conducts its operations through Washington Federal, National Association (“Bank”), a federally chartered national bank

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subsidiary. Washington Federal and its consolidated subsidiaries are engaged primarily in providing lending, depository, insurance and other banking services to consumers, mid-sized to large businesses, and owners and developers of commercial real estate.

The Company's fiscal year end is September 30th. All references to 2017 represent balances as of September 30, 2017 or activity for the fiscal year then ended.

INTEREST RATE RISK
Based on Management's assessment of the current interest rate environment, the Company has taken steps, including growing shorter-term loans and transaction deposit accounts, to reduce its interest rate risk profile. The mix of transaction and savings accounts is 58% of total deposits as of March 31, 2018 while the composition of the investment securities portfolio is 25% variable and 75% fixed rate. When interest rates rise, the fair value of the investment securities with fixed rates will decrease and vice versa when interest rates decline. The Company has $1,716,566,000 of mortgage-backed securities that it has designated as held-to-maturity and are carried at amortized cost. As of March 31, 2018, the net unrealized loss on these securities was $48,779,000. The Company has $1,269,271,000 of available-for-sale securities that are carried at fair value. As of March 31, 2018, the net unrealized loss on these securities was $3,809,000. The Bank has executed interest rate swaps to hedge interest rate risk on existing FHLB borrowings. The unrealized gain on these interest rate swaps as of March 31, 2018 was $15,328,000. All of the above are pre-tax net unrealized gains or losses.

The Company relies on various measures of interest rate risk, including an asset/liability maturity gap analysis, modeling of changes in forecasted net interest income under various rate change scenarios, and the impact of interest rate changes on the net portfolio value (“NPV”) of the Company.
Net Interest Income Sensitivity. We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. The analysis assumes a constant balance sheet. Actual results would differ from the assumptions used in this model, as management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income would increase by 0.1% in the next year. This compares to an estimated increase of 3.0% as of the September 30, 2017 analysis. The change is primarily due to higher rates, lower expected prepayment speeds and shifts in the mix of fixed versus adjustable rate assets, partially offset by a decrease in the estimated deposit betas used for transaction deposits in the Company's asset liability management model. Management estimates that a gradual increase of 300 basis points in short term rates and 100 basis points in long term rates over two years would result in a net interest income decrease of 0.3% in the first year and decrease of 2.7% in the second year assuming a constant balance sheet and no management intervention.

NPV Sensitivity. NPV is an estimate of the market value of shareholders' equity. NPV is calculated as the difference between the present value of expected cash flows from interest-earning assets and the present value of expected cash flows from interest-paying liabilities and off-balance-sheet contracts. The sensitivity of NPV to changes in interest rates provides a view of interest rate risk as it incorporates all future expected cash flows. As of March 31, 2018, in the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by $530,811,000 or 21.9% and the NPV to total assets ratio to decline to 13.1% from a base of 15.6%. As of September 30, 2017, the NPV in the event of a 200 basis point increase in rates was estimated to decline by

$462,604,000 or 18.2% and the NPV to total assets ratio to decline to 14.6% from a base of 16.6%. The increased NPV sensitivity and lower base NPV ratio is due primarily to higher interest rates that have resulted in lower asset prices as well as greater asset price sensitivity due to lower expected prepayment speeds on fixed rate loans and mortgage-backed securities as of March 31, 2018.

Repricing Gap Analysis. At March 31, 2018, the Company had approximately $2,174,691,000 more in liabilities subject to maturity or repricing in the next year than assets, which resulted in a one-year repricing gap of (13.9)% of total assets. This was a decrease from the (15.7)% gap as of September 30, 2017. A negative repricing gap implies that funding costs will change more rapidly than interest income on earning assets with movements in interest rates. A negative repricing gap typically results in lower margins when interest rates rise and higher margins when interest rates decline. This interest rate gap analysis provides management with a high-level indication of interest rate risk, but it is considered less reliable than more detailed modeling.

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Interest Rate Spread. The interest rate spread is measured as the difference between the rate on total loans and investments and the rate on costing liabilities at the end of each period. The interest rate spread increased to 2.95% at March 31, 2018 from 2.90% at September 30, 2017. The spread increase of 5 basis points is primarily due to the rise in short-term interest rates, which resulted in a higher rate being earned on cash and adjustable rate loans and investment securities. As of March 31, 2018, the weighted average rate on earning assets increased by 12 basis points to 3.94% compared to September 30, 2017, while the weighted average cost of funds increased by 7 basis point to 0.99%. The interest rate spread increased to 2.95% at March 31, 2018 from 2.84% at March 31, 2017.

Net Interest Margin. Net interest margin is measured as net interest income divided by average earning assets for the period. Net interest margin increased to 3.25% for the quarter ended March 31, 2018 from 3.15% for the quarter ended March 31, 2017. The yield on earning assets increased 15 basis points to 4.19% and the cost of interest bearing liabilities increased 5 basis point to 0.96%. The higher yield on earning assets is the result of the rise in short-term interest rates, which resulted in a higher rate being earned on cash and adjustable rate loans and investment securities, as well as the shift in mix from investment securities into a higher proportion of loans receivable that carry higher yields on average. The higher rate in interest bearing liabilities was primarily due to the increase in rates on deposit accounts partially offset by the maturity of certain long-term FHLB advances with higher rates.

The following table sets forth the information explaining the changes in the net interest margin for the period indicated compared to the same period one year ago.

	Three Months Ended March 31, 2018			Three Months Ended March 31, 2017		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(In thousands)			(In thousands)		
Assets						
Loans receivable	$11,138,747	$126,529	4.61 %	$10,267,530	$116,034	4.58 %
Mortgaged-backed securities	2,592,340	17,667	2.76	2,664,959	16,226	2.47
Cash & Investments	579,628	3,668	2.57	632,114	3,068	1.97
FHLB & FRB stock	131,252	1,215	3.75	118,092	870	2.99
Total interest-earning assets	14,441,967	149,079	4.19 %	13,682,695	136,198	4.04 %
Other assets	1,157,987			1,161,023		
Total assets	$15,599,954			$14,843,718		
Liabilities and Equity						
Customer accounts	$10,988,517	$16,414	0.61 %	$10,578,631	$12,392	0.48 %
FHLB advances	2,431,556	15,364	2.56	2,102,556	16,079	3.10
Total interest-bearing liabilities	13,420,106	31,778	0.96 %	12,681,187	28,471	0.91 %
Other liabilities	170,829			153,105		
Total liabilities	13,590,935			12,834,292		
Stockholders' equity	2,009,019			2,009,426		
Total liabilities and equity	$15,599,954			$14,843,718		
Net interest income		$117,301			$107,727	
Net interest margin			3.25 %			3.15 %

As of March 31, 2018, total assets had increased by $379,550,000 to $15,633,130,000 from $15,253,580,000 at September 30, 2017. During the six months ended March 31, 2018, cash and cash equivalents decreased by

$56,262,000, loans receivable increased $341,466,000, and investment securities increased by $72,772,000.

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Cash and cash equivalents of $256,808,000 and stockholders' equity of $1,988,673,000 as of March 31, 2018 provide management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

The principal sources of funds for the Company's activities are loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings and retained earnings, if applicable. The Company's principal sources of revenue are interest on loans and interest and dividends on investments.

The Bank has a credit line with the Federal Home Loan Bank of Des Moines ("FHLB") up to 45% of total assets depending on specific collateral eligibility. This line provides a substantial source of additional liquidity if needed.

The Bank has entered into borrowing agreements with the FHLB to borrow funds under a short-term floating rate cash management advance program and fixed-rate term loan agreements. All borrowings are secured by stock of the FHLB, deposits with the FHLB, and a blanket pledge of qualifying loans receivable as provided in the agreements with the FHLB. The Bank is also eligible to borrow under the Federal Reserve Bank's primary credit program.

The Company's cash and cash equivalents totaled $256,808,000 at March 31, 2018, a decrease from $313,070,000 at September 30, 2017. These amounts include the Bank's operating cash.

The Company's net worth at March 31, 2018 was $1,988,673,000, or 12.72% of total assets. This was a decrease of $17,015,000 from September 30, 2017 when net worth was $2,005,688,000, or 13.15% of total assets. The Company's net worth was impacted in the six months ended March 31, 2018 by net income of $100,941,000, the payment of $26,855,000 in cash dividends, treasury stock purchases of $96,979,000, as well as other comprehensive income of $3,884,000. The ratio of tangible capital to tangible assets at March 31, 2018 was 10.94%. Management believes the Company's strong net worth position allows it to manage balance sheet risk and provide the capital support needed for controlled growth in a regulated environment.

The Company (on a consolidated basis) and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements.

Federal banking agencies establish regulatory capital rules that require minimum capital ratios and establish criteria for calculating regulatory capital. Minimum capital ratios for four measures are used for assessing capital adequacy. The standards are indicated in the table below. The common equity tier 1 capital ratio recognizes common equity as the highest form of capital. The denominator for all except the leverage ratio is risk weighted assets. The rules set forth a "capital conservation buffer" of up to 2.5%. In the event that a bank's capital levels fall below the minimum ratios plus these buffers, restrictions can be placed on the bank by its regulators. These restrictions include reducing dividend payments, share buy-backs, and staff bonus payments. The purpose of these buffers is to require banks to build up capital outside of periods of stress that can be drawn down during periods of stress. As a result, even during periods where losses are incurred, the minimum capital ratios can still be met. The capital rules that became effective in January 2015 include a phase-in period for certain minimum ratios and the capital buffers, before the full minimum ratios take effect in 2019. Management continues to monitor the financial position of the Company and its capital ratios as the rules phase in.

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There are also standards for Adequate and Well Capitalized criteria that are used for "Prompt Corrective Action" purposes. To remain categorized as well capitalized, the Bank and the Company must maintain minimum common equity risk-based, tier 1 risk-based, total risk-based and tier 1 leverage ratios as set forth in the following table.

	Actual		Minimum Capital Adequacy Guidelines		Minimum Well-Capitalized Guidelines	
	Capital	Ratio	Ratio		Ratio	
	(In thousands)					
March 31, 2018						
Common Equity Tier I risk-based capital ratio:						
The Company	$1,663,801	15.72%	4.50	%	NA	
The Bank	1,653,466	15.62%	4.50	%	6.50	%
Tier I risk-based capital ratio:						
The Company	1,663,801	15.72%	6.00	%	NA	
The Bank	1,653,466	15.62%	6.00	%	8.00	%
Total risk-based capital ratio:						
The Company	1,796,126	16.97%	8.00	%	NA	
The Bank	1,785,796	16.87%	8.00	%	10.00	%
Tier 1 Leverage ratio:						
The Company	1,663,801	10.89%	4.00	%	NA	
The Bank	1,653,466	10.82%	4.00	%	5.00	%
September 30, 2017						
Common Equity Tier 1 risk-based capital ratio:						
The Company	$1,701,327	16.67%	4.50	%	NA	
The Bank	1,668,314	16.35%	4.50	%	6.50	%
Tier I risk-based capital ratio:						
The Company	1,701,327	16.67%	6.00	%	NA	
The Bank	1,668,314	16.35%	6.00	%	8.00	%
Total risk-based capital ratio:						
The Company	1,828,935	17.92%	8.00	%	NA	
The Bank	1,795,929	17.60%	8.00	%	10.00	%
Tier 1 Leverage ratio:						
The Company	1,701,327	11.49%	4.00	%	NA	
The Bank	1,668,314	11.27%	4.00	%	5.00	%

CHANGES IN FINANCIAL CONDITION

Cash and cash equivalents: Cash and cash equivalents are $256,808,000 at March 31, 2018, a decrease of $56,262,000, or 18.0%, since September 30, 2017.

Available-for-sale and held-to-maturity securities: Available-for-sale securities increased $3,062,000, or 0.2%, during the six months ended March 31, 2018, mostly due to purchases of $123,324,000 partially offset by principal repayments and maturities of $104,733,000. During the same period, the balance of held-to-maturity securities increased by $69,710,000 due to purchases of $170,836,000 partially offset by principal pay-downs and maturities of $98,781,000. As of March 31, 2018, the Company had a net unrealized loss on available-for-sale securities of $3,809,000, which is included on a net of tax basis in accumulated other comprehensive income (loss).

Loans receivable: Loans receivable, net of related contra accounts, increased by $341,466,000 to $11,224,088,000 at March 31, 2018 compared to $10,882,622,000 at September 30, 2017. The increase resulted primarily from originations of $1,772,569,000

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and purchases of $143,605,000, partially offset by loan principal repayments of $1,603,194,000. Commercial loan originations accounted for 67% of total originations and consumer loan originations were 33% during the period. Purchased loans during the quarter were pools of consumer loans. The increase in the loan portfolio is consistent with management's strategy during low rate environments to produce more multifamily, commercial real estate, and commercial and industrial loans that generally have adjustable interest rates or a shorter duration.
The following table shows the loan portfolio by category and the change.

	March 31, 2018		September 30, 2017		Change	
	(In thousands)		(In thousands)		$	%
Gross loans by category						
Single-family residential	$5,705,350	45.5%	$5,711,004	46.8%	$(5,654)	(0.1)%
Construction	1,732,202	13.8	1,597,996	13.1	134,206	8.4
Construction - custom	597,671	4.8	602,631	4.9	(4,960)	(0.8)
Land - acquisition & development	141,628	1.1	124,308	1.0	17,320	13.9
Land - consumer lot loans	102,779	0.8	104,405	0.9	(1,626)	(1.6)
Multi-family	1,328,049	10.6	1,303,148	10.7	24,901	1.9
Commercial real estate	1,443,437	11.5	1,434,610	11.8	8,827	0.6
Commercial & industrial	1,151,108	9.2	1,093,360	9.0	57,748	5.3
HELOC	135,119	1.1	144,850	1.2	(9,731)	(6.7)
Consumer	202,911	1.6	85,075	0.7	117,836	138.5
Total gross loans	12,540,254	100%	12,201,387	100%	338,867	2.8%
Less:						
Allowance for loan losses	127,576		123,073		4,503	3.7%
Loans in process	1,141,018		1,149,934		(8,916)	(0.8)
Net deferred fees, costs and discounts	47,572		45,758		1,814	4.0
Total loan contra accounts	1,316,166		1,318,765		(2,599)	(0.2)
Net Loans	$11,224,088		$10,882,622		$341,466	3.1%

Non-performing assets: Non-performing assets decreased $526,000 during the six months ended March 31, 2018 to $69,712,000 from $70,238,000 at September 30, 2017. The change is due to the $4,228,000 increase in non-accrual loans and $4,754,000 decline in REO. Non-performing assets as a percentage of total assets decreased to 0.45% at March 31, 2018 compared to 0.46% at September 30, 2017.

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The following table sets forth information regarding restructured loans and non-performing assets.

	March 31, 2018		September 30, 2017	
	(In thousands)			
Restructured loans:				
Single-family residential	$162,874	85.5%	$181,941	87.8%
Construction	—	—	—	—
Construction - custom	—	—	—	—
Land - acquisition & development	—	—	90	—
Land - consumer lot loans	6,837	3.6	7,949	3.8
Multi - family	474	0.2	493	0.2
Commercial real estate	11,818	6.2	15,079	7.3
Commercial & industrial	7,006	3.7	—	—
HELOC	1,424	0.7	1,728	0.8
Consumer	86	—	97	—
Total restructured loans (1)	$190,519	100 %	$207,377	100 %
Non-accrual loans:				
Single-family residential				
Construction	$25,319	47.1%	$27,930	56.3%
Construction - custom	2,296	4.3	—	—
Land - acquisition & development	—	—	91	0.2
Land - consumer lot loans	2,004	3.7	296	0.6
Multi-family	1,045	1.9	605	1.2
Commercial real estate	—	—	139	0.3
Commercial & industrial	9,527	17.7	11,815	23.8
HELOC	13,362	24.8	8,082	16.3
Consumer	217	0.4	531	1.1
Total non-accrual loans (2)	38	0.1	91	0.2
Real estate owned	53,808	100 %	49,580	100 %
Total non-performing assets	15,904		20,658	
NPA as % of total assets	$69,712		$70,238	
Total non-performing assets and performing restructured loans as a percentage of total assets	1.64 %		1.79 %	
Total Assets				
(1) Restructured loans were as follows:				
Performing	$186,057	97.7%	$202,272	97.5%
Non-performing (included in non-accrual loans above)	4,462	2.3	5,105	2.5
	$190,519	100 %	$207,377	100 %

For the six months ended March 31, 2018, the Company recognized $3,228,000 in interest income on cash payments received from borrowers on non-accrual loans. The Company would have recognized interest income of $1,073,000 for the same period had these loans performed according to their original contract terms. 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 non-accrual loans reflected in the above table, the Company had $68,219,000 of loans that were less than 90 days delinquent at March 31, 2018 but were classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 0.88% at March 31, 2018.

Restructured single-family residential loans are reserved for under the Company's general reserve methodology. If any individual loan is significant in balance, the Company may establish a specific reserve as warranted.

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Most restructured loans are accruing and performing loans where the borrower has proactively approached the Bank about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 85.5% of restructured loans as of March 31, 2018. The concession for these loans is typically a payment reduction through a rate reduction of 100 to 200 bps for a specific term, usually six to twenty-four months. Interest-only payments may also be approved during the modification period.

For commercial loans, six consecutive payments on newly restructured loan terms are generally required prior to returning the loan to accrual status. In some instances after the required six consecutive payments are made, a management assessment will conclude that collection of the entire principal balance is still in doubt. In those instances, the loan will remain on non-accrual. Homogeneous loans may or may not be on accrual status at the time of restructuring, but all are placed on accrual status upon the restructuring of the loan. Homogeneous loans are restructured only if the borrower can demonstrate the ability to meet the restructured payment terms; otherwise, collection is pursued and the loan remains on non-accrual status until liquidated. If the homogeneous restructured loan does not perform, it will be placed in non-accrual status when it is 90 days delinquent.

A loan that defaults and is subsequently modified would impact the Company’s delinquency trend, which is part of the qualitative risk factors component of the general reserve calculation. Any modified loan that re-defaults and is charged-off would impact the historical loss factors component of the Company's general reserve calculation.

Allowance for loan losses: The following table shows the Company’s allowance for loan losses by loan category.

March 31, 2018	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 34,144	$ 5,684,940	0.6 %	$ —	$ 27,608	— %
Construction	27,389	911,650	3.0	—	5,012	—
Construction - custom	2,081	295,699	0.7	—	—	—
Land - acquisition & development	7,622	116,877	6.5	—	2,186	—
Land - consumer lot loans	2,853	95,482	3.0	—	495	—
Multi-family	7,978	1,324,959	0.6	4	3,068	0.1
Commercial real estate	11,484	1,385,851	0.8	104	39,861	0.3
Commercial & industrial	28,784	1,114,171	2.6	546	36,888	1.5
HELOC	802	133,152	0.6	—	273	—
Consumer	3,785	202,766	1.9	—	38	—
	$ 126,922	$ 11,265,547	1.1 %	$ 654	$ 115,429	0.6 %

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

September 30, 2017	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans	Ratio	Allowance Allocation	Recorded Investment of Loans	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 36,892	$ 5,713,576	0.7 %	$ —	$ 5,552	— %
Construction	24,556	793,958	3.1	—	—	—
Construction - custom	1,944	277,495	0.7	—	105	—
Land - acquisition & development	6,828	104,767	6.5	1	89	1.0
Land - consumer lot loans	2,649	96,337	2.8	—	171	—
Multi-family	7,857	1,302,625	0.6	5	493	1.0
Commercial real estate	11,698	1,391,668	0.8	120	21,765	0.6
Commercial & industrial	28,524	1,093,210	2.6	—	81	—
HELOC	855	141,689	0.6	—	215	—
Consumer	1,144	84,887	1.4	—	82	—
	$ 122,947	$ 11,000,212	1.1 %	$ 126	$ 28,553	0.4 %

Reserve for losses on unfunded commitments: Unfunded commitments tend to vary depending on our loan mix and the proportion share of commercial loans. The reserve for unfunded commitments was $6,750,000 as of March 31, 2018, which is a decrease from $7,750,000 at September 30, 2017. Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $134,326,000, or 1.07% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio of loans and credit extensions. See Note E for further discussion and analysis of the allowance for loan losses as of and for the period ended March 31, 2018.

Real estate owned: Real estate owned decreased during the six months ended March 31, 2018 by $4,754,000 to $15,904,000. The decrease is primarily due to sales of REO properties during the period.

Intangible assets: Intangible assets increased to $312,303,000 as of March 31, 2018 from $298,682,000 as of September 30, 2017. The increase was primarily due to an immaterial correction recorded during the three months ended December 31, 2017 related to acquisitions of insurance agency businesses in prior years that resulted in an increase in goodwill of $7,135,000 and finite-lived intangible assets of $5,106,000 and a corresponding decrease in other assets of $12,241,000.

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Customer accounts: Customer accounts increased $303,848,000, or 2.8%, to $11,138,856,000 at March 31, 2018 compared with $10,835,008,000 at September 30, 2017.

The following table shows the composition of the Bank’s customer accounts by deposit type.

	March 31, 2018			September 30, 2017		
	Deposit Account Balance (In thousands)	As a % of Total Deposits	Wtd. Avg. Rate	Deposit Account Balance (In thousands)	As a % of Total Deposits	Wtd. Avg. Rate
Non-interest checking	$1,325,035	11.9 %	— %	$1,258,274	11.6 %	— %
Interest checking	1,818,177	16.3	0.35	1,760,821	16.3	0.23
Savings (passbook/statement)	895,017	8.0	0.12	888,881	8.2	0.11
Money market	2,425,072	21.8	0.26	2,453,182	22.6	0.19
Time deposits	4,675,555	42.0	1.25	4,473,850	41.3	1.09
Total	$11,138,856	100 %	0.65 %	$10,835,008	100 %	0.54 %

FHLB advances and other borrowings: Total borrowings increased to $2,325,000,000 as of March 31, 2018 from $2,225,000,000 as of September 30, 2017. The weighted average rate for FHLB borrowings was 2.62% as of March 31, 2018 and 2.80% at September 30, 2017. The decrease in the rate was primarily due to the maturity of certain long-term FHLB advances.

Stockholders' equity: The Company’s total stockholders' equity at March 31, 2018 was $1,988,673,000, or 12.72% of total assets. This was a decrease of $17,015,000 from the September 30, 2017 total of $2,005,688,000, or 13.15% of total assets. The Company’s equity was impacted in the six months ended March 31, 2018 by net income of $100,941,000, the payment of $26,855,000 in cash dividends, treasury stock purchases of $96,979,000, as well as other comprehensive income of $3,884,000.

RESULTS OF OPERATIONS

Net Income: The Company recorded net income of $49,271,000 for the three months ended March 31, 2018 compared to $42,070,000 for the prior year quarter. The Company recorded net income of $100,941,000 for the six months ended March 31, 2018 compared to $83,316,000 for the same period one year ago.

Net Interest Income: For the three months ended March 31, 2018, net interest income was $117,301,000, which is $9,574,000 higher than the same quarter of the prior year. Net interest margin was 3.25% for the quarter ended March 31, 2018 compared to 3.15% for the quarter ended March 31, 2017. The increase in net interest income was primarily due to average earning assets increasing by $759,272,000 as well as the yield on earning assets increasing to 4.19% from 4.04%. For the six months ended March 31, 2018, net interest income was $233,036,000, which is $22,157,000 higher than the same period for the prior year. Net interest margin was 3.26% for the six months ended March 31, 2018 compared to 3.08% for the same period for the prior year. The higher yield on earning assets is the result of the rise in short-term interest rates, which resulted in a higher rate being earned on cash and adjustable rate loans and investment securities, as well as the shift in mix from investment securities into a higher proportion of loans receivable that carry higher yields on average. Partially offsetting these improvements in interest income and yield on earning assets was an increase in the average rate paid on interest-bearing liabilities, which was 0.96% for the three months ended March 31, 2018 compared to 0.91% for the same quarter one year ago. The higher rate in interest bearing liabilities was primarily due to the increase in rates on deposit accounts partially offset by the maturity of certain long-term FHLB advances with higher rates.

The following table sets forth certain information explaining changes in interest income and interest expense for the period indicated compared to the same period one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

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Rate / Volume Analysis:

	Comparison of Three Months Ended 03/31/18 and 03/31/17			Comparison of Six Months Ended 03/31/18 and 03/31/17		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)			(In thousands)		
Interest income:						
Loans receivable	$9,744	$751	$10,495	$21,175	$(1,004)	$20,171
Mortgaged-backed securities	(456)	1,897	1,441	(499)	6,050	5,551
Investments (1)	(221)	1,166	945	(2,706)	2,881	175
All interest-earning assets	9,067	3,814	12,881	17,970	7,927	25,897
Interest expense:						
Customer accounts	504	3,518	4,022	792	4,851	5,643
FHLB advances and other borrowings	2,349	(3,064)	(715)	3,982	(5,885)	(1,903)
All interest-bearing liabilities	2,853	454	3,307	4,774	(1,034)	3,740
Change in net interest income	$6,214	$3,360	$9,574	$13,196	$8,961	$22,157

(1) Includes interest on cash equivalents and dividends on FHLB & FRB stock

Provision (Release) for Loan Losses: The Company recorded a release of allowance for loan losses of $950,000 for the three months ended March 31, 2018, compared to a $1,600,000 release of allowance for loan losses for the three months ended March 31, 2017. A release of allowance for loan losses of $950,000 and $1,600,000 was recorded during the six months ended March 31, 2018 and March 31, 2017, respectively. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled $1,371,000 for the three months ended March 31, 2018, compared to net recoveries of $5,216,000 during the three months ended March 31, 2017. Recoveries, net of charge-offs, totaled $4,453,000 for the six months ended March 31, 2018, compared to net recoveries of $10,512,000 during the six months ended March 31, 2017.

Other Income: The three months ended March 31, 2018 results include total other income of $12,587,000 compared to $10,136,000 for the same period one year ago. The increase during the three months ended March 31, 2018 is primarily due to a $1,499,000 increase in deposit fee income, which was driven by the 2017 launch of the Company's new "Green Checking" product. Results for the six months ended March 31, 2018 include total other income of $19,382,000 compared to $22,032,000 for the same period one year ago. The decrease during the six months ended March 31, 2018 is primarily due to a $8,550,000 charge from asset and liability valuation adjustments associated with FDIC loss share agreements. In March 2018, the Company reached a preliminary agreement with the FDIC to early terminate its remaining FDIC loss share agreements, which relate to the Horizon Bank and Home Valley Bank acquisitions. The preliminary agreement is consistent with the estimates that were recorded by the Company as of December 31, 2017 and final settlement is expected to occur in the third fiscal quarter of 2018. All future recoveries, gains, losses and expenses related to the previously covered assets will now be recognized entirely by the Company and the FDIC will no longer share in such gains or losses. The impact of these valuation adjustments was partially offset by a $2,416,000 gain recognized on bank-owned life insurance and a $3,000,000 increase in deposit fee income, which was driven mostly by the 2017 launch of the Company's new "Green Checking" product.

Other Expense: The three months ended March 31, 2018 results include total other expense of $65,787,000 compared to $57,467,000 for the same period one year ago, a $8,320,000 or 14.5% increase. Compensation and benefits costs increased $2,792,000 primarily due to headcount increases and cost of living adjustments since last year. The number of staff, including part-time employees on a full-time equivalent basis, was 1,855 and 1,797 at March 31, 2018 and 2017, respectively. Information technology costs increased by $2,095,000 and other expenses increased by $3,393,000 for the three months ended March 31, 2018 as both were elevated due to ongoing initiatives to enhance the Company's

overall technology platform and its Bank Secrecy Act program. The six months ended March 31, 2018 results include total other expense of $127,728,000 compared to $111,808,000 for the same period one year ago, a $15,920,000 or 14.2% increase. Compensation and benefits costs increased $5,417,000 primarily due to headcount increases and cost of living adjustments since last year. Information technology costs increased by $3,573,000 and other expenses increased by $6,093,000 for the six months ended March 31, 2018 due to ongoing initiatives to enhance the Company's overall technology platform and its Bank Secrecy Act program. Additionally, charitable contributions increased by

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$1,000,000 from the prior year as the Company fulfilled the first year of its previously announced commitment to fund its foundation by $1,000,000 annually for the next five years. Product delivery costs increased by $771,000 primarily due to enhanced features provided with the "Green Checking" product. Total other expense for the six months ended March 31, 2018 and March 31, 2017 equaled 1.65% and 1.50%, respectively, of average assets.

Gain (Loss) on Real Estate Owned: Results for the three months ended March 31, 2018 include a net loss on real estate owned of $278,000, compared to a gain of $795,000 for the same period one year ago. Results for the six months ended March 31, 2018 include a net loss on real estate owned of $232,000, compared to a gain of $1,193,000 for the same period one year ago.

Income Tax Expense: Income tax expense totaled $15,502,000 for the three months ended March 31, 2018, as compared to $20,721,000 for the same period one year ago. Income tax expense totaled $24,467,000 for the six months ended March 31, 2018, as compared to $40,580,000 for the same period one year ago. The effective tax rate for the six months ended March 31, 2018 was 19.51% compared to 32.75% for the six months ended March 31, 2017 and 32.27% for the full fiscal year ended September 30, 2017. Due to the reduction in the statutory federal corporate tax rate from 35% to 21% effective from January 1, 2018 forward, the Company has a blended federal statutory tax rate of 24.53% for its fiscal year 2018. The Company's effective tax rate for the six months ended March 31, 2018 differs from the new 2018 statutory rate due to the impact of state tax, bank-owned life insurance, low-income housing investments and tax-exempt loans, as well as discrete tax items. The income tax expense for the six months ended March 31, 2018 includes a discrete tax benefit of $3,743,000 from the revaluation of the Company's deferred tax assets and liabilities on account of the rate change, as well as tax benefits of $1,626,000 related to stock-based compensation and other adjustments. The Company estimates that its annual effective tax rate for fiscal 2018 (blended rate year) will be approximately 22-23%, taking into account discrete tax benefits.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company’s quantitative and qualitative information about market risk since September 30, 2017. For a complete discussion of the Company’s quantitative and qualitative market risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2017 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on the evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting. During the period to which this report relates, there have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or that are reasonably likely to materially affect, such controls.

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PART II – Other Information

Item 1. Legal Proceedings

From time to time, the Company and its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's consolidated financial statements.

Item 1A. Risk Factors

In addition to the other information set forth below and in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in the 2017 Form 10-K for the year ended September 30, 2017. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations and capital position, and could cause its actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

The Office of the Comptroller of the Currency has issued a Consent Order with respect to our Bank Secrecy Act compliance. Failure to comply with the Consent Order could result in additional regulatory enforcement action.

The Bank Secrecy Act, the USA PATRIOT Act of 2001 (the "Patriot Act"), and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and file suspicious activity and currency transaction reports as appropriate. On February 28, 2018, pursuant to a Stipulation and Consent to the Issuance of a Consent Order (the "Stipulation"), the Office of the Comptroller of the Currency issued a Consent Order relating to Washington Federal, National Association (the "Bank"), the Company's national bank subsidiary, the terms of which are intended to further enhance the Bank's Bank Secrecy Act ("BSA") program. Copies of the Stipulation and the Consent Order were filed with the Commission on March 1, 2018 as exhibits to the Company's Current Report on Form 8-K. The Bank expects to continue to incur significant expenses as it strengthens its BSA program and implements additional policies and procedures associated with complying with the Consent Order. The Bank does not expect to pursue acquisitions or branch expansion until its BSA program has improved. Issuance of the Consent Order does not preclude further government action with respect to the Bank's BSA program, including the imposition of fines, sanctions, additional expenses and compliance costs, and/or restrictions on the activities of the Bank. In addition, failure to comply with the Consent Order could subject us to additional expense and further regulatory enforcement action, including the imposition of material restrictions on the activities of the Bank or the assessment of fines or penalties, which could prevent us from executing our business strategy and negatively impact our business and the price of our common stock. Any further deficiency in our BSA/AML policies, procedures and systems could cause us to incur additional significant compliance costs and could subject us to fines and further regulatory actions. Moreover, failure to maintain and implement adequate BSA programs could also have serious reputational consequences for us. Any of these results could have a material adverse effect on our business, financial condition and results of operations.

The Company has risk of systems failures and cyber-security risk, including "hacking" and "identity theft."

The Company relies extensively on the successful and uninterrupted functioning of its information technology and telecommunications systems to conduct its business. This includes internally developed systems, the systems of third-party service providers, and digital and mobile technologies. Any failure, interruption or breach in security of these systems could result in failures or disruptions in its customer relationship management, general ledger, deposit, loan and other systems, and could damage its reputation, result in loss of customer business, subject it to regulatory scrutiny, or expose it to civil litigation and possible financial liability.

While the Company believes it has robust information systems and security procedures, controls and policies designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no

assurance that any such failures, interruptions or security breaches will not occur, or, if they do occur, that the Company will be able to address or remediate the damage. Because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and often are not recognized until launched against a target, the Company may be unable to anticipate these techniques or to implement adequate protective measures. Cybersecurity and the continued development and enhancement of the Company's controls, processes and practices designed to protect customer information, its systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Company. As cybersecurity threats continue to evolve, the Company may be required to expend additional resources to continue to enhance, modify and refine our protective measures against these evolving threats.

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To date, the Company has not experienced any material losses related to cyber-attacks or other information security breaches, but there can be no assurance that it will not suffer such attacks and losses in the future. The Company's risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats and its plans to continue to implement internet banking and mobile banking channels, expand operations and use third-party information systems. Recent instances of attacks specifically targeting financial services businesses indicate that the risk to the Company's systems remains significant. If the Company were to experience a cyber-attack or information security breach, it could incur substantial additional expenses, which could include remediation expenses, costs associated with customer notification and credit monitoring services, increased insurance premiums, regulatory penalties and fines and costs associated civil litigation, any of which could have a material adverse effect on the Company's business, financial conditions or results of operations.

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended March 31, 2018.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period (2)
January 1, 2018 to January 31, 2018	415,750	$ 34.32	415,750	5,337,835
February 1, 2018 to February 28, 2018	338,899	35.05	338,899	4,998,936
March 1, 2018 to March 31, 2018	918,787	34.67	918,787	4,080,149
Total	1,673,436	$ 34.66	1,673,436	4,080,149

(1) The Company's stock repurchase program was publicly announced by its Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 56,956,264 shares have been authorized for repurchase.

(2) Shares remaining available reflects the impact of TARP warrants that have been repurchased for cash as management also counts these against the maximum number of shares that may be repurchased under the Plan.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer
31.2 Section 302 Certification by the Chief Financial Officer
32 Section 906 Certification by the Chief Executive Officer and Chief Financial Officer
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Financial Statements from the Company's Form 10-Q for the three months ended March 31, 2018 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
SIGNATURES
Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 1, 2018 /S/ BRENT J. BEARDALL
BRENT J. BEARDALL
President & Chief Executive Officer

May 1, 2018 /S/ VINCENT L. BEATTY
VINCENT L. BEATTY
Executive Vice President and Chief Financial Officer

May 1, 2018 /S/ CORY D. STEWART
CORY D. STEWART
Senior Vice President and Principal Accounting Officer