

WASHINGTON FEDERAL INC

Form 10-Q

February 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34654

WASHINGTON FEDERAL, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of  
incorporation or organization)

91-1661606

(I.R.S. Employer  
Identification No.)

425 Pike Street Seattle, Washington 98101

(Address of principal executive offices and zip code)

(206) 624-7930

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

☒

Accelerated filer

☐

Non-accelerated filer

☐

Smaller reporting company

☐

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:

at January 31, 2014

|                                |             |
|--------------------------------|-------------|
| Common stock, \$1.00 par value | 102,510,030 |
|--------------------------------|-------------|

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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)

|                                                                                                                                                                | December 31,<br>2013              | September 30,<br>2013 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------|
|                                                                                                                                                                | (In thousands, except share data) |                       |
| <b>ASSETS</b>                                                                                                                                                  |                                   |                       |
| Cash and cash equivalents                                                                                                                                      | \$967,348                         | \$203,563             |
| Available-for-sale securities, at fair value                                                                                                                   | 2,838,504                         | 2,360,948             |
| Held-to-maturity securities, at amortized cost                                                                                                                 | 1,630,936                         | 1,654,666             |
| Loans receivable, net                                                                                                                                          | 7,651,558                         | 7,528,030             |
| Covered loans, net                                                                                                                                             | 252,693                           | 295,947               |
| Interest receivable                                                                                                                                            | 49,629                            | 49,218                |
| Premises and equipment, net                                                                                                                                    | 224,745                           | 206,172               |
| Real estate held for sale                                                                                                                                      | 71,537                            | 72,925                |
| Real estate held for investment                                                                                                                                | 11,656                            | 9,392                 |
| Covered real estate held for sale                                                                                                                              | 24,650                            | 30,980                |
| FDIC indemnification asset                                                                                                                                     | 57,818                            | 64,615                |
| FHLB & FRB stock                                                                                                                                               | 171,480                           | 173,009               |
| Intangible assets, net                                                                                                                                         | 299,019                           | 264,318               |
| Federal and state income tax assets, net                                                                                                                       | 24,964                            | 44,000                |
| Other assets                                                                                                                                                   | 127,836                           | 125,076               |
|                                                                                                                                                                | \$14,404,373                      | \$13,082,859          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                    |                                   |                       |
| <b>Liabilities</b>                                                                                                                                             |                                   |                       |
| Customer accounts                                                                                                                                              |                                   |                       |
| Transaction deposit accounts                                                                                                                                   | \$4,713,924                       | \$3,540,842           |
| Time deposit accounts                                                                                                                                          | 5,688,802                         | 5,549,429             |
|                                                                                                                                                                | 10,402,726                        | 9,090,271             |
| FHLB advances                                                                                                                                                  | 1,930,000                         | 1,930,000             |
| Advance payments by borrowers for taxes and insurance                                                                                                          | 17,791                            | 42,443                |
| Accrued expenses and other liabilities                                                                                                                         | 100,872                           | 82,510                |
|                                                                                                                                                                | 12,451,389                        | 11,145,224            |
| <b>Stockholders' equity</b>                                                                                                                                    |                                   |                       |
| Common stock, \$1.00 par value, 300,000,000 shares authorized;<br>133,272,280 and 132,572,475 shares issued; 102,329,576 and 102,484,671 shares<br>outstanding | 133,273                           | 132,573               |
| Paid-in capital                                                                                                                                                | 1,634,771                         | 1,625,051             |
| Accumulated other comprehensive income, net of taxes                                                                                                           | 195                               | 6,378                 |
| Treasury stock, at cost; 30,942,704 and 30,087,804 shares                                                                                                      | (439,762)                         | (420,817)             |
| Retained earnings                                                                                                                                              | 624,507                           | 594,450               |
|                                                                                                                                                                | 1,952,984                         | 1,937,635             |
|                                                                                                                                                                | \$14,404,373                      | \$13,082,859          |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

|                                                                                         | Quarter Ended December 31,            |             |
|-----------------------------------------------------------------------------------------|---------------------------------------|-------------|
|                                                                                         | 2013                                  | 2012        |
|                                                                                         | (In thousands, except per share data) |             |
| INTEREST INCOME                                                                         |                                       |             |
| Loans                                                                                   | \$107,227                             | \$116,843   |
| Mortgage-backed securities                                                              | 19,368                                | 11,732      |
| Investment securities and cash equivalents                                              | 4,663                                 | 2,734       |
|                                                                                         | 131,258                               | 131,309     |
| INTEREST EXPENSE                                                                        |                                       |             |
| Customer accounts                                                                       | 15,499                                | 18,772      |
| FHLB advances and other borrowings                                                      | 17,447                                | 17,103      |
|                                                                                         | 32,946                                | 35,875      |
| Net interest income                                                                     | 98,312                                | 95,434      |
| Provision (recovery) for loan losses                                                    | (4,600                                | ) 3,600     |
| Net interest income after provision (recovery) for loan losses                          | 102,912                               | 91,834      |
| OTHER INCOME                                                                            | 5,788                                 | 4,957       |
| OTHER EXPENSE                                                                           |                                       |             |
| Compensation and benefits                                                               | 25,126                                | 21,072      |
| Occupancy                                                                               | 5,618                                 | 4,446       |
| FDIC insurance premiums                                                                 | 2,934                                 | 3,342       |
| Information technology                                                                  | 2,929                                 | 2,438       |
| Amortization of intangible assets                                                       | 820                                   | 354         |
| Other                                                                                   | 6,693                                 | 6,646       |
|                                                                                         | 44,120                                | 38,298      |
| Loss on real estate acquired through foreclosure, net                                   | (1,951                                | ) (3,319    |
| Income before income taxes                                                              | 62,629                                | 55,174      |
| Income tax provision                                                                    | 22,393                                | 19,892      |
| NET INCOME                                                                              | \$40,236                              | \$35,282    |
| PER SHARE DATA                                                                          |                                       |             |
| Basic earnings                                                                          | \$0.39                                | \$0.33      |
| Diluted earnings                                                                        | 0.39                                  | 0.33        |
| Basic weighted average number of shares outstanding                                     | 102,329,578                           | 105,998,184 |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 102,813,154                           | 106,043,914 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS                                          |                                       |             |

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

|                                                             | Quarter Ended December 31, |            |
|-------------------------------------------------------------|----------------------------|------------|
|                                                             | 2013                       | 2012       |
|                                                             | (In thousands)             |            |
| Net income                                                  | \$40,236                   | \$35,282   |
| Other comprehensive income (loss) net of tax:               |                            |            |
| Net unrealized gain (loss) on available-for-sale securities | (9,661                     | ) (2,636 ) |
| Related tax benefit (expense)                               | 3,478                      | 969        |
| Other comprehensive loss                                    | (6,183                     | ) (1,667 ) |
| Comprehensive income                                        | \$34,053                   | \$33,615   |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS              |                            |            |

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

|                                                      | Common<br>Stock | Paid-in Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock | Total        |
|------------------------------------------------------|-----------------|-----------------|----------------------|-------------------------------------------------|----------------|--------------|
| Balance at October 1, 2013                           | \$ 132,573      | \$ 1,625,051    | \$ 594,450           | \$ 6,378                                        | \$(420,817)    | \$ 1,937,635 |
| Net income                                           |                 |                 | \$ 40,236            |                                                 |                | \$ 40,236    |
| Other comprehensive income adjustment                |                 |                 |                      | (6,183)                                         |                | (6,183)      |
| Dividends paid on common stock                       |                 |                 | (10,179)             |                                                 |                | (10,179)     |
| Compensation expense related to common stock options |                 | 300             |                      |                                                 |                | 300          |
| Proceeds from exercise of common stock options       | 700             | 8,580           |                      |                                                 |                | 9,280        |
| Restricted stock                                     |                 | 840             |                      |                                                 |                | 840          |
| Treasury stock acquired                              |                 |                 |                      |                                                 | (18,945)       | (18,945)     |
| Balance at December 31, 2013                         | \$ 133,273      | \$ 1,634,771    | \$ 624,507           | \$ 195                                          | \$(439,762)    | \$ 1,952,984 |
|                                                      | Common<br>Stock | Paid-in Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock | Total        |
| Balance at October 1, 2012                           | \$ 129,950      | \$ 1,586,295    | \$ 480,780           | \$ 13,306                                       | \$(310,579)    | \$ 1,899,752 |
| Net income                                           |                 |                 | 35,282               |                                                 |                | 35,282       |
| Other comprehensive income adjustment                |                 |                 |                      | (1,667)                                         |                | (1,667)      |
| Dividends paid on common stock                       |                 |                 | (8,690)              |                                                 |                | (8,690)      |
| Compensation expense related to common stock options |                 | 300             |                      |                                                 |                | 300          |
| Proceeds from exercise of common stock options       | 6               | 57              |                      |                                                 |                | 63           |
| Proceeds from issuance of common stock               | 1,996           | 31,496          |                      |                                                 |                | 33,492       |
| Restricted stock                                     | 15              | 878             |                      |                                                 |                | 893          |
| Treasury stock acquired                              |                 |                 |                      |                                                 | (44,747)       | (44,747)     |
| Balance at December 31, 2012                         | \$ 131,967      | \$ 1,619,026    | \$ 507,372           | \$ 11,639                                       | \$(355,326)    | \$ 1,914,678 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

|                                                                                   | Quarter Ended December 31, |             |
|-----------------------------------------------------------------------------------|----------------------------|-------------|
|                                                                                   | 2013                       | 2012        |
|                                                                                   | (In thousands)             |             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                            |             |
| Net income                                                                        | \$40,236                   | \$35,282    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |             |
| Amortization of fees, discounts, premiums and intangible assets, net              | 1,057                      | 536         |
| Cash received from FDIC under loss share                                          | 1,295                      | 4,566       |
| Depreciation                                                                      | 2,700                      | 2,300       |
| Stock option compensation expense                                                 | 300                        | 300         |
| Provision for (reversal of) loan losses                                           | (4,600)                    | ) 3,600     |
| Loss (gain) on real estate held for sale, net                                     | (597)                      | ) 1,193     |
| Decrease (increase) in accrued interest receivable                                | (411)                      | ) 1,058     |
| Decrease (increase) in income taxes receivable                                    | 22,629                     | (3,038)     |
| Decrease in other assets                                                          | 1,649                      | 30,191      |
| Decrease in accrued expenses and other liabilities                                | (12,768)                   | ) (15,437)  |
| Net cash provided by operating activities                                         | 51,490                     | 60,551      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                            |             |
| Net principal collections (loan originations)                                     | (68,870)                   | ) 187,382   |
| FHLB stock redemptions                                                            | 1,376                      | 1,382       |
| Available-for-sale securities purchased                                           | (565,080)                  | ) (261,966) |
| Principal payments and maturities of available-for-sale securities                | 76,805                     | 31,404      |
| Available-for-sale securities sold                                                | —                          | 43,899      |
| Held-to-maturity securities purchased                                             | —                          | (264,781)   |
| Principal payments and maturities of held-to-maturity securities                  | 23,117                     | 50,522      |
| Net cash received from acquisition                                                | 1,280,077                  | 202,308     |
| Proceeds from sales of real estate held for sale                                  | 12,566                     | 24,370      |
| Proceeds from sales of covered REO                                                | 6,098                      | 3,043       |
| Proceeds from sales of real estate held for investment                            | 1,729                      | 5,775       |
| Premises and equipment purchased and REO improvements                             | (9,232)                    | ) (12,185)  |
| Net cash provided by investing activities                                         | 758,586                    | 11,153      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                            |             |
| Net increase in customer accounts                                                 | (1,795)                    | ) (77,942)  |
| Proceeds from borrowings                                                          | 625,000                    | —           |
| Repayments of borrowings                                                          | (625,000)                  | ) (22,471)  |
| Proceeds from exercise of common stock options                                    | 9,280                      | 63          |
| Dividends paid on common stock                                                    | (10,179)                   | ) (17,250)  |
| Treasury stock purchased                                                          | (18,945)                   | ) (44,747)  |
| Decrease in advance payments by borrowers for taxes and insurance                 | (24,652)                   | ) (23,489)  |
| Net cash used by financing activities                                             | (46,291)                   | ) (185,836) |
| Increase (decrease) in cash and cash equivalents                                  | 763,785                    | (114,132)   |
| Cash and cash equivalents at beginning of period                                  | 203,563                    | 751,430     |
| Cash and cash equivalents at end of period                                        | \$967,348                  | \$637,298   |

(CONTINUED)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

|                                                                          | Quarter Ended December 31, |            |
|--------------------------------------------------------------------------|----------------------------|------------|
|                                                                          | 2013                       | 2012       |
|                                                                          | (In thousands)             |            |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION                        |                            |            |
| Non-cash investing activities                                            |                            |            |
| Non-covered real estate acquired through foreclosure                     | \$9,956                    | \$22,762   |
| Covered real estate acquired through foreclosure                         | 179                        | 3,096      |
| Cash paid during the period for                                          |                            |            |
| Interest                                                                 | 33,644                     | 37,457     |
| Income taxes                                                             | (236                       | ) —        |
| The following summarizes the non-cash activities related to acquisitions |                            |            |
| Fair value of assets acquired                                            | \$65,531                   | \$810,766  |
| Fair value of liabilities assumed                                        | (1,345,608                 | ) (766,871 |
| Net fair value of assets (liabilities)                                   | \$(1,280,077               | ) \$43,895 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER ENDED DECEMBER 31, 2013 AND 2012  
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (the “Company” or “Washington Federal”). 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 accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2013 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company’s 2013 Annual Report on Form 10-K (“2013 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2013 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2013 Form 10-K.

**Off-Balance-Sheet Credit Exposures** – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at December 31, 2013, excluding covered loans, of \$304 million. The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.

Reclassification of Real Estate Held for Investment into its own line item and out of Real Estate Held for Sale have been made to the financial statements for years prior to September 30, 2013 to conform to current year classifications.

NOTE B - Acquisitions

Certain Branches of Bank of America, National Association

Effective as of the close of business on October 31, 2013, Washington Federal completed the acquisition of eleven branches from Bank of America, National Association; these branches are located in New Mexico. Effective as of the close of business on December 6, 2013, Washington Federal completed the acquisition of another forty branches from Bank of America, National Association; these branches are located in Washington, Oregon, and Idaho. The combined acquisitions provided recorded book values of \$1.3 billion in deposit accounts, \$9 million of loans, and \$16 million in branch properties. Washington Federal paid a 2.60% premium on the total deposits. The cash received by Washington Federal in the transaction was \$1.3 billion.

The acquisition will be accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The purchase accounting is incomplete as the core deposit intangible valuation is not yet finalized, and the acquired loans, properties, and equipment had not yet been recorded at their fair values as of December 31, 2013. The purchase accounting fair value analysis is expected to be completed as of March 31, 2014.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the first eleven branches for the period from November 1, 2013 to December 31, 2013 and for the additional forty branches from December 7, 2013 to December 31, 2013.

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



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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 QUARTER ENDED DECEMBER 31, 2013 AND 2012  
 (UNAUDITED)

|                             | Adjusted Fair Value Recorded by<br>Washington Federal<br>(In thousands) |
|-----------------------------|-------------------------------------------------------------------------|
| Assets:                     |                                                                         |
| Cash and cash equivalents   | \$ 1,280,077                                                            |
| Loans receivable, net       | 8,278                                                                   |
| Property and equipment, net | 17,476                                                                  |
| Intangible Assets           | 35,522                                                                  |
| Other assets                | 4,255                                                                   |
| Total Assets                | 1,345,608                                                               |
| Liabilities:                |                                                                         |
| Customer accounts           | 1,314,478                                                               |
| Other liabilities           | 31,130                                                                  |
| Total Liabilities           | 1,345,608                                                               |
| Net assets acquired         | \$—                                                                     |

NOTE C – Dividends

On January 17, 2014, the Company paid its 124th consecutive quarterly cash dividend on common stock. Dividends per share were \$.10 and \$.08 for the quarters ended December 31, 2013 and 2012, respectively.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER ENDED DECEMBER 31, 2013 AND 2012  
(UNAUDITED)

## NOTE D – Loans Receivable (excluding Covered Loans)

|                                      | December 31, 2013<br>(In thousands) |      | September 30, 2013 |      |   |
|--------------------------------------|-------------------------------------|------|--------------------|------|---|
| Non-acquired loans                   |                                     |      |                    |      |   |
| Single-family residential            | \$5,421,896                         | 66.9 | % \$5,359,149      | 67.1 | % |
| Construction - speculative           | 135,868                             | 1.7  | 130,778            | 1.6  |   |
| Construction - custom                | 333,954                             | 4.1  | 302,722            | 3.8  |   |
| Land - acquisition & development     | 72,075                              | 0.9  | 77,775             | 1.1  |   |
| Land - consumer lot loans            | 119,206                             | 1.5  | 121,671            | 1.5  |   |
| Multi-family                         | 842,343                             | 10.4 | 831,684            | 10.4 |   |
| Commercial real estate               | 433,361                             | 5.3  | 414,961            | 5.1  |   |
| Commercial & industrial              | 274,432                             | 3.4  | 243,199            | 3.0  |   |
| HELOC                                | 111,577                             | 1.4  | 112,186            | 1.4  |   |
| Consumer                             | 44,142                              | 0.5  | 47,141             | 0.6  |   |
| Total non-acquired loans             | 7,788,854                           | 96.1 | 7,641,266          | 95.6 |   |
| Acquired loans                       |                                     |      |                    |      |   |
| Single-family residential            | 13,856                              | 0.2  | 14,468             | 0.2  |   |
| Construction - speculative           | —                                   | —    | —                  | —    |   |
| Construction - custom                | —                                   | —    | —                  | —    |   |
| Land - acquisition & development     | 1,206                               | —    | 1,489              | —    |   |
| Land - consumer lot loans            | 3,261                               | —    | 3,313              | —    |   |
| Multi-family                         | 3,773                               | 0.1  | 3,914              | 0.1  |   |
| Commercial real estate               | 117,038                             | 1.4  | 133,423            | 1.7  |   |
| Commercial & industrial              | 72,594                              | 0.9  | 75,326             | 0.9  |   |
| HELOC                                | 9,538                               | 0.1  | 10,179             | 0.1  |   |
| Consumer                             | 7,754                               | 0.1  | 8,267              | 0.1  |   |
| Total acquired loans                 | 229,020                             | 2.8  | 250,379            | 3.1  |   |
| Credit-impaired acquired loans       |                                     |      |                    |      |   |
| Single-family residential            | 331                                 | —    | 333                | —    |   |
| Construction - speculative           | —                                   | —    | —                  | —    |   |
| Land - acquisition & development     | 2,225                               | —    | 2,396              | —    |   |
| Multi-family                         | —                                   | —    | —                  | —    |   |
| Commercial real estate               | 71,841                              | 1.0  | 76,909             | 1.1  |   |
| Commercial & industrial              | 7,140                               | 0.1  | 7,925              | 0.1  |   |
| HELOC                                | 10,834                              | 0.1  | 11,266             | 0.1  |   |
| Consumer                             | 64                                  | —    | 71                 | —    |   |
| Total credit-impaired acquired loans | 92,435                              | 1.2  | 98,900             | 1.3  |   |
| Total loans                          |                                     |      |                    |      |   |
| Single-family residential            | 5,436,083                           | 67.0 | 5,373,950          | 67.3 |   |
| Construction - speculative           | 135,868                             | 1.7  | 130,778            | 1.6  |   |
| Construction - custom                | 333,954                             | 4.1  | 302,722            | 3.8  |   |
| Land - acquisition & development     | 75,506                              | 0.9  | 81,660             | 1.1  |   |
| Land - consumer lot loans            | 122,467                             | 1.5  | 124,984            | 1.5  |   |

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|                         |         |      |         |      |
|-------------------------|---------|------|---------|------|
| Multi-family            | 846,116 | 10.5 | 835,598 | 10.5 |
| Commercial real estate  | 622,240 | 7.7  | 625,293 | 7.9  |
| Commercial & industrial | 354,166 | 4.4  | 326,450 | 4.0  |

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|                               |             |     |             |     |   |
|-------------------------------|-------------|-----|-------------|-----|---|
| HELOC                         | 131,949     | 1.6 | 133,631     | 1.6 |   |
| Consumer                      | 51,960      | 0.6 | 55,479      | 0.7 |   |
| Total loans                   | 8,110,309   | 100 | % 7,990,545 | 100 | % |
| Less:                         |             |     |             |     |   |
| Allowance for probable losses | 118,158     |     | 116,741     |     |   |
| Loans in process              | 273,263     |     | 275,577     |     |   |
| Discount on acquired loans    | 31,485      |     | 34,143      |     |   |
| Deferred net origination fees | 35,845      |     | 36,054      |     |   |
|                               | 458,751     |     | 462,515     |     |   |
|                               | \$7,651,558 |     | \$7,528,030 |     |   |

Changes in the carrying amount and accretable yield for acquired credit impaired and non-impaired loans for the three months ended December 31, 2013 and the fiscal year ended September 30, 2013 were as follows:

| December 31, 2013                 | Acquired Impaired   |                                | Acquired Non-impaired |                                |
|-----------------------------------|---------------------|--------------------------------|-----------------------|--------------------------------|
|                                   | Accretable<br>Yield | Carrying<br>Amount of<br>Loans | Accretable<br>Yield   | Carrying<br>Amount of<br>Loans |
|                                   | (In thousands)      |                                |                       |                                |
| Balance as of beginning of period | \$37,236            | \$69,718                       | \$4,977               | \$245,373                      |
| Accretion                         | (2,715)             | ) 2,715                        | (319)                 | ) 319                          |
| Transfers to REO                  | —                   | (346)                          | —                     | (1,124)                        |
| Payments received, net            | —                   | (6,495)                        | —                     | (20,453)                       |
| Balance as of end of period       | \$34,521            | \$65,592                       | \$4,658               | \$224,115                      |

| September 30, 2013                                      | Acquired Impaired   |                                | Acquired Non-impaired |                                |
|---------------------------------------------------------|---------------------|--------------------------------|-----------------------|--------------------------------|
|                                                         | Accretable<br>Yield | Carrying<br>Amount of<br>Loans | Accretable<br>Yield   | Carrying<br>Amount of<br>Loans |
|                                                         | (In thousands)      |                                |                       |                                |
| Balance as of beginning of period                       | \$16,928            | \$77,613                       | \$—                   | \$—                            |
| Reclassification from nonaccretable<br>balance, net (1) | 30,026              | —                              | —                     | —                              |
| Additions (2)                                           | —                   | 9,865                          | 10,804                | 351,335                        |
| Accretion                                               | (9,718)             | ) 9,718                        | (5,827)               | ) 5,827                        |
| Transfers to REO                                        | —                   | (3,975)                        | —                     | (7,755)                        |
| Payments received, net                                  | —                   | (23,503)                       | —                     | (104,034)                      |
| Balance as of end of period                             | \$37,236            | \$69,718                       | \$4,977               | \$245,373                      |

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

(2) includes acquired loans which were acquired as part of the South Valley acquisition.

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

|                                  | December 31, 2013<br>(In thousands) |      |   | September 30, 2013 |      |   |
|----------------------------------|-------------------------------------|------|---|--------------------|------|---|
| Non-accrual loans:               |                                     |      |   |                    |      |   |
| Single-family residential        | \$89,075                            | 77.5 | % | \$100,460          | 76.5 | % |
| Construction - speculative       | 3,053                               | 2.7  |   | 4,560              | 3.5  |   |
| Construction - custom            | —                                   | —    |   | —                  | —    |   |
| Land - acquisition & development | 2,813                               | 2.5  |   | 2,903              | 2.2  |   |
| Land - consumer lot loans        | 3,548                               | 3.1  |   | 3,337              | 2.5  |   |
| Multi-family                     | 2,494                               | 2.2  |   | 6,573              | 5.0  |   |
| Commercial real estate           | 11,613                              | 10.1 |   | 11,736             | 8.9  |   |
| Commercial & industrial          | 655                                 | 0.6  |   | 477                | 0.4  |   |
| HELOC                            | 471                                 | 0.4  |   | 263                | 0.2  |   |
| Consumer                         | 995                                 | 0.9  |   | 990                | 0.8  |   |
| Total non-accrual loans          | \$114,717                           | 100  | % | \$131,299          | 100  | % |

The following tables provide an analysis of the age of loans in past due status as of December 31, 2013 and September 30, 2013, respectively.

| December 31, 2013<br>Type of Loan | Amount of Loans<br>Net of LIP & Chg.-Off<br>(In thousands) | Days Delinquent Based on \$            | Amount of Loans<br>Total | % based<br>on \$ |
|-----------------------------------|------------------------------------------------------------|----------------------------------------|--------------------------|------------------|
|                                   |                                                            | Current 30 60 90                       |                          |                  |
| Non-acquired loans                |                                                            |                                        |                          |                  |
| Single-Family Residential         | \$5,418,864                                                | \$5,304,409 \$33,199 \$10,318 \$70,938 | \$114,455                | 2.11 %           |
| Construction - Speculative        | 87,485                                                     | 86,398 37 92 958                       | 1,087                    | 1.24             |
| Construction - Custom             | 154,776                                                    | 154,610 166 — —                        | 166                      | 0.11             |
| Land - Acquisition & Development  | 66,028                                                     | 63,890 1 119 2,018                     | 2,138                    | 3.24             |
| Land - Consumer Lot Loans         | 119,024                                                    | 114,493 989 320 3,222                  | 4,531                    | 3.81             |
| Multi-Family                      | 812,635                                                    | 810,050 1,031 — 1,554                  | 2,585                    | 0.32             |
| Commercial Real Estate            | 426,898                                                    | 422,781 951 — 3,166                    | 4,117                    | 0.96             |
| Commercial & Industrial           | 274,424                                                    | 272,589 1,835 — —                      | 1,835                    | 0.67             |
| HELOC                             | 111,577                                                    | 110,995 346 114 122                    | 582                      | 0.52             |
| Consumer                          | 44,143                                                     | 42,545 901 305 392                     | 1,598                    | 3.62             |
| Total non-acquired loans          | 7,515,854                                                  | 7,382,760 39,456 11,268 82,370         | 133,094                  | 1.77 %           |
| Acquired loans                    |                                                            |                                        |                          |                  |
| Single-Family Residential         | 13,856                                                     | 13,813 \$— — 43                        | 43                       | 0.31 %           |

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|                                     |       |       |    |   |     |     |       |
|-------------------------------------|-------|-------|----|---|-----|-----|-------|
| Construction -<br>Speculative       | —     | —     | —  | — | —   | —   | —     |
| Construction - Custom               | —     | —     | —  | — | —   | —   | —     |
| Land - Acquisition &<br>Development | 1,206 | 1,123 | 83 | — | —   | 83  | 6.88  |
| Land - Consumer Lot<br>Loans        | 3,261 | 2,935 | —  | — | 326 | 326 | 10.00 |

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|                                      |             |             |          |          |          |           |       |   |
|--------------------------------------|-------------|-------------|----------|----------|----------|-----------|-------|---|
| Multi-Family                         | 3,773       | 3,636       | 137      | —        | —        | 137       | 3.63  |   |
| Commercial Real Estate               | 116,810     | 112,685     | 44       | —        | 4,081    | 4,125     | 3.53  |   |
| Commercial & Industrial              | 72,575      | 71,903      | 364      | 146      | 162      | 672       | 0.93  |   |
| HELOC                                | 9,538       | 9,263       | 16       | —        | 259      | 275       | 2.88  |   |
| Consumer                             | 7,754       | 7,076       | 59       | 16       | 603      | 678       | 8.74  |   |
| Total acquired loans                 | 228,773     | 222,434     | 703      | 162      | 5,474    | 6,339     | 2.77  | % |
| Credit-impaired acquired loans       |             |             |          |          |          |           |       |   |
| Single-Family Residential            | 331         | 331         | —        | —        | —        | —         | —     | % |
| Construction - Speculative           | —           | —           | —        | —        | —        | —         | —     |   |
| Construction - Custom                | —           | —           | —        | —        | —        | —         | —     |   |
| Land - Acquisition & Development     | 2,224       | 1,845       | —        | —        | 379      | 379       | 17.04 |   |
| Land - Consumer Lot Loans            | —           | —           | —        | —        | —        | —         | —     |   |
| Multi-Family                         | —           | —           | —        | —        | —        | —         | —     |   |
| Commercial Real Estate               | 71,826      | 70,490      | 379      | 64       | 893      | 1,336     | 1.86  |   |
| Commercial & Industrial              | 7,140       | 6,647       | —        | —        | 493      | 493       | 6.90  |   |
| HELOC                                | 10,834      | 10,431      | 313      | —        | 90       | 403       | 3.72  |   |
| Consumer                             | 64          | 64          | —        | —        | —        | —         | —     |   |
| Total credit-impaired acquired loans | 92,419      | 89,808      | 692      | 64       | 1,855    | 2,611     | 2.83  | % |
| Total loans                          | \$7,837,046 | \$7,695,002 | \$40,851 | \$11,494 | \$89,699 | \$142,044 | 1.81  | % |

| September 30, 2013         | Amount of Loans                           | Days Delinquent Based on \$ | Amount of Loans |          |          |           | % based |
|----------------------------|-------------------------------------------|-----------------------------|-----------------|----------|----------|-----------|---------|
| Type of Loan               | Net of LIP & Chg.-Offs.<br>(In thousands) | Current                     | 30              | 60       | 90       | Total     | on \$   |
| Single-Family Residential  | \$5,356,200                               | \$5,237,413                 | \$26,888        | \$12,373 | \$79,526 | \$118,787 | 2.22    |
| Construction - Speculative | 82,422                                    | 80,047                      | —               | —        | 2,375    | 2,375     | 2.88    |
| Construction - Custom      | 130,095                                   | 129,678                     | 417             | —        | —        | 417       | 0.32    |
|                            | 71,567                                    | 70,106                      | —               | —        | 1,461    | 1,461     | 2.04    |

Land - Acquisition &  
Development

|                              |           |           |        |        |        |         |      |
|------------------------------|-----------|-----------|--------|--------|--------|---------|------|
| Land - Consumer Lot<br>Loans | 121,473   | 117,076   | 806    | 355    | 3,236  | 4,397   | 3.62 |
| Multi-Family                 | 790,564   | 785,793   | —      | —      | 4,771  | 4,771   | 0.60 |
| Commercial Real Estate       | 404,680   | 398,114   | 2,942  | 351    | 3,273  | 6,566   | 1.62 |
| Commercial &<br>Industrial   | 249,405   | 249,363   | 42     | —      | —      | 42      | 0.02 |
| HELOC                        | 112,186   | 111,407   | 493    | 213    | 73     | 779     | 0.69 |
| Consumer                     | 47,142    | 45,620    | 849    | 283    | 390    | 1,522   | 3.23 |
| Total non-acquired loans     | 7,365,734 | 7,224,617 | 32,437 | 13,575 | 95,105 | 141,117 | 1.92 |

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|                                      |             |             |          |          |           |           |       |   |
|--------------------------------------|-------------|-------------|----------|----------|-----------|-----------|-------|---|
| Acquired loans                       |             |             |          |          |           |           |       |   |
| Single-Family Residential            | 14,468      | 14,343      | 82       | —        | 43        | 125       | 0.86  |   |
| Construction - Speculative           | —           | —           | —        | —        | —         | —         | NM    |   |
| Construction - Custom                | —           | —           | —        | —        | —         | —         | NM    |   |
| Land - Acquisition & Development     | 1,489       | 1,241       | —        | —        | 248       | 248       | 16.66 |   |
| Land - Consumer Lot Loans            | 3,313       | 2,987       | 125      | 100      | 101       | 326       | 9.84  |   |
| Multi-Family                         | 3,914       | 3,914       | —        | —        | —         | —         | —     |   |
| Commercial Real Estate               | 133,398     | 128,610     | 134      | 617      | 4,037     | 4,788     | 3.59  |   |
| Commercial & Industrial              | 75,323      | 74,992      | 10       | 153      | 168       | 331       | 0.44  |   |
| HELOC                                | 10,179      | 10,063      | —        | 16       | 100       | 116       | 1.14  |   |
| Consumer                             | 8,266       | 7,568       | 90       | 8        | 600       | 698       | 8.44  |   |
| Total acquired loans                 | 250,350     | 243,718     | 441      | 894      | 5,297     | 6,632     | 2.65  |   |
| Credit-impaired acquired loans       |             |             |          |          |           |           |       |   |
| Single-Family Residential            | 333         | 333         | —        | —        | —         | —         | —     |   |
| Construction - Speculative           | —           | —           | —        | —        | —         | —         | NM    |   |
| Construction - Custom                | —           | —           | —        | —        | —         | —         | —     |   |
| Land - Acquisition & Development     | 2,393       | 1,929       | —        | 464      | —         | 464       | 19.39 |   |
| Land - Consumer Lot Loans            | —           | —           | —        | —        | —         | —         | —     |   |
| Multi-Family                         | —           | —           | —        | —        | —         | —         | —     |   |
| Commercial Real Estate               | 83,116      | 80,095      | 2,301    | —        | 720       | 3,021     | 3.63  |   |
| Commercial & Industrial              | 1,705       | 1,396       | —        | —        | 309       | 309       | 18.12 |   |
| HELOC                                | 11,266      | 11,176      | —        | —        | 90        | 90        | 0.80  |   |
| Consumer                             | 71          | 71          | —        | —        | —         | —         | —     |   |
| Total credit-impaired acquired loans | 98,884      | 95,000      | 2,301    | 464      | 1,119     | 3,884     | 3.93  | % |
| Total loans                          | \$7,714,968 | \$7,563,335 | \$35,179 | \$14,933 | \$101,521 | \$151,633 | 1.97  | % |

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each

request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of December 31, 2013, single-family residential loans comprised 85.8% 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 following tables provide information related to loans that were restructured during the periods indicated:

|                                  | Quarter Ended December 31,<br>2013 |                                          | 2012                             |                           |                                          |                                  |
|----------------------------------|------------------------------------|------------------------------------------|----------------------------------|---------------------------|------------------------------------------|----------------------------------|
|                                  |                                    | Pre-Modification<br>Outstanding          | Post-Modification<br>Outstanding |                           | Pre-Modification<br>Outstanding          | Post-Modification<br>Outstanding |
|                                  | Number<br>of<br>Contracts          | Recorded<br>Investment<br>(In thousands) | Recorded<br>Investment           | Number<br>of<br>Contracts | Recorded<br>Investment<br>(In thousands) | Recorded<br>Investment           |
| Troubled Debt Restructurings:    |                                    |                                          |                                  |                           |                                          |                                  |
| Single-Family Residential        | 113                                | \$23,607                                 | \$ 23,607                        | 105                       | \$29,339                                 | \$ 29,339                        |
| Construction - Speculative       | —                                  | —                                        | —                                | 1                         | 2,503                                    | 2,503                            |
| Construction - Custom            | —                                  | —                                        | —                                | —                         | —                                        | —                                |
| Land - Acquisition & Development | —                                  | —                                        | —                                | —                         | —                                        | —                                |
| Land - Consumer Lot Loans        | 5                                  | 1,098                                    | 1,098                            | 11                        | 1,836                                    | 1,836                            |
| Multi-Family                     | 2                                  | 1,213                                    | 1,213                            | 1                         | 68                                       | 68                               |
| Commercial Real Estate           | 1                                  | 810                                      | 810                              | —                         | —                                        | —                                |
| Commercial & Industrial          | —                                  | —                                        | —                                | —                         | —                                        | —                                |
| HELOC                            | 1                                  | 261                                      | 261                              | —                         | —                                        | —                                |
| Consumer                         | 2                                  | 39                                       | 39                               | —                         | —                                        | —                                |
|                                  | 124                                | \$27,028                                 | \$ 27,028                        | 118                       | \$33,746                                 | \$ 33,746                        |

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

|                                                           | Quarter Ended December 31,<br>2013       |                                          | 2012                                     |                                          |
|-----------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
|                                                           | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment<br>(In thousands) | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment<br>(In thousands) |
| Troubled Debt Restructurings That Subsequently Defaulted: |                                          |                                          |                                          |                                          |
| Single-Family Residential                                 | 24                                       | \$3,624                                  | 31                                       | \$7,498                                  |
| Construction - Speculative                                | —                                        | —                                        | 5                                        | 904                                      |
| Construction - Custom                                     | —                                        | —                                        | —                                        | —                                        |
| Land - Acquisition & Development                          | —                                        | —                                        | —                                        | —                                        |
| Land - Consumer Lot Loans                                 | 2                                        | 166                                      | —                                        | —                                        |
| Multi-Family                                              | —                                        | —                                        | —                                        | —                                        |

|                         |    |         |    |         |
|-------------------------|----|---------|----|---------|
| Commercial Real Estate  | —  | —       | —  | —       |
| Commercial & Industrial | —  | —       | —  | —       |
| HELOC                   | —  | —       | —  | —       |
| Consumer                | —  | —       | —  | —       |
|                         | 26 | \$3,790 | 36 | \$8,402 |

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NOTE E – Allowance for Losses on Loans

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

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

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

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

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

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

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The following table summarizes the activity in the allowance for loan losses for the quarter ended December 31, 2013 and fiscal year ended September 30, 2013:

| Quarter Ended December 31, 2013      | Beginning<br>Allowance<br>(In thousands) | Charge-offs  | Recoveries | Provision &<br>Transfers | Ending<br>Allowance |
|--------------------------------------|------------------------------------------|--------------|------------|--------------------------|---------------------|
| Single-family residential            | \$64,184                                 | \$ (2,334 )  | \$ 8,827   | \$ (2,985 )              | \$ 67,692           |
| Construction - speculative           | 8,407                                    | (450 )       | 95         | 90                       | 8,142               |
| Construction - custom                | 882                                      | —            | —          | 592                      | 1,474               |
| Land - acquisition & development     | 9,165                                    | (456 )       | 439        | (2,064 )                 | 7,084               |
| Land - consumer lot loans            | 3,552                                    | (242 )       | 22         | (58 )                    | 3,274               |
| Multi-family                         | 3,816                                    | —            | —          | 293                      | 4,109               |
| Commercial real estate               | 5,595                                    | —            | —          | 273                      | 5,868               |
| Commercial & industrial              | 16,614                                   | (248 )       | 421        | (282 )                   | 16,505              |
| HELOC                                | 1,002                                    | —            | —          | (59 )                    | 943                 |
| Consumer                             | 3,524                                    | (1,082 )     | 1,025      | (400 )                   | 3,067               |
|                                      | \$116,741                                | \$ (4,812 )  | \$ 10,829  | \$ (4,600 )              | \$ 118,158          |
| Fiscal Year Ended September 30, 2013 | Beginning<br>Allowance<br>(In thousands) | Charge-offs  | Recoveries | Provision &<br>Transfers | Ending<br>Allowance |
| Single-family residential            | \$81,815                                 | \$ (20,947 ) | \$ 9,416   | \$ (6,100 )              | \$ 64,184           |
| Construction - speculative           | 12,060                                   | (1,446 )     | 501        | (2,708 )                 | 8,407               |
| Construction - custom                | 347                                      | (481 )       | —          | 1,016                    | 882                 |
| Land - acquisition & development     | 15,598                                   | (3,983 )     | 4,105      | (6,555 )                 | 9,165               |
| Land - consumer lot loans            | 4,937                                    | (1,363 )     | 40         | (62 )                    | 3,552               |
| Multi-family                         | 5,280                                    | (1,043 )     | 171        | (592 )                   | 3,816               |
| Commercial real estate               | 1,956                                    | (747 )       | 17         | 4,369                    | 5,595               |
| Commercial & industrial              | 7,626                                    | (1,145 )     | 95         | 10,038                   | 16,614              |
| HELOC                                | 965                                      | (163 )       | —          | 200                      | 1,002               |
| Consumer                             | 2,563                                    | (2,783 )     | 2,000      | 1,744                    | 3,524               |
|                                      | \$133,147                                | \$ (34,101 ) | \$ 16,345  | \$ 1,350                 | \$ 116,741          |

The Company recorded a \$4,600,000 recovery for loan losses during the quarter ended December 31, 2013, while a \$3,600,000 provision was recorded for the same quarter one year ago. The primary reason was the favorable settlement of a lawsuit related to previously purchased loans. In addition, the credit quality of the portfolio has been improving significantly and economic conditions are more favorable.

Non-performing assets ("NPAs") amounted to \$197,910,000, or 1.37%, of total assets at December 31, 2013, compared to \$264,219,000, or 2.02%, of total assets one year ago. Acquired loans, including covered loans, are not classified as non-performing loans because, at acquisition, the carrying value of these loans was adjusted to reflect fair value. There was no additional provision for loan losses recorded on acquired or covered loans during the quarter ended December 31, 2013 as the associated discount is adequate to absorb potential losses. Non-accrual loans decreased from \$163,116,000 at December 31, 2012, to \$114,717,000 at December 31, 2013, a 29.7% decrease.

The Company had net recoveries of \$6,017,000 for the quarter ended December 31, 2013, compared with \$9,920,000 of net charge-offs for the same quarter one year ago. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations.



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For the period ending December 31, 2013, \$116,552,000 of the allowance was calculated under our general allowance methodology and the remaining \$1,606,000 was made up of specific reserves on loans that were deemed to be impaired. For the period ending September 30, 2013, these amounts were \$113,268,000 and \$3,473,000, respectively. The shift in total allowance allocation from specific reserves to general reserves is due to the Company having already addressed many of the problem loans focused in the speculative construction and land A&D portfolios, combined with an increase in delinquencies and elevated charge-offs in the single family residential portfolio. The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of December 31, 2013 and September 30, 2013:

| December 31, 2013                | Loans Collectively Evaluated for Impairment |                                            |       | Loans Individually Evaluated for Impairment |                                             |       |   |
|----------------------------------|---------------------------------------------|--------------------------------------------|-------|---------------------------------------------|---------------------------------------------|-------|---|
|                                  | General Reserve Allocation                  | Gross Loans Subject to General Reserve (1) | Ratio | Specific Reserve Allocation                 | Gross Loans Subject to Specific Reserve (1) | Ratio |   |
|                                  | (In thousands)                              |                                            |       | (In thousands)                              |                                             |       |   |
| Single-family residential        | \$67,692                                    | \$ 5,336,460                               | 1.3   | % \$—                                       | \$ 85,436                                   | —     | % |
| Construction - speculative       | 7,607                                       | 122,994                                    | 6.2   | 535                                         | 12,874                                      | 4.2   |   |
| Construction - custom            | 1,474                                       | 333,954                                    | 0.4   | —                                           | —                                           | —     |   |
| Land - acquisition & development | 6,013                                       | 63,875                                     | 9.4   | 1,071                                       | 8,200                                       | 13.1  |   |
| Land - consumer lot loans        | 3,274                                       | 104,675                                    | 3.1   | —                                           | 14,531                                      | —     |   |
| Multi-family                     | 4,109                                       | 833,508                                    | 0.5   | —                                           | 8,835                                       | —     |   |
| Commercial real estate           | 5,868                                       | 416,440                                    | 1.4   | —                                           | 16,921                                      | —     |   |
| Commercial & industrial          | 16,505                                      | 287,251                                    | 5.7   | —                                           | 17                                          | —     |   |
| HELOC                            | 943                                         | 110,570                                    | 0.9   | —                                           | 1,007                                       | —     |   |
| Consumer                         | 3,067                                       | 44,142                                     | 6.9   | —                                           | —                                           | —     |   |
|                                  | \$116,552                                   | \$ 7,653,869                               | 1.5   | % \$1,606                                   | \$ 147,821                                  | 1.1   | % |

(1) Excludes acquired and covered loans

| September 30, 2013               | Loans Collectively Evaluated for Impairment |                                            |       | Loans Individually Evaluated for Impairment |                                             |       |   |
|----------------------------------|---------------------------------------------|--------------------------------------------|-------|---------------------------------------------|---------------------------------------------|-------|---|
|                                  | General Reserve Allocation                  | Gross Loans Subject to General Reserve (1) | Ratio | Specific Reserve Allocation                 | Gross Loans Subject to Specific Reserve (1) | Ratio |   |
|                                  | (In thousands)                              |                                            |       | (In thousands)                              |                                             |       |   |
| Single-family residential        | \$64,184                                    | \$ 5,262,159                               | 1.2   | % \$—                                       | \$ 96,989                                   | —     | % |
| Construction - speculative       | 7,307                                       | 115,554                                    | 6.3   | 1,100                                       | 15,224                                      | 7.2   |   |
| Construction - custom            | 882                                         | 302,722                                    | 0.3   | —                                           | —                                           | —     |   |
| Land - acquisition & development | 6,943                                       | 67,521                                     | 10.3  | 2,222                                       | 10,254                                      | 21.7  |   |
| Land - consumer lot loans        | 3,506                                       | 107,216                                    | 3.3   | 46                                          | 14,455                                      | 0.3   |   |
| Multi-family                     | 3,711                                       | 824,279                                    | 0.5   | 105                                         | 7,405                                       | 1.4   |   |
| Commercial real estate           | 5,595                                       | 400,789                                    | 1.4   | —                                           | 14,172                                      | —     |   |
| Commercial & industrial          | 16,614                                      | 256,954                                    | 6.5   | —                                           | 48                                          | —     |   |
| HELOC                            | 1,002                                       | 111,169                                    | 0.9   | —                                           | 1,017                                       | —     |   |

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|                                        |           |              |     |   |         |            |       |
|----------------------------------------|-----------|--------------|-----|---|---------|------------|-------|
| Consumer                               | 3,524     | 47,141       | 7.5 | — | —       | —          |       |
|                                        | \$113,268 | \$ 7,495,504 | 1.5 | % | \$3,473 | \$ 159,564 | 2.2 % |
| (1)Excludes acquired and covered loans |           |              |     |   |         |            |       |

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The following tables provide information on loans based on credit quality indicators (defined above) as of December 31, 2013 and September 30, 2013.

Credit Risk Profile by Internally Assigned Grade (excludes covered loans):

| December 31, 2013                  | Internally Assigned Grade |                 |             |          |      | Total       |
|------------------------------------|---------------------------|-----------------|-------------|----------|------|-------------|
|                                    | Pass                      | Special mention | Substandard | Doubtful | Loss | Gross Loans |
|                                    | (In thousands)            |                 |             |          |      |             |
| Non-acquired loans                 |                           |                 |             |          |      |             |
| Single-family residential          | \$5,250,349               | \$4,572         | \$166,975   | \$—      | \$—  | \$5,421,896 |
| Construction - speculative         | 113,527                   | 3,724           | 18,617      | —        | —    | 135,868     |
| Construction - custom              | 333,954                   | —               | —           | —        | —    | 333,954     |
| Land - acquisition & development   | 62,085                    | —               | 9,990       | —        | —    | 72,075      |
| Land - consumer lot loans          | 118,579                   | —               | 627         | —        | —    | 119,206     |
| Multi-family                       | 833,758                   | 1,241           | 7,344       | —        | —    | 842,343     |
| Commercial real estate             | 395,736                   | 17,808          | 19,817      | —        | —    | 433,361     |
| Commercial & industrial            | 256,375                   | 16,332          | 1,725       | —        | —    | 274,432     |
| HELOC                              | 111,577                   | —               | —           | —        | —    | 111,577     |
| Consumer                           | 43,715                    | —               | 427         | —        | —    | 44,142      |
|                                    | 7,519,655                 | 43,677          | 225,522     | —        | —    | 7,788,854   |
| Acquired loans                     |                           |                 |             |          |      |             |
| Single-family residential          | 13,856                    | —               | —           | —        | —    | 13,856      |
| Construction - speculative         | —                         | —               | —           | —        | —    | —           |
| Construction - custom              | —                         | —               | —           | —        | —    | —           |
| Land - acquisition & development   | 794                       | —               | 412         | —        | —    | 1,206       |
| Land - consumer lot loans          | 3,261                     | —               | —           | —        | —    | 3,261       |
| Multi-family                       | 3,636                     | —               | 137         | —        | —    | 3,773       |
| Commercial real estate             | 92,287                    | 3,543           | 21,062      | 146      | —    | 117,038     |
| Commercial & industrial            | 65,882                    | 1,041           | 5,671       | —        | —    | 72,594      |
| HELOC                              | 9,538                     | —               | —           | —        | —    | 9,538       |
| Consumer                           | 7,754                     | —               | —           | —        | —    | 7,754       |
|                                    | 197,008                   | 4,584           | 27,282      | 146      | —    | 229,020     |
| Credit impaired acquired loans     |                           |                 |             |          |      |             |
| Pool 1 - Construction and land A&D | 1,434                     | —               | 791         | —        | —    | 2,225       |
| Pool 2 - Single-family residential | 331                       | —               | —           | —        | —    | 331         |
| Pool 3 - Multi-family              | —                         | —               | —           | —        | —    | —           |
| Pool 4 - HELOC & other consumer    | 10,898                    | —               | —           | —        | —    | 10,898      |
| Pool 5 - Commercial real estate    | 54,278                    | —               | 17,563      | —        | —    | 71,841      |
|                                    | 1,178                     | 3,321           | 96          | 2,545    | —    | 7,140       |

Pool 6 - Commercial &  
industrial

|                                         |             |          |           |         |     |             |
|-----------------------------------------|-------------|----------|-----------|---------|-----|-------------|
| Total credit impaired acquired loans    | 68,119      | 3,321    | 18,450    | 2,545   | —   | 92,435      |
| Total gross loans                       | \$7,784,782 | \$51,582 | \$271,254 | \$2,691 | \$— | \$8,110,309 |
| Total grade as a % of total gross loans | 96.0        | % 0.6    | % 3.4     | % —     | % — | %           |

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| September 30, 2013                 | Internally Assigned Grade |                 |             |          |      | Total       |
|------------------------------------|---------------------------|-----------------|-------------|----------|------|-------------|
|                                    | Pass                      | Special mention | Substandard | Doubtful | Loss | Gross Loans |
|                                    | (In thousands)            |                 |             |          |      |             |
| Non-acquired loans                 |                           |                 |             |          |      |             |
| Single-family residential          | \$5,184,101               | \$4,595         | \$170,453   | \$—      | \$—  | \$5,359,149 |
| Construction - speculative         | 99,436                    | 3,199           | 28,143      | —        | —    | 130,778     |
| Construction - custom              | 302,722                   | —               | —           | —        | —    | 302,722     |
| Land - acquisition & development   | 64,355                    | 775             | 12,645      | —        | —    | 77,775      |
| Land - consumer lot loans          | 121,039                   | —               | 632         | —        | —    | 121,671     |
| Multi-family                       | 819,911                   | 2,114           | 9,659       | —        | —    | 831,684     |
| Commercial real estate             | 373,012                   | 21,652          | 20,297      | —        | —    | 414,961     |
| Commercial & industrial            | 240,441                   | 1,049           | 1,709       | —        | —    | 243,199     |
| HELOC                              | 112,186                   | —               | —           | —        | —    | 112,186     |
| Consumer                           | 46,720                    | —               | 421         | —        | —    | 47,141      |
|                                    | 7,363,923                 | \$33,384        | \$243,959   | \$—      | \$—  | \$7,641,266 |
| Acquired loans                     |                           |                 |             |          |      |             |
| Single-family residential          | 14,468                    | —               | —           | —        | —    | 14,468      |
| Construction - speculative         | —                         | —               | —           | —        | —    | —           |
| Construction - custom              | —                         | —               | —           | —        | —    | —           |
| Land - acquisition & development   | 312                       | —               | 1,177       | —        | —    | 1,489       |
| Land - consumer lot loans          | 3,313                     | —               | —           | —        | —    | 3,313       |
| Multi-family                       | 3,227                     | —               | 687         | —        | —    | 3,914       |
| Commercial real estate             | 105,055                   | 4,190           | 24,178      | —        | —    | 133,423     |
| Commercial & industrial            | 64,933                    | 1,309           | 9,084       | —        | —    | 75,326      |
| HELOC                              | 10,179                    | —               | —           | —        | —    | 10,179      |
| Consumer                           | 8,267                     | —               | —           | —        | —    | 8,267       |
|                                    | 209,754                   | 5,499           | 35,126      | —        | —    | 250,379     |
| Credit impaired acquired loans     |                           |                 |             |          |      |             |
| Pool 1 - Construction and land A&D | 980                       | 461             | 955         | —        | —    | 2,396       |
| Pool 2 - Single-family residential | 333                       | —               | —           | —        | —    | 333         |
| Pool 3 - Multi-family              | —                         | —               | —           | —        | —    | —           |
| Pool 4 - HELOC & other consumer    | 11,337                    | —               | —           | —        | —    | 11,337      |
| Pool 5 - Commercial real estate    | 52,509                    | 3,155           | 21,245      | —        | —    | 76,909      |
| Pool 6 - Commercial & industrial   | 881                       | —               | 7,044       | —        | —    | 7,925       |

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|                                         |             |          |           |     |     |             |
|-----------------------------------------|-------------|----------|-----------|-----|-----|-------------|
| Total credit impaired acquired loans    | 66,040      | 3,616    | 29,244    | —   | —   | 98,900      |
| Total gross loans                       | \$7,639,717 | \$42,499 | \$308,329 | \$— | \$— | \$7,990,545 |
| Total grade as a % of total gross loans | 95.6        | % 0.5    | % 3.9     | % — | % — | %           |

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

| December 31, 2013                | Performing Loans |                        | Non-Performing Loans |                        |   |
|----------------------------------|------------------|------------------------|----------------------|------------------------|---|
|                                  | Amount           | % of Total Gross Loans | Amount               | % of Total Gross Loans |   |
|                                  | (In thousands)   |                        |                      |                        |   |
| Single-family residential        | \$5,332,821      | 98.4                   | % \$89,075           | 1.6                    | % |
| Construction - speculative       | 132,815          | 97.8                   | 3,053                | 2.2                    |   |
| Construction - custom            | 333,954          | 100.0                  | —                    | —                      |   |
| Land - acquisition & development | 69,262           | 96.1                   | 2,813                | 3.9                    |   |
| Land - consumer lot loans        | 115,658          | 97.0                   | 3,548                | 3.0                    |   |
| Multi-family                     | 839,849          | 99.7                   | 2,494                | 0.3                    |   |
| Commercial real estate           | 421,748          | 97.3                   | 11,613               | 2.7                    |   |
| Commercial & industrial          | 273,777          | 99.8                   | 655                  | 0.2                    |   |
| HELOC                            | 111,106          | 99.6                   | 471                  | 0.4                    |   |
| Consumer                         | 43,147           | 97.7                   | 995                  | 2.3                    |   |
|                                  | \$7,674,137      | 98.5                   | % \$114,717          | 1.5                    | % |
|                                  |                  |                        |                      |                        |   |
| September 30, 2013               | Performing Loans |                        | Non-Performing Loans |                        |   |
|                                  | Amount           | % of Total Gross Loans | Amount               | % of Total Gross Loans |   |
|                                  | (In thousands)   |                        |                      |                        |   |
| Single-family residential        | \$5,258,688      | 98.1                   | % \$100,460          | 1.9                    | % |
| Construction - speculative       | 126,218          | 96.5                   | 4,560                | 3.5                    |   |
| Construction - custom            | 302,722          | 100.0                  | —                    | —                      |   |
| Land - acquisition & development | 74,872           | 96.3                   | 2,903                | 3.7                    |   |
| Land - consumer lot loans        | 118,334          | 97.3                   | 3,337                | 2.7                    |   |
| Multi-family                     | 825,111          | 99.2                   | 6,573                | 0.8                    |   |
| Commercial real estate           | 389,423          | 97.1                   | 11,736               | 2.9                    |   |
| Commercial & industrial          | 256,525          | 99.8                   | 477                  | 0.2                    |   |
| HELOC                            | 111,923          | 99.8                   | 263                  | 0.2                    |   |
| Consumer                         | 46,151           | 97.9                   | 990                  | 0.2                    |   |
|                                  | \$7,509,967      | 98.3                   | % \$131,299          | 1.7                    | % |

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The following table provides information on impaired loan balances and the related allowances by loan types as of December 31, 2013 and September 30, 2013:

| December 31, 2013                   | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                     | (In thousands)         |                                |                      |                                   |
| With no related allowance recorded: |                        |                                |                      |                                   |
| Single-family residential           | \$32,815               | \$36,758                       | \$—                  | \$26,315                          |
| Construction - speculative          | 2,324                  | 2,602                          | —                    | 1,734                             |
| Construction - custom               | —                      | —                              | —                    | —                                 |
| Land - acquisition & development    | 3,071                  | 10,527                         | —                    | 2,846                             |
| Land - consumer lot loans           | 3,039                  | 3,184                          | —                    | 3,697                             |
| Multi-family                        | 807                    | 848                            | —                    | 605                               |
| Commercial real estate              | 21,258                 | 29,657                         | —                    | 15,872                            |
| Commercial & industrial             | 6,983                  | 30,732                         | —                    | 5,130                             |
| HELOC                               | 392                    | 1,055                          | —                    | 1,128                             |
| Consumer                            | 604                    | 640                            | —                    | 3,252                             |
|                                     | 71,293                 | 116,003                        | —                    | 60,579                            |
| With an allowance recorded:         |                        |                                |                      |                                   |
| Single-family residential           | 355,448                | 361,771                        | 13,973               | 343,662                           |
| Construction - speculative          | 11,435                 | 11,885                         | 535                  | 9,452                             |
| Construction - custom               | 1,196                  | 1,196                          | —                    | 660                               |
| Land - acquisition & development    | 9,865                  | 11,104                         | 1,071                | 5,832                             |
| Land - consumer lot loans           | 13,411                 | 13,794                         | —                    | 15,550                            |
| Multi-family                        | 8,701                  | 8,921                          | —                    | 5,345                             |
| Commercial real estate              | 18,749                 | 19,686                         | —                    | 12,097                            |
| Commercial & industrial             | 44                     | 44                             | —                    | 135                               |
| HELOC                               | 1,198                  | 1,198                          | —                    | 2,504                             |
| Consumer                            | 71                     | 71                             | —                    | 431                               |
|                                     | 420,118                | 429,670                        | 15,579               | (1) 395,668                       |
| Total:                              |                        |                                |                      |                                   |
| Single-family residential           | 388,263                | 398,529                        | 13,973               | 369,977                           |
| Construction - speculative          | 13,759                 | 14,487                         | 535                  | 11,186                            |
| Construction - custom               | 1,196                  | 1,196                          | —                    | 660                               |
| Land - acquisition & development    | 12,936                 | 21,631                         | 1,071                | 8,678                             |
| Land - consumer lot loans           | 16,450                 | 16,978                         | —                    | 19,247                            |
| Multi-family                        | 9,508                  | 9,769                          | —                    | 5,950                             |
| Commercial real estate              | 40,007                 | 49,343                         | —                    | 27,969                            |
| Commercial & industrial             | 7,027                  | 30,776                         | —                    | 5,265                             |
| HELOC                               | 1,590                  | 2,253                          | —                    | 3,632                             |
| Consumer                            | 675                    | 711                            | —                    | 3,683                             |
|                                     | \$491,411              | \$545,673                      | \$15,579             | (1) \$456,247                     |

(1)Includes \$1,606,000 of specific reserves and \$13,973,000 included in the general reserves.

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| September 30, 2013                  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | 2013 Average<br>Recorded<br>Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|----------------------------------------|
|                                     | (In thousands)         |                                |                      |                                        |
| With no related allowance recorded: |                        |                                |                      |                                        |
| Single-family residential           | \$33,883               | \$38,928                       | \$—                  | \$21,458                               |
| Construction - speculative          | 3,891                  | 4,099                          | —                    | 3,339                                  |
| Construction - custom               | —                      | —                              | —                    | —                                      |
| Land - acquisition & development    | 3,020                  | 10,705                         | —                    | 2,548                                  |
| Land - consumer lot loans           | 3,186                  | 3,376                          | —                    | 1,839                                  |
| Multi-family                        | 4,929                  | 4,929                          | —                    | 1,734                                  |
| Commercial real estate              | 23,537                 | 31,876                         | —                    | 9,651                                  |
| Commercial & industrial             | 7,279                  | 31,197                         | —                    | 3,123                                  |
| HELOC                               | 446                    | 946                            | —                    | 133                                    |
| Consumer                            | 601                    | 618                            | —                    | 127                                    |
|                                     | 80,772                 | 126,674                        | —                    | 43,952                                 |
| With an allowance recorded:         |                        |                                |                      |                                        |
| Single-family residential           | 335,140                | 341,910                        | 15,137               | 330,407                                |
| Construction - speculative          | 8,892                  | 9,342                          | 1,100                | 12,362                                 |
| Construction - custom               | —                      | —                              | —                    | —                                      |
| Land - acquisition & development    | 2,598                  | 4,002                          | —                    | 8,315                                  |
| Land - consumer lot loans           | 12,631                 | 13,014                         | 2,222                | 12,301                                 |
| Multi-family                        | 5,958                  | 6,178                          | 46                   | 7,731                                  |
| Commercial real estate              | 7,539                  | 8,476                          | 105                  | 9,321                                  |
| Commercial & industrial             | 56                     | 56                             | —                    | 11                                     |
| HELOC                               | 938                    | 938                            | —                    | 858                                    |
| Consumer                            | 33                     | 33                             | —                    | 9                                      |
|                                     | 373,785                | 383,949                        | 18,610               | (1) 381,315                            |
| Total:                              |                        |                                |                      |                                        |
| Single-family residential           | 369,023                | 380,838                        | 15,137               | 351,865                                |
| Construction - speculative          | 12,783                 | 13,441                         | 1,100                | 15,701                                 |
| Construction - custom               | —                      | —                              | —                    | —                                      |
| Land - acquisition & development    | 5,618                  | 14,707                         | —                    | 10,863                                 |
| Land - consumer lot loans           | 15,817                 | 16,390                         | 2,222                | 14,140                                 |
| Multi-family                        | 10,887                 | 11,107                         | 46                   | 9,465                                  |
| Commercial real estate              | 31,076                 | 40,352                         | 105                  | 18,972                                 |
| Commercial & industrial             | 7,335                  | 31,253                         | —                    | 3,134                                  |
| HELOC                               | 1,384                  | 1,884                          | —                    | 991                                    |
| Consumer                            | 634                    | 651                            | —                    | 136                                    |
|                                     | \$454,557              | \$510,623                      | \$18,610             | (1) \$425,267                          |

(1) Includes \$3,473,000 of specific reserves and \$15,137,000 included in the general reserves.



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NOTE F – New Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. This ASU apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The amendments in this ASU should be applied retrospectively to all periods presented. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company has chosen to adopt this ASU as of December 31, 2013. It is being adopted prospectively, as the retrospective adjustments were not material. The amount of affordable housing tax credits that are expected to be recognized during the 2014 calendar year is \$3 million. The net investment balance recognized as of December 31, 2013 is \$25 million. Using the proportional amortization method, the amount recognized as a component of income tax expense for the 2014 calendar year is \$4 million. Contingent commitments for equity contributions during the 2014 calendar year are \$27 million. Overall, this adoption does not have a material impact on the Company's consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for public business entities for annual periods and interim periods within those annual periods beginning after December 15, 2014. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit

carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice. The guidance in this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This new guidance is not expected to have a material impact on the Company's consolidated financial statements.

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## NOTE G – Fair Value Measurements

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

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

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

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

We have established and documented the Company's process for determining the fair values of our 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

## Securities

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

The following tables present the balance of assets measured at fair value on a recurring basis at December 31, 2013 and September 30, 2013:

|                                                  | Fair Value at December 31, 2013 |              |         | Total        |
|--------------------------------------------------|---------------------------------|--------------|---------|--------------|
|                                                  | Level 1<br>(In thousands)       | Level 2      | Level 3 |              |
| Available-for-sale securities                    |                                 |              |         |              |
| Equity securities                                | \$ 100,246                      | \$ 503       | \$ —    | \$ 100,749   |
| Obligations of U.S. government                   | —                               | 631,326      | —       | 631,326      |
| Obligations of states and political subdivisions | —                               | 22,640       | —       | 22,640       |
| Corporate debt securities                        | —                               | 450,113      | —       | 450,113      |
| Mortgage-backed securities                       | —                               | —            | —       | —            |
| Agency pass-through certificates                 | —                               | 1,633,676    | —       | 1,633,676    |
| Balance at end of period                         | \$ 100,246                      | \$ 2,738,258 | \$ —    | \$ 2,838,504 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended December 31, 2013.

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|                                                                                                                                                                                               | Fair Value at September 30, 2013 |             |         | Total       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------|---------|-------------|
|                                                                                                                                                                                               | Level 1<br>(In thousands)        | Level 2     | Level 3 |             |
| Available-for-sale securities                                                                                                                                                                 |                                  |             |         |             |
| Equity securities                                                                                                                                                                             | \$100,726                        | \$511       | \$—     | \$101,237   |
| Obligations of U.S. government                                                                                                                                                                | —                                | 533,975     | —       | 533,975     |
| Obligations of states and political subdivisions                                                                                                                                              | —                                | 22,545      | —       | 22,545      |
| Obligations of foreign governments                                                                                                                                                            | —                                | —           | —       | —           |
| Corporate debt securities                                                                                                                                                                     | —                                | 452,015     | —       | 452,015     |
| Mortgage-backed securities                                                                                                                                                                    |                                  |             |         |             |
| Agency pass-through certificates                                                                                                                                                              | —                                | 1,251,176   | —       | 1,251,176   |
| Balance at end of period                                                                                                                                                                      | \$100,726                        | \$2,260,222 | \$—     | \$2,360,948 |
| There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended September 30, 2013 other than a transfer from Level 2 to Level 1 of \$511 in Equity Securities. |                                  |             |         |             |

## Measured on a Nonrecurring Basis

## Impaired Loans &amp; Real Estate Held for Sale

From time to time, and on a nonrecurring basis, fair value adjustments to collateral-dependent loans and real estate held for sale are recorded to reflect write-downs of principal balances based on the current appraised or estimated value of the collateral. When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2013 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

Real estate held for sale consists principally of properties acquired through foreclosure.

The following tables present the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the three months ended December 31, 2013 and December 31, 2012, and the total losses resulting from those fair value adjustments for the quarters ended December 31, 2013 and December 31, 2012. These estimated fair values are shown gross of estimated selling costs.

|                               | Through December 31, 2013 |         |          |          | Quarter<br>Ended<br>December 31,<br>2013<br>Total Losses |
|-------------------------------|---------------------------|---------|----------|----------|----------------------------------------------------------|
|                               | Level 1<br>(In thousands) | Level 2 | Level 3  | Total    |                                                          |
| Impaired loans (1)            | \$—                       | \$—     | \$5,580  | \$5,580  | \$(805 )                                                 |
| Covered REO (2)               | —                         | —       | 1,286    | 1,286    | 65                                                       |
| Real estate held for sale (2) | —                         | —       | 10,342   | 10,342   | 3,725                                                    |
| Balance at end of period      | \$—                       | \$—     | \$17,208 | \$17,208 | \$2,985                                                  |



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|                               | Through December 31, 2012 |         |          | Quarter<br>Ended<br>December 31,<br>2012 |
|-------------------------------|---------------------------|---------|----------|------------------------------------------|
|                               | Level 1<br>(In thousands) | Level 2 | Level 3  | Total                                    |
| Impaired loans (1)            |                           |         | \$21,238 | \$21,238                                 |
| Covered REO (2)               |                           |         | 3,080    | 3,080                                    |
| Real estate held for sale (2) |                           |         | 25,426   | 25,426                                   |
| Balance at end of period      |                           |         | \$49,744 | \$49,744                                 |
|                               |                           |         |          | \$9,813                                  |
|                               |                           |         |          | 91                                       |
|                               |                           |         |          | 7,536                                    |
|                               |                           |         |          | \$17,440                                 |

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

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

There were no liabilities carried at fair value, measured on a recurring or nonrecurring basis, at December 31, 2013 or December 31, 2012.

The following describes the process used to value Level 3 assets measured on a nonrecurring basis:

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 & lease loss ("ALLL") process.

Applicable loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following method is used to value impaired loans:

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

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

is used to value real estate held for sale:

When a loan is reclassified from loan status to real estate held for sale 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 a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value, to the extent it does not exceed the carrying value of the loan, becomes the carrying value of the REO asset. In addition to the valuations from independent third-party sources, the carrying balance of REO assets are 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 current balance of the particular REO asset. The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the lower of cost or fair value as necessary.

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## Fair Values of Financial Instruments

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

|                                                  |                               | December 31, 2013 |                      | September 30, 2013 |                      |
|--------------------------------------------------|-------------------------------|-------------------|----------------------|--------------------|----------------------|
|                                                  | Level in Fair Value Hierarchy | Carrying Amount   | Estimated Fair Value | Carrying Amount    | Estimated Fair Value |
| (In thousands)                                   |                               |                   |                      |                    |                      |
| Financial assets                                 |                               |                   |                      |                    |                      |
| Cash and cash equivalents                        | 1                             | \$967,348         | \$967,348            | \$203,563          | \$203,563            |
| Available-for-sale securities                    |                               |                   |                      |                    |                      |
| Equity securities                                | 1                             | 100,749           | 100,749              | 101,237            | 101,237              |
| Obligations of U.S. government                   | 2                             | 631,326           | 631,326              | 533,975            | 533,975              |
| Obligations of states and political subdivisions | 2                             | 22,640            | 22,640               | 22,545             | 22,545               |
| Corporate debt securities                        | 2                             | 450,113           | 450,113              | 452,015            | 452,015              |
| Mortgage-backed securities                       |                               |                   |                      |                    |                      |
| Agency pass-through certificates                 | 2                             | 1,633,676         | 1,633,676            | 1,251,176          | 1,251,176            |
| Total available-for-sale securities              |                               | 2,838,504         | 2,838,504            | 2,360,948          | 2,360,948            |
| Held-to-maturity securities                      | 2                             |                   |                      |                    |                      |
| Total held-to-maturity securities                |                               | 1,630,936         | 1,521,390            | 1,654,666          | 1,582,849            |
|                                                  |                               |                   |                      |                    |                      |
| Loans receivable                                 | 3                             | 7,651,558         | 8,174,920            | 7,528,030          | 8,070,279            |
| Covered loans                                    | 3                             | 252,693           | 255,885              | 295,947            | 300,610              |
| FDIC indemnification asset                       | 3                             | 57,818            | 56,848               | 64,615             | 62,300               |
| FHLB stock                                       | 2                             | 171,480           | 171,480              | 173,009            | 173,009              |
|                                                  |                               |                   |                      |                    |                      |
| Financial liabilities                            |                               |                   |                      |                    |                      |
| Customer accounts                                | 2                             | 10,402,726        | 9,728,207            | 9,090,271          | 8,585,068            |
| FHLB advances and other borrowings               | 2                             | 1,930,000         | 2,053,910            | 1,930,000          | 2,064,248            |

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

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

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

Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan

characteristics, using the same methodology described above for AFS and HTM securities. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

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FDIC indemnification asset – The fair value of the indemnification asset is estimated by discounting the expected future cash flows using the current rates.

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

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 and other borrowings – 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.

The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of December 31, 2013 and September 30, 2013:

|                                           | December 31, 2013                   |                           |              |               |       |
|-------------------------------------------|-------------------------------------|---------------------------|--------------|---------------|-------|
|                                           | Amortized<br>Cost<br>(In thousands) | Gross Unrealized<br>Gains | Losses       | Fair<br>Value | Yield |
| Available-for-sale securities             |                                     |                           |              |               |       |
| U.S. government and agency securities due |                                     |                           |              |               |       |
| 1 to 5 years                              | 61,002                              | 3,021                     | (196 )       | 63,827        | 1.98  |
| 5 to 10 years                             | 237,101                             | —                         | (2,396 )     | 234,705       | 1.64  |
| Over 10 years                             | 335,626                             | 465                       | (3,297 )     | 332,794       | 0.93  |
| Equity Securities                         |                                     |                           |              |               |       |
| Within 1 year                             | 500                                 | 3                         | —            | 503           | 2.17  |
| 1 to 5 years                              | 100,000                             | 246                       | —            | 100,246       | 1.80  |
| 5 to 10 years                             | —                                   | —                         | —            | —             | —     |
| Corporate bonds due                       |                                     |                           |              |               |       |
| Within 1 year                             | —                                   | —                         | —            | —             | —     |
| 1 to 5 years                              | 334,278                             | 2,051                     | (93 )        | 336,236       | 0.80  |
| 5 to 10 years                             | 113,095                             | 1,523                     | (741 )       | 113,877       | 1.53  |
| Municipal bonds due                       |                                     |                           |              |               |       |
| Over 10 years                             | 20,417                              | 2,223                     | —            | 22,640        | 6.45  |
| Mortgage-backed securities                |                                     |                           |              |               |       |
| Agency pass-through certificates          | 1,636,178                           | 4,896                     | (7,398 )     | 1,633,676     | 2.51  |
|                                           | 2,838,197                           | 14,428                    | (14,121 )    | 2,838,504     | 2.00  |
| Held-to-maturity securities               |                                     |                           |              |               |       |
| Mortgage-backed securities                |                                     |                           |              |               |       |
| Agency pass-through certificates          | 1,630,936                           | 1,409                     | (110,955 )   | 1,521,390     | 3.13  |
|                                           | \$4,469,133                         | \$15,837                  | \$(125,076 ) | \$4,359,894   | 2.41  |

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|                                           | September 30, 2013 |                |                      |               |        |
|-------------------------------------------|--------------------|----------------|----------------------|---------------|--------|
|                                           | Amortized<br>Cost  | Gross<br>Gains | Unrealized<br>Losses | Fair<br>Value | Yield  |
|                                           | (In thousands)     |                |                      |               |        |
| Available-for-sale securities             |                    |                |                      |               |        |
| U.S. government and agency securities due |                    |                |                      |               |        |
| 1 to 5 years                              | 61,002             | 3,393          | (252)                | 64,143        | 1.98   |
| 5 to 10 years                             | 129,219            | —              | (1,547)              | 127,672       | 0.86   |
| Over 10 years                             | 344,571            | —              | (2,411)              | 342,160       | 0.93   |
| Equity Securities                         |                    |                |                      |               |        |
| 1 to 5 years                              | 500                | 11             | —                    | 511           | 2.17   |
| 5 to 10 years                             | 100,000            | 726            | —                    | 100,726       | 1.80   |
| Corporate bonds due                       |                    |                |                      |               |        |
| Within 1 year                             | 19,500             | 3              | —                    | 19,503        | 0.49   |
| 1 to 5 years                              | 317,190            | 1,980          | (130)                | 319,040       | 0.75   |
| 5 to 10 years                             | 113,060            | 1,180          | (768)                | 113,472       | 1.53   |
| Municipal bonds due                       |                    |                |                      |               |        |
| Over 10 years                             | 20,422             | 2,123          | —                    | 22,545        | 6.45   |
| Mortgage-backed securities                |                    |                |                      |               |        |
| Agency pass-through certificates          | 1,245,400          | 10,270         | (4,494)              | 1,251,176     | 2.18   |
|                                           | 2,350,864          | 19,686         | (9,602)              | 2,360,948     | 1.70   |
| Mortgage-backed securities                |                    |                |                      |               |        |
| Agency pass-through certificates          | 1,654,666          | 3,387          | (75,204)             | 1,582,849     | 3.14   |
|                                           | \$4,005,530        | \$23,073       | \$(84,806)           | \$3,943,797   | 2.30 % |

During the quarter ended December 31, 2013, there were no available-for-sale securities sold. There were \$43,899,000 of available-for-sale securities sold during the quarter ended December 31, 2012, resulting in a gain of \$0. These securities were acquired from South Valley Bank and sold on the same day. Substantially all mortgage-backed securities have contractual due dates that exceed 10 years.

The following tables show the unrealized gross losses and fair value of securities at December 31, 2013 and September 30, 2013, by length of time that individual securities in each category have been in a continuous loss position. Management believes that the declines in fair value of these investments are not an other than temporary impairment.

| December 31, 2013                         | Less than 12 months        |               | 12 months or more          |               | Total                      |               |
|-------------------------------------------|----------------------------|---------------|----------------------------|---------------|----------------------------|---------------|
|                                           | Unrealized<br>Gross Losses | Fair<br>Value | Unrealized<br>Gross Losses | Fair<br>Value | Unrealized<br>Gross Losses | Fair<br>Value |
| Corporate bonds due                       | \$(522)                    | \$54,478      | \$(312)                    | \$32,782      | \$(834)                    | \$87,260      |
| U.S. government and agency securities due | (5,819)                    | 523,034       | (70)                       | 13,067        | (5,889)                    | 536,101       |
| Agency pass-through certificates          | (102,068)                  | 2,211,194     | (16,285)                   | 388,526       | (118,353)                  | 2,599,720     |
|                                           | \$(108,409)                | \$2,788,706   | \$(16,667)                 | \$434,375     | \$(125,076)                | \$3,223,081   |



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| September 30, 2013                           | Less than 12 months           |               | 12 months or more             |               | Total                         |               |
|----------------------------------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
|                                              | Unrealized<br>Gross<br>Losses | Fair<br>Value | Unrealized<br>Gross<br>Losses | Fair<br>Value | Unrealized<br>Gross<br>Losses | Fair<br>Value |
| Corporate bonds due                          | \$(660                        | ) \$52,434    | \$(238                        | ) \$9,763     | \$(898                        | ) \$62,197    |
| U.S. government and agency<br>securities due | (4,144                        | ) 309,109     | (66                           | ) 14,091      | (4,210                        | ) 323,200     |
| Agency pass-through certificates             | (78,291                       | ) 1,703,948   | (1,407                        | ) 166,503     | (79,698                       | ) 1,870,451   |
|                                              | \$(83,095                     | ) \$2,065,491 | \$(1,711                      | ) \$190,357   | \$(84,806                     | ) \$2,255,848 |

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**NOTE H – Covered Assets**

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and were \$277,343,000 as of December 31, 2013, versus \$326,927,000 as of September 30, 2013.

Changes in the carrying amount and accretible yield for acquired impaired and non-impaired loans for the quarter ended December 31, 2013 and the fiscal year ended September 30, 2013 were as follows:

| December 31, 2013                                   | Acquired Impaired   |                                | Acquired Non-impaired |                                |
|-----------------------------------------------------|---------------------|--------------------------------|-----------------------|--------------------------------|
|                                                     | Accretible<br>Yield | Carrying<br>Amount of<br>Loans | Accretible<br>Yield   | Carrying<br>Amount of<br>Loans |
|                                                     | (In thousands)      |                                |                       |                                |
| Balance at beginning of period                      | \$78,277            | \$138,091                      | \$17,263              | \$157,856                      |
| Accretion                                           | (7,862)             | ) 7,862                        | (1,347)               | ) 1,347                        |
| Transfers to REO                                    | —                   | (399)                          | ) —                   | —                              |
| Payments received, net                              | —                   | (39,402)                       | ) —                   | (12,662)                       |
| Balance at end of period                            | \$70,415            | \$106,152                      | \$15,916              | \$146,541                      |
| September 30, 2013                                  | Acquired Impaired   |                                | Acquired Non-impaired |                                |
|                                                     | Accretible<br>Yield | Carrying<br>Amount of<br>Loans | Accretible<br>Yield   | Carrying<br>Amount of<br>Loans |
|                                                     | (In thousands)      |                                |                       |                                |
| Balance at beginning of period                      | \$50,902            | \$74,953                       | \$23,789              | \$213,423                      |
| Additions (1)                                       | 43,299              | 107,946                        | —                     | —                              |
| Reclassification from nonaccretible<br>balance, net | 17,850              | —                              | —                     | —                              |
| Accretion                                           | (33,774)            | ) 33,774                       | (6,526)               | ) 6,526                        |
| Transfers to REO                                    | —                   | (11,196)                       | ) —                   | —                              |
| Payments received, net                              | —                   | (67,386)                       | ) —                   | (62,093)                       |
| Balance at end of period                            | \$78,277            | \$138,091                      | \$17,263              | \$157,856                      |

(1) includes FDIC covered loans which were acquired as part of the South Valley acquisition.

At December 31, 2013, none of the acquired impaired or non-impaired loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

The outstanding principal balance of acquired loans was \$313,204,000 and \$362,248,000 as of December 31, 2013 and September 30, 2013, respectively. The discount balance related to the acquired loans was \$60,511,000 and \$66,301,000 as of December 31, 2013 and September 30, 2013, respectively.

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

|                                                   | December 31, 2013 | September 30, 2013 |
|---------------------------------------------------|-------------------|--------------------|
|                                                   | (In thousands)    |                    |
| Balance at beginning of fiscal year 2014 and 2013 | \$64,615          | \$87,571           |
| Additions (1)                                     | —                 | 18,101             |
| Payments made (received)                          | (1,295)           | (13,421)           |
| Amortization                                      | (5,717)           | (28,722)           |
| Accretion                                         | 215               | 1,086              |
| Balance at end of period                          | \$57,818          | \$64,615           |

(1) includes FDIC covered loans which were acquired as part of the South Valley acquisition.

The following tables provide information on covered loans based on credit quality indicators (defined in Note E ) as of December 31, 2013 and September 30, 2013:

| December 31, 2013                     | Internally Assigned Grade |                 |             |          |      | Total     |
|---------------------------------------|---------------------------|-----------------|-------------|----------|------|-----------|
|                                       | Pass                      | Special mention | Substandard | Doubtful | Loss | Net Loans |
|                                       | (In thousands)            |                 |             |          |      |           |
| Purchased non credit-impaired loans:  |                           |                 |             |          |      |           |
| Single-family residential             | \$23,971                  | \$—             | \$2,717     | \$—      | \$—  | \$26,688  |
| Construction - speculative            | —                         | —               | —           | —        | —    | —         |
| Construction - custom                 | —                         | —               | —           | —        | —    | —         |
| Land - acquisition & development      | 3,648                     | —               | 719         | —        | —    | 4,367     |
| Land - consumer lot loans             | 197                       | —               | 33          | —        | —    | 230       |
| Multi-family                          | 17,000                    | —               | —           | —        | —    | 17,000    |
| Commercial real estate                | 55,109                    | 9,136           | 18,126      | —        | —    | 82,371    |
| Commercial & industrial               | 4,599                     | —               | 3,752       | —        | —    | 8,351     |
| HELOC                                 | 14,164                    | —               | 39          | —        | —    | 14,203    |
| Consumer                              | 588                       | —               | —           | —        | —    | 588       |
|                                       | 119,276                   | 9,136           | 25,386      | —        | —    | 153,798   |
| Total grade as a % of total net loans | 77.6                      | % 5.9           | % 16.5      | % —      | % —  | %         |
| Purchased credit-impaired loans:      |                           |                 |             |          |      |           |
| Pool 1 - Construction and land A&D    | 15,610                    | 360             | 25,727      | —        | —    | 41,697    |
| Pool 2 - Single-family residential    | 20,478                    | —               | 92          | —        | —    | 20,570    |
| Pool 3 - Multi-family                 | 56                        | —               | 1,063       | —        | —    | 1,119     |
| Pool 4 - HELOC & other consumer       | 4,098                     | —               | 1,775       | —        | —    | 5,873     |

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|                                  |          |          |          |                     |                    |           |
|----------------------------------|----------|----------|----------|---------------------|--------------------|-----------|
| Pool 5 - Commercial real estate  | 35,694   | 3,799    | 39,464   | —                   | —                  | 78,957    |
| Pool 6 - Commercial & industrial | 6,604    | 485      | 4,101    | —                   | —                  | 11,190    |
|                                  | \$82,540 | \$ 4,644 | \$72,222 | \$—                 | \$—                | 159,406   |
|                                  |          |          |          | Total covered loans |                    | 313,204   |
|                                  |          |          |          |                     | Discount           | (60,511 ) |
|                                  |          |          |          |                     | Allowance          | —         |
|                                  |          |          |          |                     | Covered loans, net | \$252,693 |

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| September 30, 2013                    | Internally Assigned Grade |                 |             |                     |                    | Total     |
|---------------------------------------|---------------------------|-----------------|-------------|---------------------|--------------------|-----------|
|                                       | Pass                      | Special mention | Substandard | Doubtful            | Loss               | Net Loans |
|                                       | (In thousands)            |                 |             |                     |                    |           |
| Purchased non credit-impaired loans:  |                           |                 |             |                     |                    |           |
| Single-family residential             | \$26,426                  | \$—             | \$2,034     | \$—                 | \$—                | \$28,460  |
| Construction - speculative            | —                         | —               | —           | —                   | —                  | —         |
| Construction - custom                 | —                         | —               | —           | —                   | —                  | —         |
| Land - acquisition & development      | 3,069                     | 1,019           | 722         | —                   | —                  | 4,810     |
| Land - consumer lot loans             | 245                       | —               | —           | —                   | —                  | 245       |
| Multi-family                          | 17,217                    | —               | 1,635       | —                   | —                  | 18,852    |
| Commercial real estate                | 56,120                    | 9,235           | 24,144      | —                   | —                  | 89,499    |
| Commercial & industrial               | 5,175                     | 500             | 3,741       | —                   | —                  | 9,416     |
| HELOC                                 | 14,750                    | —               | —           | —                   | —                  | 14,750    |
| Consumer                              | 604                       | —               | —           | —                   | —                  | 604       |
|                                       | 123,606                   | 10,754          | 32,276      | —                   | —                  | 166,636   |
| Total grade as a % of total net loans | 74.2                      | % 6.4           | % 19.4      | % —                 | % —                | %         |
| Purchased credit-impaired loans:      |                           |                 |             |                     |                    |           |
| Pool 1 - Construction and land A&D    | 14,361                    | 4,296           | 25,363      | —                   | —                  | 44,020    |
| Pool 2 - Single-family residential    | 21,541                    | —               | —           | —                   | —                  | 21,541    |
| Pool 3 - Multi-family                 | 4,131                     | —               | 1,100       | —                   | —                  | 5,231     |
| Pool 4 - HELOC & other consumer       | 4,111                     | —               | 1,880       | —                   | —                  | 5,991     |
| Pool 5 - Commercial real estate       | 36,494                    | 15,113          | 53,946      | —                   | —                  | 105,553   |
| Pool 6 - Commercial & industrial      | 4,265                     | 204             | 8,807       | —                   | —                  | 13,276    |
|                                       | \$84,903                  | \$19,613        | \$91,096    | \$—                 | \$—                | 195,612   |
|                                       |                           |                 |             | Total covered loans |                    | 362,248   |
|                                       |                           |                 |             |                     | Discount Allowance | (66,301 ) |
|                                       |                           |                 |             |                     | Covered loans, net | \$295,947 |



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The following tables provide an analysis of the age of purchased non credit-impaired loans in past due status as of December 31, 2013 and September 30, 2013:

| December 31, 2013                | Amount of Loans        | Days Delinquent Based on \$ | Amount of Loans |       |         | % based |       |   |
|----------------------------------|------------------------|-----------------------------|-----------------|-------|---------|---------|-------|---|
| Type of Loans                    | Net of LIP & Chg.-Offs | Current                     | 30              | 60    | 90      | Total   | on \$ |   |
| Single-Family Residential        | \$ 26,688              | \$24,351                    | \$286           | \$63  | \$1,988 | \$2,337 | 8.76  | % |
| Construction - Speculative       | —                      | —                           | —               | —     | —       | —       | NM    |   |
| Construction - Custom            | —                      | —                           | —               | —     | —       | —       | NM    |   |
| Land - Acquisition & Development | 4,367                  | 4,331                       | —               | —     | 36      | 36      | 0.82  |   |
| Land - Consumer Lot Loans        | 230                    | 196                         | —               | —     | 34      | 34      | 14.78 |   |
| Multi-Family                     | 17,000                 | 17,000                      | —               | —     | —       | —       | —     |   |
| Commercial Real Estate           | 82,371                 | 80,820                      | —               | —     | 1,551   | 1,551   | 1.88  |   |
| Commercial & Industrial          | 8,351                  | 8,308                       | —               | 43    | —       | 43      | 0.51  |   |
| HELOC                            | 14,203                 | 14,164                      | —               | —     | 39      | 39      | 0.27  |   |
| Consumer                         | 588                    | 588                         | —               | —     | —       | —       | —     |   |
|                                  | \$ 153,798             | \$149,758                   | \$286           | \$106 | \$3,648 | \$4,040 | 1.51  | % |

| September 30, 2013               | Amount of Loans        | Days Delinquent Based on \$ | Amount of Loans |       |         | % based |       |   |
|----------------------------------|------------------------|-----------------------------|-----------------|-------|---------|---------|-------|---|
| Type of Loans                    | Net of LIP & Chg.-Offs | Current                     | 30              | 60    | 90      | Total   | on \$ |   |
| Single-Family Residential        | \$ 28,460              | \$27,411                    | \$78            | \$—   | \$971   | \$1,049 | 3.69  | % |
| Construction - Speculative       | —                      | —                           | —               | —     | —       | —       | NM    |   |
| Construction - Custom            | —                      | —                           | —               | —     | —       | —       | NM    |   |
| Land - Acquisition & Development | 4,810                  | 4,774                       | —               | —     | 36      | 36      | 0.75  |   |
| Land - Consumer Lot Loans        | 245                    | 199                         | —               | —     | 46      | 46      | 18.78 |   |
| Multi-Family                     | 18,852                 | 17,511                      | —               | —     | 1,341   | 1,341   | 7.11  |   |
| Commercial Real Estate           | 89,499                 | 84,949                      | 2,779           | 455   | 1,316   | 4,550   | 5.08  |   |
| Commercial & Industrial          | 9,416                  | 9,416                       | —               | —     | —       | —       | —     |   |
| HELOC                            | 14,750                 | 14,334                      | 103             | 74    | 239     | 416     | 2.82  |   |
| Consumer                         | 604                    | 601                         | 3               | —     | —       | 3       | 0.50  |   |
|                                  | \$ 166,636             | \$159,195                   | \$2,963         | \$529 | \$3,949 | \$7,441 | 4.47  | % |

NM - not meaningful



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## NOTE I – Derivatives and Hedging Activities

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the bank retains a variable rate loan. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under ASC 815, the Derivatives and Hedging topic, the instruments are marked to market in earnings.

The notional amount of open interest rate swap agreements at December 31, 2013 was \$95,135,000 compared to \$83,594,000 as of September 30, 2013. There was no impact to the statement of operations for the three months ended December 31, 2013 as the asset and liability side of the swaps offset each other. The fee income related to swaps was \$252,000 for the Quarter Ended December 31, 2013.

The Company periodically enters into forward contracts to purchase mortgage-backed securities as part of its interest rate risk management program. The notional amount of commitments to purchase mortgage-backed securities at December 31, 2013 was \$0 and at September 30, 2013 was \$200,000,000. When there is a balance, the fair value of these contracts is included with the available-for-sale securities on the statement of financial condition.

The following table presents the fair value and balance sheet classification of derivatives not designated as hedging instruments at December 31, 2013 and September 30, 2013:

|                             | Asset Derivatives |            |                    |            | Liability Derivatives |            |                    |            |
|-----------------------------|-------------------|------------|--------------------|------------|-----------------------|------------|--------------------|------------|
|                             | December 31, 2013 |            | September 30, 2013 |            | December 31, 2013     |            | September 30, 2013 |            |
|                             | 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      | \$406      | Other assets       | \$7        | Other liabilities     | \$406      | Other liabilities  | \$7        |
| Commitments to purchase MBS | AFS securities    | —          | AFS securities     | \$3,188    | N/A                   | N/A        | N/A                | N/A        |

## NOTE J – Subsequent Events

Branch acquisition - Effective January 23, 2014, Washington Federal, the wholly owned subsidiary of the Company, entered into a Purchase and Assumption Agreement for the acquisition of deposits expected to total approximately \$610 million, loans totaling approximately \$4 million, and related assets, from Bank of America, National Association, for an aggregate purchase price of 1.30% of the average daily closing deposits, which is estimated to be \$8 million. This acquisition represents a total of 23 branches located in Arizona and Nevada. Subject to regulatory approval and the satisfaction of customary closing conditions, the transaction is expected to close in the second calendar quarter of 2014.



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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**

In addition to historical information, this Quarterly Report on Form 10-Q includes certain “forward-looking statements,” as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company’s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes, including without limitation the potential effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations being promulgated thereunder; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company’s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company’s operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

**GENERAL**

Washington Federal, Inc. (the “Company”) formed in 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary, Washington Federal, National Association (the “Bank”). 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.

On July 17, 2013, the Bank converted from a federal savings association to a national bank charter with the Office of the Comptroller of the Currency and is now a national bank. At the same time, the Company which had previously been a savings and loan holding company, became a bank holding company under the Bank Holding Company Act. The Company’s fiscal year end is September 30th. All references to 2013 and 2012 represent balances as of September 30, 2013 and September 30, 2012, respectively, or activity for the fiscal years then ended.

The results discussed below were impacted by the acquisition on close of business October 31, 2013 of eleven branches from Bank of America, National Association; these branches are located in New Mexico. Effective as of the close of business on December 6, 2013, Washington Federal completed the acquisition of another forty branches from Bank of America, National Association; these branches are located in Washington, Oregon, and Idaho. The combined acquisitions provided recorded book values of \$1.3 billion in deposit accounts, \$9 million of loans, and \$16 million in branch properties. Washington Federal paid a 2.60% premium on the total deposits. The cash received by Washington Federal in the transactions was \$1.3 billion.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the first eleven branches for the period from November 1, 2013 to December 31, 2013 and for the additional forty branches from December 7, 2013 to December 31, 2013.

**INTEREST RATE RISK**

Historically, the Company accepted a higher level of interest rate risk as a result of its significant holdings of fixed-rate single-family home loans that are longer in term than the characteristics of its primary liabilities of customer accounts and borrowings. Based on Management’s assessment of the current interest rate environment, the Company has taken steps, including growing shorter-term business loans, transaction deposit accounts and extending the

maturity on borrowings, to reduce its interest rate risk profile compared to its historical norms. The recent branch acquisitions have accelerated these efforts. The acquired \$1.3 billion in deposits are 83% transaction accounts. The Company has also been purchasing more variable rate investments. The composition of the investment portfolio is now 43% variable and 57% fixed rate. In addition, \$1.6 billion of its purchased 30-year fixed rate mortgage-backed securities have been designated as held-to-maturity. With rising interest rates, these securities may be subject to unrealized losses. As of December 31, 2013, the unrealized losses on these securities were \$110 million.

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") the Company.

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**Maturity Gap Analysis.** At December 31, 2013, the Company had approximately \$2.873 billion more in liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 19.95% of total assets. This was an increase from the 12.9% negative gap as of September 30, 2013. The increase is partly due to the recently acquired deposits as transaction accounts are subject to repricing at any time. This is combined with some shortening of maturities by existing clients. Additionally, the estimated maturities of mortgage securities has extended as prepayments have slowed. A negative maturity gap implies that funding costs will change more rapidly than interest income on earning assets with movement in interest rates. A negative maturity gap typically results in lower margins when interest rates rise and higher margins when interest rates decline. Gap analysis provides management with a high-level indication of interest rate risk, but is considered less reliable than more detailed modeling.

**Net Interest Income Sensitivity.** The potential impact of rising interest rates on net interest income in the future is estimated using a model that is based on account level detail for loans and deposits. 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 will decrease by 5.8% in the next year. This compares to an estimated decrease of 1.6% in the prior quarter's analysis. The increased sensitivity is due to some maturity extension in the investment portfolio. In the event of a gradual increase from current rates by 200 basis points over a twelve-month period, the model forecasts a decrease in net interest income of 2.1% in the first year. This analysis assumes zero balance sheet growth and a constant percentage composition of assets and liabilities. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will 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.

**NPV Sensitivity.** The NPV estimates the market of value of shareholder's equity based upon forecasted interest rate scenarios. It is derived by calculating 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 the NPV to changes in interest rates is another measure of interest rate risk. This approach provides a longer term view of interest rate risk as it incorporates all future expected cash flows. In the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$520 million and the NPV to total assets ratio to decline to 15.48%. As of September 30, 2013, the estimated decrease in NPV in the event of a 200 basis point increase in rates was estimated to decline by \$314 million and the NPV to total assets ratio to decline to 17.42%. The increased NPV sensitivity is due to higher interest rates and lower prices as of December 31, 2013. The base NPV ratio is also lower compared to the prior quarter due to the impact of the branch acquisitions.

**Interest Rate Spread.** The interest rate spread decreased to 2.58% at December 31, 2013 from 2.73% at September 30, 2013. The spread decreased due to a decline in the average rate on loans and investment securities. As of December 31, 2013, the weighted average rate on customer deposit accounts and borrowings decreased by 12 basis points compared to September 30, 2013, while the weighted average rates on earning assets decreased by 27 basis points over the same period.

As of December 31, 2013, the Company had increased total assets by \$1,321,514,000 from \$13,082,859,000 at September 30, 2013 due to the recent branch acquisitions that brought \$1,314,477,000 in deposits. For the quarter ended December 31, 2013, compared to September 30, 2013, loans (both non-covered and covered) increased \$80,274,000, or 1%. Investment securities increased \$453,826,000, or 11.3%. Cash and cash equivalents of \$967,348,000 and stockholders’ equity of \$1,952,984,000 as of December 31, 2013 provides management with flexibility in managing interest rate risk going forward.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's net worth at December 31, 2013 was \$1,952,984,000, or 13.56% of total assets. This was an increase of \$23,140,000 from September 30, 2013 when net worth was \$1,937,635,000, or 14.81% of total assets. The Company's net worth was impacted in the three months ended December 31, 2013 by net income of \$40,236,000, the payment of \$10,179,000 in cash dividends, treasury stock purchases that totaled \$18,945,000, as well as a decrease in other comprehensive income of \$6,183,000.

Management believes this strong net worth position will help the Company manage its inherent risks and resultant profitability and provide the capital support needed for controlled growth in a regulated environment. To be categorized as well capitalized, Washington Federal must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

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|                                          | Actual                    |       | Capital Adequacy Guidelines |       | Categorized as Well Capitalized Under Prompt Corrective Action Provisions |       |         |       |
|------------------------------------------|---------------------------|-------|-----------------------------|-------|---------------------------------------------------------------------------|-------|---------|-------|
|                                          | Capital<br>(In thousands) | Ratio | Capital                     | Ratio | Capital                                                                   | Ratio | Capital | Ratio |
| December 31, 2013                        |                           |       |                             |       |                                                                           |       |         |       |
| Total capital (to risk-weighted assets)  |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | \$1,737,481               | 25.62 | % \$542,535                 | 8.00  | % NA                                                                      |       | NA      |       |
| The Bank                                 | 1,700,455                 | 25.06 | % 542,845                   | 8.00  | % \$678,557                                                               | 10.00 | %       |       |
| Tier I capital (to risk-weighted assets) |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | 1,652,186                 | 24.36 | % 271,268                   | 4.00  | % NA                                                                      |       | NA      |       |
| The Bank                                 | 1,615,112                 | 23.80 | % 271,423                   | 4.00  | % 407,134                                                                 | 6.00  | %       |       |
| Tier I Capital (to average assets)       |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | 1,652,186                 | 12.29 | % 537,721                   | 4.00  | % NA                                                                      |       | NA      |       |
| The Bank                                 | 1,615,112                 | 12.01 | % 537,831                   | 4.00  | % 272,289                                                                 | 5.00  | %       |       |
| September 30, 2013                       |                           |       |                             |       |                                                                           |       |         |       |
| Total capital (to risk-weighted assets)  |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | 1,749,383                 | 26.49 | % 528,243                   | 8.00  | % NA                                                                      |       | NA      |       |
| The Bank                                 | 1,693,227                 | 25.64 | % 528,380                   | 8.00  | % 660,475                                                                 | 10.00 | %       |       |
| Tier I capital (to risk-weighted assets) |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | 1,666,091                 | 25.23 | % 264,121                   | 4.00  | % NA                                                                      |       | NA      |       |
| The Bank                                 | 1,609,914                 | 24.38 | % 264,190                   | 4.00  | % 396,285                                                                 | 6.00  | %       |       |
| Tier I Capital (to average assets)       |                           |       |                             |       |                                                                           |       |         |       |
| The Company                              | 1,666,091                 | 13.03 | % 511,334                   | 4.00  | % NA                                                                      |       | N/A     |       |
| The Bank                                 | 1,609,914                 | 12.59 | % 511,358                   | 4.00  | % 639,197                                                                 | 5.00  | %       |       |

The Company's cash and cash equivalents amounted to \$967,348,000 at December 31, 2013, an increase from \$203,563,000 at September 30, 2013. The Company is in the process of investing the liquid assets that were acquired in the recent branch acquisitions. Previously, it was holding higher than normal amounts of liquidity due to concern about potentially rising interest rates in the future. Additionally, see "Interest Rate Risk" above and the "Statement of Cash Flows" included in the financial statements.

**CHANGES IN FINANCIAL CONDITION**

Available-for-sale and held-to-maturity securities: Available-for-sale securities increased \$477,566,000, or 20%, during the three months ended December 31, 2013, which included the purchase of \$565,080,000 of available-for-sale securities. There were no available-for-sale securities sold during the three months ended December 31, 2013. During the same period, there were no held-to-maturity securities purchased and no sales. As of December 31, 2013, the Company had net unrealized gains on available-for-sale securities of \$195,000, net of tax, which were recorded as part of stockholders' equity. The Company increased its available-for-sale portfolio with investments made with the proceeds from the recent branch acquisitions.

Loans receivable: During the three months ended December 31, 2013, the balance of loans receivable increased to \$7,651,558,000 compared to \$7,528,030,000 at September 30, 2013. This increase includes net loan activity (originations less principal payments and maturities) for non covered loans of \$127,367,000 and the acquisition of \$8,278,000 in loans as described in Note B. Additionally, during the three month period, \$9,956,000 of loans were

transferred to REO.

Covered loans: As of December 31, 2013, covered loans decreased 14.6%, or \$43,254,000 to \$252,693,000, compared to September 30, 2013 due primarily to \$50,220,000 of principal payments and maturities.

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The following table shows the loan portfolio by category for the last three quarters.

| Loan Portfolio by Category *         | December 31, 2013 |      | September 30, 2013 |      | June 30, 2013 |      |   |
|--------------------------------------|-------------------|------|--------------------|------|---------------|------|---|
|                                      | (In thousands)    |      |                    |      |               |      |   |
| Non-Acquired loans                   |                   |      |                    |      |               |      |   |
| Single-family residential            | \$5,421,896       | 66.8 | % \$5,359,149      | 67.1 | % \$5,253,604 | 67.6 | % |
| Construction - speculative           | 135,868           | 1.7  | 130,778            | 1.6  | 116,363       | 1.5  |   |
| Construction - custom                | 333,954           | 4.1  | 302,722            | 3.8  | 237,952       | 3.1  |   |
| Land - acquisition & development     | 72,075            | 0.9  | 77,775             | 1.1  | 85,248        | 1.1  |   |
| Land - consumer lot loans            | 119,206           | 1.5  | 121,671            | 1.5  | 128,745       | 1.7  |   |
| Multi-family                         | 842,343           | 10.4 | 831,684            | 10.4 | 741,870       | 9.5  |   |
| Commercial real estate               | 433,361           | 5.3  | 414,961            | 5.1  | 398,130       | 5.1  |   |
| Commercial & industrial              | 274,432           | 3.4  | 243,199            | 3.0  | 239,469       | 3.1  |   |
| HELOC                                | 111,577           | 1.4  | 112,186            | 1.4  | 111,418       | 1.4  |   |
| Consumer                             | 44,142            | 0.5  | 47,141             | 0.6  | 51,515        | 0.7  |   |
| Total non-acquired loans             | 7,788,854         | 96   | 7,641,266          | 95.6 | 7,364,314     | 94.8 |   |
| Acquired loans                       |                   |      |                    |      |               |      |   |
| Single-family residential            | 13,856            | 0.2  | 14,468             | 0.2  | 15,354        | 0.2  |   |
| Construction - speculative           | —                 | —    | —                  | —    | —             | —    |   |
| Construction - custom                | —                 | —    | —                  | —    | —             | —    |   |
| Land - acquisition & development     | 1,206             | —    | 1,489              | —    | 3,720         | —    |   |
| Land - consumer lot loans            | 3,261             | —    | 3,313              | —    | 3,615         | 0.1  |   |
| Multi-family                         | 3,773             | 0.1  | 3,914              | 0.1  | 7,383         | 0.1  |   |
| Commercial real estate               | 117,038           | 1.4  | 133,423            | 1.7  | 162,724       | 2.1  |   |
| Commercial & industrial              | 72,594            | 0.9  | 75,326             | 0.9  | 88,768        | 1.1  |   |
| HELOC                                | 9,538             | 0.1  | 10,179             | 0.1  | 11,466        | 0.1  |   |
| Consumer                             | 7,754             | 0.1  | 8,267              | 0.1  | 9,035         | 0.1  |   |
| Total acquired loans                 | 229,020           | 2.8  | 250,379            | 3.1  | 302,065       | 3.8  |   |
| Credit-impaired acquired loans       |                   |      |                    |      |               |      |   |
| Single-family residential            | 331               | —    | 333                | —    | 335           | —    |   |
| Construction - speculative           | —                 | —    | —                  | —    | —             | —    |   |
| Construction - custom                | —                 | —    | —                  | —    | —             | —    |   |
| Land - acquisition & development     | 2,225             | —    | 2,396              | —    | 2,484         | —    |   |
| Land - consumer lot loans            | —                 | —    | —                  | —    | —             | —    |   |
| Multi-family                         | —                 | —    | —                  | —    | —             | —    |   |
| Commercial real estate               | 71,841            | 1.0  | 76,909             | 1.1  | 78,519        | 1.1  |   |
| Commercial & industrial              | 7,140             | 0.1  | 7,925              | 0.1  | 8,606         | 0.1  |   |
| HELOC                                | 10,834            | 0.1  | 11,266             | 0.1  | 12,015        | 0.2  |   |
| Consumer                             | 64                | —    | 71                 | —    | 79            | —    |   |
| Total credit-impaired acquired loans | 92,435            | 1.2  | 98,900             | 1.3  | 102,038       | 1.4  |   |
| Total loans                          |                   |      |                    |      |               |      |   |
| Single-family residential            | 5,436,083         | 67.0 | 5,373,950          | 67.3 | 5,269,293     | 67.8 |   |

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|                                     |         |     |         |     |         |     |
|-------------------------------------|---------|-----|---------|-----|---------|-----|
| Construction - speculative          | 135,868 | 1.7 | 130,778 | 1.6 | 116,363 | 1.5 |
| Construction - custom               | 333,954 | 4.1 | 302,722 | 3.8 | 237,952 | 3.1 |
| Land - acquisition &<br>development | 75,506  | 0.9 | 81,660  | 1.1 | 91,452  | 1.1 |
| Land - consumer lot loans           | 122,467 | 1.5 | 124,984 | 1.5 | 132,360 | 1.8 |

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|                               |             |      |             |      |             |     |   |
|-------------------------------|-------------|------|-------------|------|-------------|-----|---|
| Multi-family                  | 846,116     | 10.5 | 835,598     | 10.5 | 749,253     | 9.6 |   |
| Commercial real estate        | 622,240     | 7.7  | 625,293     | 7.9  | 639,373     | 8.3 |   |
| Commercial & industrial       | 354,166     | 4.4  | 326,450     | 4    | 336,843     | 4.3 |   |
| HELOC                         | 131,949     | 1.6  | 133,631     | 1.6  | 134,899     | 1.7 |   |
| Consumer                      | 51,960      | 0.6  | 55,479      | 0.7  | 60,629      | 0.8 |   |
| Total loans                   | 8,110,309   | 100  | % 7,990,545 | 100  | % 7,768,417 | 100 | % |
| Less:                         |             |      |             |      |             |     |   |
| Allowance for probable losses | 118,158     |      | 116,741     |      | 118,104     |     |   |
| Loans in process              | 273,263     |      | 275,577     |      | 189,677     |     |   |
| Discount on acquired loans    | 31,485      |      | 34,143      |      | 37,568      |     |   |
| Deferred net origination fees | 35,845      |      | 36,054      |      | 32,562      |     |   |
|                               | 458,751     |      | 462,515     |      | 377,911     |     |   |
|                               | \$7,651,558 |      | \$7,528,030 |      | \$7,390,506 |     |   |

\* Excludes covered loans

Non-performing assets: Non-performing assets, which excludes discounted acquired assets, decreased during the quarter ended December 31, 2013 to \$197,910,000 from \$213,617,000 at September 30, 2013, a 7.4% decrease. The continued elevated level of NPAs is a result of the significant decline in housing values in the western United States and the national recession which began in 2007. Non-performing assets as a percentage of total assets was 1.37% at December 31, 2013 compared to 1.63% at September 30, 2013. This level of NPAs remains significantly higher than the 0.96% average in the Company’s 28+ year history as a public company.

The following table sets forth information regarding restructured and non-accrual loans and REO held by the Company at the dates indicated.

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|                                                                                               | December 31,<br>2013<br>(In thousands) |      | September 30,<br>2013 |      |   |
|-----------------------------------------------------------------------------------------------|----------------------------------------|------|-----------------------|------|---|
| Restructured loans:                                                                           |                                        |      |                       |      |   |
| Single-family residential                                                                     | \$355,449                              | 85.7 | % \$356,576           | 85.7 | % |
| Construction - speculative                                                                    | 9,705                                  | 2.3  | 10,733                | 2.6  |   |
| Construction - custom                                                                         | 1,196                                  | 0.3  | 1,196                 | 0.3  |   |
| Land - acquisition & development                                                              | 6,037                                  | 1.5  | 7,211                 | 1.7  |   |
| Land - consumer lot loans                                                                     | 13,411                                 | 3.2  | 12,706                | 3.1  |   |
| Multi - family                                                                                | 8,701                                  | 2.1  | 7,557                 | 1.8  |   |
| Commercial real estate                                                                        | 18,749                                 | 4.5  | 18,539                | 4.5  |   |
| Commercial & industrial                                                                       | 44                                     | —    | 56                    | —    |   |
| HELOC                                                                                         | 1,198                                  | 0.3  | 1,088                 | 0.3  |   |
| Consumer                                                                                      | 71                                     | —    | 33                    | —    |   |
| Total restructured loans (1)                                                                  | 414,561                                | 100  | % 415,695             | 100  | % |
| Non-accrual loans:                                                                            |                                        |      |                       |      |   |
| Single-family residential                                                                     | 89,075                                 | 77.6 | % 100,460             | 76.5 | % |
| Construction - speculative                                                                    | 3,053                                  | 2.7  | 4,560                 | 3.5  |   |
| Construction - custom                                                                         | —                                      | —    | —                     | —    |   |
| Land - acquisition & development                                                              | 2,813                                  | 2.5  | 2,903                 | 2.2  |   |
| Land - consumer lot loans                                                                     | 3,548                                  | 3.1  | 3,337                 | 2.5  |   |
| Multi-family                                                                                  | 2,494                                  | 2.2  | 6,573                 | 5.0  |   |
| Commercial real estate                                                                        | 11,613                                 | 10.1 | 11,736                | 8.9  |   |
| Commercial & industrial                                                                       | 655                                    | 0.6  | 477                   | 0.4  |   |
| HELOC                                                                                         | 471                                    | 0.4  | 263                   | 0.2  |   |
| Consumer                                                                                      | 995                                    | 0.9  | 990                   | 0.8  |   |
| Total non-accrual loans (2)                                                                   | 114,717                                | 100  | % 131,299             | 100  | % |
| Total REO (3)                                                                                 | 71,537                                 |      | 72,925                |      |   |
| Total REHI (3)                                                                                | 11,656                                 |      | 9,392                 |      |   |
| Total non-performing assets                                                                   | \$197,910                              |      | \$213,616             |      |   |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 4.09                                   | %    | 4.52                  | %    |   |
| (1) Restructured loans were as follows:                                                       |                                        |      |                       |      |   |
| Performing                                                                                    | \$390,841                              | 94.3 | % \$391,415           | 94.2 | % |
| Non-accrual *                                                                                 | 23,720                                 | 5.7  | 24,281                | 5.8  |   |
|                                                                                               | \$414,561                              | 100  | % \$415,696           | 100  | % |

\* Included in "Total non-accrual loans" above

(2) The Company recognized interest income on nonaccrual loans of approximately \$1,507,000 in the three months ended December 31, 2013. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$1,512,000 for the three months ended December 31, 2013. The recognized interest income may include more than three months of interest for some of the loans that

were brought current. In addition to the nonaccrual loans reflected in the above table, at December 31, 2013 the Company had \$94,334,000 of loans that were less than 90 days delinquent but which it had 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 4.43% at December 31, 2013.

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(3) Total REO and REHI includes real estate held for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans. Excludes covered REO.

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.

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 85.8% of restructured loans as of December 31, 2013. The concession for these loans is typically a payment reduction through a rate reduction of from 100 to 200 bps for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period.

For commercial loans, six consecutive payments on newly restructured loan terms are 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 our general reserve calculation.

Allocation of the allowance for loan losses: The following table shows the allocation of the Company’s allowance for loan losses at the dates indicated.

|                                     | December 31, 2013 |                             |                       |   | September 30, 2013 |                             |                       |   |
|-------------------------------------|-------------------|-----------------------------|-----------------------|---|--------------------|-----------------------------|-----------------------|---|
|                                     | Amount            | Loans to<br>Total Loans (1) | Coverage<br>Ratio (2) |   | Amount             | Loans to<br>Total Loans (1) | Coverage<br>Ratio (2) |   |
|                                     | (In<br>thousands) |                             |                       |   | (In<br>thousands)  |                             |                       |   |
| Single-family residential           | \$67,692          | 69.5                        | % 1.2                 | % | \$64,184           | 69.9                        | % 1.2                 | % |
| Construction - speculative          | 8,142             | 1.7                         | 6.0                   |   | 8,407              | 1.7                         | 6.4                   |   |
| Construction - custom               | 1,474             | 4.3                         | 0.4                   |   | 882                | 4.0                         | 0.3                   |   |
| Land - acquisition &<br>development | 7,084             | 0.9                         | 9.8                   |   | 9,165              | 1.0                         | 11.8                  |   |
| Land - consumer lot loans           | 3,274             | 1.5                         | 2.7                   |   | 3,552              | 1.6                         | 2.9                   |   |
| Multi-family                        | 4,109             | 10.8                        | 0.5                   |   | 3,816              | 10.9                        | 0.5                   |   |
| Commercial real estate              | 5,868             | 5.6                         | 1.4                   |   | 5,595              | 5.4                         | 1.3                   |   |
| Commercial & industrial             | 16,505            | 3.7                         | 5.7                   |   | 16,614             | 3.4                         | 6.5                   |   |
| HELOC                               | 943               | 1.4                         | 0.8                   |   | 1,002              | 1.5                         | 0.9                   |   |
| Consumer                            | 3,067             | 0.6                         | 6.9                   |   | 3,524              | 0.6                         | 7.5                   |   |
|                                     | \$118,158         | 100                         | %                     |   | \$116,741          | 100                         | %                     |   |

(1)

Represents the total amount of the loan category as a % of total gross non-acquired and non-covered loans outstanding.

- (2) Represents the allocated allowance of the loan category as a % of total gross non-acquired and non-covered loans outstanding for the same loan category.

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Customer accounts: Customer accounts increased \$1,312,455,000, or 14.44%, to \$10,402,726,000 at December 31, 2013 compared with \$9,090,271,000 at September 30, 2013.

The following table shows the composition of the Company's customer accounts by deposit type as of the dates shown:

|                         | December 31, 2013 |      |                   | September 30, 2013 |             |      |                   |   |
|-------------------------|-------------------|------|-------------------|--------------------|-------------|------|-------------------|---|
|                         | (In thousands)    |      |                   |                    |             |      |                   |   |
|                         |                   |      | Wtd. Avg.<br>Rate |                    |             |      | Wtd. Avg.<br>Rate |   |
| Non-interest checking   | \$674,824         | 6.5  | % —               | %                  | \$447,368   | 4.9  | % —               | % |
| Interest checking       | 1,227,548         | 11.8 | 0.13              | %                  | 800,516     | 8.8  | 0.13              | % |
| Savings (passbook/stmt) | 542,573           | 5.2  | 0.15              | %                  | 404,938     | 4.5  | 0.15              | % |
| Money Market            | 2,268,979         | 21.8 | 0.22              | %                  | 1,888,020   | 20.8 | 0.23              | % |
| CD's                    | 5,688,802         | 54.7 | 0.98              | %                  | 5,549,429   | 61.0 | 1.03              | % |
| Total                   | \$10,402,726      | 100  | % 0.61            | %                  | \$9,090,271 | 100  | % 0.69            | % |

FHLB advances and other borrowings: Total borrowings were \$1,930,000,000 as of December 31, 2013 which is the same balance as of September 30, 2013. During the quarter ended December 31, 2013, there were short term borrowings of \$625,000,000 that were used to make investments in anticipation of the receipt of cash related to the acquisition of branches from Bank of America, National Association as described in Note E. These were repaid prior to the quarter end.

The Company has a credit line with the FHLB Seattle equal to 50% of total assets, providing a substantial source of liquidity if needed. FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreement by all FHLB stock owned by the Company, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the agreements with the FHLB.

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## RESULTS OF OPERATIONS

**Net Income:** The quarter ended December 31, 2013 produced net income of \$40,236,000 compared to \$35,282,000 for the same quarter one year ago. Net income for the quarter ended December 31, 2013 benefited from overall lower credit costs, which included the recovery for loan losses and reduced losses on real estate acquired through foreclosure. The provision for loan losses amounted to a recovery of \$4,600,000 for the quarter ended December 31, 2013 as compared to a provision of \$3,600,000 for the quarter period one year ago. See related discussion in “Provision for Loan Losses” section below for reasons for the decrease in the provision for loan losses. Gains/losses recognized on real estate acquired through foreclosure was a net loss of \$1,951,000 for the quarter ended December 31, 2013 as compared to a net loss of \$3,319,000 for the same quarter one year ago.

**Net Interest Income:** Net interest income was \$98,312,000 for the quarter ended December 31, 2013, compared to \$95,434,000 for the same quarter one year ago, due to lower rates on customer deposits.

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods 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.

## Rate / Volume Analysis:

|                                    | Comparison of Quarters Ended |            |            |
|------------------------------------|------------------------------|------------|------------|
|                                    | 12/31/13 and 12/31/12        |            |            |
|                                    | Volume                       | Rate       | Total      |
|                                    | (In thousands)               |            |            |
| Interest income:                   |                              |            |            |
| Loans and covered loans            | \$(1,759                     | ) \$(7,857 | ) \$(9,616 |
| Mortgaged-backed securities        | 3,224                        | 4,412      | 7,636      |
| Investments (1)                    | 617                          | 1,312      | 1,929      |
| All interest-earning assets        | 2,082                        | (2,133     | ) (51      |
| Interest expense:                  |                              |            |            |
| Customer accounts                  | 1,168                        | (4,441     | ) (3,273   |
| FHLB advances and other borrowings | 1,419                        | (1,075     | ) 344      |
| All interest-bearing liabilities   | 2,587                        | (5,516     | ) (2,929   |
| Change in net interest income      | \$(505                       | ) \$3,383  | \$2,878    |

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

**Provision for Loan Losses:** The Company recorded a \$4,600,000 recovery for loan losses during the quarter ended December 31, 2013, while a \$3,600,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to \$197,910,000, or 1.37% , of total assets at December 31, 2013, compared to \$264,219,000, or 2.02%, of total assets one year ago. Non-accrual loans decreased from \$163,116,000 at December 31, 2012, to \$114,717,000 at December 31, 2013, a 29.7% decrease. The Company had net recoveries of \$6,017,000 for the quarter ended December 31, 2013, compared with \$9,920,000 of net charge-offs for the same quarter one year ago. The improvement in the provision for loan losses is in response to four primary factors: first, the amount of NPA's improved year-over-year; second, non-accrual loans as a percentage of net loans decreased from 2.14% at December 31, 2012, to 1.50% at December 31, 2013; third, the percentage of loans 30 days or more delinquent decreased from 2.80% at December 31, 2012, to 1.81% at December 31, 2013; and finally, the Company's exposure in

the land A&D and speculative construction portfolios, the source of the majority of losses during this credit cycle, has decreased from a combined 3.0% of the gross loan portfolio at December 31, 2012, to 2.3% at December 31, 2013. Management believes the allowance for loan losses, totaling \$118,158,000, or 1.46% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio. See Note E for further discussion and analysis of the allowance for loan losses for the quarter ended December 31, 2013.

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**Other Income:** The quarter ended December 31, 2013 produced total other income of \$5,788,000 compared to \$4,957,000 for the same quarter one year ago, an increase of \$831,000, due primarily to increased transaction fee income related to deposit accounts acquired as part of the acquisition of branches from Bank of America, National Association as of the close of business on October 31, 2013 and December 6, 2013. Please see Note B for additional information.

**Other Expense:** The quarter ended December 31, 2013, produced total other expense of \$44,120,000 compared to \$38,298,000 for the same quarter one year ago, a 15.2% increase. Total other expense for the quarters ended December 31, 2013 and 2012 equaled 1.30% and 1.20%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,848 and 1,430 at December 31, 2013 and 2012, respectively. Higher occupancy expense was due to an increase in the number of branches from 190 as of December 31, 2012 to 235 as of December 31, 2013.

**Loss on Real Estate Acquired Through Foreclosure:** The quarter ended December 31, 2013, produced a net loss on the sale of real estate acquired through foreclosure of \$1,951,000 compared to \$3,319,000 for the same quarter one year ago, a 41.2% decrease. The table below indicates some of the activity in the gain (loss) on real estate acquired through foreclosure.

|                                                              | Quarter Ended December<br>31, |           |
|--------------------------------------------------------------|-------------------------------|-----------|
|                                                              | 2013                          | 2012      |
|                                                              | (In thousands)                |           |
| Net Gain on Sale                                             | \$ 2,333                      | \$ 1,697  |
| REO Writedowns                                               | (2,219)                       | (2,659)   |
| REO Operating Expenses                                       | (2,065)                       | (2,357)   |
| Gain (Loss) on real estate acquired through foreclosure, net | \$(1,951)                     | \$(3,319) |

**Taxes:** Income taxes increased to \$22,393,000 for the quarter ended December 31, 2013, as compared to \$19,892,000 for the same period one year ago. The effective tax rate for the quarter ended December 31, 2013 was 35.75% compared to 36.00% for the quarter ended December 31, 2012. The Company expects an effective tax rate of 35.75% going forward.

## 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, 2013. 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 2013 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 Securities Exchange Act of 1934, as amended (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 President and Chief Executive Officer along

with the Company's Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Company's President and Chief Executive Officer, along with the Company's Executive Vice President 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 President and Chief Executive Officer along with the Company's Executive Vice President 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.

## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART II – Other Information

## Item 1. Legal Proceedings

From time to time the Company or 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 financial position or results of operations.

## Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended September 30, 2013. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

## 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 December 31, 2013.

| Period                                | Total Number of<br>Shares Purchased | Average Price<br>Paid Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced Plan (1) | Maximum<br>Number of Shares<br>That May Yet Be<br>Purchased Under<br>the Plan at the<br>End of the Period |
|---------------------------------------|-------------------------------------|---------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| October 1, 2013 to October 31, 2013   | 154,900                             | \$20.54                         | 154,900                                                                          | 9,717,934                                                                                                 |
| November 1, 2013 to November 30, 2013 | 700,000                             | 22.52                           | 700,000                                                                          | 9,017,934                                                                                                 |
| December 1, 2013 to December 31, 2013 | —                                   | —                               | —                                                                                | 9,017,934                                                                                                 |
| Total                                 | 854,900                             | \$22.16                         | 854,900                                                                          | 9,017,934                                                                                                 |

The Company's only stock repurchase program was publicly announced by the Board of Directors on February 3, (1) 1995 and has no expiration date. Under this ongoing program, a total of 41,956,264 shares have been authorized for repurchase.

## Item 3. Defaults Upon Senior Securities

Not applicable

## Item 4. Mine Safety Disclosures

Not applicable

## Item 5. Other Information

Not applicable

## Item 6. Exhibits

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(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 the Chief Financial Officer

101 Financial Statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2013 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

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

February 7, 2014

/S/ ROY M. WHITEHEAD  
ROY M. WHITEHEAD  
Chairman, President and Chief Executive Officer

February 7, 2014

/S/ BRENT J. BEARDALL  
BRENT J. BEARDALL  
Executive Vice President and Chief  
Financial Officer