WASHINGTON FEDERAL INC
Form 10-Q
January 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1661606
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

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

Title of class:	January 25, 2017
Common stock, $1.00 par value	89,307,133

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

	December 31, 2016	September 30, 2016
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$398,838	$450,368
Available-for-sale securities, at fair value	1,441,935	1,922,894
Held-to-maturity securities, at amortized cost	1,752,010	1,417,599
Loans receivable, net of allowance for loan losses of $118,456 and $113,494	10,136,311	9,910,920
Interest receivable	38,118	37,669
Premises and equipment, net	275,749	281,951
Real estate owned	22,637	29,027
FHLB and FRB stock	117,190	117,205
Bank owned life insurance	209,280	208,123
Intangible assets, including goodwill of $291,503	296,468	296,989
Federal and state income tax assets, net	—	16,047
Other assets	185,118	199,271
	$14,873,654	$14,888,063
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$6,194,337	$6,005,592
Time deposit accounts	4,453,238	4,595,260
	10,647,575	10,600,852
FHLB advances	2,080,000	2,080,000
Advance payments by borrowers for taxes and insurance	23,596	42,898
Accrued expenses and other liabilities	122,882	188,582
	12,874,053	12,912,332
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized; 134,657,007 and 134,307,818 shares issued; 89,272,268 and 89,680,847 shares outstanding	134,657	134,308
Paid-in capital	1,655,146	1,648,388
Accumulated other comprehensive (loss) income, net of taxes	(2,832)	(11,156)
Treasury stock, at cost; 45,384,739 and 44,626,971 shares	(760,071)	(739,686)
Retained earnings	972,701	943,877
	1,999,601	1,975,731
	$14,873,654	$14,888,063

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

	Three Months Ended December 31,	
	2016	2015
	(In thousands, except share data)	
INTEREST INCOME		
Loans receivable	$ 114,835	$ 112,863
Mortgage-backed securities	12,789	16,987
Investment securities and cash equivalents	5,140	5,274
	132,764	135,124
INTEREST EXPENSE		
Customer accounts	13,017	12,717
FHLB advances	16,595	15,538
	29,612	28,255
Net interest income	103,152	106,869
Provision (release) for loan losses	—	—
Net interest income after provision (release) for loan losses	103,152	106,869
OTHER INCOME		
Gain on sale of investment securities	968	—
Loan fee income	1,334	1,517
Deposit fee income	5,185	5,917
Other income	4,409	3,201
	11,896	10,635
OTHER EXPENSE		
Compensation and benefits	26,994	29,699
Occupancy	8,450	8,592
FDIC insurance premiums	2,839	2,589
Product delivery	3,361	5,523
Information technology	6,451	8,710
Other expense	6,246	9,396
	54,341	64,509
Gain on real estate owned, net	398	1,420
Income before income taxes	61,105	54,415
Income tax expense	19,859	19,317
NET INCOME	$ 41,246	$ 35,098
PER SHARE DATA		
Basic earnings per share	$ 0.46	$ 0.38
Diluted earnings per share	0.46	0.38
Dividends paid on common stock per share	0.14	0.13
Basic weighted average number of shares outstanding	89,310,958	92,986,358
Diluted weighted average number of shares outstanding	89,731,024	93,577,837

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

	Three Months Ended December 31,	
	2016	2015
	(In thousands)	
Net income	$41,246	$35,098
Other comprehensive income (loss) net of tax:		
Net unrealized gain (loss) on available-for-sale investment securities	(17,079)	(10,360)
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	968	—
Related tax benefit (expense)	5,921	3,807
	(10,190)	(6,553)
Net unrealized gain (loss) on long-term borrowing hedge	29,271	2,795
Related tax benefit (expense)	(10,757)	(1,027)
	18,514	1,768
Other comprehensive income (loss) net of tax	8,324	(4,785)
Comprehensive income	$49,570	$30,313

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

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2016	$134,308	$1,648,388	$943,877	$ (11,156)	$(739,686)	$1,975,731
Net income			41,246			41,246
Other comprehensive income (loss)				8,324		8,324
Dividends on common stock			(12,422)			(12,422)
Proceeds from exercise of common stock options	190	4,172				4,362
Restricted stock expense	109	2,636				2,745
Exercise of stock warrants	50	(50)				—
Treasury stock acquired					(20,385)	(20,385)
Balance at December 31, 2016	$134,657	$1,655,146	$972,701	$ (2,832)	$(760,071)	$1,999,601

(in thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at October 1, 2015	$133,696	$1,643,712	$829,754	$ 353	$(651,836)	$1,955,679
Net income			35,098			35,098
Other comprehensive income (loss)				(4,785)		(4,785)
Dividends on common stock			(12,036)			(12,036)
Compensation expense related to common stock options		300				300
Proceeds from exercise of common stock options	227	4,815				5,042
Restricted stock expense	178	702				880
Treasury stock acquired					(9,938)	(9,938)
Balance at December 31, 2015	$134,101	$1,649,529	$852,816	$ (4,432)	$(661,774)	$1,970,240

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

	Three Months Ended December 31,	
	2016	2015
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$41,246	$35,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization, and accretion, net	12,087	2,054
Cash received from (paid to) FDIC under loss share	—	1,975
Stock based compensation	2,745	1,180
Loss (gain) on sale of investment securities	(968)	—
Decrease (increase) in accrued interest receivable	(449)	2,170
Decrease (increase) in federal and state income tax receivable	16,047	16,577
Decrease (increase) in cash surrender value of bank owned life insurance	(1,739)	(785)
Gain on settlement of bank owned life insurance	(649)	—
Net realized (gain) loss on sales of premises, equipment, and real estate owned	657	(2,310)
Decrease (increase) in other assets	14,153	(3,754)
Increase (decrease) in accrued expenses and other liabilities	(41,265)	15,870
Net cash provided by (used in) operating activities	41,865	68,075
CASH FLOWS FROM INVESTING ACTIVITIES		
Origination of loans and principal repayments, net	(227,028)	(179,768)
Loans purchased	—	(51,646)
FHLB & FRB stock purchased	(9)	(6,809)
FHLB & FRB stock redemption	24	2,901
Available-for-sale securities purchased	—	(50,741)
Principal payments and maturities of available-for-sale securities	112,469	114,764
Proceeds on available-for-sale securities sold	350,890	—
Held-to-maturity securities purchased	(415,729)	—
Principal payments and maturities of held-to-maturity securities	78,778	43,569
Proceeds from sales of real estate owned	6,457	26,664
Proceeds from settlement of bank owned life insurance	1,231	—
Purchase of bank owned life insurance	—	—
Decrease (increase) in intangible assets	—	—
Proceeds from sales of premises and equipment	1,722	—
Premises and equipment purchased and REO improvements	(1,252)	(17,183)
Net cash provided by (used in) investing activities	(92,447)	(118,249)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in customer accounts	46,799	19,492
Proceeds from borrowings	—	204,000
Repayments of borrowings	—	(106,000)
Proceeds from exercise of common stock options	4,362	5,042
Dividends paid on common stock	(12,422)	(12,036)
Treasury stock purchased	(20,385)	(9,938)
Increase (decrease) in advance payments by borrowers for taxes and insurance	(19,302)	(28,476)
Net cash provided by (used in) financing activities	(948)	72,084
Increase (decrease) in cash and cash equivalents	(51,530)	21,910

Cash and cash equivalents at beginning of period	450,368	284,049
Cash and cash equivalents at end of period	$398,838	$305,959

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SEE NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Three Months Ended December 31,	
	2016	2015
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Real estate acquired through foreclosure	$1,589	$5,308
Non-cash financing activities		
Stock issued upon exercise of warrants	1,523	—
Cash paid during the period for		
Interest	28,737	29,195
Income taxes	—	8

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

NOTE A – Summary of Significant Accounting Policies

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

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

The information included in this Form 10-Q should be read in conjunction with the financial statements and related notes in the Company's 2016 Annual Report on Form 10-K (“2016 Annual Financial Statements”). Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of the Company's consolidated financial statements are disclosed in its 2016 Annual Financial Statements. There have not been any material changes in our significant accounting policies compared to those contained in our 2016 Annual Financial Statements for the year ended September 30, 2016.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance of $1,448,878,000 and $1,278,829,000 at December 31, 2016 and September 30, 2016, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

NOTE B – New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this ASU address eight specific cash flow issues with the objective of reducing diversity in practice. The specific issues identified include: debt prepayments or extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This ASU is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period; however, early adoption is permitted. The Company is currently evaluating the guidance to determine its adoption method and does not expect this guidance to have a material impact on its consolidated financial statements.

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

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination (“PCD assets”) that are measured at amortized cost, an allowance for expected credit losses is recorded as an adjustment to the cost basis of the asset.

Subsequent changes in estimated cash flows would be recorded as an adjustment to the allowance and through the statement of income.

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

The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For most debt securities, the transition approach requires a cumulative-effect adjustment to the statement of financial position as of the beginning of the first reporting period the guidance is effective. For other-than-temporarily impaired debt securities and PCD assets, the guidance will be applied prospectively. The Company is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation- Improvements to Employee Share-Based Payment Accounting, which involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Under the guidance, income tax benefits and deficiencies are to be recognized as income tax expense or benefit in the income statement and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity should also recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. In regards to forfeitures, the entity may make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. This ASU is effective for fiscal years beginning after December 15, 2016 including interim periods within that reporting period; however, early adoption is permitted. The Company elected to early adopt the guidance in the quarter ended December 31, 2016 and determined the provisions of the ASU did not have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance also simplifies the accounting for sale and leaseback transactions. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, to require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017 including interim periods within that reporting period. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which will require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period’s financial statements, the effect on earnings as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in ASU 2015-16 are effective for years beginning after December 15, 2015. Early adoption is permitted for reporting periods for which financial statements have not been issued. The Company adopted the guidance in the quarter ended December 31, 2016 and determined the provisions of the ASU did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in Cloud Computing Arrangement. The ASU was issued to clarify a customer's accounting for fees paid in a cloud computing arrangement. The amendments provide guidance to customers in determining whether a cloud computing arrangement includes a software license that should be accounted for as internal-use software. If the arrangement does not contain a software license, it would be accounted for as a service contract. The guidance in this ASU is effective for interim and annual periods beginning after December 15, 2015 and can be adopted either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company adopted the guidance in the quarter ended December 31, 2016 and determined the provisions of the ASU did not have a material impact on the Company's consolidated financial statements.

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

NOTE C – Dividends and Share Repurchases

On November 18, 2016, the Company paid a dividend on common stock of $0.14 per share. This dividend was the 135th consecutive quarterly cash dividend paid on common stock. Dividends per share were $0.14 and $0.13 for the quarters ended December 31, 2016 and 2015, respectively. On January 18, 2017, the Company declared a regular dividend on common stock of $0.15 per share, which represented its 136th consecutive quarterly cash dividend, as well as a special cash dividend on common stock of $0.25 per share. These dividends will be paid on February 10, 2017 to common shareholders of record on February 1, 2017.

For the three months ended December 31, 2016, the Company repurchased 757,768 shares at an average price of $26.90. Additionally, 49,989 shares of common stock were issued during the three months ended December 31, 2016 to investors that exercised warrants previously issued as part of the 2008 Troubled Asset Relief Program ("TARP"). As of December 31, 2016, 689,498 such warrants remain outstanding. Net of warrant repurchase and exercise activity, there are 4,231,553 remaining shares authorized to be repurchased under the current Board approved share repurchase program.

NOTE D – Loans Receivable

The following table is a summary of loans receivable.

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

	December 31, 2016		September 30, 2016	
	(In thousands)		(In thousands)	
Gross loans by category				
Single-family residential	$5,624,263	49.6 %	$5,658,830	51.7 %
Construction	1,265,747	11.2	1,110,411	10.1
Construction - custom	494,447	4.4	473,069	4.3
Land - acquisition & development	119,085	1.1	118,497	1.1
Land - consumer lot loans	101,104	0.9	104,567	1.0
Multi-family	1,217,594	10.7	1,124,290	10.3
Commercial real estate	1,207,573	10.7	1,093,639	10.0
Commercial & industrial	1,025,821	9.1	978,589	8.9
HELOC	148,452	1.3	149,716	1.4
Consumer	124,547	1.1	139,000	1.3
Total gross loans	11,328,633	100.0%	10,950,608	100.0%
Less:				
Allowance for loan losses	118,456		113,494	
Loans in process	1,027,168		879,484	
Net deferred fees, costs and discounts	46,698		46,710	
Total loan contra accounts	1,192,322		1,039,688	
Net loans	$10,136,311		$9,910,920	

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

	December 31, 2016		September 30, 2016	
	(In thousands)			
Non-accrual loans:				
Single-family residential	$38,568	63.5%	$33,148	78.2%
Construction	—	—	—	—
Construction - custom	—	—	—	—
Land - acquisition & development	603	1.0	58	0.1
Land - consumer lot loans	969	1.6	510	1.2
Multi-family	1,160	1.9	776	1.8
Commercial real estate	9,660	15.9	7,100	16.7
Commercial & industrial	9,230	15.2	583	1.4
HELOC	480	0.8	239	0.6
Consumer	45	0.1	—	—
Total non-accrual loans	$60,715	100 %	$42,414	100 %

The Company recognized interest income on non-accrual loans of approximately $753,000 in the three months ended December 31, 2016. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $547,000 for the three months ended December 31, 2016. Interest income actually recognized during the three months ended December 31, 2016 is higher because of loans that were brought current or paid off.

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For acquired loans included in the non-accrual loan table above, interest income is still recognized on such loans through accretion of the difference between the carrying amount of the loans and the expected cash flows.
The following tables provide details regarding delinquent loans.

December 31, 2016	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total	
	(In thousands)						
Single-family residential	$5,623,668	$5,563,465	$16,670	$6,808	$36,725	$60,203	1.07 %
Construction	513,046	512,705	341	—	—	341	0.07
Construction - custom	236,668	236,511	49	108	—	157	0.07
Land - acquisition & development	103,148	101,886	728	—	534	1,262	1.22
Land - consumer lot loans	101,045	99,969	235	43	798	1,076	1.06
Multi-family	1,217,594	1,215,726	853	616	399	1,868	0.15
Commercial real estate	1,175,475	1,167,710	1,771	267	5,727	7,765	0.66
Commercial & industrial	1,057,826	1,056,718	858	250	—	1,108	0.10
HELOC	148,448	147,074	893	—	481	1,374	0.93
Consumer	124,547	123,484	662	231	170	1,063	0.85
Total Loans	$10,301,465	$10,225,248	$23,060	$8,323	$44,834	$76,217	0.74 %
Delinquency %		99.26%	0.22%	0.08%	0.44%	0.74%	

September 30, 2016	Loans Receivable	Days Delinquent Based on $ Amount of Loans					% based on $
Type of Loan	Net of Loans In Process	Current	30	60	90	Total	
	(In thousands)						
Single-family residential	$5,658,122	$5,601,457	$20,916	$5,271	$30,478	$56,665	1.00 %
Construction	498,450	498,450	—	—	—	—	—
Construction - custom	229,957	229,419	538	—	—	538	0.23
Land - acquisition & development	94,928	94,928	—	—	—	—	—
Land - consumer lot loans	104,534	102,472	816	687	559	2,062	1.97
Multi-family	1,124,290	1,122,307	1,190	399	394	1,983	0.18
Commercial real estate	1,093,549	1,088,680	69	325	4,475	4,869	0.45
Commercial & industrial	978,582	978,540	—	42	—	42	—
HELOC	149,713	148,513	763	164	273	1,200	0.80
Consumer	138,999	138,078	715	126	80	921	0.66
Total Loans	$10,071,124	$10,002,844	$25,007	$7,014	$36,259	$68,280	0.68 %
Delinquency %		99.32%	0.25%	0.07%	0.36%	0.68%	

The percentage of total delinquent loans increased from 0.68% as of September 30, 2016 to 0.74% as of December 31, 2016 and there are no loans greater than 90 days delinquent and still accruing interest as of either date.

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

	Three Months Ended December 31,					
	2016			2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-family residential	12	$ 2,134	$ 2,134	3	$ 729	$ 729
Land - consumer lot loans	1	204	204	—	—	—
Commercial real estate	—	—	—	5	965	965
HELOC	1	228	228	—	—	—
	14	$ 2,566	$ 2,566	8	$ 1,694	$ 1,694

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

	Three Months Ended December 31,			
	2016		2015	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
		(In thousands)		(In thousands)
TDRs That Subsequently Defaulted:				
Single-family residential	6	$ 1,993	5	$ 668
Land - consumer lot loans	—	—	1	148
Commercial real estate	2	267	—	—
	8	$ 2,260	6	$ 816

Most loans restructured in TDRs are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. As of December 31, 2016, 94.2% of the Company's $249,950,000 in TDRs were classified as performing. Each request for modification is individually evaluated for merit and likelihood of success. The concession granted in a loan modification is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twenty four months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of December 31, 2016, single-family residential loans comprised 87.2% of TDRs.

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

The following table shows the changes in accretable yield for acquired impaired loans (including covered loans).

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	Three Months Ended December 31, 2016				Twelve Months Ended September 30, 2016			
	Acquired Impaired		Acquired Non-impaired		Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)				(In thousands)			
Beginning balance	$58,842	$91,761	$4,222	$131,132	$72,705	$111,300	$7,204	$187,080
Additions	—	—	—	—	—	—	—	—
Net reclassification from non-accretable	—	—	—	—	4,867	—	—	—
Accretion	(3,233)	3,233	(198)	198	(18,730)	18,730	(2,982)	2,982
Transfers to REO	—	—	—	—	—	(175)	—	—
Payments received, net	—	(16,852)	—	5,211	—	(38,094)	—	(58,930)
Ending Balance	$55,609	$78,142	$4,024	$136,541	$58,842	$91,761	$4,222	$131,132

The excess of cash flows expected to be collected over the initial fair value of acquired impaired loans is referred to as the accretable yield and this amount is accreted into interest income over the estimated life of the acquired loans using the effective interest method. Other adjustments to the accretable yield include changes in the estimated remaining life of the acquired loans, changes in expected cash flows and changes in the respective indices for acquired loans with variable interest rates.

The remaining outstanding balance of covered loans was $26,691,000 at December 31, 2016 compared to $28,974,000 as of September 30, 2016. The FDIC loss share coverage for single family residential loans related to the Horizon Bank and Home Valley Bank acquisitions will continue for another four years.

The following table shows activity for the FDIC indemnification asset:

	Three Months Ended December 31, 2016	Twelve Months Ended September 30, 2016
	(In thousands)	
Balance at beginning of period	$12,769	$ 16,275
Payments made (received)	242	(1,730)
Amortization	(387)	(2,012)
Accretion	50	236
Balance at end of period	$12,674	$ 12,769

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

Three Months Ended December 31, 2016	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$37,796	$ (115)	$ 151	$ 374	$38,206
Construction	19,838	—	—	2,096	21,934
Construction - custom	1,080	—	—	30	1,110
Land - acquisition & development	6,023	(20)	4,018	(3,356)	6,665
Land - consumer lot loans	2,535	(17)	70	(87)	2,501
Multi-family	6,925	—	—	704	7,629
Commercial real estate	8,588	(11)	356	1,235	10,168
Commercial & industrial	28,008	(58)	725	(939)	27,736
HELOC	813	(37)	1	55	832
Consumer	1,888	(146)	379	(446)	1,675
	$113,494	$ (404)	$ 5,700	$ (334)	$118,456

Three Months Ended December 31, 2015	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$47,347	$ (1,139)	$ 2,466	$ (918)	$47,756
Construction	6,680	—	155	179	7,014
Construction - custom	990	(60)	—	132	1,062
Land - acquisition & development	5,781	—	35	962	6,778
Land - consumer lot loans	2,946	(408)	—	463	3,001
Multi-family	5,304	—	—	(257)	5,047
Commercial real estate	8,960	(23)	123	1,284	10,344
Commercial & industrial	24,980	(248)	1	(637)	24,096
HELOC	902	(1)	21	(102)	820
Consumer	2,939	(242)	392	(1,106)	1,983
	$106,829	$ (2,121)	$ 3,193	$ —	$107,901

The Company recorded no provision for loan losses during the three months ended December 31, 2016 or December 31, 2015. Reserving for new loan originations as the loan portfolio grows has been largely offset by recoveries of previously charged-off loans. Recoveries, net of charge-offs, totaled $5,296,000 for the three months ended December 31, 2016, compared with $1,072,000 of net recoveries for the same quarter one year ago. Non-performing assets were $83,352,000, or 0.56%, of total assets at December 31, 2016, compared to $71,441,000, or 0.48%, of total assets at September 30, 2016. Non-accrual loans were $60,715,000 at December 31, 2016, compared to $42,414,000 at September 30, 2016. Delinquencies, as a percent of total loans, were 0.74% at December 31, 2016, compared to 0.68% at September 30, 2016.

The reserve for unfunded commitments was $4,900,000 as of December 31, 2016, which is an increase from $3,235,000 at September 30, 2016.

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Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling $123,356,000, or 1.09% of gross loans, is sufficient to absorb estimated inherent losses.
The following tables show loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves.

December 31, 2016	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio	Allowance Allocation	Recorded Investment of Loans (1)	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 38,092	$ 5,585,461	0.7 %	$ 114	$ 30,165	0.4 %
Construction	21,934	513,046	4.3	—	—	—
Construction - custom	1,110	236,668	0.5	—	—	—
Land - acquisition & development	6,621	101,598	6.5	44	886	5.0
Land - consumer lot loans	2,501	90,947	2.7	—	1,384	—
Multi-family	7,617	1,215,870	0.6	12	1,496	0.8
Commercial real estate	9,971	1,144,389	0.9	197	15,473	1.3
Commercial & industrial	27,736	1,021,372	2.7	—	1,517	—
HELOC	832	138,094	0.6	—	805	—
Consumer	1,675	124,255	1.3	—	—	—
	$ 118,089	$ 10,171,700	1.2 %	$ 367	$ 51,726	0.7 %

(1) Excludes acquired impaired loans and covered loans.

September 30, 2016	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	Allowance Allocation	Recorded Investment of Loans (1)	Ratio	Allowance Allocation	Recorded Investment of Loans (1)	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$ 37,536	$ 5,585,912	0.7 %	$ 260	$ 19,629	1.3 %
Construction	19,838	498,450	4.0	—	—	—
Construction - custom	1,080	229,298	0.5	—	330	—
Land - acquisition & development	6,022	90,850	6.6	2	850	0.2
Land - consumer lot loans	2,535	92,828	2.7	—	558	—
Multi-family	6,911	1,091,974	0.6	13	1,505	0.9
Commercial real estate	8,497	957,380	0.9	91	11,157	0.8
Commercial & industrial	28,008	966,930	2.9	—	—	—
HELOC	813	133,203	0.6	—	239	—
Consumer	1,888	137,315	1.4	—	3	—
	$ 113,128	$ 9,784,140	1.2 %	$ 366	$ 34,271	1.1 %

(1) Excludes acquired impaired loans and covered loans.

As of December 31, 2016, $118,089,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $367,000 was specific reserves on loans deemed to be individually impaired. As of September 30, 2016, $113,128,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $366,000 was specific reserves on loans deemed to be individually impaired.

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

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

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

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

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

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

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

December 31, 2016	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,568,663	$ —	$55,600	$ —	$ —	$5,624,263
Construction	1,256,396	5,876	3,475	—	—	1,265,747
Construction - custom	494,447	—	—	—	—	494,447
Land - acquisition & development	113,569	—	5,516	—	—	119,085
Land - consumer lot loans	99,703	—	1,401	—	—	101,104
Multi-family	1,211,055	3,658	2,881	—	—	1,217,594
Commercial real estate	1,163,517	6,660	37,396	—	—	1,207,573
Commercial & industrial	969,186	10,813	45,822	—	—	1,025,821
HELOC	147,495	—	957	—	—	148,452
Consumer	124,499	—	48	—	—	124,547
Total gross loans	$11,148,530	$ 27,007	$153,096	$ —	$ —	$11,328,633
Total grade as a % of total gross loans	98.4 %	0.2 %	1.4 %	— %	—%	

September 30, 2016	Internally Assigned Grade					
	Pass	Special mention	Substandard	Doubtful	Loss	Total Gross Loans
	(In thousands)					
Loan type						
Single-family residential	$5,607,521	$ —	$51,309	$ —	$ —	$5,658,830
Construction	1,098,549	8,595	3,267	—	—	1,110,411
Construction - custom	473,069	—	—	—	—	473,069
Land - acquisition & development	111,225	—	7,272	—	—	118,497
Land - consumer lot loans	103,528	—	1,039	—	—	104,567
Multi-family	1,117,437	3,237	3,616	—	—	1,124,290
Commercial real estate	1,033,880	13,446	46,313	—	—	1,093,639
Commercial & industrial	930,776	7,207	40,606	—	—	978,589
HELOC	149,195	—	521	—	—	149,716
Consumer	138,917	—	83	—	—	139,000
Total gross loans	$10,764,097	$ 32,485	$154,026	$ —	$ —	$10,950,608
Total grade as a % of total gross loans	98.3 %	0.3 %	1.4 %	— %	—%	

The balance of loans internally graded as 'substandard' above includes $27,835,000 as of December 31, 2016 and $35,910,000 as of September 30, 2016 of acquired loans and covered loans.

The following tables provide information on loans (excluding acquired and covered loans) based on borrower payment activity.

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December 31, 2016	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,549,864	99.3	%	$ 38,568	0.7	%
Construction	1,265,747	100.0		—	—	
Construction - custom	494,447	100.0		—	—	
Land - acquisition & development	116,567	99.5		603	0.5	
Land - consumer lot loans	97,556	99.0		969	1.0	
Multi-family	1,211,411	99.9		1,160	0.1	
Commercial real estate	1,079,298	99.1		9,660	0.9	
Commercial & industrial	971,931	99.1		9,230	0.9	
HELOC	135,306	99.6		480	0.4	
Consumer	123,140	100.0		45	—	
	$11,045,267	99.5	%	$ 60,715	0.5	%

September 30, 2016	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$5,587,919	99.4	%	$ 33,148	0.6	%
Construction	1,110,411	100.0		—	—	
Construction - custom	473,069	100.0		—	—	
Land - acquisition & development	116,097	99.9		58	0.1	
Land - consumer lot loans	101,343	99.5		510	0.5	
Multi-family	1,118,025	99.9		776	0.1	
Commercial real estate	949,064	99.3		7,100	0.7	
Commercial & industrial	946,065	99.9		583	0.1	
HELOC	134,546	99.8		239	0.2	
Consumer	137,450	100.0		—	—	
	$10,673,989	99.6	%	$ 42,414	0.4	%

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

December 31, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$15,488	$17,258	$ —		$ 11,050
Land - acquisition & development	165	8,396	—		152
Land - consumer lot loans	713	765	—		525
Multi-family	1,160	5,096	—		968
Commercial real estate	11,407	19,829	—		11,180
Commercial & industrial	9,680	15,065	—		5,355
HELOC	767	1,028	—		471
Consumer	44	592	—		51
	39,424	68,029	—		29,752
Impaired loans with an allowance recorded:					
Single-family residential	212,046	216,469	4,502		210,497
Land - acquisition & development	851	1,791	2		851
Land - consumer lot loans	9,056	10,114	41		9,002
Multi-family	1,496	1,496	12		1,501
Commercial real estate	18,246	21,497	197		17,751
Commercial & industrial	1,356	2,414	—		678
HELOC	1,200	1,218	—		1,088
Consumer	77	271	—		78
	244,328	255,270	4,754	(1)	241,446
Total impaired loans:					
Single-family residential	227,534	233,727	4,502		221,547
Land - acquisition & development	1,016	10,187	2		1,003
Land - consumer lot loans	9,769	10,879	41		9,527
Multi-family	2,656	6,592	12		2,469
Commercial real estate	29,653	41,326	197		28,931
Commercial & industrial	11,036	17,479	—		6,033
HELOC	1,967	2,246	—		1,559
Consumer	121	863	—		129
	$283,752	$323,299	$ 4,754	(1)	$ 271,198

(1) Includes $367,000 of specific reserves and $4,387,000 included in the general reserves.

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September 30, 2016	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
Impaired loans with no related allowance recorded:					
Single-family residential	$9,627	$11,366	$ —		$ 6,511
Land - acquisition & development	138	9,001	—		614
Land - consumer lot loans	499	609	—		317
Multi-family	394	3,972	—		638
Commercial real estate	11,741	21,301	—		6,260
Commercial & industrial	1,030	3,082	—		863
HELOC	209	315	—		165
Consumer	74	550	—		111
	23,712	50,196	—		15,479
Impaired loans with an allowance recorded:					
Single-family residential	228,186	232,595	3,809		216,632
Land - acquisition & development	1,154	2,094	1		1,766
Land - consumer lot loans	9,630	10,678	1		9,548
Multi-family	1,505	1,505	13		1,522
Commercial real estate	19,434	22,848	91		19,311
HELOC	1,506	1,521	—		1,413
Consumer	116	306	—		100
	261,531	271,547	3,915	(1)	250,292
Total impaired loans:					
Single-family residential	237,813	243,961	3,809		223,143
Land - acquisition & development	1,292	11,095	1		2,380
Land - consumer lot loans	10,129	11,287	1		9,865
Multi-family	1,899	5,477	13		2,160
Commercial real estate	31,175	44,149	91		25,571
Commercial & industrial	1,030	3,082	—		863
HELOC	1,715	1,836	—		1,578
Consumer	190	856	—		211
	$285,243	$321,743	$ 3,915	(1)	$ 265,771

(1) Includes $366,000 of specific reserves and $3,549,000 included in the general reserves.

NOTE F – Fair Value Measurements

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

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

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

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

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

Measured on a Recurring Basis

Securities

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

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

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

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
Equity securities	$522	$—	$ —	$522
U.S. government and agency securities	—	247,268	—	247,268
Municipal bonds	—	26,459	—	26,459
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	208,025	—	208,025
Mortgage-backed securities				
Agency pass-through certificates	—	906,847	—	906,847
Commercial MBS	—	52,814	—	52,814
Total available-for-sale securities	522	1,441,413	—	1,441,935
Interest rate contracts	—	2,560	—	2,560
Total financial assets	$522	$1,443,973	$ —	$1,444,495
Financial Liabilities				
Interest rate contracts	$—	$2,560	$ —	$2,560
Commercial loan hedges	—	49	—	49
Long term borrowing hedges	—	2,076	—	2,076
Total financial liabilities	$—	$4,685	$ —	$4,685

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the three months ended December 31, 2016.

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	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Financial Assets				
Available-for-sale securities:				
Equity securities	$101,824	$—	$ —	$101,824
U.S. government and agency securities	—	259,351	—	259,351
Municipal bonds	—	27,670	—	27,670
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	461,138	—	461,138
Mortgage-backed securities				
Agency pass-through certificates	—	993,041	—	993,041
Commercial MBS	—	79,870	—	79,870
Total available-for-sale securities	101,824	1,821,070	—	1,922,894
Interest rate contracts	—	20,895	—	20,895
Total financial assets	$101,824	$1,841,965	$ —	$1,943,789
Financial Liabilities				
Interest rate contracts	$—	$20,895	$ —	$20,895
Commercial loan hedges	—	3,312	—	3,312
Long term borrowing hedges	—	31,347	—	31,347
Total financial liabilities	$—	$55,554	$ —	$55,554

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2016.

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

When management determines that the fair value of the collateral or the real estate owned requires additional adjustments, either as a result of an updated appraised value or when there is no observable market price, the Company classifies the impaired loan or real estate owned as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2016 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as real estate owned where the fair value of the property was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at fair value on a nonrecurring basis at December 31, 2016 and December 31, 2015, and the total gains (losses) resulting from those fair value adjustments for the three months ended December 31, 2016 and December 31, 2015. The estimated fair value measurements are shown gross of estimated selling costs.

	December 31, 2016				Three Months Ended December 31, 2016
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
	(In thousands)				
Impaired loans (1)	$—	$—	$3,353	$3,353	$ (422)
Real estate owned (2)	—	—	2,299	2,299	(241)
Balance at end of period	$—	$—	$5,652	$5,652	$ (663)

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

	December 31, 2015				Three Months Ended December 31, 2015
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
	(In thousands)				
Impaired loans (1)	$—	$—	$8,524	$8,524	$ (1,681)

Real estate owned (2)	—	—	7,145	7,145	(1,755)
Balance at end of period	$—	$—	$15,669	$15,669	$ (3,436)

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

Impaired loans - The Company adjusts the carrying amount of impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral. Impaired loans with a specific reserve allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets.

The evaluations for impairment are prepared by the Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for loan loss process.

Applicable loans that were included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences

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are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary.

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

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

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

The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the fair value as necessary. After foreclosure, the valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer. The carrying balance of REO assets are also written down once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the cost established on the transfer date.

Fair Values of Financial Instruments

ASC 825 requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

	Level in Fair Value Hierarchy	December 31, 2016 Carrying Amount	December 31, 2016 Estimated Fair Value	September 30, 2016 Carrying Amount	September 30, 2016 Estimated Fair Value
		(In thousands)			
Financial assets					
Cash and cash equivalents	1	$398,838	$398,838	$450,368	$450,368
Available-for-sale securities					
Equity securities	1	522	522	101,824	101,824
U.S. government and agency securities	2	247,268	247,268	259,351	259,351
Municipal bonds	2	26,459	26,459	27,670	27,670
Corporate debt securities	2	208,025	208,025	461,138	461,138
Mortgage-backed securities					
Agency pass-through certificates	2	906,847	906,847	993,041	993,041
Commercial MBS	2	52,814	52,814	79,870	79,870
Total available-for-sale securities		1,441,935	1,441,935	1,922,894	1,922,894
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	2	1,752,010	1,723,092	1,417,599	1,441,556
Total held-to-maturity securities		1,752,010	1,723,092	1,417,599	1,441,556
Loans receivable	3	10,136,311	10,424,590	9,910,920	10,414,794
FDIC indemnification asset	3	12,674	12,174	12,769	12,095
FHLB and FRB stock	2	117,190	117,190	117,205	117,205
Other assets - interest rate contracts	2	2,560	2,560	20,895	20,895
Financial liabilities					
Customer accounts	2	10,647,575	10,066,485	10,600,852	10,184,321
FHLB advances	2	2,080,000	2,140,150	2,080,000	2,184,671
Other liabilities - interest rate contracts	2	2,560	2,560	20,895	20,895
Other liabilities - commercial loan hedges	2	49	49	3,312	3,312
Other liabilities - long term borrowing hedges	2	2,076	2,076	31,347	31,347

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

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

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

Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan characteristics, using the same methodology described above for AFS and HTM securities. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

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

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

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Customer accounts – The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the estimated future cash flows using the rates currently offered for deposits with similar remaining maturities.
FHLB advances – The fair value of FHLB advances and other borrowings is estimated by discounting the estimated future cash flows using rates currently available to the Company for debt with similar remaining maturities.
Interest Rate Contracts – The bank offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the bank enters into the opposite trade with a counterparty to offset its interest rate risk. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.
Commercial Loan Hedge – The fair value of the interest rate swap is estimated by a third party pricing service using a discounted cash flow technique.
Long Term Borrowing Hedges – The fair value of the interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.
The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities.

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$23,102	$428	$(27)	$23,503	3.55%
1 to 5 years	35,788	354	(1,151)	34,991	2.15
5 to 10 years	42,301	—	(955)	41,346	1.75
Over 10 years	149,673	—	(2,245)	147,428	1.44
Equity securities due					
Within 1 year	—	—	—	—	—
1 to 5 years	500	22	—	522	1.80
Corporate debt securities due					
Within 1 year	28,094	52	—	28,146	1.84
1 to 5 years	63,516	951	(50)	64,417	2.57
5 to 10 years	69,957	—	(3,361)	66,596	2.06
Over 10 years	50,000	—	(1,134)	48,866	3.00
Municipal bonds due					
1 to 5 years	2,322	—	(8)	2,314	1.23
5 to 10 years	1,343	—	(18)	1,325	2.05
Over 10 years	20,358	2,462	—	22,820	6.45
Mortgage-backed securities					
Agency pass-through certificates	904,287	7,546	(4,986)	906,847	2.65
Commercial MBS	53,097	—	(283)	52,814	1.95
	1,444,338	11,815	(14,218)	1,441,935	2.49
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,752,010	3,859	(32,777)	1,723,092	3.18

$3,196,348	$15,674	$(46,995)	$3,165,027	2.84%

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	September 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$21,284	$—	$(59)	$21,225	0.81%
1 to 5 years	12,477	1,027	(11)	13,493	7.94
5 to 10 years	48,134	—	(1,589)	46,545	1.14
Over 10 years	182,051	27	(3,990)	178,088	1.33
Equity Securities					
Within 1 year	—	—	—	—	—
1 to 5 years	100,422	1,402	—	101,824	1.90
Corporate bonds due					
Within 1 year	278,094	325	(53)	278,366	1.33
1 to 5 years	63,481	928	(113)	64,296	2.47
5 to 10 years	69,955	—	(2,417)	67,538	1.96
Over 10 years	50,000	938	—	50,938	3.00
Municipal bonds due					
1 to 5 years	2,315	2	—	2,317	1.23
5 to 10 years	1,335	38	—	1,373	2.05
Over 10 years	20,363	3,617	—	23,980	6.45
Mortgage-backed securities					
Agency pass-through certificates	978,955	17,118	(3,032)	993,041	2.58
Commercial MBS	80,318	—	(448)	79,870	1.91
	1,909,184	25,422	(11,712)	1,922,894	2.22
Held-to-maturity securities					
Mortgage-backed securities					
Agency pass-through certificates	1,417,599	24,171	(214)	1,441,556	3.18
	$3,326,783	$49,593	$(11,926)	$3,364,450	2.62%

For available-for-sale investment securities, there were sales totaling $350,890,000 during the three months ended December 31, 2016 and no sales during the three months ended December 31, 2015. There were no purchases of available-for-sale investment securities during the three months ended December 31, 2016 and purchases of $50,741,000 during the three months ended December 31, 2015. For held-to-maturity investment securities, there were purchases totaling $415,729,000 during the three months ended December 31, 2016 and no purchases during the three months ended December 31, 2015. There were no sales of held-to-maturity investment securities during either period. Substantially all of the agency mortgage-backed securities have contractual due dates that exceed 10 years.
The following tables show the unrealized gross losses and fair value of securities as of December 31, 2016 and September 30, 2016, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value is attributable to changes in interest rates. Because the Company does not intend to sell these securities and does not consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other than temporarily impaired.

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December 31, 2016	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate debt securities	$(1,134)	$48,866	$(3,411)	$76,546	$(4,545)	$125,412
Municipal bonds due	(26)	3,639	—	—	(26)	3,639
U.S. government and agency securities	(743)	24,470	(3,634)	212,717	(4,377)	237,187
Agency pass-through certificates	(34,536)	1,761,731	(3,511)	431,533	(38,047)	2,193,264
	$(36,439)	$1,838,706	$(10,556)	$720,796	$(46,995)	$2,559,502

September 30, 2016	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
	(In thousands)					
Corporate debt securities	$—	$—	$(2,582)	$100,467	$(2,582)	$100,467
U.S. government and agency securities	(11)	3,167	(5,638)	220,613	(5,649)	223,780
Agency pass-through certificates	(1,278)	301,030	(2,417)	232,407	(3,695)	533,437
	$(1,289)	$304,197	$(10,637)	$553,487	$(11,926)	$857,684

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NOTE G – Derivatives and Hedging Activities

The Bank periodically enters into certain interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the Bank retains a variable rate loan. Under these agreements, the Bank enters into a variable rate loan agreement and a swap agreement with the client. The swap agreement effectively converts the client's variable rate loan into a fixed rate. The Bank enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the client's swap agreement. The Bank had $878,860,000 and $840,935,000 notional in interest rate swaps to hedge this exposure as of December 31, 2016 and September 30, 2016, respectively. The interest rate swaps are derivatives under FASB ASC 815, Derivatives and Hedging, with changes in fair value recorded in earnings. There was no net impact to the statement of operations for the three months ended December 31, 2016 and 2015 as the changes in value for the asset and liability side of the swaps offset each other.

The Bank has also entered into interest rate swaps to convert certain existing and future short-term borrowings to fixed rate payments. The primary purpose of these hedges is to mitigate the risk of rising interest rates, specifically LIBOR rates, which are a benchmark for the short term borrowings. The hedging program qualifies as a cash flow hedge under ASC 815, which provides for offsetting of the recognition of gains and losses of the interest rate swaps and the hedged items. The hedged item is the LIBOR portion of the series of existing or future short-term fixed rate borrowings over the term of the interest rate swap. The change in the fair value of the interest rate swaps is recorded in other comprehensive income. The Bank had $700,000,000 and $700,000,000 notional in interest rate swaps to hedge existing and anticipated future borrowings as of December 31, 2016 and September 30, 2016, respectively. The unrealized loss, gross of the related tax benefit, on these interest rate swaps as of December 31, 2016 was $2,076,000 and $31,347,000 as of September 30, 2016.

The Bank has also entered into an interest rate swap to hedge the interest rate risk of an individual fixed rate commercial loan and this relationship qualifies as a fair value hedge under ASC 815, which provides for offsetting of the recognition of gains and losses of the interest rate swap and the hedged item. The Bank hedges this loan using an interest rate swap with a notional amount of $52,936,000 and $54,155,000 as of December 31, 2016 and September 30, 2016, respectively.

The following table presents the fair value and balance sheet classification of derivatives at December 31, 2016 and September 30, 2016:

	Asset Derivatives				Liability Derivatives			
	December 31, 2016		September 30, 2016		December 31, 2016		September 30, 2016	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(In thousands)							
Interest rate contracts	Other assets	$2,560	Other assets	$20,895	Other liabilities	$2,560	Other liabilities	$20,895
Commercial loan hedge	Other assets	—	Other assets	—	Other liabilities	49	Other liabilities	3,312
Long term borrowing hedge	Other assets	—	Other assets	—	Other liabilities	2,076	Other liabilities	31,347

	$2,560	$20,895	$4,685	$55,554

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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 as amended (the "Exchange Act"), 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 & BUSINESS DESCRIPTION

Washington Federal Inc. ("Company" or "Washington Federal") is a bank holding company headquartered in Seattle, Washington that conducts its operations through Washington Federal, National Association ("Bank"), a federally chartered national bank subsidiary. Washington Federal and its subsidiaries are engaged primarily in providing lending, depository, insurance and other banking services to consumers, mid-sized to large businesses, and owners and developers of commercial real estate.

The Company's fiscal year end is September 30th. All references to 2016 represent balances as of September 30, 2016 or activity for the fiscal year then ended.

INTEREST RATE RISK

Based on Management's assessment of the current interest rate environment, the Bank has taken steps to reduce its interest rate risk profile compared to its historical norms, including growing shorter-term loans and transaction deposit accounts, as well as extending the maturity on borrowings. The mix of transaction and savings accounts is 58% of total deposits as of December 31, 2016 while the composition of the investment securities portfolio is 31% variable and 69% fixed rate. When interest rates rise, the fair value of the investment securities with fixed rates will decrease and vice versa when interest rates decline. The Company has $1,752,010,000 of fixed rate mortgage-backed securities that it has designated as held-to-maturity and are carried at amortized cost. As of December 31, 2016, the net unrealized loss on these securities was $28,918,000. The Company has $1,441,935,000 of available-for-sale securities that are carried at fair value. As of December 31, 2016, the net unrealized loss on these securities was $2,403,000. The Bank has executed interest rate swaps to hedge interest rates on existing and future borrowings. The unrealized loss on these interest rate swaps as of December 31, 2016 was $2,076,000. All of the above are pre-tax net unrealized gains or losses.

The Company relies on various measures of interest rate risk, including an asset/liability maturity gap analysis, modeling of changes in forecasted net interest income under various rate change scenarios, and the impact of interest rate changes on the net portfolio value ("NPV") of the Company.

Net Interest Income Sensitivity. We estimate the sensitivity of our net interest income to changes in market interest rates using an interest rate simulation model that includes assumptions related to the level of balance sheet growth, deposit repricing characteristics and the rate of prepayments for multiple interest rate change scenarios. Interest rate sensitivity depends on certain repricing characteristics in our interest-earnings assets and interest-bearing liabilities, including the maturity structure of assets and liabilities and their repricing characteristics during the periods of changes in market interest rates. The analysis assumes a constant balance sheet. Actual results would differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

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In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income would increase by 1.7% in the next year. This compares to an estimated increase of 3.2% as of the September 30, 2016 analysis. It is noted that a flattening yield curve would likely result in a decrease in net interest income. Management estimates that a gradual increase of 300 basis points in short term rates and 100 basis points in long term rates over two years would result in a net interest income increase of 0.9% in the first year and decrease of 0.6% in the second year assuming a constant balance sheet and no management intervention.

NPV Sensitivity. The NPV is an estimate of the market value of shareholders' equity. 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 provides a longer term view of interest rate risk as it incorporates all future expected cash flows. As of December 31, 2016, in the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by $624,683,000 or 24.7% and the NPV to total assets ratio to decline to 13.9% from a base of 17.0%. As of September 30, 2016, the NPV in the event of a 200 basis point increase in rates was estimated to decline by $479,090,000 or 18.6% and the NPV to total assets ratio to decline to 14.8% from a base of 16.9%. The increased NPV sensitivity and higher base NPV ratio is due primarily to higher interest rates and lower prices as of December 31, 2016.

Repricing Gap Analysis. At December 31, 2016, the Company had approximately $2,280,253,000 more in liabilities subject to maturity or repricing in the next year than assets, which resulted in a one-year repricing gap of (15.3)% of total assets. This was an increase from the (10.1)% gap as of September 30, 2016. A negative repricing gap implies that funding costs will change more rapidly than interest income on earning assets with movements in interest rates. A negative repricing gap typically results in lower margins when interest rates rise and higher margins when interest rates decline. This interest rate gap analysis provides management with a high-level indication of interest rate risk, but it is considered less reliable than more detailed modeling.

Interest Rate Spread. The interest rate spread is measured as the difference between the rate on total loans and investments and the rate on costing liabilities at the end of each period. The interest rate spread increased to 2.73% at December 31, 2016 from 2.65% at September 30, 2016. The spread increase of 8 basis points is primarily due to the rise in the Fed funds rate, which resulted in an increased rate being earned on cash. As of December 31, 2016, the weighted average rate on earning assets increased by 7 basis points to 3.65% compared to September 30, 2016, while the weighted average cost of funds decreased by 1 basis point to 0.92%. The interest rate spread increased to 2.73% at December 31, 2016 from 2.72% at December 31, 2015.

Net Interest Margin. The net interest margin is measured using the interest income and expense over the average assets and liabilities for the period. The net interest margin decreased to 3.02% for the quarter ended December 31, 2016 from 3.18% for the quarter ended December 31, 2015. The yield on earning assets decreased 14 basis points to 3.85% and the cost of interest bearing liabilities increased 3 basis points to 0.93%. The lower yield on earning assets is the result of the low interest rate environment that has led to new originations having lower yields than loans that repaid. The increase in interest costs was due to changes in the mix of customer deposits and FHLB advances.

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

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	Three Months Ended December 31, 2016				Three Months Ended December 31, 2015			
	Average Balance	Interest	Average Rate		Average Balance	Interest	Average Rate	
	(In thousands)				(In thousands)			
Assets								
Loans receivable	$10,013,798	$114,835	4.55	%	$9,258,041	$112,864	4.84	%
Mortgaged-backed securities	2,537,585	12,789	2.00		2,880,242	16,986	2.34	
Cash & Investments	1,010,299	4,246	1.67		1,198,471	4,258	1.41	
FHLB & FRB stock	117,210	894	3.03		107,793	1,016	3.74	
Total interest-earning assets	13,678,892	132,764	3.85	%	13,444,547	135,124	3.99	%
Other assets	1,197,304				1,109,202			
Total assets	$14,876,196				$14,553,749			
Liabilities and Equity								
Customer accounts	$10,610,314	$13,017	0.49	%	$10,619,654	$12,718	0.48	%
FHLB advances	2,080,000	16,595	3.17		1,844,772	15,537	3.34	
Total interest-bearing liabilities	12,690,314	29,612	0.93	%	12,464,426	28,255	0.90	%
Other liabilities	201,233				124,370			
Total liabilities	12,891,547				12,588,796			
Stockholder's equity	1,984,649				1,964,953			
Total liabilities and equity	$14,876,196				$14,553,749			
Net interest income		$103,152				$106,869		
Net interest margin			3.02	%			3.18	%

As of December 31, 2016, total assets had decreased by $14,409,000 to $14,873,654,000 from $14,888,063,000 at September 30, 2016. During the three months ended December 31, 2016, cash and cash equivalents decreased by $51,530,000, loans receivable increased $225,391,000 and investment securities declined by $146,548,000.
Cash and cash equivalents of $398,838,000 and stockholders’ equity of $1,999,601,000 as of December 31, 2016 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES
The principal sources of funds for the Company's activities are loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings and retained earnings, if applicable. The Company's principal sources of revenue are interest on loans and interest and dividends on investments.
The Bank has a credit line with the Federal Home Loan Bank of Des Moines ("FHLB") equal to 48.7% of total assets, providing a substantial source of additional liquidity if needed.
The Bank has entered into borrowing agreements with the FHLB to borrow funds under a short-term floating rate cash management advance program and fixed-rate term loan agreements. All borrowings are secured by stock of the FHLB, deposits with the FHLB,

and a blanket pledge of qualifying loans receivable as provided in the agreements with the FHLB. The Bank is also eligible to borrow under the Federal Reserve Bank's primary credit program.

The Company's cash and cash equivalents total $398,838,000 at December 31, 2016, a decrease from $450,368,000 at September 30, 2016. These amounts include the Bank's operating cash.

The Company’s net worth at December 31, 2016 was $1,999,601,000, or 13.44% of total assets. This was a increase of $23,870,000 from September 30, 2016 when net worth was $1,975,731,000, or 13.27% of total assets. The Company’s net worth was impacted in the three months ended December 31, 2016 by net income of $41,246,000, the payment of $12,422,000 in cash dividends, treasury stock purchases of $20,385,000, as well as an other comprehensive income of $8,324,000. The ratio of tangible capital to tangible assets at December 31, 2016 was 11.68%. Management believes the Company's strong net worth position allows it to manage balance sheet risk and provide the capital support needed for controlled growth in a regulated environment.

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

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

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

	Actual		Minimum Capital Adequacy Guidelines		Minimum Well-Capitalized Guidelines	
	Capital	Ratio	Ratio		Ratio	
	(In thousands)					
December 31, 2016						
Common Equity Tier I risk-based capital ratio:						
The Company	$1,706,176	17.94%	4.50	%	NA	
The Bank	1,666,240	17.50%	4.50	%	6.50	%
Tier I risk-based capital ratio:						
The Company	1,706,176	17.94%	6.00	%	NA	
The Bank	1,666,240	17.50%	6.00	%	8.00	%
Total risk-based capital ratio:						
The Company	1,825,126	19.19%	8.00	%	NA	
The Bank	1,785,335	18.75%	8.00	%	10.00	%
Tier 1 Leverage ratio:						
The Company	1,706,176	11.71%	4.00	%	NA	
The Bank						