

WASHINGTON FEDERAL INC
Form 10-Q
August 09, 2011
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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 June 30, 2011

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 August 8, 2011

Common stock, \$1.00 par value

110,285,716

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Condensed 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)

| | June 30, 2011 | September 30, 2010 |
|--|-----------------------------------|-----------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$658,160 | \$888,622 |
| Available-for-sale securities, including encumbered securities of \$950,368 and \$933,315, at fair value | 3,126,410 | 2,481,093 |
| Held-to-maturity securities, including encumbered securities of \$47,553 and \$60,970, at amortized cost | 49,503 | 80,107 |
| Loans receivable, net | 8,023,610 | 8,423,703 |
| Covered loans, net | 417,881 | 534,474 |
| Interest receivable | 51,873 | 49,020 |
| Premises and equipment, net | 165,466 | 162,721 |
| Real estate held for sale | 161,927 | 188,998 |
| Covered real estate held for sale | 67,908 | 44,155 |
| FDIC indemnification asset | 106,952 | 131,128 |
| FHLB stock | 151,753 | 151,748 |
| Intangible assets, net | 256,616 | 257,718 |
| Federal and state income taxes, net | 9,015 | 8,093 |
| Other assets | 76,266 | 84,799 |
| | \$13,323,340 | \$13,486,379 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Savings and demand accounts | \$8,684,725 | \$8,825,918 |
| Repurchase agreements with customers | 28,965 | 26,622 |
| | 8,713,690 | 8,852,540 |
| FHLB advances | 1,862,997 | 1,865,548 |
| Other borrowings | 800,000 | 800,000 |
| Advance payments by borrowers for taxes and insurance | 23,866 | 39,504 |
| Federal and State income taxes | — | — |
| Accrued expenses and other liabilities | 62,465 | 87,640 |
| | 11,463,018 | 11,645,232 |
| Stockholders' equity | | |
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 129,815,441 and 129,555,956 shares issued; 110,438,317 and 112,483,632 shares outstanding | 129,815 | 129,556 |
| Paid-in capital | 1,581,562 | 1,578,527 |
| Accumulated other comprehensive income, net of taxes | 41,940 | 49,682 |
| Treasury stock, at cost; 19,377,124 and 17,072,324 shares | (245,605) | (208,985) |
| Retained earnings | 352,610 | 292,367 |
| | 1,860,322 | 1,841,147 |
| | \$13,323,340 | \$13,486,379 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Quarter Ended June 30, | | Nine Months Ended June 30, | |
|---|---------------------------------------|-----------------|----------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (In thousands, except per share data) | | | |
| INTEREST INCOME | | | | |
| Loans | \$127,736 | \$141,744 | \$394,286 | \$421,513 |
| Mortgage-backed securities | 30,529 | 21,790 | 80,386 | 70,169 |
| Investment securities and cash equivalents | 3,266 | 3,837 | 10,988 | 6,394 |
| | 161,531 | 167,371 | 485,660 | 498,076 |
| INTEREST EXPENSE | | | | |
| Customer accounts | 27,581 | 37,682 | 89,765 | 111,865 |
| FHLB advances and other borrowings | 27,818 | 30,404 | 83,474 | 92,120 |
| | 55,399 | 68,086 | 173,239 | 203,985 |
| Net interest income | 106,132 | 99,285 | 312,421 | 294,091 |
| Provision for loan losses | 21,000 | 20,736 | 77,750 | 153,909 |
| Net interest income after provision for loan losses | 85,132 | 78,549 | 234,671 | 140,182 |
| OTHER INCOME | | | | |
| Gain on FDIC-assisted transaction | — | — | — | 85,608 |
| Gain on sale of investments | — | — | 8,147 | 20,428 |
| Other | 4,277 | 5,154 | 13,067 | 14,409 |
| | 4,277 | 5,154 | 21,214 | 120,445 |
| OTHER EXPENSE | | | | |
| Compensation and benefits | 18,471 | 16,756 | 54,018 | 54,570 |
| Occupancy | 3,628 | 3,711 | 10,780 | 10,358 |
| FDIC insurance premiums | 5,100 | 4,874 | 15,299 | 13,313 |
| Other | 6,975 | 7,536 | 21,677 | 21,574 |
| | 34,174 | 32,877 | 101,774 | 99,815 |
| Loss on real estate acquired through foreclosure, net | (8,171) | (31,031) | (28,369) | (60,386) |
| Income before income taxes | 47,064 | 19,795 | 125,742 | 100,426 |
| Income tax provision (benefit) | 16,943 | 7,127 | 45,267 | (2,264) |
| NET INCOME | \$30,121 | \$12,668 | \$80,475 | \$102,690 |
| PER SHARE DATA | | | | |
| Basic earnings | \$0.27 | \$0.11 | \$0.72 | \$0.91 |
| Diluted earnings | 0.27 | 0.11 | 0.72 | 0.91 |
| Cash dividends per share | 0.06 | 0.05 | 0.18 | 0.15 |
| Basic weighted average number of shares outstanding | 111,158,254 | 112,470,205 | 111,962,708 | 112,424,364 |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 111,248,177 | 112,705,160 | 112,043,350 | 112,693,009 |
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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Nine Months Ended | |
|---|-------------------|---------------|
| | June 30, 2011 | June 30, 2010 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$80,475 | \$102,690 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization (accretion) of fees, discounts, premiums and intangible assets, net | 32,456 | 7,488 |
| Cash received from FDIC under loss share | 20,977 | 76,140 |
| Depreciation | 4,950 | 4,200 |
| Stock option compensation expense | 815 | 922 |
| Provision for loan losses | 77,750 | 153,909 |
| Loss on investment securities and real estate held for sale, net | 20,222 | 39,958 |
| Gain on FDIC-assisted transaction | — | (85,608) |
| Decrease (increase) in accrued interest receivable | (2,853) |) 7,024 |
| Increase (decrease) in income taxes payable/receivable | 3,575 | (28,350) |
| FHLB stock dividends | (5) |) (4) |
| Decrease (increase) in other assets | 8,533 | (59,778) |
| Decrease in accrued expenses and other liabilities | (25,175) |) (66,101) |
| Net cash provided by operating activities | 221,720 | 152,490 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| (Loan originations) principal collections, net | 336,426 | 185,715 |
| Available-for-sale securities purchased | (1,279,983) |) (1,001,644) |
| Principal payments and maturities of available-for-sale securities | 485,597 | 643,263 |
| Available-for-sale securities sold | 131,361 | 368,309 |
| Principal payments and maturities of held-to-maturity securities | 31,383 | 17,972 |
| Net cash received from acquisition | — | 111,684 |
| Proceeds from sales of real estate held for sale | 63,575 | 103,323 |
| Premises and equipment purchased | (7,695) |) (8,838) |
| Net cash provided (used) by investing activities | (239,336) |) 419,784 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase (decrease) in customer accounts | (138,850) |) 224,909 |
| Net decrease in borrowings | (2,551) |) (137,138) |
| Proceeds from exercise of common stock options | 1,045 | 1,757 |
| Dividends paid | (20,232) |) (16,829) |
| Treasury stock purchased | (36,620) |) — |
| Decrease in advance payments by borrowers for taxes and insurance | (15,638) |) (14,418) |
| Net cash provided (used) by financing activities | (212,846) |) 58,281 |
| Increase in cash and cash equivalents | (230,462) |) 630,555 |
| Cash and cash equivalents at beginning of period | 888,622 | 498,388 |
| Cash and cash equivalents at end of period | \$658,160 | \$1,128,943 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Non-covered real estate acquired through foreclosure | \$64,873 | \$192,091 |
| Covered real estate acquired through foreclosure | 46,008 | 24,459 |
| Cash paid during the period for | | |
| Interest | 174,511 | 203,754 |

| | | |
|--------------|--------|--------|
| Income taxes | 41,627 | 27,489 |
|--------------|--------|--------|

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010
(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. (“Company”). 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, 2010 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 2010 Annual Report on Form 10-K (“2010 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Loans receivable – When a borrower fails to make a required payment on a loan, the Company attempts to cure the deficiency by contacting the borrower. Contact is made after a payment is 30 days past its grace period. In most cases, deficiencies are cured promptly. If the delinquency is not cured within 90 days, the Company may institute appropriate action to foreclose on the property. If foreclosed, the property will be sold at a public sale and may be purchased by the Company.

The Company will consider modifying the interest rates and terms of a loan if it determines that a modification is a better alternative to foreclosure.

Loans are placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. The Company does not accrue interest on loans 90 days past due or more. If payment is made on a loan so that the loan becomes less than 90 days past due, and the Company expects full collection of principal and interest, the loan is returned to full accrual status. Any interest ultimately collected is credited to income in the period of recovery. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations.

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The Company’s methodology for assessing the appropriateness of the allowance consists of two components, which include the general allowance and specific allowances.

The general loan loss allowance is established by applying a loss percentage factor to the different loan types. Management believes loan types are the most relevant factor to group loans for the allowance calculation as the risk characteristics in these groups are similar. The loss percentage factor is made up of 2 parts – the historical loss factor (“HLF”) and the qualitative loss factor (“QLF”). The HLF takes into account historical charge-offs, while the QLF is determined by loan type and allows management to augment reserve levels to reflect the current environment and portfolio performance trends including recent charge-off trends. The allowances are provided based on Management’s continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, collateral values, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company’s control, which may result in losses or recoveries differing from those provided.

Specific allowances are established for loans which are individually evaluated, in cases where Management has identified significant conditions or circumstances related to a loan that Management believes indicate the probability that a loss has been incurred.

Impaired loans consist of loans receivable that are not expected to have their principal and interest repaid in accordance with their contractual terms. Collateral dependent impaired loans are measured using the fair value of the collateral, less selling costs. Non-collateral dependent loans are measured at the present value of expected future cash flows.

The Company receives fees for originating loans in addition to various fees and charges related to existing loans, which may include prepayment charges, late charges and assumption fees. Deferred loan fees and costs are recognized over the life of the loans using the effective interest method.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposure is loans in process (“LIP”), which had a balance at June 30, 2011, excluding covered loans, of \$164,747,000. The Company estimates losses on LIP by including LIP with the related principal balance outstanding and then applying its general reserve methodology to the gross amount.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
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 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010
 (UNAUDITED)

Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

NOTE B – Dividends

On July 22, 2011 the Company paid its 114th consecutive quarterly cash dividend on common stock. Dividends per share were \$.06 and \$.05 for the quarters ended June 30, 2011 and 2010.

NOTE C – Comprehensive Income

The Company's comprehensive income includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive income for the quarters ended June 30, 2011 and June 30, 2010 totaled \$54,481,000 and \$23,809,000 respectively. Total comprehensive income for the nine months ended June 30, 2011 and June 30, 2010 totaled \$72,733,000 and \$103,287,000 respectively. The difference between the Company's net income and total comprehensive income for the nine months ended June 30, 2011 was as follows:

| | (In thousands) |
|--|----------------|
| Comprehensive income: | |
| Net income | \$ 80,475 |
| Other comprehensive income, net of tax of: | |
| Unrealized gain (loss) on securities | (2,589) |
| Reclassification adjustment | (5,153) |
| Total comprehensive income | \$ 72,733 |

NOTE D – Loans Receivable (excluding Covered Loans)

| | June 30, 2011 | | September 30, 2010 | | |
|----------------------------------|----------------|------|--------------------|------|---|
| | (In thousands) | | | | |
| Single-family residential | \$6,281,072 | 74.8 | % \$6,551,837 | 74.7 | % |
| Construction - speculative | 143,964 | 1.7 | 169,712 | 1.9 | |
| Construction - custom | 270,894 | 3.2 | 256,384 | 2.9 | |
| Land - acquisition & development | 230,901 | 2.8 | 307,230 | 3.5 | |
| Land - consumer lot loans | 169,714 | 2.0 | 186,840 | 2.1 | |
| Multi-family | 717,107 | 8.6 | 697,351 | 7.9 | |
| Commercial real estate | 303,023 | 3.6 | 315,915 | 3.6 | |
| Commercial & industrial | 82,091 | 1.0 | 83,070 | 1.0 | |
| HELOC | 114,676 | 1.4 | 116,143 | 1.3 | |
| Consumer | 73,061 | 0.9 | 92,624 | 1.1 | |
| | 8,386,503 | 100 | % 8,777,106 | 100 | % |
| Less: | | | | | |
| Allowance for probable losses | 161,099 | | 163,094 | | |
| Loans in process | 164,747 | | 154,171 | | |
| Deferred net origination fees | 37,047 | | 36,138 | | |
| | 362,893 | | 353,403 | | |

\$8,023,610

\$8,423,703

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 (UNAUDITED)

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

| | June 30, 2011 (In thousands) | | September 30, 2010 | | |
|----------------------------------|---------------------------------|------|--------------------|------|---|
| Non-accrual loans: | | | | | |
| Single-family residential | \$ 129,798 | 55.8 | % \$ 115,155 | 46.8 | % |
| Construction - speculative | 24,539 | 10.5 | 39,915 | 16.3 | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 51,100 | 22.0 | 64,883 | 26.4 | |
| Land - consumer lot loans | 6,148 | 2.6 | 7,540 | 3.1 | |
| Multi-family | 7,850 | 3.4 | 4,931 | 2.0 | |
| Commercial real estate | 12,186 | 5.2 | 10,831 | 4.4 | |
| Commercial & industrial | 257 | 0.1 | 371 | 0.2 | |
| HELOC | 590 | 0.3 | 929 | 0.4 | |
| Consumer | 284 | 0.1 | 977 | 0.4 | |
| Total non-accrual loans | \$ 232,752 | 100 | % \$ 245,532 | 100 | % |

The following table provides an analysis of the age of loans in past due status as of June 30, 2011.

| Type of Loans | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | Total | % based on \$ | |
|----------------------------------|--|---|-----------|-----------|------------|------------|------------------|---|
| | | Current | 30 | 60 | 90 | | | |
| Single-Family Residential | \$ 6,279,633 | \$ 6,063,988 | \$ 48,811 | \$ 37,563 | \$ 129,271 | \$ 215,645 | 3.43 | % |
| Construction - Speculative | 115,271 | 101,797 | 1,372 | 1,546 | 10,556 | 13,474 | 11.69 | % |
| Construction - Custom | 147,339 | 146,704 | 635 | — | — | 635 | 0.43 | % |
| Land - Acquisition & Development | 221,967 | 182,912 | 7,756 | 17,888 | 13,411 | 39,055 | 17.59 | % |
| Land - Consumer Lot Loans | 169,714 | 161,206 | 1,538 | 822 | 6,148 | 8,508 | 5.01 | % |
| Multi-Family | 715,875 | 705,930 | 292 | 7,310 | 2,343 | 9,945 | 1.39 | % |
| Commercial Real Estate | 302,142 | 291,692 | 1,546 | 5,702 | 3,202 | 10,450 | 3.46 | % |
| Commercial & Industrial | 82,078 | 81,784 | 140 | 26 | 128 | 294 | 0.36 | % |
| HELOC | 114,676 | 113,603 | 216 | 267 | 590 | 1,073 | 0.94 | % |
| Consumer | 73,061 | 70,934 | 1,342 | 501 | 284 | 2,127 | 2.91 | % |
| | \$ 8,221,756 | \$ 7,920,550 | \$ 63,648 | \$ 71,625 | \$ 165,933 | \$ 301,206 | 3.66 | % |

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 defined 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.

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

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

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

The following table summarizes the activity in the allowance for loan losses for the quarter ended June 30, 2011:

| | Beginning Allowance (In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|----------------------------------|--|-------------|------------|--------------------------|---------------------|
| Single-family residential | \$66,883 | \$(8,985) |) \$969 | \$15,694 | \$74,561 |
| Construction - speculative | 21,536 | (733) |) 564 | 1,108 | 22,475 |
| Construction - custom | 548 | (80) |) — | 122 | 590 |
| Land - acquisition & development | 44,648 | (12,027) |) 158 | 2,576 | 35,355 |
| Land - consumer lot loans | 5,675 | (1,169) |) — | 1,307 | 5,813 |
| Multi-family | 8,007 | (1,100) |) — | 22 | 6,929 |
| Commercial real estate | 3,499 | (75) |) 53 | 874 | 4,351 |
| Commercial & industrial | 6,406 | (189) |) 70 | (1,224) |) 5,063 |
| HELOC | 1,148 | (496) |) 110 | 386 | 1,148 |
| Consumer | 5,267 | (983) |) 395 | 135 | 4,814 |
| | \$163,617 | \$(25,837) |) \$2,319 | \$21,000 | \$161,099 |

The Company recorded a \$21,000,000 provision for loan losses during the quarter ended June 30, 2011, while a \$20,736,000 provision was recorded for the same quarter one year ago. Non-performing assets (“NPAs”) amounted to \$394,679,000, or 2.96%, of total assets at June 30, 2011, compared to \$473,121,000, or 3.45%, of total assets one year ago. Covered loans are not classified as non-performing loans because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under FDIC loss sharing agreements. There was no allowance for loan losses related to the covered loans at June 30, 2011, as these loans are performing as anticipated or better than the projections used in the purchase accounting fair value calculations. Non-accrual loans decreased from \$292,335,000 at June 30, 2010, to \$232,752,000 at June 30, 2011, a 20.4% decrease. The Company had net charge-offs of \$23,519,000 for the quarter ended June 30, 2011, compared with \$41,862,000 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. While the percentage of loans 30 days or more delinquent decreased from 3.95% at June 30, 2010, to 3.66% at June 30, 2011, delinquencies in the single-family residential portfolio, the largest portion of the loan portfolio, increased from 3.09% at June 30, 2010, to 3.43% at June 30, 2011. In addition to these mixed asset quality trends, real estate values remain under pressure in most of the Company's primary markets, thus the Company recorded a similar provision for loan losses in the current quarter as compared to the same quarter one year ago. \$114,159,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$46,940,000 was made up of specific reserves on loans that were deemed to be impaired at June 30, 2011. For the period ending June 30, 2010, \$89,759,000 of the

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
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allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$83,668,000 was made up of specific reserves on loans that were deemed to be impaired. The primary reasons for 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 table shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of June 30, 2011:

| | 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 | \$70,755 | \$ 6,265,274 | 1.1 | % \$3,806 | \$ 15,798 | 24.1 | % |
| Construction - speculative | 15,069 | 98,464 | 15.3 | 7,406 | 45,500 | 16.3 | |
| Construction - custom | 590 | 270,894 | 0.2 | — | — | — | |
| Land - acquisition & development | 6,196 | 53,351 | 11.6 | 29,159 | 177,550 | 16.4 | |
| Land - consumer lot loans | 4,579 | 167,418 | 2.7 | 1,234 | 2,296 | 53.7 | |
| Multi-family | 3,474 | 695,986 | 0.5 | 3,455 | 21,121 | 16.4 | |
| Commercial real estate | 2,690 | 268,519 | 1.0 | 1,661 | 34,504 | 4.8 | |
| Commercial & industrial | 4,844 | 77,884 | 6.2 | 219 | 4,207 | 5.2 | |
| HELOC | 1,148 | 114,676 | 1.0 | — | — | — | |
| Consumer | 4,814 | 73,061 | 6.6 | — | — | — | |
| | \$114,159 | \$ 8,085,527 | 1.4 | \$46,940 | \$ 300,976 | 15.6 | |

(1) Excludes covered loans

The following tables provide information on loans based on credit quality indicators (defined in Note A) as of June 30, 2011:

Credit Risk Profile by Internally Assigned Grade:

| | Internally Assigned Grade | | | | | Total Gross Loans |
|----------------------------------|---------------------------|-----------------|-------------|----------|------|-------------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| | (In thousands) | | | | | |
| Single-family residential | \$6,149,861 | \$— | \$131,211 | \$— | \$— | \$6,281,072 |
| Construction - speculative | 31,871 | 5,484 | 106,609 | — | — | 143,964 |
| Construction - custom | 270,894 | — | — | — | — | 270,894 |
| Land - acquisition & development | 42,791 | 2,470 | 185,640 | — | — | 230,901 |
| Land - consumer lot loans | 169,590 | — | 124 | — | — | 169,714 |
| Multi-family | 680,729 | 3,756 | 32,622 | — | — | 717,107 |
| Commercial real estate | 263,993 | 4,345 | 34,685 | — | — | 303,023 |
| Commercial & industrial | 75,834 | 1,316 | 4,941 | — | — | 82,091 |

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| | | | | | | |
|---|-------------|----------|-----------|-----|-----|-------------|
| HELOC | 114,676 | — | — | — | — | 114,676 |
| Consumer | 72,264 | 511 | 286 | — | — | 73,061 |
| | \$7,872,503 | \$17,882 | \$496,118 | \$— | \$— | \$8,386,503 |
| Total grade as a % of total gross loans | 93.9 | % 0.2 | % 5.9 | % — | % — | % |

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Credit Risk Profile Based on Payment Activity:

| | Performing Loans | | Non-Performing Loans | | |
|----------------------------------|------------------|---------------------------|----------------------|---------------------------|---|
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans | |
| | (In thousands) | | | | |
| Single-family residential | \$6,151,274 | 97.9 | % \$129,798 | 2.1 | % |
| Construction - speculative | 119,425 | 83.0 | 24,539 | 17.0 | |
| Construction - custom | 270,894 | 100.0 | — | — | |
| Land - acquisition & development | 179,801 | 77.9 | 51,100 | 22.1 | |
| Land - consumer lot loans | 163,566 | 96.4 | 6,148 | 3.6 | |
| Multi-family | 709,257 | 98.9 | 7,850 | 1.1 | |
| Commercial real estate | 290,837 | 96.0 | 12,186 | 4.0 | |
| Commercial & industrial | 81,834 | 99.7 | 257 | 0.3 | |
| HELOC | 114,086 | 99.5 | 590 | 0.5 | |
| Consumer | 72,777 | 99.6 | 284 | 0.4 | |
| | \$8,153,751 | 97.2 | \$232,752 | 2.8 | |

The following table provides information on impaired loans based on loan types as of June 30, 2011:

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| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| | (In thousands) | | | |
| With no related allowance recorded: | | | | |
| Single-family residential | \$— | \$— | \$— | \$— |
| Construction - speculative | 23,523 | 32,184 | — | 28,839 |
| Construction - custom | — | — | — | — |
| Land - acquisition & development | 44,320 | 78,408 | — | 26,180 |
| Land - consumer lot loans | — | — | — | — |
| Multi-family | 5,206 | 6,306 | — | 2,564 |
| Commercial real estate | 16,399 | 16,885 | — | 5,536 |
| Commercial & industrial | — | — | — | — |
| HELOC | — | — | — | — |
| Consumer | — | — | — | — |
| | 89,448 | 133,783 | — | 63,119 |
| With an allowance recorded: | | | | |
| Single-family residential | 287,504 | 287,504 | 25,368 | 251,584 |
| Construction - speculative | 41,914 | 42,091 | 7,406 | 37,197 |
| Construction - custom | — | — | — | — |
| Land - acquisition & development | 64,836 | 64,836 | 29,159 | 41,410 |
| Land - consumer lot loans | — | — | 1,234 | — |
| Multi-family | 16,934 | 16,934 | 3,455 | 6,097 |
| Commercial real estate | 3,784 | 3,784 | 1,661 | 1,632 |
| Commercial & industrial | 279 | 279 | 219 | 741 |
| HELOC | — | — | — | — |
| Consumer | — | — | — | — |
| | 415,251 | 415,428 | 68,502 | (1) 338,661 |
| Total: | | | | |
| Single-family residential | 287,504 | 287,504 | 25,368 | 251,584 |
| Construction - speculative | 65,437 | 74,275 | 7,406 | 66,036 |
| Construction - custom | — | — | — | — |
| Land - acquisition & development | 109,156 | 143,244 | 29,159 | 67,590 |
| Land - consumer lot loans | — | — | 1,234 | — |
| Multi-family | 22,140 | 23,240 | 3,455 | 8,661 |
| Commercial real estate | 20,183 | 20,669 | 1,661 | 7,168 |
| Commercial & industrial | 279 | 279 | 219 | 741 |
| HELOC | — | — | — | — |
| Consumer | — | — | — | — |
| | \$ 504,699 | \$ 549,211 | \$ 68,502 | (1) \$ 401,780 |

(1) Includes \$46,940,000 of specific reserves and \$21,562,000 included in the general reserves.

NOTE F – New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurements and Disclosure

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Requirements in U.S. GAAP and IFRSs. ASU 2011-04 developed common requirements between U.S. GAAP and IFRSs for measuring fair value and for disclosing information about fair value measurements. The effective date of ASU 2011-04 will be during interim or annual period beginning after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220) – Presentation of Comprehensive Income. ASU 2011-05 attempts to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The effective date of ASU 2011-05 will be the first interim or fiscal period beginning after December 15, 2011 and should be applied retrospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is permitted. The Company is evaluating the impact this ASU will have on its financial condition and results of operations.

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.

The following is a description of the valuation methodologies used to measure and report 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. 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.

The following table presents the balance of assets measured at fair value on a recurring basis at June 30, 2011:

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| | Fair Value at June 30, 2011 | | | Total |
|--|-----------------------------|-------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| | (In thousands) | | | |
| Available-for-sale securities | | | | |
| Equity securities | \$— | \$520 | \$— | \$520 |
| Obligations of U.S. government | — | 275,625 | — | 275,625 |
| Obligations of states and political subdivisions | — | 21,969 | — | 21,969 |
| Obligations of foreign governments | — | — | — | — |
| Corporate debt securities | — | 10,811 | — | 10,811 |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | — | 2,817,485 | — | 2,817,485 |
| Other debt securities | — | — | — | — |
| Balance at end of period | \$— | \$3,126,410 | \$— | \$3,126,410 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2011.

Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Held for Sale

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

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

The following table presents the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the quarter ended June 30, 2011, and the total losses resulting from those fair value adjustments for the quarter and nine months ended June 30, 2011. The following estimated fair values are shown gross of estimated selling costs:

| | Through June 30, 2011 | | | | Quarter Ended | Nine Months Ended |
|-------------------------------|-----------------------|---------|-----------|-----------|---------------|-------------------|
| | Level 1 | Level 2 | Level 3 | Total | June 30, 2011 | June 30, 2011 |
| | (In thousands) | | | | Total Losses | |
| Impaired loans (1) | \$— | \$— | \$199,547 | \$199,547 | \$6,586 | \$35,890 |
| Real estate held for sale (2) | — | — | 120,252 | 120,252 | 9,019 | 34,364 |
| Balance at end of period | \$— | \$— | \$319,799 | \$319,799 | \$15,605 | \$70,254 |

(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 June 30, 2011.

Fair Values of Financial Instruments

U. S. GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of

any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

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| | June 30, 2011 | | September 30, 2010 | |
|--|-----------------|----------------------|--------------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (In thousands) | | | |
| Financial assets | | | | |
| Cash and cash equivalents | \$658,160 | \$658,160 | \$888,622 | \$888,622 |
| Available-for-sale securities: | | | | |
| Equity securities | 520 | 520 | — | — |
| Obligations of U.S. government | 275,625 | 275,625 | 341,006 | 341,006 |
| Obligations of states and political subdivisions | 21,969 | 21,969 | — | — |
| Obligations of foreign governments | — | — | — | — |
| Corporate debt securities | 10,811 | 10,811 | 10,000 | 10,000 |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | 2,817,485 | 2,817,485 | 2,130,087 | 2,130,087 |
| Other debt securities | — | — | — | — |
| Total available-for-sale securities | 3,126,410 | 3,126,410 | 2,481,093 | 2,481,093 |
| Held-to-maturity securities: | | | | |
| Equity securities | — | — | — | — |
| Obligations of U.S. government | — | — | — | — |
| Obligations of states and political subdivisions | 1,950 | 2,048 | 7,055 | 7,269 |
| Obligations of foreign governments | — | — | — | — |
| Corporate debt securities | — | — | — | — |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | 47,553 | 50,890 | 73,052 | 77,631 |
| Other debt securities | — | — | — | — |
| Total held-to-maturity securities | 49,503 | 52,938 | 80,107 | 84,900 |
| Loans receivable | 8,023,611 | 8,600,812 | 8,423,703 | 8,899,937 |
| Covered loans | 417,881 | 412,171 | 534,474 | 534,474 |
| FHLB stock | 151,753 | 151,753 | 151,748 | 151,748 |
| Financial liabilities | | | | |
| Customer accounts | 8,713,690 | 8,557,383 | 8,852,540 | 8,811,009 |
| FHLB advances and other borrowings | 2,662,997 | 2,907,059 | 2,665,548 | 2,965,921 |

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 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.

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

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rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

FHLB 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 is a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities:

| | June 30, 2011 | | | Fair Value | Yield | |
|---|----------------------------------|-------------|-------------------|-------------|-------|---|
| | Amortized Cost (In thousands) | Gross Gains | Unrealized Losses | | | |
| Available-for-sale securities | | | | | | |
| U.S. government and agency securities due | | | | | | |
| Within 1 year | \$500 | \$20 | \$— | \$520 | 4.00 | % |
| 1 to 5 years | — | — | — | — | — | % |
| 5 to 10 years | 9,300 | 4,381 | — | 13,681 | 10.38 | % |
| Over 10 years | 295,974 | 1,502 | (13,563) | 283,913 | 3.07 | % |
| Corporate bonds due | | | | | | |
| 5 to 10 years | 10,000 | 811 | — | 10,811 | 6.00 | % |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 2,744,328 | 81,404 | (8,247) | 2,817,485 | 4.79 | % |
| | 3,060,102 | 88,118 | (21,810) | 3,126,410 | 4.65 | % |
| Held-to-maturity securities | | | | | | |
| Tax-exempt municipal bonds due | | | | | | |
| 1 to 5 years | — | — | — | — | — | % |
| 5 to 10 years | 1,950 | 98 | — | 2,048 | 5.72 | % |
| Over 10 years | — | — | — | — | — | % |
| U.S. government and agency securities due | | | | | | |
| 1 to 5 years | — | — | — | — | — | % |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 47,553 | 3,337 | — | 50,890 | 5.31 | % |
| | 49,503 | 3,435 | — | 52,938 | 5.33 | % |
| | \$3,109,605 | \$91,553 | \$(21,810) | \$3,179,348 | 4.66 | % |

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| | September 30, 2010 | | | | | |
|---|-------------------------------------|----------------|----------------------|---------------|-------|---|
| | Amortized Cost (In thousands) | Gross Gains | Unrealized Losses | Fair Value | Yield | |
| Available-for-sale securities | | | | | | |
| U.S. government and agency securities due | | | | | | |
| Within 1 year | \$ 500 | \$ 26 | \$— | \$ 526 | 4.00 | % |
| 1 to 5 years | 25,000 | 180 | — | 25,180 | 3.25 | % |
| 5 to 10 years | 158,915 | 5,344 | (105) | 164,154 | 3.59 | % |
| Over 10 years | 150,000 | 1,161 | (15) | 151,146 | 3.50 | % |
| Corporate bonds due | | | | | | |
| 5 to 10 years | 10,000 | — | — | 10,000 | 6.00 | % |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 2,058,130 | 72,853 | (896) | 2,130,087 | 5.26 | % |
| | 2,402,545 | 79,564 | (1,016) | 2,481,093 | 5.02 | % |
| Held-to-maturity securities | | | | | | |
| Tax-exempt municipal bonds due | | | | | | |
| 1 to 5 years | 1,105 | 65 | — | 1,170 | 6.11 | % |
| 5 to 10 years | 1,940 | 115 | — | 2,055 | 5.67 | % |
| Over 10 years | 4,010 | 34 | — | 4,044 | 5.60 | % |
| U.S. government and agency securities due | | | | | | |
| 1 to 5 years | — | — | — | — | — | % |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 73,052 | 4,579 | — | 77,631 | 5.59 | % |
| | 80,107 | 4,793 | — | 84,900 | 5.60 | % |
| | \$ 2,482,652 | \$ 84,357 | \$(1,016) | \$ 2,565,993 | 5.04 | % |

During the period ending June 30, 2011, \$131,361,000 of available-for-sale securities were sold, resulting in a gain of \$8,147,000. \$368,309,000 of available-for-sale securities were sold during the period ending June 30, 2010, resulting in a gain of \$20,428,000.

Substantially all mortgage-backed securities have contractual due dates that exceed 10 years.

The following table shows the unrealized gross losses and fair value of securities at June 30, 2011, by length of time that individual securities in each category have been in a continuous loss position. There were no securities that were in a continuous loss position for 12 or more months as of June 30, 2011. While the Company had \$21,810,000 of securities that were in a continuous loss position for less than 12 months as of June 30, 2011, Management believes that the declines in fair value of these investments are not an other than temporary impairment.

| | Less than 12 months | | 12 months or more | | Total | |
|----------------------------------|----------------------------|---------------|----------------------------|---------------|----------------------------|---------------|
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| U.S. agency securities | \$(13,563) | \$ 261,945 | \$— | \$— | \$(13,563) | \$ 261,945 |
| Agency pass-through certificates | (8,247) | 779,449 | — | — | (8,247) | 779,449 |

(21,810) \$1,041,394 \$— \$— (21,810) \$1,041,394

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

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and were \$485,789,000 as of June 30, 2011, versus \$578,629,000 as of September 30, 2010.

Changes in the carrying amount and accretible yield for acquired impaired and non-impaired loans were as follows for the quarter ended June 30, 2011:

| | Acquired Impaired | | Acquired Non-impaired | |
|--------------------------------|-------------------|--------------------------|-----------------------|--------------------------|
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance at beginning of period | \$27,019 | \$190,530 | \$39,813 | \$343,944 |
| Accretion | (8,337 |) 8,337 | (7,058 |) 7,058 |
| Transfers to REO | | (46,008 |) — | |
| Payments received, net | | (24,152 |) — | (61,828 |
| Balance at end of period | \$18,682 | \$128,707 | \$32,755 | \$289,174 |

At June 30, 2011, 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. There was no allowance for loan losses related to the covered loans at June 30, 2011, as these loans are performing as anticipated in the projections used in the purchase accounting fair value calculations.

The outstanding principal balance of acquired loans was \$540,133,000 and \$685,384,000 as of June 30, 2011 and September 30, 2010, respectively. The discount balance related to the acquired loans was \$122,252,000 and \$150,910,000 as of June 30, 2011 and September 30, 2010, respectively.

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

| | June 30, 2011 | September 30, 2010 |
|--------------------------------|------------------|-----------------------|
| | (In thousands) | |
| Balance at beginning of period | \$131,128 | \$— |
| Additions | — | 227,500 |
| Payments received | (20,978 |) (92,551 |
| Amortization | (5,645 |) (8,150 |
| Accretion | 2,447 | 4,329 |
| Balance at end of period | \$106,952 | \$131,128 |

The following tables provide information on covered loans based on credit quality indicators (defined in Note A) as of June 30, 2011:

Credit Risk Profile by Internally Assigned Grade:

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| | Internally Assigned Grade | | | | | Total Net Loans |
|---------------------------------------|---------------------------|-----------------|-------------|----------|------|------------------------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| (In thousands) | | | | | | |
| Purchased non-credit impaired loans: | | | | | | |
| Single-family residential | \$47,898 | \$— | \$626 | \$— | \$— | \$48,524 |
| Construction - speculative | 2,253 | — | — | — | — | 2,253 |
| Construction - custom | — | — | — | — | — | — |
| Land - acquisition & development | 8,878 | 7,277 | 324 | — | — | 16,479 |
| Land - consumer lot loans | 562 | — | 111 | — | — | 673 |
| Multi-family | 32,827 | — | 2,462 | — | — | 35,289 |
| Commercial real estate | 126,838 | 530 | 29,784 | — | — | 157,152 |
| Commercial & industrial | 20,489 | 4,886 | 5,821 | — | — | 31,196 |
| HELOC | 22,161 | — | — | — | — | 22,161 |
| Consumer | 1,311 | — | — | — | — | 1,311 |
| | 263,217 | 12,693 | 39,128 | — | — | 315,038 |
| Total grade as a % of total net loans | 83.6 | % 4.0 | % 12.4 | % — | % — | % |
| Purchased credit impaired loans: | | | | | | |
| Pool 1 - Construction and land A&D | 9,062 | 3,975 | 63,912 | — | — | 76,949 |
| Pool 2 - Single-family residential | 3,911 | — | 9,030 | — | — | 12,941 |
| Pool 3 - Multi-family | — | — | 3,342 | — | — | 3,342 |
| Pool 4 - HELOC & other consumer | 3,888 | — | 5,504 | — | — | 9,392 |
| Pool 5 - Commercial real estate | 1,553 | 29,985 | 49,824 | — | — | 81,362 |
| Pool 6 - Commercial & industrial | 515 | 5,327 | 35,267 | — | — | 41,109 |
| | \$18,929 | \$39,287 | \$166,879 | \$— | \$— | 225,095 |
| | | | | | | Total covered loans 540,133 |
| | | | | | | Discount (122,252) |
| | | | | | | Covered loans, net \$417,881 |

The following table provides an analysis of the age of purchased non-credit impaired loans in past due status for the period ended June 30, 2011.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTER AND NINE MONTHS ENDED JUNE 30, 2011 AND 2010
 (UNAUDITED)

| Type of Loans | Amount of Loans Net of LIP & Chg.-Off | Days Delinquent Based on \$ Amount of Loans | | | | | Total | % based on \$ | |
|--|--|---|---------|---------|---------|----------|-------|------------------|--|
| | | Current | 30 | 60 | 90 | | | | |
| Single-Family Residential | \$ 48,524 | \$43,880 | \$2,527 | \$16 | \$2,101 | \$4,644 | 9.57 | % | |
| Construction - Speculative | 2,253 | 2,253 | — | — | — | — | — | % | |
| Construction - Custom Land - Acquisition & Development | — | — | — | — | — | — | — | % | |
| Land - Consumer Lot Loans | 16,479 | 15,658 | 590 | — | 231 | 821 | 4.98 | % | |
| Multi-Family | 673 | 546 | 16 | — | 111 | 127 | 18.87 | % | |
| Commercial Real Estate | 35,289 | 33,577 | 204 | — | 1,508 | 1,712 | 4.85 | % | |
| Commercial & Industrial | 157,152 | 152,999 | 2,756 | 152 | 1,245 | 4,153 | 2.64 | % | |
| HELOC | 31,196 | 28,913 | 203 | 776 | 1,304 | 2,283 | 7.32 | % | |
| Consumer | 22,161 | 19,647 | 1,753 | 389 | 372 | 2,514 | 11.34 | % | |
| | 1,311 | 1,093 | 150 | 9 | 59 | 218 | 16.63 | % | |
| | \$ 315,038 | \$298,566 | \$8,199 | \$1,342 | \$6,931 | \$16,472 | 7.97 | % | |

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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 to be 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, including without limitation the Bank’s ability to comply in a timely and satisfactory manner with the requirements of the memorandum of understanding entered into with the Office of Thrift Supervision. 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. (“Company”) is a savings and loan holding company. The Company’s primary operating subsidiary is Washington Federal. The name of the primary operating subsidiary was changed from Washington Federal Savings to Washington Federal effective July 7, 2011.

INTEREST RATE RISK

The Company accepts a higher level of interest rate volatility 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. As a result, assets do not respond as quickly to changes in interest rates as liabilities and net interest income typically declines when interest rates rise and expands when interest rates fall as compared to a portfolio of matched maturities of assets and liabilities.

At June 30, 2011, the Company had approximately \$2.7 billion more liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 20% of total assets. This is an increase from the 16% gap as of September 30, 2010. During the current year, the Company has changed the model used to calculate these one year maturity gap results. Results for previous periods have been revised using the output from the new model. The new model uses the Company's specific data, at a granular level, to project estimated cash flows on loans and deposits. In particular, the loan prepayment assumptions incorporate our recent portfolio experience.

The potential impact of rising interest rates on net income for one year has also been estimated using the new model. In the event of an immediate and parallel increase of 200 basis points in interest rates, we would expect net interest income to decrease by 7.4%. In the event of a gradual increase from current rates by 200 basis points over a twelve-month period, we would expect a decrease in net interest income of 2.4%.

This analysis continues to assume zero balance sheet growth and 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.

The net portfolio value (“NPV”) is the difference between the present value of interest-bearing assets and the present value of expected cash flows from interest-earning 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 \$829 million and the NPV to total assets ratio to decline to 9.92%. As of September 30, 2010, the estimated decrease in NPV in the event of a 200 basis point decline in rates was estimated to decline by \$398 million and the NPV to total assets ratio to decline to 11.49%. This increase in NPV sensitivity is primarily due to slower prepayment estimates.

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The interest rate spread increased to 3.15% at June 30, 2011 from 3.09% at September 30, 2010. The spread increased due to a continued declining cost of deposits based on the low interest rate environment. As of June 30, 2011, the weighted average rate on earning assets decreased by 14 basis points compared to September 30, 2010, while the weighted average rates on customer deposit accounts and borrowings decreased by 20 basis points over the same period.

As of June 30, 2011, the Company had decreased total assets by \$163,039,000, or 1.2%, from \$13,486,379,000 at September 30, 2010. For the quarter ended June 30, 2011, compared to September 30, 2010, loans (both non-covered and covered) decreased \$516,686,000, or 5.8%. To help offset the reduced income from loans, investment securities increased \$614,713,000, or 24.0%. Cash and cash equivalents of \$658,160,000 and stockholders’ equity of \$1,860,322,000 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s net worth at June 30, 2011 was \$1,860,322,000, or 13.96%, of total assets. This was an increase of \$19,175,000 from September 30, 2010 when net worth was \$1,841,147,000, or 13.65%, of total assets. The Company’s net worth was impacted in the quarter by net income of \$30,121,000, the payment of \$6,712,000 in cash dividends, treasury stock purchases that totaled \$26,016,000, as well as an increase in other comprehensive income of \$24,360,000.

Management believes this strong net worth position will help the Company manage its interest rate risk 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.

| | Actual | | Capital Adequacy Guidelines | | Categorized as Well Capitalized Under Prompt Corrective Action Provisions | | |
|--|---------------------------|-------|-----------------------------|-------|---|-------|---|
| | Capital (In thousands) | Ratio | Capital | Ratio | Capital | Ratio | |
| June 30, 2011 | | | | | | | |
| Total capital to risk-weighted assets | \$1,619,301 | 24.26 | % \$533,881 | 8.00 | % \$667,351 | 10.00 | % |
| Tier I capital to risk-weighted assets | 1,536,983 | 23.03 | % N/A | N/A | 400,411 | 6.00 | % |
| Core capital to adjusted tangible assets | 1,536,983 | 11.82 | % N/A | N/A | 650,082 | 5.00 | % |
| Core capital to total assets | 1,536,983 | 11.82 | % 390,049 | 3.00 | % N/A | N/A | |
| Tangible capital to tangible assets | 1,536,983 | 11.82 | % 195,025 | 1.50 | % N/A | N/A | |
| September 30, 2010 | | | | | | | |
| Total capital to risk-weighted assets | 1,619,206 | 23.39 | % 553,761 | 8.00 | % 692,201 | 10.00 | % |
| Tier I capital to risk-weighted assets | 1,534,681 | 22.17 | % N/A | N/A | 415,321 | 6.00 | % |
| Core capital to adjusted tangible assets | 1,534,681 | 11.67 | % N/A | N/A | 657,606 | 5.00 | % |
| Core capital to total assets | 1,534,681 | 11.67 | % 394,563 | 3.00 | % N/A | N/A | |
| Tangible capital to tangible assets | 1,534,681 | 11.67 | % 197,282 | 1.50 | % N/A | N/A | |

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities increased \$645,317,000, or 26.0%, during the nine months ended June 30, 2011, which included the purchase of \$1,279,983,000 of available-for-sale investment securities. During the same period, \$131,361,000 of available-for-sale securities were sold at a gain of \$8,147,000. There were no purchases or sales of held-to-maturity securities in the same period. As of June 30, 2011, the Company had net unrealized gains on available-for-sale securities of \$41,940,000, net of tax, which were recorded as part of stockholders' equity. The Company increased its available-for-sale investment portfolio to partially invest additional customer deposits and replace some of the lost interest income on

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maturing or prepaying loans and mortgage-backed securities.

Loans receivable: During the quarter ended June 30, 2011, the balance of loans receivable decreased 4.7% to \$8,023,610,000 compared to \$8,423,703,000 at September 30, 2010. This decrease is consistent with management’s strategy to reduce the Company’s exposure to land and construction loans and not aggressively compete for 30 year fixed-rate mortgages at current market rates. The Company’s current decision not to originate and hold in its loan portfolio 30 year fixed-rate loans at rates below 4.50%, due to the duration risk associated with such low mortgage rates, contributed to the net run off of the loan portfolio. Additionally, during the year to date period, \$64,873,000 of loans were transferred to REO. If the current low rates on 30 year fixed-rate mortgages persist, management will consider continuing to shrink the Company's loan portfolio. The following table shows the loan portfolio by category for the last three quarters.

| Loan Portfolio by Category * | December 31, 2010 (In thousands) | | March 31, 2011 | | June 30, 2011 | | | |
|----------------------------------|-------------------------------------|------|----------------|------|---------------|------|---|--|
| Single-family residential | \$6,333,040 | 74.9 | % \$6,254,244 | 75.0 | % \$6,281,072 | 74.8 | % | |
| Construction - speculative | 146,933 | 1.7 | 145,282 | 1.7 | 143,964 | 1.7 | | |
| Construction - custom | 239,337 | 2.8 | 243,739 | 2.9 | 270,894 | 3.2 | | |
| Land - acquisition & development | 275,396 | 3.3 | 253,377 | 3.0 | 230,901 | 2.8 | | |
| Land - consumer lot loans | 181,205 | 2.1 | 174,929 | 2.1 | 169,714 | 2.0 | | |
| Multi-family | 696,601 | 8.2 | 717,533 | 8.6 | 717,107 | 8.6 | | |
| Commercial real estate | 315,332 | 3.7 | 294,181 | 3.5 | 303,023 | 3.6 | | |
| Commercial & industrial | 78,082 | 0.9 | 74,248 | 0.9 | 82,091 | 1.0 | | |
| HELOC | 115,660 | 1.4 | 114,840 | 1.4 | 114,676 | 1.4 | | |
| Consumer | 85,987 | 1.0 | 79,184 | 0.9 | 73,061 | 0.9 | | |
| | 8,467,573 | 100 | % 8,351,557 | 100 | % 8,386,503 | 100 | % | |
| Less: | | | | | | | | |
| Allowance for probable losses | 159,288 | | 163,617 | | 161,099 | | | |
| Loans in process | 129,472 | | 142,776 | | 164,747 | | | |
| Deferred net origination fees | 35,865 | | 36,503 | | 37,047 | | | |
| | 324,625 | | 342,896 | | 362,893 | | | |
| | \$8,142,948 | | \$8,008,661 | | \$8,023,610 | | | |

* Excludes covered loans

Covered loans: As of June 30, 2011, covered loans had decreased 21.8%, or \$116,593,000, to \$417,881,000, compared to September 30, 2010, due to continued paydowns and transfers of the properties into covered real estate owned.

Non-performing assets: Non-performing assets, which excludes covered assets acquired in FDIC-assisted transactions, decreased during the quarter ended June 30, 2011 to \$394,679,000 from \$434,530,000 at September 30, 2010, a 9.2% 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 over the last three years. Non-performing assets as a percentage of total assets was 2.96% at June 30, 2011 compared to 3.22% at September 30, 2010. This level of NPAs remains significantly higher than the 0.82% average in the Company’s 28+ year history as a public company. The Company anticipates NPAs will continue to be elevated in the future until the residential real estate market stabilizes and values recover.

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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| | June 30, 2011 (In thousands) | | September 30, 2010 | | |
|---|------------------------------------|------|-----------------------|------|---|
| Restructured loans: | | | | | |
| Single-family residential | \$283,445 | 78.0 | % \$207,040 | 75.9 | % |
| Construction - speculative | 14,922 | 4.1 | 9,893 | 3.6 | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 32,505 | 8.9 | 33,497 | 12.3 | |
| Land - consumer lot loans | 10,493 | 2.9 | 7,095 | 2.6 | |
| Multi - family | 19,914 | 5.5 | 12,862 | 4.7 | |
| Commercial real estate | 1,449 | 0.4 | 1,503 | 0.6 | |
| Commercial & industrial | 857 | 0.2 | 954 | 0.3 | |
| HELOC | 78 | — | 78 | — | |
| Consumer | — | — | — | — | |
| Total restructured loans (1) | 363,663 | 100 | % 272,922 | 100 | % |
| Non-accrual loans: | | | | | |
| Single-family residential | 129,798 | 55.8 | % 115,155 | 46.8 | % |
| Construction - speculative | 24,539 | 10.5 | 39,915 | 16.3 | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 51,100 | 22.0 | 64,883 | 26.4 | |
| Land - consumer lot loans | 6,148 | 2.6 | 7,540 | 3.1 | |
| Multi-family | 7,850 | 3.4 | 4,931 | 2.0 | |
| Commercial real estate | 12,186 | 5.2 | 10,831 | 4.4 | |
| Commercial & industrial | 257 | 0.1 | 371 | 0.2 | |
| HELOC | 590 | 0.3 | 929 | 0.4 | |
| Consumer | 284 | 0.1 | 977 | 0.4 | |
| Total non-accrual loans (2) | 232,752 | 100 | % 245,532 | 100 | % |
| Total REO (3) | 132,006 | | 160,754 | | |
| Total REHI (3) | 29,921 | | 28,244 | | |
| Total non-performing assets | \$394,679 | | \$434,530 | | |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 5.19 | % | 4.89 | % | |
| (1) Restructured loans were as follows: | | | | | |
| Performing | \$297,423 | 81.8 | % \$225,195 | 82.5 | % |
| Non-accrual * | 66,240 | 18.2 | 47,727 | 17.5 | |
| | \$363,663 | 100 | % \$272,922 | 100 | % |

* Included in "Total non-accrual loans" above

The Company recognized interest income on nonaccrual loans of approximately \$3,293,000 in the nine months (2)ended June 30, 2011. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$10,384,000 for the nine months ended June 30, 2011.

In addition to the nonaccrual loans reflected in the above table, at June 30, 2011, the Company had \$235,528,000 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 6.96% at June 30, 2011.

(3) Total REO and REHI (included in real estate held for sale on the Statement of Financial Condition) includes real estate held

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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 78% of restructured loans as of June 30, 2011. 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. The subsequent default rate on restructured single-family mortgage loans has been approximately 15% since inception of the program in November 2008. Concessions for construction (4.1%), land A&D (8.9%) and multi-family loans (5.5%) are typically an extension of maturity combined with a rate reduction of normally 100 bps. The subsequent default rate on restructured commercial loans has been less than 10% since December 2009.

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.

| | June 30, 2011 | | | September 30, 2010 | | |
|-------------------------------------|----------------|--------------------------------|-----------------------|--------------------|--------------------------------|-----------------------|
| | Amount | Loans to Total Loans (1) | Coverage Ratio (2) | Amount | Loans to Total Loans (1) | Coverage Ratio (2) |
| | (In thousands) | | | | | |
| Single-family residential | \$74,561 | 74.8 | % 1.2 | % \$47,381 | 74.8 | % 0.7 |
| Construction - speculative | 22,475 | 1.7 | 15.3 | 26,666 | 1.9 | 15.7 |
| Construction - custom | 590 | 3.2 | 0.2 | 450 | 2.9 | 0.2 |
| Land - acquisition & development | 35,355 | 2.8 | 12.8 | 61,530 | 3.5 | 20.0 |
| Land - consumer lot loans | 5,813 | 2.0 | 3.2 | 4,793 | 2.1 | 2.6 |
| Multi-family | 6,929 | 8.6 | 1.0 | 5,050 | 7.9 | 0.7 |
| Commercial real estate | 4,351 | 3.6 | 1.4 | 3,165 | 3.6 | 1.0 |
| Commercial & industrial | 5,063 | 1.0 | 6.5 | 6,079 | 0.9 | 7.3 |
| HELOC | 1,148 | 1.4 | 1.0 | 586 | 1.3 | 0.5 |
| Consumer | 4,814 | 0.9 | 5.6 | 7,394 | 1.1 | 8.0 |

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| | | | | | |
|------------|-------|---|------------|-------|---|
| \$ 161,099 | 100.0 | % | \$ 163,094 | 100.0 | % |
|------------|-------|---|------------|-------|---|

(1) Represents the total amount of the loan category as a % of total gross non-covered loans outstanding.

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

Customer accounts: Customer accounts decreased \$138,850,000, or 1.57%, to \$8,713,690,000 at June 30, 2011 compared with \$8,852,540,000 at September 30, 2010. The following table shows the composition of the Company's customer accounts as of the dates shown:

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Deposits by Type

| | June 30, 2011 | | | September 30, 2010 | | | | |
|-------------------------|----------------|------|--------|--------------------|-------------|-----------|--------|---|
| | (In thousands) | | | Wtd. Avg. | | Wtd. Avg. | | |
| | | | Rate | | | | Rate | |
| Checking (non-interest) | \$221,656 | 2.5 | % — | % | \$184,240 | 2.1 | % — | % |
| NOW (interest) | 512,457 | 5.9 | 0.40 | % | 482,132 | 5.4 | 0.39 | % |
| Savings (passbook/stmt) | 246,260 | 2.8 | 0.25 | % | 234,673 | 2.7 | 0.51 | % |
| Money Market | 1,637,812 | 18.8 | 0.41 | % | 1,653,718 | 18.7 | 0.66 | % |
| CD’s | 6,095,505 | 70.0 | 1.62 | % | 6,297,777 | 71.1 | 1.91 | % |
| Total | \$8,713,690 | 100 | % 1.24 | % | \$8,852,540 | 100 | % 1.51 | % |

FHLB advances and other borrowings: Total borrowings decreased slightly to \$2,662,997,000 at June 30, 2011, compared with \$2,665,548,000 at September 30, 2010. 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 June 30, 2011, produced net income of \$30,121,000 compared to \$12,668,000 for the same quarter one year ago. For the nine months ended June 30, 2011, net income totaled \$80,475,000 compared to \$102,690,000 for the nine months ended June 30, 2010. The net income for the nine months ended June 30, 2010 included a \$54,789,000 after tax gain on the acquisition of Horizon and a \$38,865,000 tax benefit related to the settlement of a contingent tax liability. The net income for the quarter and nine months ended June 30, 2011 benefited from overall lower credit costs, which included the provision for loan losses and real estate owned expenses. The provision for loan losses amounted to \$21,000,000, for the quarter, and \$77,750,000, for the nine months ended June 30, 2011, as compared to \$20,736,000 and \$153,909,000, for the three and nine month periods one year ago. See related discussion in “Provision for Loan Losses” section below for reasons for the slight increase in the provision for loan losses. In addition, losses recognized on real estate acquired through foreclosure was \$8,171,000 for the quarter ended June 30, 2011 and \$28,369,000 for the nine months ended June 30, 2011 as compared to \$31,031,000 and \$60,386,000 for the three and nine month periods one year ago.

Net Interest Income: The largest component of the Company’s earnings is net interest income, which is the difference between the interest and dividends earned on loans and other investments and the interest paid on customer deposits and borrowings. Net interest income is impacted primarily by two factors; first, the volume of earning assets and liabilities and second, the rate earned on those assets or the rate paid on those liabilities.

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 06/30/11 and 06/30/10 | | | Comparison of Nine Months Ended 06/30/11 and 06/30/10 | | |
|------------------------------------|---|------------|-------------|--|------------|-------------|
| | Volume | Rate | Total | Volume | Rate | Total |
| | (In thousands) | | | | | |
| Interest income: | | | | | | |
| Loans and covered loans | \$(11,229) | \$(2,779) | \$(14,008) | \$(26,145) | \$(1,082) | \$(27,227) |
| Mortgaged-backed securities | 9,477 | (739) | 8,738 | 16,020 | (5,803) | 10,217 |
| Investments (1) | (1,115) | 545 | (570) | 783 | 3,811 | 4,594 |
| All interest-earning assets | (2,867) | (2,973) | (5,840) | (9,342) | (3,074) | (12,416) |
| Interest expense: | | | | | | |
| Customer accounts | (811) | (9,290) | (10,101) | 3,371 | (25,471) | (22,100) |
| FHLB advances and other borrowings | (2,295) | (291) | (2,586) | (6,947) | (1,699) | (8,646) |
| All interest-bearing liabilities | (3,106) | (9,581) | (12,687) | (3,576) | (27,170) | (30,746) |
| Change in net interest income | \$239 | \$6,608 | \$6,847 | \$(5,766) | \$24,096 | \$18,330 |

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

Provision for Loan Losses: The Company recorded a \$21,000,000 provision for loan losses during the quarter ended June 30, 2011, while a \$20,736,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to \$394,679,000, or 2.96% , of total assets at June 30, 2011, compared to \$473,121,000, or 3.45%, of total

assets one year ago. Non-accrual loans decreased from \$292,335,000 at June 30, 2010, to \$232,752,000 at June 30, 2011, a 20.4% decrease. The Company had net charge-offs of \$23,519,000 for the quarter ended June 30, 2011, compared with \$41,862,000 of net charge-offs for the same quarter one year ago. While the percentage of loans 30 days or more delinquent decreased from 3.95% at June 30, 2010, to 3.66% at June 30, 2011, delinquencies in the single-family residential portfolio, the largest portion of the loan portfolio, increased from 3.09% at June 30, 2010 to 3.43% at June 30, 2011. In addition to these mixed asset quality trends, real estate values remain under pressure in most of the Company's primary markets, thus the Company recorded a similar provision for loan losses in the

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

current quarter as compared to the same quarter one year ago. Management expects the provision to remain at elevated levels until NPAs and charge-offs improve measurably. Management believes the allowance for loan losses, totaling \$161,099,000, 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 June 30, 2011.

Other Income: The quarter ended June 30, 2011 produced total other income of \$4,277,000 compared to \$5,154,000 for the same quarter one year ago, a decrease of \$877,000.

Other Expense: The quarter ended June 30, 2011, produced total other expense of \$34,174,000 compared to \$32,877,000 for the same quarter one year ago, a 3.9% increase. The increase in total other expense over the same comparable period one year ago was primarily due to the increase of \$1,715,000 in compensation and benefits which included the accrual of a performance bonus for employees resulting from the growth in earnings. Total other expense for the quarters ended June 30, 2011 and 2010 equaled 1.02% and 0.96%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,215 and 1,235 at June 30, 2011 and 2010, respectively.

Taxes: Income taxes increased to \$16,943,000 for the quarter ended June 30, 2011, as compared to \$7,127,000 for the same period one year ago. The effective tax rate for the quarters ended June 30, 2011 and 2010, was 36.00%. The Company expects an effective tax rate of 36.00% 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, 2010. 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 2010 Form 10-K.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 4. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of 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, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15. Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. There have been no significant changes in the Company's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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 contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Financial reform legislation will, among other things, eliminate the Office of Thrift Supervision ("OTS"), tighten capital standards, create a new Consumer Financial Protection Bureau and result in new laws and regulations that may increase our costs of operations.

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act may not be known for many months or years.

One change that is particularly significant to the Company and the Bank is the abolition of the OTS, the Bank's historical federal financial institution regulator, effective one year from the enactment date (with the possibility of a six-month extension). After the agency is abolished, supervision and regulation of the Company will move to the Board of Governors of the Federal Reserve System ("Federal Reserve") and supervision and regulation of the Bank will move to the Office of the Comptroller of the Currency ("OCC"). Except as described below, however, the laws and regulations applicable to the Company and the Bank will not generally change – the Home Owners Loan Act and the regulations issued under the Act will generally still apply (although these laws and regulations will be interpreted by the Federal Reserve and the OCC, respectively).

In addition, the Company for the first time will be subject to consolidated capital requirements and will be required to serve as a source of strength to the Bank. The Bank will be subject to the same lending limits as national banks. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.

The Act also broadens the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. This could result in an increase in deposit insurance assessments to be paid by the Bank. The Act also permanently increases the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts will have unlimited deposit insurance from March 31, 2011 through December 31, 2012. The Federal Reserve will also be adopting a rule addressing interchange fees applicable to debit card transactions that is expected to lower fee income generated from this source. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.

The Act will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates for election as directors using a company's proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives.

The Act creates a new Consumer Financial Protection Bureau to take over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate

Settlement Procedures Act and the Truth in Saving Act, among others, with broad rule-making, supervisory and examination authority in this area over institutions that have assets of \$10 billion or more, such as the Bank. The Act also narrows the scope of federal preemption of state laws related to federally chartered institutions.

Many of the provisions of the Act will not become effective until a year or more after its enactment and, if required, the adoption

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

and effectiveness of implementing regulations. In addition, the scope and impact of many of the Act's provisions will be determined through the rulemaking process. As a result, we cannot predict the ultimate impact of the Act on the Company or the Bank at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. Nor can we predict the impact or substance of other future legislation or regulation. However, it is expected that at a minimum they will increase our operating and compliance costs.

The Bank has entered into a memorandum of understanding with the OTS that will entail compliance costs. Failure to comply with the memorandum could result in formal enforcement action or regulatory constraints on the Bank.

As previously disclosed, the Bank entered into a memorandum of understanding (“MOU”) with the Office of Thrift Supervision on July 28, 2010. The MOU does not affect dividend policy or require additional capital, but a finding by the OTS that the Bank failed to comply with the MOU could result in additional regulatory scrutiny, constraints on the Bank's business, or formal enforcement action. Any of those events could have a material adverse effect on the Bank's future operations, financial condition, growth or other aspects of our business.

The MOU will remain in effect until the OCC, as the successor to the OTS, decides to modify, suspend or terminate it.

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 June 30, 2011.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period |
|---------------------------------|----------------------------------|------------------------------|---|--|
| April 1, 2011 to April 30, 2011 | 859,375 | \$15.88 | 859,375 | 1,378,939 |
| May 1, 2011 to May 31, 2011 | 452,825 | 15.68 | 452,825 | 10,926,114 |
| June 1, 2011 to June 30, 2011 | 342,600 | 15.39 | 342,600 | 10,583,514 |
| Total | 1,654,800 | \$15.72 | 1,654,800 | 10,583,514 |

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 31,956,264 shares have been authorized for repurchase.

Item 3. Defaults Upon Senior Securities

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 June 30, 2011 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.

August 9, 2011

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

August 9, 2011

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