WASHINGTON FEDERAL INC
Form 10-Q/A
May 13, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
Amendment No. 1
(Mark One)

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

For the quarterly period ended March 31, 2013
or

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

For the transition period from to
Commission file number 001-34654
WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Table of Contents

Title of class:	at May 3, 2013
Common stock, $1.00 par value	104,190,859

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment”) amends our quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on May 8, 2013 (“Original Form 10-Q”), and is being filed solely to correct typographical errors contained in Note D - Loans Receivable (Excluding Covered Loans) and Note E - Allowance for Loan Losses of Part I, Item 1. The corrected information can be found in the table analyzing the age of loans under Non-acquired loans (Note D) and in the Credit Risk Profile Based on Payment Activity (excludes acquired and covered loans) table under Non-Performing Loans (Note E).

No other sections were affected, but for the convenience of the reader, this Amendment contains the complete text of the original report with the corrected information appearing in Part I, Item 1, Notes D and E. Except as specifically noted above, this Form 10-Q/A does not modify or update disclosures in the Original Form 10-Q and continues to speak as of the original filing date of the Original Form 10-Q.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

Table of Contents

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

	March 31, 2013	September 30, 2012
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$782,059	$751,430
Available-for-sale securities, at fair value	2,022,668	1,781,705
Held-to-maturity securities, at amortized cost	1,469,983	1,191,487
Loans receivable, net	7,444,216	7,451,998
Covered loans, net	355,515	288,376
Interest receivable	45,448	46,857
Premises and equipment, net	206,797	178,845
Real estate held for sale	97,042	99,478
Covered real estate held for sale	32,274	29,549
FDIC indemnification asset	80,391	87,571
FHLB stock	152,038	149,840
Intangible assets, net	263,816	256,076
Federal and state income tax assets, net	37,229	22,513
Other assets	126,357	137,219
	$13,115,833	$12,472,944
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$3,556,616	$2,946,453
Time deposit accounts	5,595,609	5,630,165
	9,152,225	8,576,618
FHLB advances	1,930,000	1,880,000
Advance payments by borrowers for taxes and insurance	16,192	40,041
Federal and State income tax liabilities, net	—	—
Accrued expenses and other liabilities	83,066	76,533
	11,181,483	10,573,192
Stockholders’ equity		
Common stock, $1.00 par value, 300,000,000 shares authorized;		
131,979,030 and 129,950,223 shares issued; 105,011,626 and 106,177,615 shares outstanding	131,979	129,950
Paid-in capital	1,620,327	1,586,295
Accumulated other comprehensive income, net of taxes	11,897	13,306
Treasury stock, at cost; 26,967,404 and 23,772,608 shares	(363,803)	(310,579)
Retained earnings	533,950	480,780
	1,934,350	1,899,752
	$13,115,833	$12,472,944

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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

	Quarter Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	$112,879	$123,772	$229,722	$251,251
Mortgage-backed securities	10,642	28,682	22,374	54,978
Investment securities and cash equivalents	2,984	2,127	5,717	4,278
	126,505	154,581	257,813	310,507
INTEREST EXPENSE				
Customer accounts	16,695	22,016	35,466	45,965
FHLB advances and other borrowings	16,787	27,963	33,890	56,226
	33,482	49,979	69,356	102,191
Net interest income	93,023	104,602	188,457	208,316
Provision for loan losses	—	18,000	3,600	29,210
Net interest income after provision for loan losses	93,023	86,602	184,857	179,106
OTHER INCOME				
Gain on sale of investments	—	—	—	—
Other	6,046	5,028	11,003	9,674
	6,046	5,028	11,003	9,674
OTHER EXPENSE				
Compensation and benefits	23,077	20,185	44,149	38,860
Occupancy	4,825	4,094	9,272	8,025
FDIC insurance premiums	3,107	4,350	6,450	8,543
Other	10,155	8,183	19,591	15,749
	41,164	36,812	79,462	71,177
Loss on real estate acquired through foreclosure, net	(4,003)	(1,582)	(7,322)	(12,151)
Income before income taxes	53,902	53,236	109,076	105,452
Income tax provision	17,924	19,165	37,816	37,963
NET INCOME	$35,978	$34,071	$71,260	$67,489
PER SHARE DATA				
Basic earnings	$0.34	$0.32	$0.67	$0.63
Diluted earnings	0.34	0.32	0.67	0.63
Cash dividends per share	0.09	0.08	0.17	0.16
Basic weighted average number of shares outstanding	105,206,491	107,198,829	105,606,688	107,523,686
Diluted weighted average number of shares outstanding, including dilutive stock options	105,258,240	107,237,972	105,655,770	107,549,396

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
	(In thousands)			
Net income	$35,978	$34,071	$71,260	$67,489
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sales securities	408	(30,060)	(2,228)	(32,579)
Related tax benefit (expense)	(150)	11,047	819	11,973
Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income	—	—	—	—
Related tax benefit (expense)	—	—	—	—
Other comprehensive income (loss)	258	(19,013)	(1,409)	(20,606)
Comprehensive income	$36,236	$15,058	$69,851	$46,883

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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

	Six Months Ended March 31, 2013	March 31, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$71,260	$67,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	2,488	20,703
Cash received from (paid to) FDIC under loss share	11,668	(4,068)
Depreciation	4,600	3,750
Stock option compensation expense	600	600
Provision for loan losses	3,600	29,210
Loss (gain) on real estate held for sale, net	3,028	(1,285)
Decrease (increase) in accrued interest receivable	3,440	(1,536)
Increase in FDIC loss share receivable	(777)	(2,052)
Increase (decrease) in income taxes payable	(13,937)	6,031
Decrease in other assets	35,712	8,832
Increase (decrease) in accrued expenses and other liabilities	(8,770)	1,955
Net cash provided by operating activities	112,912	129,629
CASH FLOWS FROM INVESTING ACTIVITIES		
Net principal collections (loan originations)	381,932	342,513
FHLB stock redemptions	1,382	1,512
Available-for-sale securities purchased	(356,966)	(1,241,126)
Principal payments and maturities of available-for-sale securities	100,906	758,676
Available-for-sale securities sold	43,199	3,500
Held-to-maturity securities purchased	(407,135)	—
Principal payments and maturities of held-to-maturity securities	132,755	8,394
Net cash received from acquisition	202,308	50,451
Proceeds from sales of real estate held for sale	59,773	90,017
Proceeds from sales of covered REO	7,645	22,959
Premises and equipment purchased and REO improvements	(18,048)	(11,737)
Net cash provided by investing activities	147,751	25,159
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(161,712)	(3,253)
Net increase (decrease) in borrowings	27,529	(19,700)
Proceeds from exercise of common stock options	152	28
Dividends paid on common stock	(18,930)	(17,078)
Treasury stock purchased	(53,224)	(30,307)
Decrease in advance payments by borrowers for taxes and insurance	(23,849)	(10,133)
Net cash used by financing activities	(230,034)	(80,443)
Increase in cash and cash equivalents	30,629	74,345
Cash and cash equivalents at beginning of period	751,430	816,002
Cash and cash equivalents at end of period	$782,059	$890,347

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6

Table of Contents

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

	Six Months Ended	
	March 31, 2013	March 31, 2012
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	$52,760	$73,466
Covered real estate acquired through foreclosure	5,954	6,304
Cash paid during the period for		
Interest	71,092	103,170
Income taxes	32,465	31,947
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets acquired	$819,904	$124,726
Fair value of liabilities assumed	(776,009)	(154,500)
Net fair value of assets (liabilities)	43,895	(29,774)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies
The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (“The Company”). 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, 2012 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 2012 Annual Report on Form 10-K (“2012 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.
The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2012 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2012 Form 10-K.
Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at March 31, 2013, excluding covered loans, of $259,266,000. The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.
Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

NOTE B - Acquisitions

South Valley Bank and Trust
Effective as of the close of business October 31, 2012, Washington Federal completed the acquisition of South Valley Bank and Trust, headquartered in Klamath Falls, Oregon (“South Valley”). The acquisition provided recorded book values of $383 million of net loans, $107 million of net covered loans, $735 million of deposit accounts, including $533 million in transaction deposit accounts and 24 branch locations in Central and Southern Oregon. Total consideration paid at closing was $44 million, including $34 million of Washington Federal, Inc. stock and $10 million of cash resulting from the collection of certain earn-out assets. If other earn out assets are collected over time, the total purchase price could be reduced by up to $14 million.

The acquisition was accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities were recorded at their respective acquisition date estimated fair values. The purchase accounting for acquired assets and liabilities is subject to future adjustment based on the completion of valuations. All fair value adjustment amounts currently recognized in the financial statements at March 31, 2013 were determined provisionally as the purchase accounting fair value analysis was incomplete as of March 31, 2013. The determination of whether a non-covered loan is impaired and accounted for under ASC 310 was still in process as part of the acquisition date loan valuation; therefore, all non-covered loans are categorized as acquired loans without differentiation between non-impaired and credit impaired at March 31, 2013.

Loans that were classified as non-performing loans by South Valley are no longer classified as non-performing because, at acquisition, the carrying value of the loans was adjusted to reflect fair value. Management believes that the new book value reflects an amount that will ultimately be collected.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period from November 1, 2012 to March 31, 2013.

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

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash and cash equivalents	$212,711
Available for sale securities	43,679
FHLB stock	5,211
Loans receivable, net	360,719
Covered loans receivable, net	107,946
FDIC indemnification asset	16,596
Property and equipment, net	24,259
Core deposit intangible	1,433
Real estate held for sale	9,794
Covered real estate held for sale	5,224
Goodwill	7,107
Other assets	25,225
Total Assets	819,904
Liabilities:	
Customer accounts	737,395
FHLB advances	22,471
Other liabilities	16,143
Total Liabilities	776,009
Net assets acquired	$43,895
Consideration provided:	
Equity Issued	$33,492
Cash paid	10,403
	$43,895

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

NOTE C – Dividends

On April 19, 2013, the Company paid its 121st consecutive quarterly cash dividend on common stock. Dividends per share were $.09 and $.08 for the quarters ended March 31, 2013 and 2012, respectively.

Table of Contents
WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

	March 31, 2013			September 30, 2012		
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,374,977	68.6	%	$5,778,922	73.5	%
Construction - speculative	120,617	1.5		129,637	1.6	
Construction - custom	217,036	2.8		211,690	2.7	
Land - acquisition & development	93,496	1.2		124,677	1.6	
Land - consumer lot loans	130,056	1.7		141,844	1.8	
Multi-family	725,322	9.3		710,140	9.0	
Commercial real estate	385,587	4.9		319,210	4.1	
Commercial & industrial	190,598	2.4		162,823	2.1	
HELOC	111,622	1.4		112,902	1.4	
Consumer	53,956	0.7		63,374	0.8	
Total non-acquired loans	7,403,267	94.5		7,755,219	98.6	
Acquired loans						
Single-family residential	15,428	0.2		—	—	
Construction - speculative	177	—		—	—	
Construction - custom	313	—		—	—	
Land - acquisition & development	3,436	—		—	—	
Land - consumer lot loans	3,819	0.1		—	—	
Multi-family	7,714	0.2		—	—	
Commercial real estate	177,101	2.1		—	—	
Commercial & industrial	96,255	1.3		—	—	
HELOC	13,094	0.2		—	—	
Consumer	10,046	0.1		—	—	
Total acquired loans	327,383	4.2		—	—	
Credit-impaired acquired loans						
Single-family residential	338	—		342	—	
Construction - speculative	1,750	—		1,889	—	
Land - acquisition & development	2,577	—		3,702	0.1	
Multi-family	—	—		601	—	
Commercial real estate	79,868	1.1		87,154	1.1	
Commercial & industrial	2,091	—		3,292	—	
HELOC	12,757	0.2		14,040	0.2	
Consumer	81	—		97	—	
Total credit-impaired acquired loans	99,462	1.3		111,117	1.4	
Total loans						
Single-family residential	5,390,743	68.8		5,779,264	73.5	
Construction - speculative	122,544	1.5		131,526	1.6	
Construction - custom	217,349	2.8		211,690	2.7	
Land - acquisition & development	99,509	1.2		128,379	1.7	
Land - consumer lot loans	133,875	1.8		141,844	1.8	

Multi-family	733,036	9.5	710,741	9
Commercial real estate	642,556	8.1	406,364	5.2
Commercial & industrial	288,944	3.7	166,115	2.1

11

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

HELOC	137,473	1.8		126,942	1.6	
Consumer	64,083	0.8		63,471	0.8	
Total loans	7,830,112	100	%	7,866,336	100	%
Less:						
Allowance for probable losses	122,884			133,147		
Loans in process	189,336			213,286		
Discount on acquired loans	40,346			33,484		
Deferred net origination fees	33,330			34,421		
	385,896			414,338		
	$7,444,216			$7,451,998		

12

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

Changes in the carrying amount and accretable yield for acquired impaired and non-impaired loans for the six months ended March 31, 2013 and the fiscal year ended September 30, 2012 were as follows:

March 31, 2013	Credit impaired acquired loans		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$16,928	$77,613	$—	$—
Reclassification from nonaccretable balance, net	30,026			
Additions (1)	—	—	10,804	360,719
Accretion	(4,278)	4,278	(658)	658
Transfers to REO	—	(3,120)	—	(2,681)
Payments received, net	—	(11,233)	—	(39,752)
Balance as of end of period	$42,676	$67,538	$10,146	$318,944

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

September 30, 2012	Credit impaired acquired loans		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance as of beginning of period	$—	$—	$—	$—
Additions (1)	21,384	93,691	—	—
Accretion	(4,456)	4,456	—	—
Transfers to REO	—	(2,616)	—	—
Payments received, net	—	(17,918)	—	—
Balance as of end of period	$16,928	$77,613	$—	$—

(1) includes acquired impaired loans which were acquired as part of the WNB acquisition.

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

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

	March 31, 2013			September 30, 2012		
	(In thousands)					
Non-accrual loans:						
Single-family residential	$111,572	74.8	%	$131,193	75.7	%
Construction - speculative	7,943	5.3		10,634	6.1	
Construction - custom	105	0.1		539	0.3	
Land - acquisition & development	12,177	8.2		13,477	7.8	
Land - consumer lot loans	3,385	2.3		5,149	3.0	
Multi-family	2,802	1.9		4,185	2.4	
Commercial real estate	10,395	7.0		7,653	4.4	
Commercial & industrial	210	0.1		16	—	
HELOC	247	0.2		198	0.1	
Consumer	197	0.1		383	0.2	
Total non-accrual loans	$149,033	100	%	$173,427	100	%

Table of Contents
WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

The following tables provide an analysis of the age of loans in past due status as of March 31, 2013 and September 30, 2012, respectively.

March 31, 2013	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs (In thousands)	Current	30	60	90	Total	on $	
Non-acquired loans								
Single-Family Residential	$5,371,033	$5,233,702	$33,155	$19,819	$84,357	$137,331	2.56	%
Construction - Speculative	81,265	76,540	992	—	3,733	4,725	5.81	
Construction - Custom	120,793	120,582	—	106	105	211	0.17	
Land - Acquisition & Development	88,357	74,850	3,227	—	10,280	13,507	15.29	
Land - Consumer Lot Loans	129,887	125,256	805	441	3,385	4,631	3.57	
Multi-Family	697,943	696,286	55	—	1,602	1,657	0.24	
Commercial Real Estate	360,607	352,194	2,652	—	5,761	8,413	2.33	
Commercial & Industrial	198,488	198,246	32	—	210	242	0.12	
HELOC	111,622	111,104	281	80	157	518	0.46	
Consumer	53,955	52,480	942	355	178	1,475	2.73	
Total non-acquired loans	7,213,950	7,041,240	42,141	20,801	109,768	172,710	2.39	%
Acquired loans								
Single-Family Residential	15,428	15,312	$116	—	—	116	0.75	%
Construction - Speculative	177	177	—	—	—	—	—	
Construction - Custom	313	313	—	—	—	—	—	
Land - Acquisition & Development	3,436	3,436	—	—	—	—	—	
Land - Consumer Lot Loans	3,819	3,767	52	—	—	52	1.36	
Multi-Family	7,714	7,714	—	—	—	—	—	
Commercial Real Estate	177,101	176,444	657	—	—	657	0.37	
Commercial & Industrial	96,255	95,258	997	—	—	997	1.04	
HELOC	13,094	13,094	—	—	—	—	—	
Consumer	10,046	9,946	77	5	18	100	1.00	
Total acquired loans	327,383	325,461	1,899	5	18	1,922	0.59	%
Credit-impaired acquired loans								

Single-Family Residential	338	338	—	—	—	—	—	%
Construction - Speculative	1,749	1,749	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	2,577	2,577	—	—	—	—	—	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	—	—	—	—	—	—	—	
Commercial Real Estate	79,850	75,772	1,660	292	2,126	4,078	5.11	
Commercial & Industrial	2,091	2,070	21	—	—	21	1.00	

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

HELOC	12,757	12,440	—	227	90	317	2.48	
Consumer	81	81	—	—	—	—	—	
Total credit-impaired acquired loans	99,443	95,027	1,681	519	2,216	4,416	4.44	%
Total loans	$7,640,776	$7,461,728	$45,721	$21,325	$112,002	$179,048	2.34	%

September 30, 2012	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs (In thousands)	Current	30	60	90	Total	on $	
Single-Family Residential	$5,776,002	$5,618,261	$34,035	$16,276	$107,430	$157,741	2.73	%
Construction - Speculative	88,849	85,785	142	190	2,732	3,064	3.45	
Construction - Custom	107,882	107,215	128	—	539	667	0.62	
Land - Acquisition & Development	119,192	106,321	853	1,004	11,014	12,871	10.80	
Land - Consumer Lot Loans	141,772	134,560	1,688	375	5,149	7,212	5.09	
Multi-Family	676,917	672,263	718	67	3,869	4,654	0.69	
Commercial Real Estate	292,261	284,427	699	3,153	3,982	7,834	2.68	
Commercial & Industrial	162,802	162,778	8	—	16	24	0.01	
HELOC	112,902	112,482	158	64	198	420	0.37	
Consumer	63,374	61,405	1,155	431	383	1,969	3.11	
Total non-acquired loans	$7,541,953	$7,345,497	$39,584	$21,560	$135,312	$196,456	2.60	%
Credit-impaired acquired loans								
Single-Family Residential	342	342	—	—	—	—	—	%
Construction - Speculative	1,889	1,889	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	3,702	3,219	365	—	118	483	13.05	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	601	—	601	—	—	601	—	
Commercial Real Estate	87,134	78,959	412	2,549	5,214	8,175	9.38	
Commercial & Industrial	3,292	3,054	238	—	—	238	7.23	
HELOC	14,040	13,950	—	90	—	90	0.64	
Consumer	97	95	2	—	—	2	2.06	

Total credit-impaired acquired loans	111,097	101,508	1,618	2,639	5,332	9,589	8.63	%
Total loans	$7,653,050	$7,447,005	$41,202	$24,199	$140,644	$206,045	2.69	%

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of March 31, 2013, single-family residential loans comprised 86.4% of TDRs.

16

Table of Contents
WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

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

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

	Quarter Ended March 31,					
	2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	130	$36,059	$ 36,059	312	$68,460	$ 68,460
Construction - Speculative	—	—	—	12	4,049	4,049
Construction - Custom	—	—	—	—	—	—
Land - Acquisition & Development	—	—	—	4	1,823	1,823
Land - Consumer Lot Loans	9	1,350	1,350	14	2,116	2,116
Multi-Family	—	—	—	2	1,871	1,871
Commercial Real Estate	—	—	—	—	—	—
Commercial & Industrial	—	—	—	—	—	—
HELOC	1	200	200	—	—	—
Consumer	—	—	—	—	—	—
	140	$37,609	$ 37,609	344	$78,319	$ 78,319

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

	Six Months Ended March 31,					
	2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	230	$63,146	$ 63,146	491	$121,145	$ 121,145
Construction - Speculative	1	2,492	2,492	23	7,428	7,428
Construction - Custom	—	—	—	—	—	—
Land - Acquisition & Development	—	—	—	26	6,173	6,173
Land - Consumer Lot Loans	18	2,761	2,761	25	3,824	3,824
Multi-Family	1	55	55	2	1,871	1,871
Commercial Real Estate	—	—	—	1	308	308
Commercial & Industrial	—	—	—	1	4	4
HELOC	1	200	200	—	—	—
Consumer	—	—	—	—	—	—
	251	$68,654	$ 68,654	569	$140,753	$ 140,753

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

	Quarter Ended March 31,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	37	$8,579	108	$20,419
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	1	139	5	865
Multi-Family	1	55	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	2	113	—	—

Consumer	—	—	—	—
	41	$8,886	113	$21,284

18

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

	Six Months Ended March 31,			
	2013		2012	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	55	$13,704	125	$24,783
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	1	139	7	1,312
Multi-Family	1	55	—	—
Commercial Real Estate	1	302	—	—
Commercial & Industrial	—	—	—	—
HELOC	2	113	—	—
Consumer	—	—	—	—
	60	$14,313	132	$26,095

NOTE E – Allowance for Losses on Loans

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

- Pass – the credit does not meet one of the definitions below.
- Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.
- Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.
- Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its

classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

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

The following table summarizes the activity in the allowance for loan losses for the quarter ended March 31, 2013 and fiscal year ended September 30, 2012:

Quarter Ended March 31, 2013	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$77,508	$(5,140)	$2,368	$2,686	$77,422
Construction - speculative	8,660	(68)	146	(981)	7,757
Construction - custom	275	—	—	(13)	262
Land - acquisition & development	15,056	(308)	737	(3,264)	12,221
Land - consumer lot loans	4,963	(574)	—	(448)	3,941
Multi-family	5,107	(653)	9	(191)	4,272
Commercial real estate	2,651	(147)	10	1,642	4,156
Commercial & industrial	8,062	(55)	40	581	8,628
HELOC	1,044	(15)	—	2	1,031
Consumer	3,501	(814)	521	(14)	3,194
	$126,827	$(7,774)	$3,831	$—	$122,884
Fiscal Year Ended September 30, 2012	**Beginning Allowance**	**Charge-offs**	**Recoveries**	**Provision & Transfers**	**Ending Allowance**
	(In thousands)				
Single-family residential	$83,307	$(53,789)	$8,164	$44,133	$81,815
Construction - speculative	13,828	(4,916)	711	2,437	12,060
Construction - custom	623	—	—	(276)	347
Land - acquisition & development	32,719	(16,978)	1,341	(1,484)	15,598
Land - consumer lot loans	5,520	(2,670)	—	2,087	4,937
Multi-family	7,623	(1,393)	504	(1,454)	5,280
Commercial real estate	4,331	(814)	225	(1,786)	1,956
Commercial & industrial	5,099	(249)	2,366	410	7,626
HELOC	1,139	(232)	66	(8)	965
Consumer	2,971	(3,538)	1,480	1,650	2,563
	$157,160	$(84,579)	$14,857	$45,709	$133,147

The Company recorded a $0 provision for loan losses during the quarter ended March 31, 2013, while an $18,000,000 provision was recorded for the same quarter one year ago. Non-performing assets ("NPAs") amounted to $246,075,000, or 1.88%, of total assets at March 31, 2013, compared to $286,248,000, or 2.11%, of total assets one year ago. Acquired loans, including covered loans, are not classified as non-performing loans because, at acquisition, the carrying value of these loans was adjusted to reflect fair value. There was no additional provision for loan losses recorded on acquired or covered loans during the quarter ended March 31, 2013 as the associated discount is adequate to absorb potential losses. Non-accrual loans decreased from $166,153,000 at March 31, 2012, to $149,033,000 at March 31, 2013, a 10.3% decrease. The Company had net charge-offs of $3,943,000 for the quarter ended March 31, 2013, compared with $28,721,000 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.

$114,039,000 of the allowance was calculated under our general allowance methodology and the remaining $8,845,000 was made up of specific reserves on loans that were deemed to be impaired at March 31, 2013. For the period ending March 31, 2012, $114,039,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the

Table of Contents
WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

remaining $29,781,000 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 tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of March 31, 2013 and September 30, 2012:

March 31, 2013	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment		
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio	Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio
	(In thousands)			(In thousands)		
Single-family residential	$77,422	$ 5,264,505	1.5 %	$—	$ 110,471	— %
Construction - speculative	5,749	99,513	5.8	2,008	21,104	9.5
Construction - custom	262	217,036	0.1	—	—	—
Land - acquisition & development	7,331	66,863	11.0	4,890	26,633	18.4
Land - consumer lot loans	3,630	115,399	3.1	311	14,657	2.1
Multi-family	2,892	714,430	0.4	1,380	10,892	12.7
Commercial real estate	3,900	370,717	1.1	256	14,870	1.7
Commercial & industrial	8,628	190,472	4.5	—	126	—
HELOC	1,031	110,570	0.9	—	1,052	—
Consumer	3,194	53,955	5.9	—	—	—
	$114,039	$ 7,203,460	1.6	$8,845	$ 199,805	4.4

(1) Excludes acquired and covered loans

September 30, 2012	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	$81,737	$ 5,694,337	1.4 %	$78	$ 84,584	0.1 %
Construction - speculative	9,079	104,312	8.7	2,981	25,325	11.8
Construction - custom	347	211,690	0.2	—	—	—
Land - acquisition & development	6,697	47,294	14.2	8,901	77,383	11.5
Land - consumer lot loans	4,176	138,666	3.0	761	3,178	23.9
Multi-family	2,818	694,140	0.4	2,462	16,000	15.4
Commercial real estate	1,158	292,550	0.4	798	26,660	3.0
Commercial & industrial	7,624	161,689	4.7	2	1,134	0.2
HELOC	965	112,812	0.9	—	90	—
Consumer	2,563	63,374	4.0	—	—	—

$117,164	$ 7,520,864	1.6	$15,983	$ 234,354	6.8

(1) Excludes acquired and covered loans

The following tables provide information on loans based on credit quality indicators (defined in Note A) as of March 31, 2013 and September 30, 2012:

21

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND SIX MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

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

March 31, 2013	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,210,626	$ 1,742	$162,609	$—	$—	$5,374,977
Construction - speculative	94,497	362	25,758	—	—	120,617
Construction - custom	217,036	—	—	—	—	217,036
Land - acquisition & development	64,282	840	28,374	—	—	93,496
Land - consumer lot loans	129,175	123	758	—	—	130,056
Multi-family	707,869	1,886	15,567	—	—	725,322
Commercial real estate	341,175	13,016	31,396	—	—	385,587
Commercial & industrial	186,296	1,391	2,702	—	209	190,598
HELOC	111,622	—	—	—	—	111,622
Consumer	53,359	411	186	—	—	53,956
	7,115,937	19,771	267,350	—	209	7,403,267
Acquired loans						
Single-family residential	15,428	—	—	—	—	15,428
Construction - speculative	—	—	177	—	—	177
Construction - custom	313	—	—	—	—	313
Land - acquisition & development	2,198	—	1,238	—	—	3,436
Land - consumer lot loans	3,800	—	19	—	—	3,819
Multi-family	3,349	—	4,365	—	—	7,714
Commercial real estate	137,416	4,832	34,853	—	—	177,101
Commercial & industrial	80,507	1,379	14,115	254	—	96,255
HELOC	13,094	—	—	—	—	13,094
Consumer	10,046	—	—	—	—	10,046
	266,151	6,211	54,767	254	—	327,383
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	1,513	484	2,330	—	—	4,327
Pool 2 - Single-family residential	338	—	—	—	—	338
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	12,838	—	—	—	—	12,838
Pool 5 - Commercial real estate	52,254	1,014	25,651	949	—	79,868
Pool 6 - Commercial & industrial	1,018	195	499	379	—	2,091
Total credit impaired acquired loans	67,961	1,693				