

WASHINGTON FEDERAL INC
Form 10-Q
August 08, 2013
Table of Contents

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, 2013

or

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

For the transition period from _____ to _____
Commission file number 001-34654

WASHINGTON FEDERAL, INC.
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

91-1661606
(I.R.S. Employer
Identification No.)

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

(Former name, former address and former fiscal year, if changed since last report.)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class: _____ at August 5, 2013

Common stock, \$1.00 par value

103,502,520

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART IItem 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:

Consolidated Statements of Financial Condition as of June 30, 2013 and September 30, 2012 3

Consolidated Statements of Operations for the quarters and nine months ended June 30, 2013 and 2012 4

Consolidated Statements of Comprehensive Income for the quarters and nine months ended June 30, 2013 and 2012 5

Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and 2012 6

Notes to Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 40

Item 3. Quantitative and Qualitative Disclosures About Market Risk 49

Item 4. Controls and Procedures 49

PART II

Item 1. Legal Proceedings 50

Item 1A. Risk Factors 50

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 50

Item 3. Defaults Upon Senior Securities 50

Item 4. Mine Safety Disclosures 50

Item 5. Other Information 50

Item 6. Exhibits 50

Signatures 52

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

	June 30, 2013	September 30, 2012
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$646,857	\$751,430
Available-for-sale securities, at fair value	2,058,144	1,781,705
Held-to-maturity securities, at amortized cost	1,589,779	1,191,487
Loans receivable, net	7,390,506	7,451,998
Covered loans, net	310,378	288,376
Interest receivable	48,016	46,857
Premises and equipment, net	206,157	178,845
Real estate held for sale	84,748	99,478
Covered real estate held for sale	27,514	29,549
FDIC indemnification asset	73,665	87,571
FHLB stock	150,533	149,840
Intangible assets, net	264,718	256,076
Federal and state income tax assets, net	36,709	22,513
Other assets	124,759	137,219
	\$13,012,483	\$12,472,944
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	\$3,448,583	\$2,946,453
Time deposit accounts	5,614,914	5,630,165
	9,063,497	8,576,618
FHLB advances	1,930,000	1,880,000
Advance payments by borrowers for taxes and insurance	25,654	40,041
Accrued expenses and other liabilities	70,440	76,533
	11,089,591	10,573,192
Stockholders' equity		
Common stock, \$1.00 par value, 300,000,000 shares authorized; 132,389,831 and 129,950,223 shares issued; 103,422,427 and 106,177,615 shares outstanding	132,390	129,950
Paid-in capital	1,621,200	1,586,295
Accumulated other comprehensive income, net of taxes	5,131	13,306
Treasury stock, at cost; 28,967,404 and 23,772,608 shares	(397,616	) (310,579
Retained earnings	561,787	480,780
	1,922,892	1,899,752
	\$13,012,483	\$12,472,944

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of ContentsWASHINGTON FEDERAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	\$112,932	\$118,115	\$342,654	\$369,366
Mortgage-backed securities	11,951	25,101	34,325	80,079
Investment securities and cash equivalents	3,293	2,168	9,010	6,446
	128,176	145,384	385,989	455,891
INTEREST EXPENSE				
Customer accounts	16,385	20,903	51,851	66,868
FHLB advances and other borrowings	17,075	27,946	50,966	84,172
	33,460	48,849	102,817	151,040
Net interest income	94,716	96,535	283,172	304,851
Provision for loan losses	—	10,367	3,600	39,576
Net interest income after provision for loan losses	94,716	86,168	279,572	265,275
OTHER INCOME				
Gain on sale of investments	—	—	—	—
Other	5,059	3,590	16,062	13,263
	5,059	3,590	16,062	13,263
OTHER EXPENSE				
Compensation and benefits	24,582	19,281	68,731	58,141
Occupancy	4,530	3,952	13,801	11,977
FDIC insurance premiums	2,831	4,000	9,280	12,543
Other	9,667	8,730	29,261	24,479
	41,610	35,963	121,073	107,140
Gain (loss) on real estate acquired through foreclosure, net	176	1,146	(7,145)	(11,005)
Income before income taxes	58,341	54,941	167,416	160,393
Income tax provision	21,003	19,778	58,818	57,742
NET INCOME	\$37,338	\$35,163	\$108,598	\$102,651
PER SHARE DATA				
Basic earnings	\$0.36	\$0.33	\$1.03	\$0.96
Diluted earnings	0.36	0.33	1.03	0.96
Cash dividends per share	0.09	0.08	0.26	0.24
Basic weighted average number of shares outstanding	104,143,915	106,877,112	105,119,097	107,308,948
Diluted weighted average number of shares outstanding, including dilutive stock options	104,192,444	106,926,755	105,167,959	107,347,668
SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS				

Table of Contents

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2013	2012	2013	2012
	(In thousands)			
Net income	\$37,338	\$35,163	\$108,598	\$102,651
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sale securities	(10,697)	(3,869)	(12,925)	(36,447)
Related tax benefit (expense)	3,931	1,422	4,750	13,394
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)	(6,766)	(2,447)	(8,175)	(23,053)
Comprehensive income	\$30,572	\$32,716	\$100,423	\$79,598

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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

	Nine Months Ended	
	June 30, 2013	June 30, 2012
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 108,598	\$ 102,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	3,957	40,397
Cash received from FDIC under loss share	13,014	276
Depreciation	6,550	5,625
Stock option compensation expense	900	900
Provision for loan losses	3,600	39,576
Gain on real estate held for sale, net	(18	) (8,366
Decrease (increase) in accrued interest receivable	872	(460
Increase in FDIC loss share receivable	(1,346	) (5,742
Increase (decrease) in income taxes payable	(9,446	) 9,345
Decrease in other assets	36,665	15,908
Increase (decrease) in accrued expenses and other liabilities	(23,177	) 1,229
Net cash provided by operating activities	140,169	201,339
CASH FLOWS FROM INVESTING ACTIVITIES		
Net principal collections (loan originations)	475,354	372,802
FHLB stock redemptions	4,391	1,830
Available-for-sale securities purchased	(506,966	) (1,499,227
Principal payments and maturities of available-for-sale securities	198,555	1,065,254
Available-for-sale securities sold	43,198	3,500
Held-to-maturity securities purchased	(821,215) —
Principal payments and maturities of held-to-maturity securities	428,827	11,899
Net cash received from acquisition	202,308	50,576
Proceeds from sales of real estate held for sale	87,144	138,689
Proceeds from sales of covered REO	17,216	28,343
Increase in intangible assets	—	(1,061
Premises and equipment purchased and REO improvements	(22,941	) (14,157
Net cash provided by investing activities	105,871	158,448
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(250,364	) (118,505
Net increase (decrease) in borrowings	27,529	(22,595
Proceeds from exercise of common stock options	296	199
Dividends paid on common stock	(26,650	) (25,580
Treasury stock purchased	(87,037	) (30,307
Decrease in advance payments by borrowers for taxes and insurance	(14,387	) (15,235
Net cash used by financing activities	(350,613	) (212,023
Increase (decrease) in cash and cash equivalents	(104,573	) 147,764
Cash and cash equivalents at beginning of period	751,430	816,002
Cash and cash equivalents at end of period	\$646,857	\$963,766

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

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

	Nine Months Ended	
	June 30, 2013	June 30, 2012
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	\$72,762	\$124,482
Covered real estate acquired through foreclosure	10,245	13,094
Cash paid during the period for		
Interest	104,370	151,805
Income taxes	48,111	48,331
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets acquired	\$819,904	\$124,594
Fair value of liabilities assumed	(776,009	) (154,493
Net fair value of assets (liabilities)	43,895	(29,899

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 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 June 30, 2013, excluding covered loans, of \$320,522,000.

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 Company could pay up to \$14 million, of which \$5 million has been accrued .

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. All fair value adjustment amounts previously 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. These amounts have been retrospectively adjusted to reflect the completion of the fair value analysis during the quarter ended June 30, 2013. The adjustments recorded in the quarter ended June 30, 2013 were a decrease in real estate held for sale of \$2,394,000 offset by an increase in goodwill of \$1,517,000 and other assets of \$854,000 to reflect updated acquisition date valuations.

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 June 30, 2013.

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

8

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	Adjusted Fair Value Recorded by Washington Federal (In thousands)
Assets:	
Cash and cash equivalents	\$212,711
Available for sale securities	43,198
FHLB stock	5,211
Loans receivable, net	361,200
Covered loans receivable, net	107,946
FDIC indemnification asset	16,619
Property and equipment, net	24,259
Core deposit intangible	1,433
Real estate held for sale	7,400
Covered real estate held for sale	5,224
Goodwill	8,624
Other assets	26,079
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 NINE MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)

NOTE C – Dividends

On July 19, 2013, the Company paid its 122nd consecutive quarterly cash dividend on common stock. Dividends per share were \$.09 and \$.08 for the quarters ended June 30, 2013 and 2012, respectively.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2013 (In thousands)		September 30, 2012		
Non-acquired loans					
Single-family residential	\$5,253,604	67.6	% \$5,778,922	73.5	%
Construction - speculative	116,363	1.5	129,637	1.6	
Construction - custom	237,952	3.1	211,690	2.7	
Land - acquisition & development	85,248	1.1	124,677	1.6	
Land - consumer lot loans	128,745	1.7	141,844	1.8	
Multi-family	741,870	9.5	710,140	9.0	
Commercial real estate	398,130	5.1	319,210	4.1	
Commercial & industrial	239,469	3.1	162,823	2.1	
HELOC	111,418	1.4	112,902	1.4	
Consumer	51,515	0.7	63,374	0.8	
Total non-acquired loans	7,364,314	94.8	7,755,219	98.6	
Acquired loans					
Single-family residential	15,354	0.2	—	—	
Construction - speculative	—	—	—	—	
Construction - custom	—	—	—	—	
Land - acquisition & development	3,720	—	—	—	
Land - consumer lot loans	3,615	0.1	—	—	
Multi-family	7,383	0.1	—	—	
Commercial real estate	162,724	2.1	—	—	
Commercial & industrial	88,768	1.1	—	—	
HELOC	11,466	0.1	—	—	
Consumer	9,035	0.1	—	—	
Total acquired loans	302,065	3.8	—	—	
Credit-impaired acquired loans					
Single-family residential	335	—	342	—	
Construction - speculative	—	—	1,889	—	
Land - acquisition & development	2,484	—	3,702	0.1	
Multi-family	—	—	601	—	
Commercial real estate	78,519	1.1	87,154	1.1	
Commercial & industrial	8,606	0.1	3,292	—	
HELOC	12,015	0.2	14,040	0.2	
Consumer	79	—	97	—	
Total credit-impaired acquired loans	102,038	1.4	111,117	1.4	
Total loans					
Single-family residential	5,269,293	67.8	5,779,264	73.5	
Construction - speculative	116,363	1.5	131,526	1.6	
Construction - custom	237,952	3.1	211,690	2.7	
Land - acquisition & development	91,452	1.1	128,379	1.7	
Land - consumer lot loans	132,360	1.8	141,844	1.8	

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

Multi-family	749,253	9.6	710,741	9
Commercial real estate	639,373	8.3	406,364	5.2
Commercial & industrial	336,843	4.3	166,115	2.1

11

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

HELOC	134,899	1.7	126,942	1.6	
Consumer	60,629	0.8	63,471	0.8	
Total loans	7,768,417	100	% 7,866,336	100	%
Less:					
Allowance for probable losses	118,104		133,147		
Loans in process	189,677		213,286		
Discount on acquired loans	37,568		33,484		
Deferred net origination fees	32,562		34,421		
	377,911		414,338		
	\$7,390,506		\$7,451,998		

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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

June 30, 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 (1)	30,026			
Additions (2)	614	9,865	10,804	351,335
Accretion	(7,131)	) 7,131	(297)	) 297
Transfers to REO	—	(3,704)	) —	(3,475)
Payments received, net	—	(19,432)	) —	(53,165)
Balance as of end of period	\$40,437	\$71,473	\$10,507	\$294,992

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

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

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:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	June 30, 2013 (In thousands)		September 30, 2012		
Non-accrual loans:					
Single-family residential	\$104,252	70.1	% \$131,193	75.7	%
Construction - speculative	3,776	2.5	10,634	6.1	
Construction - custom	—	—	539	0.3	
Land - acquisition & development	9,586	6.4	13,477	7.8	
Land - consumer lot loans	3,712	2.5	5,149	3.0	
Multi-family	6,653	4.5	4,185	2.4	
Commercial real estate	14,348	9.7	7,653	4.4	
Commercial & industrial	5,072	3.4	16	—	
HELOC	871	0.6	198	0.1	
Consumer	385	0.3	383	0.2	
Total non-accrual loans	\$148,655	100	% \$173,427	100	%

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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

June 30, 2013 Type of Loan	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Non-acquired loans									
Single-Family Residential	\$5,250,621	\$5,127,074	\$26,315	\$14,354	\$82,878	\$123,547	2.35	%	
Construction - Speculative	78,505	75,506	1,042	—	1,957	2,999	3.82		
Construction - Custom Land - Acquisition & Development	127,978	127,738	240	—	—	240	0.19		
Land - Consumer Lot Loans	80,994	73,252	797	—	6,945	7,742	9.56		
Multi-Family Commercial Real Estate	128,571	124,284	588	195	3,504	4,287	3.33		
Commercial & Industrial	716,299	714,161	—	539	1,599	2,138	0.30		
HELOC	389,348	384,193	1,277	70	3,808	5,155	1.32		
Consumer	239,456	239,440	—	—	16	16	0.01		
Total non-acquired loans	111,419	110,324	820	69	206	1,095	0.98		
	51,516	49,268	938	959	351	2,248	4.36		
	7,174,707	7,025,240	32,017	16,186	101,264	149,467	2.08	%	
Acquired loans									
Single-Family Residential	15,354	15,291	\$5	15	43	63	0.41	%	
Construction - Speculative	—	—	—	—	—	—	—		
Construction - Custom Land - Acquisition & Development	—	—	—	—	—	—	—		
Land - Consumer Lot Loans	3,720	2,783	412	1	524	937	25.19		
Multi-Family Commercial Real Estate	3,614	3,095	311	—	208	519	14.36		
Commercial & Industrial	7,383	3,569	509	—	3,305	3,814	51.66		
HELOC	162,689	155,178	1,059	2,560	3,892	7,511	4.62		
Consumer	88,746	88,028	453	265	—	718	0.81		
Total acquired loans	11,465	10,619	140	131	575	846	7.38		
	9,035	8,899	83	19	34	136	1.51		
	302,006	287,462	2,972	2,991	8,581	14,544	4.82	%	
Credit-impaired acquired loans									

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

Single-Family Residential	335	335	—	—	—	—	—	%
Construction - Speculative	—	—	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	2,483	2,483	—	—	—	—	—	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	—	—	—	—	—	—	—	
Commercial Real Estate	78,509	75,920	639	173	1,777	2,589	3.30	
Commercial & Industrial	8,606	3,320	230	—	5,056	5,286	61.42	

15

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

HELOC	12,015	11,906	—	19	90	109	0.91	
Consumer	79	79	—	—	—	—	—	
Total credit-impaired acquired loans	102,027	94,043	869	192	6,923	7,984	7.83	%
Total loans	\$7,578,740	\$7,406,745	\$35,858	\$19,369	\$116,768	\$171,995	2.27	%
September 30, 2012 Type of Loan	Amount of Loans Net of LIP & Chg.-Off (In thousands)	Days Delinquent Based on Current	30	60	90	Amount of Loans Total	% based 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 June 30, 2013, single-family residential loans comprised 87.4% of TDRs.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 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 June 30, 2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment (In thousands)	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment (In thousands)
Troubled Debt Restructurings:						
Single-Family Residential	111	\$27,619	\$ 27,619	199	\$43,104	\$ 43,104
Construction - Speculative	—	—	—	—	—	—
Construction - Custom	—	—	—	1	1,196	1,196
Land - Acquisition & Development	—	—	—	—	—	—
Land - Consumer Lot Loans	4	685	685	8	965	965
Multi-Family	—	—	—	1	389	389
Commercial Real Estate	1	2,411	2,411	2	5,572	5,572
Commercial & Industrial	—	—	—	—	—	—
HELOC	—	—	—	2	113	113
Consumer	1	11	11	—	—	—
	117	\$30,726	\$ 30,726	213	\$51,339	\$ 51,339

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	Nine Months Ended June 30, 2013			2012		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment (In thousands)	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Single-Family Residential	337	\$88,085	\$ 88,085	681	\$159,651	\$ 159,651
Construction - Speculative	1	2,481	2,481	22	6,253	6,253
Construction - Custom Land - Acquisition & Development	—	—	—	1	1,196	1,196
Land - Consumer Lot Loans	—	—	—	26	5,565	5,565
Multi-Family	20	3,027	3,027	30	3,906	3,906
Commercial Real Estate	1	44	44	3	2,257	2,257
Commercial & Industrial	1	2,411	2,411	3	5,881	5,881
HELOC	—	—	—	1	2	2
Consumer	1	199	199	2	113	113
	1	11	11	—	—	—
	362	\$96,258	\$ 96,258	769	\$184,824	\$ 184,824

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 June 30, 2013		2012	
	Number of Contracts (In thousands)	Recorded Investment (In thousands)	Number of Contracts (In thousands)	Recorded Investment (In thousands)
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	25	\$6,833	30	\$8,225
Construction - Speculative	—	—	—	—
Construction - Custom Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	—	—	—	—
Multi-Family	1	109	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

HELOC	1	79	—	—
Consumer	—	—	—	—
	27	\$7,021	30	\$8,225

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	Nine Months Ended June 30,		2012	
	2013		2012	
	Number of	Recorded	Number of	Recorded
	Contracts	Investment	Contracts	Investment
	(In thousands)		(In thousands)	
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	65	\$ 15,366	97	\$21,687
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	1	838	—	—
Land - Consumer Lot Loans	2	237	4	603
Multi-Family	—	—	—	—
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	2	113	—	—
Consumer	—	—	—	—
	70	\$ 16,554	101	\$22,290

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

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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, 2013 and fiscal year ended September 30, 2012:

Quarter Ended June 30, 2013	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
Single-family residential	\$77,422	\$(5,969)	) \$2,081	\$(6,148)	) \$67,386
Construction - speculative	7,757	(124)	) 109	(9)	) 7,733
Construction - custom	262	(481)	) —	498	279
Land - acquisition & development	12,221	(864)	) 489	(462)	) 11,384
Land - consumer lot loans	3,941	(212)	) 1	245	3,975
Multi-family	4,272	—	156	(1,070)	) 3,358
Commercial real estate	4,156	—	3	1,132	5,291
Commercial & industrial	8,628	(23)	) 18	5,231	13,854
HELOC	1,031	(24)	) —	(13)	) 994
Consumer	3,194	(571)	) 631	596	3,850
	\$122,884	\$(8,268)	) \$3,488	\$—	) \$118,104
Fiscal Year Ended September 30, 2012	Beginning Allowance (In thousands)	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
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 June 30, 2013, while a \$10,367,000 provision was recorded for the same quarter one year ago. Non-performing assets (“NPAs”) amounted to \$233,403,000, or 1.79%, of total assets at June 30, 2013, compared to \$278,490,000, or 2.07%, 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 June 30, 2013 as the associated discount is adequate to absorb potential losses. Non-accrual loans decreased from \$171,033,000 at June 30, 2012, to \$148,655,000 at June 30, 2013, a 13.1% decrease. The Company had net charge-offs of \$4,780,000 for the quarter ended June 30, 2013, compared with \$16,235,000 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. \$111,617,000 of

the allowance was calculated under our general allowance methodology and the remaining \$6,487,000 was made up of specific reserves on loans that were deemed to be impaired at June 30, 2013. For the period ending June 30, 2012, \$116,164,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$21,787,000 was made

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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 June 30, 2013 and September 30, 2012:

June 30, 2013	Loans Collectively Evaluated for Impairment			Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio	Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)			(In thousands)			
Single-family residential	\$67,386	\$ 5,159,449	1.3	% \$—	\$ 94,155	—	%
Construction - speculative	6,093	96,589	6.3	1,640	19,774	8.3	
Construction - custom	279	237,832	0.1	—	120	—	
Land - acquisition & development	7,444	66,516	11.2	3,940	18,732	21.0	
Land - consumer lot loans	3,664	112,060	3.3	311	16,685	1.9	
Multi-family	3,018	733,836	0.4	340	8,034	4.2	
Commercial real estate	5,035	383,358	1.3	256	14,772	1.7	
Commercial & industrial	13,854	239,407	5.8	—	62	—	
HELOC	994	110,322	0.9	—	1,096	—	
Consumer	3,850	51,515	7.5	—	—	—	
	\$111,617	\$ 7,190,884	1.6	\$6,487	\$ 173,430	3.7	

(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	—	—	—	

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

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

(1)Excludes acquired and covered loans

21

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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

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

June 30, 2013	Internally Assigned Grade					Total Gross Loans
	Pass (In thousands)	Special mention	Substandard	Doubtful	Loss	
Non-acquired loans						
Single-family residential	\$5,071,745	\$3,134	\$178,725	\$—	\$—	\$5,253,604
Construction - speculative	83,989	771	31,603	—	—	116,363
Construction - custom	237,952	—	—	—	—	237,952
Land - acquisition & development	62,903	819	21,526	—	—	85,248
Land - consumer lot loans	127,867	—	878	—	—	128,745
Multi-family	721,538	1,254	19,078	—	—	741,870
Commercial real estate	361,726	15,312	21,092	—	—	398,130
Commercial & industrial	236,082	916	2,432	—	39	239,469
HELOC	111,418	—	—	—	—	111,418
Consumer	50,747	411	357	—	—	51,515
	7,065,967	22,617	275,691	—	39	7,364,314
Acquired loans						
Single-family residential	15,354	—	—	—	—	15,354
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	2,164	—	1,556	—	—	3,720
Land - consumer lot loans	3,615	—	—	—	—	3,615
Multi-family	3,389	—	3,994	—	—	7,383
Commercial real estate	129,891	4,097	28,736	—	—	162,724
Commercial & industrial	77,114	1,793	9,851	—	10	88,768
HELOC	11,466	—	—	—	—	11,466
Consumer	9,035	—	—	—	—	9,035
	252,028	5,890	44,137	—	10	302,065
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	1,478	473	533	—	—	2,484
Pool 2 - Single-family residential	335	—	—	—	—	335
Pool 3 - Multi-family	—	—	—	—	—	—
Pool 4 - HELOC & other consumer	12,094	—	—	—	—	12,094
Pool 5 - Commercial real estate	51,503	805	25,285	926	—	78,519

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

Pool 6 - Commercial & industrial	924	3,871	3,451	360	—	8,606
Total credit impaired acquired loans	66,334	5,149	29,269	1,286	—	102,038
Total gross loans	\$7,384,329	\$33,656	\$349,097	\$1,286	\$49	\$7,768,417
Total grade as a % of total gross loans	95.1	% 0.4	% 4.5	% —	% —	%

22

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

September 30, 2012	Internally Assigned Grade					Total Gross Loans
	Pass (In thousands)	Special mention	Substandard	Doubtful	Loss	
Non-acquired loans						
Single-family residential	\$5,588,252	\$844	\$189,826	\$—	\$—	\$5,778,922
Construction - speculative	86,126	10,113	33,398	—	—	129,637
Construction - custom	211,690	—	—	—	—	211,690
Land - acquisition & development	73,661	4,637	46,379	—	—	124,677
Land - consumer lot loans	140,006	223	1,615	—	—	141,844
Multi-family	684,649	5,098	20,393	—	—	710,140
Commercial real estate	278,022	16,282	24,906	—	—	319,210
Commercial & industrial	158,421	1,071	3,331	—	—	162,823
HELOC	112,902	—	—	—	—	112,902
Consumer	62,611	354	409	—	—	63,374
	7,396,340	\$38,622	\$320,257	\$—	\$—	\$7,755,219
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	2,466	—	3,125	—	—	5,591
Pool 2 - Single-family residential	342	—	—	—	—	342
Pool 3 - Multi-family	—	—	601	—	—	601
Pool 4 - HELOC & other consumer	14,137	—	—	—	—	14,137
Pool 5 - Commercial real estate	53,683	4,308	28,200	963	—	87,154
Pool 6 - Commercial & industrial	1,566	58	733	935	—	3,292
Total credit impaired acquired loans	72,194	4,366	32,659	1,898	—	111,117
Total gross loans	\$7,468,534	\$42,988	\$352,916	\$1,898	\$—	\$7,866,336
Total grade as a % of total gross loans	94.9	% 0.6	% 4.5	% —	% —	%

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

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

June 30, 2013	Performing Loans		Non-Performing Loans		
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans	
	(In thousands)				
Single-family residential	\$5,149,352	98.0	% \$104,252	2.0	%
Construction - speculative	112,587	96.8	3,776	3.2	
Construction - custom	237,952	100.0	—	—	
Land - acquisition & development	75,662	88.8	9,586	11.2	
Land - consumer lot loans	125,033	97.1	3,712	2.9	
Multi-family	735,217	99.1	6,653	0.9	
Commercial real estate	383,782	96.4	14,348	3.6	
Commercial & industrial	234,397	97.9	5,072	2.1	
HELOC	110,547	99.2	871	0.8	
Consumer	51,130	99.3	385	0.7	
	\$7,215,659	98.0	\$148,655	2.0	
September 30, 2012	Performing Loans		Non-Performing Loans		
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans	
	(In thousands)				
Single-family residential	\$5,647,729	97.7	% \$131,193	2.3	%
Construction - speculative	119,003	91.8	10,634	8.2	
Construction - custom	211,151	99.7	539	0.3	
Land - acquisition & development	111,200	89.2	13,477	10.8	
Land - consumer lot loans	136,695	96.4	5,149	3.6	
Multi-family	705,955	99.4	4,185	0.6	
Commercial real estate	311,557	97.6	7,653	2.4	
Commercial & industrial	162,807	100.0	16	—	
HELOC	112,704	99.8	198	0.2	
Consumer	62,991	99.4	383	0.6	
	\$7,581,792	97.8	% \$173,427	2.2	%

The following table provides information on impaired loan balances and the related allowances by loan types as of June 30, 2013 and September 30, 2012:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

June 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	
				Quarter Ended June 30, 2013	Nine Months Ended June 30, 2013
(In thousands)					
With no related allowance recorded:					
Single-family residential	\$37,903	\$42,938	\$—	\$31,322	\$23,985
Construction - speculative	3,808	4,621	—	3,812	3,693
Construction - custom	—	—	—	—	—
Land - acquisition & development	8,177	20,135	—	7,739	7,607
Land - consumer lot loans	3,294	3,909	—	2,886	2,271
Multi-family	4,923	4,923	—	3,274	2,107
Commercial real estate	13,214	15,383	—	9,092	6,793
Commercial & industrial	7,296	31,197	—	3,711	2,091
HELOC	892	1,277	—	487	284
Consumer	36	45	—	18	9
	79,543	124,428	—	62,341	48,840
With an allowance recorded:					
Single-family residential	359,124	366,099	20,437	353,027	342,111
Construction - speculative	15,729	16,179	1,640	15,781	15,860
Construction - custom	—	—	—	—	—
Land - acquisition & development	11,721	13,193	3,940	12,055	12,914
Land - consumer lot loans	13,165	13,323	311	13,097	12,894
Multi-family	8,882	9,492	340	9,244	10,456
Commercial real estate	9,846	9,846	256	9,859	9,911
Commercial & industrial	—	—	—	—	—
HELOC	939	939	—	940	839
Consumer	11	11	—	6	3
	419,417	429,082	26,924	(1) 414,009	404,988
Total:					
Single-family residential	397,027	409,037	20,437	384,349	366,096
Construction - speculative	19,537	20,800	1,640	19,593	19,553
Construction - custom	—	—	—	—	—
Land - acquisition & development	19,898	33,328	3,940	19,794	20,521
Land - consumer lot loans	16,459	17,232	311	15,983	15,165
Multi-family	13,805	14,415	340	12,518	12,563
Commercial real estate	23,060	25,229	256	18,951	16,704
Commercial & industrial	7,296	\$31,197	—	3,711	2,091
HELOC	1,831	2,216	—	1,427	1,123
Consumer	47	56	—	24	12

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

\$498,960 \$553,510 \$26,924 (1) \$476,350 \$453,828

(1)Includes \$6,487,000 of specific reserves and \$20,437,000 included in the general reserves.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

September 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
	(In thousands)			
With no related allowance recorded:				
Single-family residential	\$106,955	\$124,342	\$—	\$49,524
Construction - speculative	13,726	16,568	—	13,581
Construction - custom	—	—	—	—
Land - acquisition & development	18,000	30,209	—	16,417
Land - consumer lot loans	1,677	2,185	—	487
Multi-family	8,792	8,991	—	6,935
Commercial real estate	31,190	42,656	—	12,946
Commercial & industrial	1,146	7,363	—	581
HELOC	90	1,066	—	36
Consumer	—	4	—	—
	181,576	233,384	—	100,507
With an allowance recorded:				
Single-family residential	317,901	317,901	25,723	305,350
Construction - speculative	12,836	12,836	2,981	12,822
Construction - custom	—	—	—	—
Land - acquisition & development	20,750	20,750	8,901	21,650
Land - consumer lot loans	13,881	13,881	761	13,126
Multi-family	14,153	14,555	2,462	14,279
Commercial real estate	3,722	3,722	798	2,897
Commercial & industrial	—	2	2	22
HELOC	734	734	—	743
Consumer	—	—	—	—
	383,977	384,381	41,628	(1) 370,889
Total:				
Single-family residential	424,856	442,243	25,723	354,874
Construction - speculative	26,562	29,404	2,981	26,403
Construction - custom	—	—	—	—
Land - acquisition & development	38,750	50,959	8,901	38,067
Land - consumer lot loans	15,558	16,066	761	13,613
Multi-family	22,945	23,546	2,462	21,214
Commercial real estate	34,912	46,378	798	15,843
Commercial & industrial	1,146	7,365	2	603
HELOC	824	1,800	—	779
Consumer	—	4	—	—
	\$565,553	\$617,765	\$41,628	(1) \$471,396

(1) Includes \$15,983,000 of specific reserves and \$25,645,000 included in the general reserves.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)

NOTE F – New Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The main objective of this Update is to address implementation issues about the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The guidance in this ASU is effective for the first interim or annual period beginning on or after January 1, 2013 and should be applied retrospectively. This new guidance did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The objective of this Update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements; rather, they require the entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance in this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012, and should be applied prospectively. This new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. Topic 815, Derivatives and Hedging, provides guidance on the risks that are permitted to be hedged in a fair value or cash flow hedge. The objective of this Update is to provide for the inclusion of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST and LIBOR rates. The guidance in this ASU is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. As the Company does not currently engage in derivatives transactions that are accounted for as cash flow or fair value hedges, the adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, A Similar Tax Loss, or a Tax Credit Carryforward Exists. Topic 740, Income Taxes, does not include explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. There is diversity in practice in the presentation of unrecognized tax benefits in those instances. Some entities present unrecognized tax benefits as a liability unless the unrecognized tax benefit is directly associated with a tax position taken in a tax year that results in, or that resulted in, the recognition of a net operating loss or tax credit carryforward for that year and the net operating loss or tax credit carryforward has not been utilized. Other entities present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss or tax credit carryforward in certain circumstances. The objective of the amendments in this Update is to eliminate that diversity in practice. The amendments in this Update do not require new recurring disclosures. The guidance in this ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This new guidance is

not expected to have a material impact on the Company's consolidated financial statements.

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.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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

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

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

Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. 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, 2013:

	Fair Value at June 30, 2013			Total
	Level 1 (In thousands)	Level 2	Level 3	
Available-for-sale securities				
Equity securities	\$—	\$514	\$—	\$514
Obligations of U.S. government	—	545,585	—	545,585
Obligations of states and political subdivisions	—	22,545	—	22,545
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	452,111	—	452,111
Mortgage-backed securities	—	—	—	—
Agency pass-through certificates	—	1,037,389	—	1,037,389
Other debt securities	—	—	—	—
Balance at end of period	\$—	\$2,058,144	\$—	\$2,058,144

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2013.

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. When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2013 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

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

The following table presents the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the nine months ended June 30, 2013, and the total losses resulting from those fair value adjustments for the quarter and nine months ended June 30, 2013. The following estimated fair values are shown gross of estimated selling costs:

28

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	Through June 30, 2013				Quarter Ended June 30, 2013	Nine Months Ended June 30, 2013
	Level 1 (In thousands)	Level 2	Level 3	Total	Total Losses	
Impaired loans (1)	\$—	\$—	\$64,500	\$64,500	\$1,967	\$13,005
Covered REO (2)	—	—	18,312	18,312	231	603
Real estate held for sale (2)	—	—	77,080	77,080	5,626	19,650
Balance at end of period	\$—	\$—	\$159,892	\$159,892	\$7,824	\$33,258

(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, 2013.

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

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

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

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

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

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

When a loan is reclassified from loan status to real estate held for sale due to the Company taking possession of the collateral, a Special Credits officer, along with the Special Credits manager, obtains a valuation, which may include a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value,

to the extent it does not exceed the carrying value of the loan, becomes the carrying value of the REO asset. In addition to the valuations from independent third-party sources, the carrying balance of REO assets are written down once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the current balance of the particular REO asset. The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the lower of cost or fair value as necessary.

Fair Values of Financial Instruments

29

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

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.

	Level in Fair Value Hierarchy	June 30, 2013		September 30, 2012	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)					
Financial assets					
Cash and cash equivalents	1	\$646,857	\$646,857	\$751,430	\$751,430
Available-for-sale securities	2				
Equity securities		514	514	—	—
Obligations of U.S. government		545,585	545,585	183,560	183,560
Obligations of states and political subdivisions		22,545	22,545	24,844	24,844
Obligations of foreign governments		—	—	—	—
Corporate debt securities		452,111	452,111	403,325	403,325
Mortgage-backed securities					
Agency pass-through certificates		1,037,389	1,037,389	1,169,976	1,169,976
Other debt securities		—	—	—	—
Total available-for-sale securities		2,058,144	2,058,144	1,781,705	1,781,705
Held-to-maturity securities	2				
Equity securities		—	—	—	—
Obligations of U.S. government		—	—	—	—
Obligations of states and political subdivisions		—	—	795	802
Obligations of foreign governments		—	—	—	—
Corporate debt securities		—	—	—	—
Mortgage-backed securities					
Agency pass-through certificates		1,589,779	1,522,470	1,190,692	1,216,421
Other debt securities		—	—	—	—
Total held-to-maturity securities		1,589,779	1,522,470	1,191,487	1,217,223
Loans receivable	3	7,390,506	7,913,399	7,451,998	7,949,892
Covered loans	3	310,378	317,244	288,376	289,754
FDIC indemnification asset	3	73,665	73,182	87,571	85,846
FHLB stock	2	150,533	150,533	149,840	149,840
Financial liabilities					
Customer accounts	2	9,063,497	8,615,872	8,576,618	8,406,432
FHLB advances and other borrowings	2	1,930,000	2,071,867	1,880,000	2,110,223

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.

30

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)

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

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

FHLB 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:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	June 30, 2013					
	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	\$125,500	\$17	\$(2,231)	) \$123,286	1.12	%
1 to 5 years	61,002	3,494	(374)	) 64,122	2.00	
5 to 10 years	81,600	—	(487)	) 81,113	0.73	
Over 10 years	279,423	—	(1,845)	) 277,578	0.92	
Corporate bonds due						
Within 1 year	19,500	3	—	19,503	0.49	
1 to 5 years	317,103	2,045	(114)	) 319,034	0.84	
5 to 10 years	113,024	975	(425)	) 113,574	1.59	
Municipal bonds due						
Over 10 years	20,427	2,118	—	22,545	6.45	
Mortgage-backed securities						
Agency pass-through certificates	1,032,452	7,129	(2,192)	) 1,037,389	1.91	
	2,050,031	15,781	(7,668)	) 2,058,144	1.53	
Held-to-maturity securities						
Tax-exempt municipal bonds due						
Within 1 year	—	—	—	—	—	
1 to 5 years	—	—	—	—	—	
5 to 10 years	—	—	—	—	—	
Over 10 years	—	—	—	—	—	
U.S. government and agency securities due						
1 to 5 years	—	—	—	—	—	
Mortgage-backed securities						
Agency pass-through certificates	1,589,779	3,058	(70,367)	) 1,522,470	3.02	
	1,589,779	3,058	(70,367)	) 1,522,470	3.02	
	\$3,639,810	\$18,839	\$(78,035)	) \$3,580,614	2.18	%

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	September 30, 2012					
	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	\$ 19,999	\$ 42	\$(6	) \$ 20,035	0.57	%
1 to 5 years	—	—	—	—	—	
5 to 10 years	59,300	4,225	—	63,525	2.21	
Over 10 years	100,000	—	—	100,000	1.05	
Corporate bonds due						
1 to 5 years	336,340	2,810	(61	) 339,089	0.91	
5 to 10 years	62,919	1,324	(7	) 64,236	2.73	
Municipal bonds due						
Over 10 years	20,442	4,402	—	24,844	6.45	
Mortgage-backed securities						
Agency pass-through certificates	1,161,668	9,358	(1,050	) 1,169,976	2.28	
	1,760,668	22,161	(1,124	) 1,781,705	1.99	
Held-to-maturity securities						
Tax-exempt municipal bonds due						
Within 1 year	795	7	—	802	5.80	
1 to 5 years	—	—	—	—	—	
5 to 10 years	—	—	—	—	—	
Over 10 years	—	—	—	—	—	
U.S. government and agency securities due						
1 to 5 years	—	—	—	—	—	
Mortgage-backed securities						
Agency pass-through certificates	1,190,692	25,729	—	1,216,421	3.10	
	1,191,487	25,736	—	1,217,223	3.10	
	\$ 2,952,155	\$ 47,897	\$(1,124	) \$ 2,998,928	2.44	%

During the period ending June 30, 2013, \$43,198,000 of available-for-sale securities were sold, resulting in a gain of \$0. \$3,500,000 of available-for-sale securities were sold during the period ending June 30, 2012, resulting in a gain of \$0.

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, 2013, by length of time that individual securities in each category have been in a continuous loss position. Management believes that the declines in fair value of these investments are not an other than temporary impairment.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
Corporate bonds due	\$(114	) \$19,886	\$(426	) \$9,575	\$(540	) \$29,461
U.S. government and agency securities due	(4,936	) 507,790	—	—	(4,936	) 507,790
Agency pass-through certificates	(71,932	) 1,596,582	(627	) 110,163	(72,559	) 1,706,745
	(76,982	) \$2,124,258	\$(1,053	) \$119,738	(78,035	) \$2,243,996

NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and were \$337,892,000 as of June 30, 2013, versus \$317,925,000 as of September 30, 2012.

As of the close of business October 31, 2012, the Company acquired covered assets as part of the South Valley acquisition as described in Note B. The carrying balance of acquired covered loans have been included in the following tables.

Changes in the carrying amount and accretible yield for acquired impaired and non-impaired loans for the year to date period ended June 30, 2013 and the fiscal year ended September 30, 2012 were as follows:

June 30, 2013	Acquired Impaired		Acquired Non-impaired		
	Accretible Yield	Carrying Amount of Loans	Accretible Yield	Carrying Amount of Loans	
	(In thousands)				
Balance at beginning of period	\$50,902	\$74,953	\$23,789	\$213,423	
Additions (1)	43,299	107,946	—	—	
Accretion	(26,590	) 26,590	(5,716	) 5,716
Transfers to REO	—	(11,694) —	—	
Payments received, net	—	(52,329) —	(54,227)
Balance at end of period	\$67,611	\$145,466	\$18,073	\$164,912	

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

September 30, 2012	Acquired Impaired		Acquired Non-impaired	
	Accretible Yield	Carrying Amount of Loans	Accretible Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	\$37,072	\$116,061	\$30,370	\$269,888
Reclassification from nonaccretible balance, net	34,690	—	—	—
Accretion	(20,860	) 20,860	(6,581	) 6,581
Transfers to REO	—	(15,905) —	—

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

Payments received, net	—	(46,063	) —	(63,046)
Balance at end of period	\$50,902	\$74,953	\$23,789	\$213,423	

34

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

At June 30, 2013, none of the acquired impaired or non-impaired loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

The outstanding principal balance of acquired loans was \$383,825,000 and \$373,455,000 as of June 30, 2013 and September 30, 2012, respectively. The discount balance related to the acquired loans was \$73,447,000 and \$85,079,000 as of June 30, 2013 and September 30, 2012, respectively.

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

	June 30, 2013	September 30, 2012
	(In thousands)	
Balance at beginning of period	\$87,571	\$101,634
Additions (1)	17,965	3,284
Payments made (received)	(13,014)	) (3,456)
Amortization	(19,693)	) (15,510)
Accretion	836	1,619
Balance at end of period	\$73,665	\$87,571

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

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

Credit Risk Profile by Internally Assigned Grade:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

June 30, 2013	Internally Assigned Grade					Total Net Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Purchased non credit-impaired loans:						
Single-family residential	\$29,323	\$—	\$2,698	\$—	\$—	\$32,021
Construction - speculative	104	—	—	—	—	104
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	2,780	1,203	1,028	—	—	5,011
Land - consumer lot loans	247	—	—	—	—	247
Multi-family	19,026	—	294	—	—	19,320
Commercial real estate	62,600	9,398	19,978	—	—	91,976
Commercial & industrial	5,935	500	3,238	—	—	9,673
HELOC	15,508	—	—	—	—	15,508
Consumer	640	—	—	—	—	640
	136,163	11,101	27,236	—	—	174,500
Total grade as a % of total net loans	78.0	% 6.4	% 15.6	% —	% —	%
Purchased credit-impaired loans:						
Pool 1 - Construction and land A&D	14,818	4,297	26,955	—	—	46,070
Pool 2 - Single-family residential	22,198	—	340	—	—	22,538
Pool 3 - Multi-family	1,239	—	4,496	—	—	5,735
Pool 4 - HELOC & other consumer	4,331	—	2,034	—	—	6,365
Pool 5 - Commercial real estate	37,083	15,205	58,800	—	—	111,088
Pool 6 - Commercial & industrial	7,004	229	10,296	—	—	17,529
	\$86,673	\$ 19,731	\$102,921	\$—	\$—	209,325
						Total covered loans 383,825
						Discount (73,447)
						Allowance —
						Covered loans, net \$310,378

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

September 30, 2012	Internally Assigned Grade					Total Net Loans
	Pass	Special mention	Substandard	Doubtful	Loss	
	(In thousands)					
Purchased non credit-impaired loans:						
Single-family residential	\$32,272	\$—	\$3,404	\$—	\$—	\$35,676
Construction - speculative	90	—	—	—	—	90
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	3,440	1,970	6,020	—	—	11,430
Land - consumer lot loans	498	—	—	—	—	498
Multi-family	24,898	—	2,747	—	—	27,645
Commercial real estate	89,530	298	31,764	—	—	121,592
Commercial & industrial	7,146	510	5,367	—	—	13,023
HELOC	17,971	—	—	—	—	17,971
Consumer	918	—	—	—	—	918
	176,763	2,778	49,302	—	—	228,843
Total grade as a % of total net loans	77.3	% 1.2	% 21.5	% —	% —	%
Purchased credit-impaired loans:						
Pool 1 - Construction and land A&D	9,795	5,301	35,857	—	—	50,953
Pool 2 - Single-family residential	669	—	2,953	—	—	3,622
Pool 3 - Multi-family	—	—	2,996	—	—	2,996
Pool 4 - HELOC & other consumer	1,094	—	3,096	—	—	4,190
Pool 5 - Commercial real estate	404	25,785	41,403	—	—	67,592
Pool 6 - Commercial & industrial	3,787	1,006	10,466	—	—	15,259
	\$15,749	\$32,092	\$96,771	\$—	\$—	144,612
						Total covered loans 373,455
						Discount (85,079)
						Allowance —
						Covered loans, net \$288,376

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

The following tables provide an analysis of the age of purchased non credit-impaired loans in past due status for the periods ended June 30, 2013 and September 30, 2012:

June 30, 2013 Type of Loans	Amount of Loans Net of LIP & Chg.-Offs	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Single-Family Residential	\$ 32,021	\$30,935	\$14	\$255	\$817	\$1,086	3.39	%	
Construction - Speculative	104	104	—	—	—	—	NM		
Construction - Custom	—	—	—	—	—	—	NM		
Land - Acquisition & Development	5,011	4,975	—	—	36	36	0.72		
Land - Consumer Lot Loans	247	201	—	—	46	46	18.62		
Multi-Family	19,320	19,320	—	—	—	—	NM		
Commercial Real Estate	91,976	90,881	—	—	1,095	1,095	1.19		
Commercial & Industrial	9,673	9,673	—	—	—	—	NM		
HELOC	15,508	15,143	—	18	347	365	2.35		
Consumer	640	634	5	—	1	6	0.94		
	\$ 174,500	\$171,866	\$19	\$273	\$2,342	\$2,634	1.51	%	

September 30, 2012 Type of Loans	Amount of Loans Net of LIP & Chg.-Offs	Days Delinquent Based on \$ Amount of Loans					Total	% based on \$	
		Current	30	60	90				
Single-Family Residential	\$ 35,676	\$32,601	\$2,075	\$—	\$1,000	\$3,075	8.62	%	
Construction - Speculative	90	90	—	—	—	—	NM		
Construction - Custom	—	—	—	—	—	—	NM		
Land - Acquisition & Development	11,430	9,922	—	—	1,508	1,508	13.19		
Land - Consumer Lot Loans	498	385	—	—	113	113	22.69		
Multi-Family	27,645	26,137	—	—	1,508	1,508	5.45		
Commercial Real Estate	121,592	115,206	17	4,447	1,922	6,386	5.25		
Commercial & Industrial	13,023	9,513	—	69	3,441	3,510	26.95		
HELOC	17,971	17,440	97	50	384	531	2.95		
Consumer	918	916	—	1	1	2	2.20		
	\$ 228,843	\$212,210	\$2,189	\$4,567	\$9,877	\$16,633	7.27	%	

NM - not meaningful

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

NOTE I – Derivatives and Hedging Activities

The Company periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rates. Under these agreements, the Company enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Company then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under the Derivatives and Hedging topic of the FASB ASC, the instruments are marked to market in earnings. The notional amount of open interest rate swap agreements at June 30, 2013 was \$54,141,000. There was no impact to the statement of operations for the nine months ended June 30, 2013.

The Company periodically enters into forward contracts to purchase mortgage-backed securities as part of its interest rate risk management program. The Company has determined anticipated purchase dates for each forward commitment to be mid-October 2013. The notional amount of commitments to purchase mortgage-backed securities at June 30, 2013 was \$200,000,000. The fair value of these contracts is included with the available-for-sale securities on the statement of financial condition.

The following table presents the fair value and balance sheet classification of derivatives not designated as hedging instruments at June 30, 2013 and September 30, 2012:

	Asset Derivatives				Liability Derivatives			
	June 30, 2013		September 30, 2012		June 30, 2013		September 30, 2012	
	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value	Balance Sheet	Fair Value
	(In thousands)							
Interest rate contracts	Other assets	\$524	Other assets	N/A	Other liabilities	\$524	Other liabilities	N/A
Commitments to purchase MBS	AFS securities	2,875	AFS securities	N/A	N/A	N/A	N/A	N/A

NOTE J – Subsequent Events

Conversion to national charter - Effective July 17, 2013, Washington Federal completed its conversion to a national bank charter with the Office of the Comptroller of the Currency (the "OCC") and is now a national bank. The Company also completed its conversion to a bank holding company with the Federal Reserve.

Branch acquisition - Effective July 18, 2013, Washington Federal, the wholly owned subsidiary of the Company, entered into a series of related Purchase and Assumption Agreements for the acquisition of deposits totaling approximately \$1.8 billion, loans totaling approximately \$11 million, and related assets, from Bank of America, National Association, for an aggregate purchase price of 2.6% of the average daily closing deposits, which is

estimated to be \$45.6 million. These acquisitions represent a total of 51 branches located in Eastern Washington, Idaho, Oregon and New Mexico. Subject to regulatory approval from the OCC and the satisfaction of customary closing conditions, the transaction is expected to close in the fourth calendar quarter 2013.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

FORWARD LOOKING STATEMENTS

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

GENERAL

As of June 30, 2013, Washington Federal, Inc. (“Company”) was a savings and loan holding company. The Company’s primary operating subsidiary is Washington Federal. Effective July 17, 2013, Washington Federal completed its conversion to a national bank charter with the Office of the Comptroller of the Currency and is now a national bank. The Company also completed its conversion to a bank holding company with the Federal Reserve.

The results discussed below were impacted by the acquisition on close of business on October 31, 2012, of South Valley Bank and Trust, headquartered in Klamath Falls, Oregon (“South Valley”). The acquisition provided \$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.

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 June 30, 2013.

INTEREST RATE RISK

Historically, the Company accepted a higher level of interest rate risk as a result of its significant holdings of fixed-rate single-family home loans that are longer in term than the characteristics of its primary liabilities of customer accounts and borrowings. Based on Management’s assessment of the current interest rate environment, the Company has taken steps, including growing shorter-term business loans, transaction deposit accounts and extending the maturity on borrowings, to reduce its interest rate risk profile compared to its historical norms. The Company has also been purchasing more variable rate investments. The composition of the investment portfolio is now 50% variable and 50% fixed rate. In addition, \$1.6 billion of its purchased 30-year fixed rate mortgage-backed securities have been designated as held-to-maturity. With rising interest rates, these securities may be subject to unrealized losses. As of June 30, 2013, the unrealized losses on these securities were \$70 million.

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

At June 30, 2013, the Company had approximately \$2.077 billion more in liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 15.96% of total assets. This was an increase from the 10.1% negative gap as of September 30, 2012.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

A negative maturity gap implies that funding costs will change more rapidly than interest income on earning assets with movement in interest rates. A negative maturity gap typically results in higher margins when interest rates decline and lower margins when interest rates rise. Gap analysis provides management with a high-level indication of interest rate risk, but is considered less reliable than more detailed modeling.

The potential impact of rising interest rates on net interest income in the future is estimated using a model that is based on account level detail for loans and deposits. In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income will decrease by 2.59% in year one. In the event of a gradual increase from current rates by 200 basis points over a twelve-month period, the model forecasts an decrease in net interest income of 1.95% in year one. This analysis assumes zero balance sheet growth and a constant percentage composition of assets and liabilities. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

The NPV estimates the market of value of shareholder's equity based upon forecasted interest rate scenarios. It is derived by calculating the difference between the present value of expected cash flows from interest-earning assets and the present value of expected cash flows from interest-paying liabilities and off-balance-sheet contracts. The sensitivity of the NPV to changes in interest rates is another measure of interest rate risk. This approach provides a longer term view of interest rate risk as it incorporates all future expected cash flows. In the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$347 million and the NPV to total assets ratio to decline to 16.40%. As of September 30, 2012 the estimated decrease in NPV in the event of a 200 basis point increase in rates was estimated to decline by \$296 million and the NPV to total assets ratio to decline to 15.00%.

The interest rate spread decreased to 2.65% at June 30, 2013 from 2.80% at September 30, 2012. The spread decreased due to a decline in the average rate on loans and investment securities. As of June 30, 2013, the weighted average rate on customer deposit accounts and borrowings decreased by 16 basis points compared to September 30, 2012, while the weighted average rates on earning assets decreased by 31 basis points over the same period.

As of June 30, 2013, the Company had increased total assets by \$539,539,000 from \$12,472,944,000 at September 30, 2012. For the quarter ended June 30, 2013, compared to September 30, 2012, loans (both non-covered and covered) decreased \$39,490,000, or .51%. To help offset the reduced income from loans, investment securities increased \$674,731,000, or 22.69%. Cash and cash equivalents of \$646,857,000 and stockholders’ equity of \$1,922,892,000 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s net worth at June 30, 2013 was \$1,922,892,000, or 14.78% of total assets. This was an increase of \$23,140,000 from September 30, 2012 when net worth was \$1,899,752,000, or 15.23% of total assets. The Company’s net worth was impacted in the nine months ended June 30, 2013 by net income of \$108,598,000, the payment of \$26,650,000 in cash dividends, treasury stock purchases that totaled \$87,037,000, as well as a decrease in other comprehensive income of \$8,175,000.

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

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

	Actual		Capital Adequacy Guidelines		Categorized as Well Capitalized Under Prompt Corrective Action Provisions			
	Capital (In thousands)	Ratio	Capital	Ratio	Capital	Ratio	Capital	Ratio
June 30, 2013								
Total capital to risk-weighted assets	\$ 1,700,116	26.59	% \$ 511,521	8.00	% \$ 639,401	10.00	%	
Tier I capital to risk-weighted assets	1,619,714	25.33	% NA	NA	383,641	6.00	%	
Core capital to adjusted tangible assets	1,619,714	12.70	% NA	NA	637,435	5.00	%	
Core capital to total assets	1,619,714	12.70	% 382,461	3.00	% NA	NA		
Tangible capital to tangible assets	1,619,714	12.70	% 191,230	1.50	% NA	NA		
September 30, 2012								
Total capital to risk-weighted assets	1,653,760	27.29	% 484,822	8.00	% 606,028	10.00	%	
Tier I capital to risk-weighted assets	1,577,280	26.03	% N/A	N/A	363,617	6.00	%	
Core capital to adjusted tangible assets	1,577,280	12.92	% N/A	N/A	610,556	5.00	%	
Core capital to total assets	1,577,280	12.92	% 366,334	3.00	% N/A	N/A		
Tangible capital to tangible assets	1,577,280	12.92	% 183,167	1.50	% N/A	N/A		

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities increased \$276,439,000, or 15.5%, during the nine months ended June 30, 2013, which included the purchase of \$506,966,000 of available-for-sale securities. There were \$43,198,000 of available-for-sale securities sold during the nine months ended June 30, 2013, resulting in no gain or loss. During the same period, there were \$821,215,000 of held-to-maturity securities purchased and no sales of held-to-maturity securities. As of June 30, 2013, the Company had net unrealized gains on available-for-sale securities of \$5,131,000, net of tax, which were recorded as part of stockholders’ equity. The Company increased its available-for-sale and held-to-maturity investment portfolios to help offset some of the lost interest income on maturing and prepaying loans and mortgage-backed securities.

Loans receivable: During the nine months ended June 30, 2013, the balance of loans receivable decreased slightly to \$7,390,506,000 compared to \$7,451,998,000 at September 30, 2012. This net decrease is a result of the acquisition of \$361 million in loans from South Valley offset by declining balances 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 loans at rates below 4%, due to the duration risk associated with such low mortgage rates. Additionally, during the nine month period, \$72,762,000 of loans were transferred to REO. The following table shows the loan portfolio by category for the last three quarters.

Loan Portfolio by Category *	June 30, 2013		March 31, 2013		September 30, 2012			
	(In thousands)							
Non-Acquired loans								
Single-family residential	\$ 5,253,604	67.6	% \$ 5,374,977	68.6	% \$ 5,778,922	73.5	%	
Construction - speculative	116,363	1.5	120,617	1.5	129,637	1.6		
Construction - custom	237,952	3.1	217,036	2.8	211,690	2.7		
Land - acquisition & development	85,248	1.1	93,496	1.2	124,677	1.6		
Land - consumer lot loans	128,745	1.7	130,056	1.7	141,844	1.8		

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

Multi-family	741,870	9.5	725,322	9.3	710,140	9.0
Commercial real estate	398,130	5.1	385,587	4.9	319,210	4.1
Commercial & industrial	239,469	3.1	190,598	2.4	162,823	2.1
HELOC	111,418	1.4	111,622	1.4	112,902	1.4
Consumer	51,515	0.7	53,956	0.7	63,374	0.8

42

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

Total non-acquired loans	7,364,314	94.8	7,403,267	94.5	7,755,219	98.6	
Acquired loans							
Single-family residential	15,354	0.2	15,428	0.2	—	—	
Construction - speculative	—	—	177	—	—	—	
Construction - custom	—	—	313	—	—	—	
Land - acquisition & development	3,720	—	3,436	—	—	—	
Land - consumer lot loans	3,615	0.1	3,819	0.1	—	—	
Multi-family	7,383	0.1	7,714	0.2	—	—	
Commercial real estate	162,724	2.1	177,101	2.1	—	—	
Commercial & industrial	88,768	1.1	96,255	1.3	—	—	
HELOC	11,466	0.1	13,094	0.2	—	—	
Consumer	9,035	0.1	10,046	0.1	—	—	
Total acquired loans	302,065	3.8	327,383	4.2	—	—	
Credit-impaired acquired loans							
Single-family residential	335	—	338	—	342	—	
Construction - speculative	—	—	1,750	—	1,889	—	
Land - acquisition & development	2,484	—	2,577	—	3,702	0.1	
Multi-family	—	—	—	—	601	—	
Commercial real estate	78,519	1.1	79,868	1.1	87,154	1.1	
Commercial & industrial	8,606	0.1	2,091	—	3,292	—	
HELOC	12,015	0.2	12,757	0.2	14,040	0.2	
Consumer	79	—	81	—	97	—	
Total credit-impaired acquired loans	102,038	1.4	99,462	1.3	111,117	1.4	
Total loans							
Single-family residential	5,269,293	67.8	5,390,743	68.8	5,779,264	73.5	
Construction - speculative	116,363	1.5	122,544	1.5	131,526	1.6	
Construction - custom	237,952	3.1	217,349	2.8	211,690	2.7	
Land - acquisition & development	91,452	1.1	99,509	1.2	128,379	1.7	
Land - consumer lot loans	132,360	1.8	133,875	1.8	141,844	1.8	
Multi-family	749,253	9.6	733,036	9.5	710,741	9.0	
Commercial real estate	639,373	8.3	642,556	8.1	406,364	5.2	
Commercial & industrial	336,843	4.3	288,944	3.7	166,115	2.1	
HELOC	134,899	1.7	137,473	1.8	126,942	1.6	
Consumer	60,629	0.8	64,083	0.8	63,471	0.8	
Total loans	7,768,417	100	% 7,830,112	100	% 7,866,336	100	%
Less:							
Allowance for probable losses	118,104		122,884		133,147		
Loans in process	189,677		189,336		213,286		
Discount on acquired loans	37,568		40,346		33,484		
Deferred net origination fees	32,562		33,330		34,421		

Edgar Filing: WASHINGTON FEDERAL INC - Form 10-Q

377,911	385,896	414,338
\$7,390,506	\$7,444,216	\$7,451,998

* Excludes covered loans

43

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

Covered loans: As of June 30, 2013, covered loans increased 7.6%, or \$2,002,000 to \$310,378,000, compared to September 30, 2012, due to acquisition of FDIC covered loans as part of the South Valley acquisition described in Note B.

Non-performing assets: Non-performing assets, which excludes discounted acquired assets, decreased during the quarter ended June 30, 2013 to \$233,403,000 from \$272,905,000 at September 30, 2012, a 14.5% decrease. The continued elevated level of NPAs is a result of the significant decline in housing values in the western United States and the national recession which began in 2007. Non-performing assets as a percentage of total assets was 1.79% at June 30, 2013 compared to 2.19% at September 30, 2012. This level of NPAs remains significantly higher than the 0.96% average in the Company’s 28+ year history as a public company.

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

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

	June 30, 2013 (In thousands)		September 30, 2012		
Restructured loans:					
Single-family residential	\$362,753	87.4	% \$361,640	83.4	%
Construction - speculative	11,136	2.7	15,907	3.7	
Construction - custom	1,196	0.3	1,196	0.3	
Land - acquisition & development	7,367	1.8	14,985	3.5	
Land - consumer lot loans	13,241	3.2	13,782	3.2	
Multi - family	8,480	2.0	17,507	4.0	
Commercial real estate	9,684	2.3	7,377	1.7	
Commercial & industrial	—	—	—	—	
HELOC	1,089	0.3	884	0.2	
Consumer	11	—	—	—	
Total restructured loans (1)	414,957	100	% 433,278	100	%
Non-accrual loans:					
Single-family residential	104,252	70.1	% 131,193	75.7	%
Construction - speculative	3,776	2.5	10,634	6.1	
Construction - custom	—	—	539	0.3	
Land - acquisition & development	9,586	6.4	13,477	7.8	
Land - consumer lot loans	3,712	2.5	5,149	3.0	
Multi-family	6,653	4.5	4,185	2.4	
Commercial real estate	14,348	9.7	7,653	4.4	
Commercial & industrial	5,072	3.4	16	—	
HELOC	871	0.6	198	0.1	
Consumer	385	0.3	383	0.2	
Total non-accrual loans (2)	148,655	100	% 173,427	100	%
Total REO (3)	73,084		80,800		
Total REHI (3)	11,664		18,678		
Total non-performing assets	\$233,403		\$272,905		
Total non-performing assets and performing restructured loans as a percentage of total assets	4.80	%	5.42	%	
(1) Restructured loans were as follows:					
Performing	\$391,754	94.4	% \$403,238	93.1	%
Non-accrual *	23,203	5.6	30,040	6.9	
	\$414,957	100	% \$433,278	100	%

*Included in "Total non-accrual loans" above

The Company recognized interest income on nonaccrual loans of approximately \$2,215,000 in the nine months (2)ended June 30, 2013. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$6,201,000 for the nine months ended June 30, 2013.

In addition to the nonaccrual loans reflected in the above table, at June 30, 2013, the Company had \$120,733,000 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 5.73% at June 30, 2013.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

Total REO and REHI (included in real estate held for sale on the Statement of Financial Condition) includes real (3)estate held for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans.

Excludes covered REO.

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

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 87.4% of restructured loans as of June 30, 2013. The concession for these loans is typically a payment reduction through a rate reduction of from 100 to 200 bps for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period.

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

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

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

	June 30, 2013			September 30, 2012			
	Amount (In thousands)	Loans to Total Loans (1)	Coverage Ratio (2)	Amount (In thousands)	Loans to Total Loans (1)	Coverage Ratio (2)	
Single-family residential	\$67,386	71.3	% 1.3	% \$81,815	74.5	% 1.4	%
Construction - speculative	7,733	1.6	6.6	12,060	1.7	9.3	
Construction - custom	279	3.2	0.1	347	2.7	0.2	
Land - acquisition & development	11,384	1.2	13.4	15,598	1.6	12.5	
Land - consumer lot loans	3,975	1.7	3.1	4,937	1.8	3.5	
Multi-family	3,358	10.1	0.5	5,280	9.2	0.7	
Commercial real estate	5,291	5.4	1.3	1,956	4.1	0.6	
Commercial & industrial	13,854	3.3	5.8	7,626	2.1	4.7	
HELOC	994	1.5	0.9	965	1.5	0.9	
Consumer	3,850	0.7	7.5	2,563	0.8	4.0	
	\$118,104	100	%	\$133,147	100	%	

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

Customer accounts: Customer accounts increased \$486,879,000, or 5.68%, to \$9,063,497,000 at June 30, 2013 compared with \$8,576,618,000 at September 30, 2012. The following table shows the composition of the Company's customer accounts as of the dates shown:

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

Deposits by Type

	June 30, 2013 (In thousands)			September 30, 2012				
				Wtd. Avg. Rate			Wtd. Avg. Rate	
Non-interest checking	\$423,828	4.7	% —	%	\$272,242	3.2	% —	%
Interest checking	790,807	8.7	0.13	%	622,397	7.3	0.14	%
Savings (passbook/stmt)	392,182	4.3	0.15	%	314,634	3.7	0.20	%
Money Market	1,841,765	20.3	0.22	%	1,737,180	20.2	0.26	%
CD’s	5,614,915	62.0	1.07	%	5,630,165	65.6	1.27	%
Total	\$9,063,497	100	% 0.73	%	\$8,576,618	100	% 0.90	%

FHLB advances and other borrowings: Total borrowings increased \$50,000,000 to \$1,930,000,000 as of June 30, 2013 compared to \$1,880,000,000 as of September 30, 2012. 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.

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

RESULTS OF OPERATIONS

Net Income: The quarter ended June 30, 2013, produced net income of \$37,338,000 compared to \$35,163,000 for the same quarter one year ago. For the nine months ended June 30, 2013, net income totaled \$108,598,000 compared to \$102,651,000 for the same period one year ago. Net income for the quarter and nine months ended June 30, 2013 benefited from overall lower credit costs, which included the provision for loan losses, and gains/losses on sales of REO. The provision for loan losses amounted to \$0 and \$3,600,000 for the quarter and nine months ended June 30, 2013, respectively, as compared to \$10,367,000 and \$39,576,000 for the quarter and nine month period one year ago. See related discussion in “Provision for Loan Losses” section below for reasons for the decrease in the provision for loan losses. The benefit of the reduction in the provision for loan losses was offset by a reduction in net interest income, which was driven by net loan run-off. In addition, gains/losses recognized on real estate acquired through foreclosure was a net gain of \$176,000 and a net loss of \$7,145,000 for the quarter and nine months ended June 30, 2013, respectively, as compared to a net gain of \$1,146,000 and a net loss \$11,005,000 for the quarter and nine month periods one year ago, respectively.

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 6/30/13 and 6/30/12			Comparison of Nine months Ended 6/30/13 and 6/30/12		
	Volume (In thousands)	Rate	Total	Volume (In thousands)	Rate	Total
Interest income:						
Loans and covered loans	\$(2,868)	\$(2,315)	\$(5,183)	\$(10,658)	\$(16,054)	\$(26,712)
Mortgaged-backed securities	(4,942)	(8,208)	(13,150)	(16,785)	(28,969)	(45,754)
Investments (1)	623	502	1,125	2,156	408	2,564
All interest-earning assets	(7,187)	(10,021)	(17,208)	(25,287)	(44,615)	(69,902)
Interest expense:						
Customer accounts	527	(5,045)	(4,518)	1,709	(16,726)	(15,017)
FHLB advances and other borrowings	(7,581)	(3,290)	(10,871)	(24,099)	(9,107)	(33,206)
All interest-bearing liabilities	(7,054)	(8,335)	(15,389)	(22,390)	(25,833)	(48,223)
Change in net interest income	\$(133)	\$(1,686)	\$(1,819)	\$(2,897)	\$(18,782)	\$(21,679)

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

Provision for Loan Losses: The Company recorded a \$0 provision for loan losses during the quarter ended June 30, 2013, while a \$10,367,000 provision was recorded for the same quarter one year ago. Non-performing assets

amounted to \$233,403,000, or 1.79% , of total assets at June 30, 2013, compared to \$278,490,000, or 2.07%, of total assets one year ago. Non-accrual loans decreased from \$171,033,000 at June 30, 2012, to \$148,655,000 at June 30, 2013, a 13.1% decrease. The Company had net charge-offs of \$4,780,000 for the quarter ended June 30, 2013, compared with \$16,235,000 of net charge-offs for the same quarter one year ago. The decrease in the provision for loan losses is in response to four primary factors: first, the amount of NPA's improved year-over-year; second, non-accrual loans as a percentage of net loans decreased from 2.25% at June 30, 2012, to 2.01% at June 30, 2013; third, the percentage of loans 30 days or more delinquent decreased from from 2.69% at June 30, 2012, to 2.27% at June 30,

Table of Contents

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

2013; and finally, the Company's exposure in the land A&D and speculative construction portfolios, the source of the majority of losses during this credit cycle, has decreased from a combined 3.4% of the gross loan portfolio at June 30, 2012, to 2.7% at June 30, 2013. Management believes the allowance for loan losses, totaling \$118,104,000, or 1.52% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio.

See Note F for further discussion and analysis of the allowance for loan losses for the quarter ended June 30, 2013.

Other Income: The quarter ended June 30, 2013 produced total other income of \$5,059,000 compared to \$3,590,000 for the same quarter one year ago, an increase of \$1,469,000, due primarily to increased transaction fee income related to deposit accounts acquired as part of the acquisition of South Valley Bank as of 10/31/12.

Other Expense: The quarter ended June 30, 2013, produced total other expense of \$41,610,000 compared to \$35,963,000 for the same quarter one year ago, a 15.7% increase. The increase in total other expense over the same comparable period one year ago was primarily due to the increase of \$5,301,000 in compensation and benefits, which, for the quarter ended June 30, 2013 included the addition of the employees from the South Valley acquisition as of October 31, 2012. Also impacted by this acquisition were the increases in occupancy expense and other expense of \$578,000 and \$937,000 respectively, for the quarter ended June 30, 2013 as compared to the prior year. Total other expense for the quarters ended June 30, 2013 and 2012 equaled 1.28% and 1.06%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,423 and 1,237 at June 30, 2013 and 2012, respectively. FDIC insurance expense decreased to \$2,831,000 for the three months ended June 30, 2013 as compared to \$4,000,000 for the same quarter one year ago. The FDIC instituted a new assessment basis in the fourth quarter of fiscal 2011, which resulted in an overall lower insurance expense for the Company.

Taxes: Income taxes increased to \$21,003,000 for the quarter ended June 30, 2013, as compared to \$19,778,000 for the same period one year ago. The effective tax rate for the quarters ended June 30, 2013 and 2012, 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, 2012. 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 2012 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company’s President and Chief Executive Officer along with the Company’s Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Company’s President and Chief Executive Officer, along with the Company’s Executive Vice President and Chief Financial Officer, the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on the evaluation, the Company’s President and Chief Executive Officer along with the Company’s Executive Vice President and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

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

49

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended September 30, 2012. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended June 30, 2013.

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, 2013 to April 30, 2013	833,440	\$ 16.49	833,440	2,159,794
May 1, 2013 to May 31, 2013	485,900	17.16	485,900	1,673,894
June 1, 2013 to June 30, 2013	680,660	17.23	680,660	993,234
Total	2,000,000	\$ 16.91	2,000,000	993,234

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 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Table of Contents

(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, 2013 formatted in XBRL

51

Table of Contents

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 8, 2013

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

August 8, 2013

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