WASHINGTON FEDERAL INC
Form 10-Q
August 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2012
or

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

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

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class:	at August 3, 2012

Common stock, $1.00 par value	106,494,239

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

	June 30, 2012	September 30, 2011
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	$963,766	$816,002
Available-for-sale securities, including encumbered securities of $964,338 and $965,927, at fair value	3,626,115	3,255,144
Held-to-maturity securities, including encumbered securities of $34,433 and $45,086, at amortized cost	35,228	47,036
Loans receivable, net	7,616,205	7,935,877
Covered loans, net	302,681	382,183
Interest receivable	53,043	52,332
Premises and equipment, net	175,125	166,593
Real estate held for sale	107,457	159,829
Covered real estate held for sale	33,142	56,383
FDIC indemnification asset	97,380	101,634
FHLB stock	151,674	151,755
Intangible assets, net	256,431	256,271
Federal and state income taxes	2,514	—
Other assets	44,588	59,710
	$13,465,349	$13,440,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Transaction deposit accounts	$2,868,442	$2,662,188
Time deposit accounts	5,814,739	6,003,715
	8,683,181	8,665,903
FHLB advances	1,957,146	1,962,066
Other borrowings	800,000	800,000
Advance payments by borrowers for taxes and insurance	24,313	39,548
Federal and State income taxes	—	1,535
Accrued expenses and other liabilities	67,428	65,164
	11,532,068	11,534,216
Stockholders' equity		
Common stock, $1.00 par value, 300,000,000 shares authorized;		
129,936,563 and 129,853,534 shares issued; 106,884,239 and 108,976,410 shares outstanding	129,937	129,854
Paid-in capital	1,585,797	1,582,843
Accumulated other comprehensive income, net of taxes	62,736	85,789
Treasury stock, at cost; 23,052,324 and 20,877,124 shares	(298,972)	(268,665)
Retained earnings	453,783	376,712
	1,933,281	1,906,533
	$13,465,349	$13,440,749

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
INTEREST INCOME				
Loans	$118,115	$127,736	$369,366	$394,286
Mortgage-backed securities	25,101	30,529	80,079	80,386
Investment securities and cash equivalents	2,168	3,266	6,446	10,988
	145,384	161,531	455,891	485,660
INTEREST EXPENSE				
Customer accounts	20,903	27,581	66,868	89,765
FHLB advances and other borrowings	27,946	27,818	84,172	83,474
	48,849	55,399	151,040	173,239
Net interest income	96,535	106,132	304,851	312,421
Provision for loan losses	10,367	21,000	39,576	77,750
Net interest income after provision for loan losses	86,168	85,132	265,275	234,671
OTHER INCOME				
Gain on sale of investments	—	—	—	8,147
Other	3,590	4,277	13,263	13,067
	3,590	4,277	13,263	21,214
OTHER EXPENSE				
Compensation and benefits	19,281	18,471	58,141	54,018
Occupancy	3,952	3,628	11,977	10,780
FDIC insurance premiums	4,000	5,100	12,543	15,299
Other	8,730	6,975	24,479	21,677
	35,963	34,174	107,140	101,774
Gain (loss) on real estate acquired through foreclosure, net	1,146	(8,171)	(11,005)	(28,369)
Income before income taxes	54,941	47,064	160,393	125,742
Income tax provision	19,778	16,943	57,742	45,267
NET INCOME	$35,163	$30,121	$102,651	$80,475
PER SHARE DATA				
Basic earnings	$0.33	$0.27	$0.96	$0.72
Diluted earnings	0.33	0.27	0.96	0.72
Cash dividends per share	0.08	0.06	0.24	0.18
Basic weighted average number of shares outstanding	106,877,112	111,158,254	107,308,948	111,962,708
Diluted weighted average number of shares outstanding, including dilutive stock options	106,926,755	111,248,177	107,347,668	112,043,350

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

	Quarter Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net income	$35,163	$30,121	$102,651	$80,475
Other comprehensive income (loss) net of tax:				
Net unrealized gain (loss) on available-for-sales securities, net of quarter-to-date tax of $1,422 and $14,154, and year-to-date tax of $13,394 and $4,498, respectively	(2,447)	24,360	(23,053)	(12,895)
Reclassification adjustment of net gain from sale of available-for-sale securities included in net income	—	—	—	5,153
Other comprehensive income (loss)	(2,447)	24,360	(23,053)	(7,742)
Comprehensive income	$32,716	$54,481	$79,598	$72,733

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

	Nine Months Ended	
	June 30, 2012	June 30, 2011
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$102,651	$80,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization (accretion) of fees, discounts, premiums and intangible assets, net	40,397	32,456
Cash received from FDIC under loss share	276	20,977
Depreciation	5,625	4,950
Stock option compensation expense	900	815
Provision for loan losses	39,576	77,750
Loss (gain) on real estate held for sale, net	(8,366)	20,222
Increase in accrued interest receivable	(460)	(2,853)
Increase in FDIC loss share receivable	(5,742)	(3,143)
Increase in income taxes payable	9,345	3,575
Decrease in other assets	15,908	11,671
Increase (decrease) in accrued expenses and other liabilities	1,229	(25,175)
Net cash provided by operating activities	201,339	221,720
CASH FLOWS FROM INVESTING ACTIVITIES		
Net principal collections (loan originations)	372,802	336,426
FHLB stock redemptions	1,830	—
Available-for-sale securities purchased	(1,499,227)	(1,279,983)
Principal payments and maturities of available-for-sale securities	1,065,254	485,597
Available-for-sale securities sold	3,500	131,361
Principal payments and maturities of held-to-maturity securities	11,899	31,383
Net cash received from acquisition	50,576	—
Proceeds from sales of real estate held for sale	138,689	63,575
Proceeds from sales of covered REO	28,343	—
Increase in intangible assets	(1,061)	—
Premises and equipment purchased	(14,157)	(7,695)
Net cash provided (used) by investing activities	158,448	(239,336)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in customer accounts	(118,505)	(138,850)
Net decrease in borrowings	(22,595)	(2,551)
Proceeds from exercise of common stock options	199	1,045
Dividends paid on common stock	(25,580)	(20,232)
Treasury stock purchased	(30,307)	(36,620)
Decrease in advance payments by borrowers for taxes and insurance	(15,235)	(15,638)
Net cash used by financing activities	(212,023)	(212,846)
Increase (decrease) in cash and cash equivalents	147,764	(230,462)
Cash and cash equivalents at beginning of period	816,002	888,622
Cash and cash equivalents at end of period	$963,766	$658,160

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

	Nine Months Ended	
	June 30, 2012	June 30, 2011
	(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Non-cash investing activities		
Non-covered real estate acquired through foreclosure	$124,482	$64,873
Covered real estate acquired through foreclosure	13,094	46,008
Cash paid during the period for		
Interest	151,805	174,511
Income taxes	48,331	41,627
The following summarizes the non-cash activities related to acquisitions		
Fair value of assets acquired	$124,594	$—
Fair value of liabilities assumed	(154,493)	—
Net fair value of liabilities assumed	(29,899)	—

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2012 AND 2011
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (“Company”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2011 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 2011 Annual Report on Form 10-K (“2011 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Loans receivable – When a borrower defaults on a loan, the Company attempts to cure the deficiency by working with the borrower. In most cases, deficiencies are cured promptly, sometimes as a result of a negotiated modification of terms. If the delinquency is not promptly cured, and negotiations do not lead to a modification of terms, the Company may institute appropriate legal action to collect the loan, which may include foreclosure of collateral. If foreclosed, the collateral is liquidated in a reasonable time frame at prices available in the market place.

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

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

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

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

Specific allowances are established for loans which are individually evaluated, in cases where Management has identified weaknesses that it believes indicate the probability that a loss has been incurred.

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

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

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposure is loans in process (“LIP”), which had a balance at June 30, 2012, excluding covered loans, of $155,051,000. The Company estimates losses on LIP by including LIP with the related principal balance outstanding and then applying its general reserve methodology to the gross amount. Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

NOTE B - Acquisitions

Western National Bank
Effective December 16, 2011, Washington Federal, acquired certain assets and liabilities, including most of the loans and deposits, of Western National Bank, headquartered in Phoenix, Arizona (“WNB”) from the Federal Deposit Insurance Corporation (“FDIC”) in an FDIC assisted transaction. Under the terms of the Purchase and Assumption Agreement, the Company and the FDIC agreed to a discount of $53 million on net assets and no loss sharing provision or premium on deposits.

WNB operated three full-service offices in Arizona. The Company acquired certain assets with a book value of $177 million, including $143 million in loans and $7 million in foreclosed real estate, and selected liabilities with a book value of $153 million, including $136 million in deposits. Pursuant to the purchase and assumption agreement with the FDIC, the Company received a cash payment from the FDIC for $30 million.

The acquisition was accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities were recorded at their respective acquisition date estimated fair values. The purchase accounting for acquired assets and liabilities were provisionally recorded at their estimated fair values as of the December 16, 2011 acquisition date. The initial accounting for acquired loans, real estate held for sale and deposits was incomplete as of December 31, 2011. The amounts recognized at December 31, 2011 were determined provisionally as the fair value analysis of those assets was incomplete as of December 31, 2011. These amounts have been retrospectively adjusted to reflect the completion of the fair value analysis during the quarter ended June 30, 2012. The adjustments recorded in the quarter ended June 30, 2012 were a decrease in acquired loans of $716,000, a decrease in real estate held for sale of $252,000 and an increase in other assets of $836,000 to reflect the core deposit intangible.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period December 16, 2011 to June 30, 2012.

The table below displays the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed:

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

	Received from FDIC	Fair Value Adjustments	Recorded by WAFD
	(In thousands)		
Assets:			
Cash and cash equivalents	$ 20,677	$ —	$ 20,677
Available-for-sale securities	3,500	—	3,500
FHLB & FRB stock	1,744	4	1,748
Loans receivable, net	143,328	(49,637)	93,691
Interest receivable	251	—	251
Property and equipment, net	—	—	—
Real estate held for sale	7,149	(3,462)	3,687
Other assets	79	961	1,040
Total Assets	176,728	(52,134)	124,594
Liabilities:			
Customer accounts	135,783	—	135,783
FHLB advances	17,666	9	17,675
Other liabilities	40	995	1,035
Total Liabilities	153,489	1,004	154,493
Net assets (liabilities) acquired	$ 23,239	$ (53,138)	$ (29,899)
Aggregate fair value adjustments		$ (53,138)	
Net liabilities acquired			$ (29,899)
Cash received from the FDIC			29,899

South Valley Bancorp, Inc.
On April 4, 2012, the Company and South Valley Bancorp, Inc. ("South Valley") announced the signing of a definitive merger agreement. The merger agreement calls for the merger of South Valley with and into the Company, followed by the merger of South Valley's wholly owned subsidiary, South Valley Bank & Trust, into the Company's wholly owned subsidiary, Washington Federal. Under the terms of the definitive merger agreement, each outstanding share of South Valley common stock will be converted into the right to receive: (i) 0.2962 of a share of the Company's common stock, (ii) a contingent cash payment equal to the pro rata portion of an earn-out from the net proceeds collected from a pool of specified assets of South Valley with a value of approximately $39 million as of March 31, 2012, and (iii) a contingent cash payment equal to the pro rata portion of the net proceeds, if any, received by South Valley from the sale of its trust business and/or wealth management business prior to the closing of the merger. Assuming a per share price of $16.88 for the Company's common stock, the aggregate value of the stock portion of the merger consideration is approximately $33.7 million. After consummation of the merger, the combined company will have 190 offices in eight western states with total assets of approximately $14.4 billion and total deposits of approximately $9.6 billion, based on financial results as of December 31, 2011. The merger is expected to close in the

third calendar quarter of 2012, pending the receipt of all requisite regulatory approvals and the satisfaction of other customary closing conditions. On June 28, 2012, the shareholders of South Valley approved the merger transaction, with over 82% of the outstanding shares of South Valley common stock voting in favor of the merger.

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NOTE C – Dividends

On July 19, 2012, the Company paid its 118th consecutive quarterly cash dividend on common stock. Dividends per share were $.08 and $.06 for the quarters ended June 30, 2012 and 2011, respectively.

NOTE D – Loans Receivable (excluding Covered Loans)

	June 30, 2012 (In thousands)			September 30, 2011		
Non-acquired loans						
Single-family residential	$5,904,805	74.0	%	$6,218,878	74.9	%
Construction - speculative	130,741	1.6		140,459	1.7	
Construction - custom	210,488	2.6		279,851	3.4	
Land - acquisition & development	135,392	1.7		200,692	2.4	
Land - consumer lot loans	145,129	1.8		163,146	2.0	
Multi-family	692,763	8.7		700,673	8.4	
Commercial real estate	310,588	3.9		303,442	3.7	
Commercial & industrial	148,577	1.9		109,332	1.3	
HELOC	113,559	1.4		115,092	1.4	
Consumer	68,202	0.9		67,509	0.8	
Total non-acquired loans	7,860,244	98.5		8,299,074	100	
Credit-impaired acquired loans						
Single-family residential	343	—		—	—	
Construction - speculative	1,889	—		—	—	
Construction - custom	—	—		—	—	
Land - acquisition & development	4,211	0.1		—	—	
Land - consumer lot loans	—	—		—	—	
Multi-family	1,074	—		—	—	
Commercial real estate	91,006	1.1		—	—	
Commercial & industrial	5,100	0.1		—	—	
HELOC	15,037	0.2		—	—	
Consumer	115	—		—	—	
Total credit-impaired acquired loans	118,775	1.5		—	—	
Total loans						
Single-family residential	5,905,148	74.0		6,218,878	74.9	
Construction - speculative	132,630	1.7		140,459	1.7	
Construction - custom	210,488	2.6		279,851	3.4	
Land - acquisition & development	139,603	1.7		200,692	2.4	
Land - consumer lot loans	145,129	1.8		163,146	2	
Multi-family	693,837	8.7		700,673	8.4	
Commercial real estate	401,594	5.1		303,442	3.7	
Commercial & industrial	153,677	1.9		109,332	1.3	
HELOC	128,596	1.6		115,092	1.4	
Consumer	68,317	0.9		67,509	0.8	
Total loans	7,979,019	100	%	8,299,074	100	%
Less:						
Allowance for probable losses	137,951			157,160		
Loans in process	155,051			170,229		
Discount on acquired loans	35,200			—		

Deferred net origination fees	34,612	35,808
	362,814	363,197
	$7,616,205	$7,935,877

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2012 AND 2011
(UNAUDITED)

The following table presents the changes in the accretable yield for credit impaired acquired loans as of June 30, 2012:

	Credit impaired acquired loans	
	Accretable Yield	Carrying Amount of Loans
	(In thousands)	
Balance as of October 1, 2011	$—	$—
Additions	21,606	92,981
Accretion	(3,278)	3,278
Transfers to REO	—	—
Payments received, net	—	(12,714)
Balance as of June 30, 2012	$18,328	$83,545

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

	June 30, 2012		September 30, 2011	
	(In thousands)			
Non-accrual loans:				
Single-family residential	$129,295	75.6 %	$126,624	60.3 %
Construction - speculative	12,424	7.3	15,383	7.3
Construction - custom	539	0.3	635	0.3
Land - acquisition & development	12,514	7.3	37,339	17.7
Land - consumer lot loans	5,844	3.4	8,843	4.2
Multi-family	3,405	2.0	7,664	3.6
Commercial real estate	6,285	3.7	11,380	5.4
Commercial & industrial	—	—	1,679	0.8
HELOC	388	0.2	481	0.2
Consumer	339	0.2	437	0.2
Total non-accrual loans	$171,033	100 %	$210,465	100 %

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The following tables provide an analysis of the age of loans in past due status as of June 30, 2012 and September 30, 2011, respectively.

June 30, 2012	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
	(In thousands)							
Non-acquired loans								
Single-Family Residential	$5,902,633	$5,736,969	$33,571	$19,127	$112,966	$165,664	2.81	%
Construction - Speculative	94,930	87,134	899	509	6,388	7,796	8.21	
Construction - Custom	123,965	123,382	1	43	539	583	0.47	
Land - Acquisition & Development	127,953	114,563	234	3,226	9,930	13,390	10.46	
Land - Consumer Lot Loans	145,037	136,545	1,753	895	5,844	8,492	5.86	
Multi-Family	675,334	670,859	569	594	3,312	4,475	0.66	
Commercial Real Estate	305,046	300,668	334	—	4,044	4,378	1.44	
Commercial & Industrial	148,565	148,546	9	10	—	19	0.01	
HELOC	113,559	112,824	29	318	388	735	0.65	
Consumer	68,202	66,222	1,117	524	339	1,980	2.90	
Total non-acquired loans	7,705,224	7,497,712	38,516	25,246	143,750	207,512	2.69	
Credit-impaired acquired loans								
Single-Family Residential	343	—	—	343	—	343	100.00	
Construction - Speculative	1,889	1,889	—	—	—	—	—	
Construction - Custom	—	—	—	—	—	—	—	
Land - Acquisition & Development	4,210	3,685	—	—	525	525	12.47	
Land - Consumer Lot Loans	—	—	—	—	—	—	—	
Multi-Family	1,074	1,074	—	—	—	—	—	
Commercial Real Estate	90,977	80,860	2,072	1,698	6,347	10,117	11.12	
Commercial & Industrial	5,099	4,244	125	730	—	855	16.77	
HELOC	15,037	13,912	1,125	—	—	1,125	7.48	
Consumer	115	69	5	40	1	46	40.00	
Total credit-impaired acquired loans	118,744	105,733	3,327	2,811	6,873	13,011	10.96	

Total loans	$7,823,968		$7,603,445	$41,843	$28,057	$150,623	$220,523	2.82

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September 30, 2011	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loan	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
	(In thousands)							
Single-Family Residential	$6,217,670	$6,015,464	$54,140	$21,985	$126,082	$202,207	3.25	%
Construction - Speculative	115,409	106,843	330	—	8,236	8,566	7.42	
Construction - Custom	147,764	147,129	—	—	635	635	0.43	
Land - Acquisition & Development	193,613	159,357	679	—	33,577	34,256	17.69	
Land - Consumer Lot Loans	163,146	151,849	1,163	1,291	8,843	11,297	6.92	
Multi-Family	699,340	690,765	—	1,202	7,373	8,575	1.23	
Commercial Real Estate	300,307	292,015	1,016	—	7,276	8,292	2.76	
Commercial & Industrial	108,995	106,708	55	553	1,679	2,287	2.10	
HELOC	115,092	114,059	452	100	481	1,033	0.90	
Consumer	67,509	65,434	1,191	446	437	2,074	3.07	
	$8,128,845	$7,849,623	$59,026	$25,577	$194,619	$279,222	3.43	

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, 2012, single-family residential loans comprised 83.2% of TDRs.

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

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

	Quarter Ended June 30,					
	2012			2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	199	$43,104	$ 43,104	155	$39,362	$ 39,362

Construction - Speculative	—	—	—	1	337	337
Construction - Custom	1	1,196	1,196	—	—	—
Land - Acquisition & Development	—	—	—	3	4,427	4,427
Land - Consumer Lot Loans	8	965	965	9	1,335	1,335
Multi-Family	1	389	389	1	985	985
Commercial Real Estate	2	5,572	5,572	—	—	—
Commercial & Industrial	—	—	—	—	—	—
HELOC	2	113	113	—	—	—
Consumer	—	—	—	—	—	—
	213	$51,339	$ 51,339	169	$46,446	$ 46,446

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	Nine Months Ended June 30,					
	2012			2011		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
		(In thousands)			(In thousands)	
Troubled Debt Restructurings:						
Single-Family Residential	681	$159,651	$ 159,651	481	$131,018	$ 131,018
Construction - Speculative	22	6,253	6,253	2	529	529
Construction - Custom	1	1,196	1,196	—	—	—
Land - Acquisition & Development	26	5,565	5,565	3	4,427	4,427
Land - Consumer Lot Loans	30	3,906	3,906	34	5,175	5,175
Multi-Family	3	2,257	2,257	7	9,146	9,146
Commercial Real Estate	3	5,881	5,881	—	—	—
Commercial & Industrial	1	2	2	—	—	—
HELOC	2	113	113	—	—	—
Consumer	—	—	—	—	—	—
	769	$184,824	$ 184,824	527	$150,295	$ 150,295

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,			
	2012		2011	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
		(In thousands)		(In thousands)
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	30	$8,225	10	$3,295
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	—	—	3	404

Multi-Family	—	—	1	3,589
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	—	—	—	—
Consumer	—	—	—	—
	30	$8,225	14	$7,288

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	Nine Months Ended June 30,			
	2012		2011	
	Number of Contracts	Recorded Investment (In thousands)	Number of Contracts	Recorded Investment (In thousands)
Troubled Debt Restructurings That Subsequently Defaulted:				
Single-Family Residential	97	$21,687	29	$7,783
Construction - Speculative	—	—	—	—
Construction - Custom	—	—	—	—
Land - Acquisition & Development	—	—	—	—
Land - Consumer Lot Loans	4	603	3	404
Multi-Family	—	—	1	3,589
Commercial Real Estate	—	—	—	—
Commercial & Industrial	—	—	—	—
HELOC	—	—	—	—
Consumer	—	—	—	—
	101	$22,290	33	$11,776

NOTE E – Allowance for Losses on Loans

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

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

refinancing plans.

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

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The following table summarizes the activity in the allowance for loan losses for the quarter ended June 30, 2012 and fiscal year ended September 30, 2011:

Quarter Ended June 30, 2012	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$83,875	$(14,134)	$2,240	$9,363	$81,344
Construction - speculative	15,943	(2,288)	86	(888)	12,853
Construction - custom	384	—	—	(40)	344
Land - acquisition & development	19,929	(1,519)	533	(1,549)	17,394
Land - consumer lot loans	7,712	(670)	—	295	7,337
Multi-family	4,837	—	279	(278)	4,838
Commercial real estate	2,869	(206)	148	337	3,148
Commercial & industrial	4,427	(69)	70	2,535	6,963
HELOC	969	(147)	6	144	972
Consumer	2,874	(955)	391	448	2,758
	$143,819	$(19,988)	$3,753	$10,367	$137,951

Fiscal Year Ended September 30, 2011	Beginning Allowance	Charge-offs	Recoveries	Provision & Transfers	Ending Allowance
	(In thousands)				
Single-family residential	$47,160	$(38,465)	$3,072	$71,540	$83,307
Construction - speculative	26,346	(13,197)	2,143	(1,464)	13,828
Construction - custom	770	(237)	—	90	623
Land - acquisition & development	61,637	(39,797)	2,271	8,608	32,719
Land - consumer lot loans	4,793	(4,196)	—	4,923	5,520
Multi-family	5,050	(1,950)	71	4,452	7,623
Commercial real estate	3,165	(1,593)	328	2,431	4,331
Commercial & industrial	6,193	(4,733)	1,925	1,714	5,099
HELOC	586	(939)	185	1,307	1,139
Consumer	7,394	(4,602)	1,429	(1,250)	2,971
	$163,094	$(109,709)	$11,424	$92,351	$157,160

The Company recorded a $10,367,000 provision for loan losses during the quarter ended June 30, 2012, while a $21,000,000 provision was recorded for the same quarter one year ago. Non-performing assets ("NPAs") amounted to $278,490,000, or 2.07%, of total assets at June 30, 2012, compared to $394,679,000, or 2.96%, 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, 2012. Non-accrual loans decreased from $232,752,000 at June 30, 2011, to $171,033,000 at June 30, 2012, a 26.5% decrease. The Company had net charge-offs of $16,235,000 for the quarter ended June 30, 2012, compared with $23,519,000 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. The percentage of loans 30 days or more delinquent decreased from 3.66% at June 30, 2011, to 2.69% at June 30, 2012. Delinquencies in the single-family residential portfolio, the largest portion of the loan portfolio, decreased from 3.43% at June 30, 2011, to 2.81% at June 30, 2012. In addition to these improving asset quality trends, real estate values are beginning to increase in most of the Company's primary markets. As a result, the Company recorded a smaller provision for loan losses in the current quarter as compared to the same quarter one year ago. $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 up of specific reserves on loans that were deemed to be impaired at June 30, 2012. For the period ending June 30, 2011,

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$114,159,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining $46,940,000 was made up of specific reserves on loans that were deemed to be impaired. 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 a still weak macro economic environment which may negatively impact 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, 2012 and September 30, 2011:

June 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	$80,437	$ 5,823,964	1.4	%	$907	$ 80,842	1.1	%
Construction - speculative	8,615	98,980	8.7		4,238	31,760	13.3	
Construction - custom	344	210,488	0.2		—	—	—	
Land - acquisition & development	5,777	40,803	14.2		11,617	94,589	12.3	
Land - consumer lot loans	6,447	142,712	4.5		890	2,417	36.8	
Multi-family	2,728	671,837	0.4		2,110	20,927	10.1	
Commercial real estate	1,136	286,779	0.4		2,012	23,808	8.5	
Commercial & industrial	6,950	147,394	4.7		13	1,183	1.1	
HELOC	972	113,559	0.9		—	—	—	
Consumer	2,758	68,202	4.0		—	—	—	
	$116,164	$ 7,604,718	1.5		$21,787	$ 255,526	8.5	

(1) Excludes acquired and covered loans

September 30, 2011	Loans Collectively Evaluated for Impairment				Loans Individually Evaluated for Impairment			
	General Reserve Allocation	Gross Loans Subject to General Reserve (1)	Ratio		Specific Reserve Allocation	Gross Loans Subject to Specific Reserve (1)	Ratio	
	(In thousands)				(In thousands)			
Single-family residential	$77,441	$ 6,186,322	1.3	%	$5,866	$ 32,556	18.0	%
Construction - speculative	6,969	89,986	7.7		6,859	50,473	13.6	
Construction - custom	623	279,851	0.2		—	—	—	
Land - acquisition & development	10,489	61,277	17.1		22,230	139,415	15.9	
Land - consumer lot loans	4,385	160,906	2.7		1,135	2,240	50.7	
Multi-family	3,443	679,823	0.5		4,180	20,850	20.0	
Commercial real estate	2,730	268,906	1.0		1,601	34,536	4.6	
Commercial & industrial	5,058	106,406	4.8		41	2,926	1.4	

HELOC	1,139	115,092	1.0	—	—	—
Consumer	2,971	67,509	4.4	—	—	—
	$115,248	$ 8,016,078	1.4	$41,912	$ 282,996	14.8

(1) Excludes covered loans

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

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September 30, 2011:
Credit Risk Profile by Internally Assigned Grade (excludes covered loans):

June 30, 2012	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Non-acquired loans						
Single-family residential	$5,714,905	$299	$189,601	$—	$—	$5,904,805
Construction - speculative	80,542	6,695	43,504	—	—	130,741
Construction - custom	210,488	—	—	—	—	210,488
Land - acquisition & development	42,907	21,935	70,550	—	—	135,392
Land - consumer lot loans	144,658	356	115	—	—	145,129
Multi-family	660,948	7,574	24,241	—	—	692,763
Commercial real estate	271,050	4,608	34,930	—	—	310,588
Commercial & industrial	146,075	352	2,150	—	—	148,577
HELOC	113,559	—	—	—	—	113,559
Consumer	67,301	528	373	—	—	68,202
	7,452,433	42,347	365,464	—	—	7,860,244
Credit impaired acquired loans						
Pool 1 - Construction and land A&D	2,514	—	3,587	—	—	6,101
Pool 2 - Single-family residential	343	—	—	—	—	343
Pool 3 - Multi-family	—	—	1,074	—	—	1,074
Pool 4 - HELOC & other consumer	15,151	—	—	—	—	15,151
Pool 5 - Commercial real estate	52,223	5,493	32,257	1,033	—	91,006
Pool 6 - Commercial & industrial	2,548	805	1,343	404	—	5,100
Total credit impaired acquired loans	72,779	6,298	38,261	1,437	—	118,775
Total gross loans	$7,525,212	$48,645	$403,725	$1,437	$—	$7,979,019
Total grade as a % of total gross loans	94.3 %	0.6 %	5.1 %	— %	— %	

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September 30, 2011	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Gross Loans
	(In thousands)					
Single-family residential	$6,047,279	$—	$171,599	$—	$—	$6,218,878
Construction - speculative	56,485	21,035	62,939	—	—	140,459
Construction - custom	279,851	—	—	—	—	279,851
Land - acquisition & development	44,888	44,840	110,964	—	—	200,692
Land - consumer lot loans	162,670	—	476	—	—	163,146
Multi-family	663,582	4,629	32,462	—	—	700,673
Commercial real estate	264,083	4,125	35,234	—	—	303,442
Commercial & industrial	104,171	1,128	1,407	2,245	381	109,332
HELOC	115,092	—	—	—	—	115,092
Consumer	66,512	528	469	—	—	67,509
	$7,804,613	$76,285	$415,550	$2,245	$381	$8,299,074
Total grade as a % of total gross loans	94.1 %	0.9 %	5.0 %	— %	— %	

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

June 30, 2012	Performing Loans		Non-Performing Loans	
	Amount	% of Total Gross Loans	Amount	% of Total Gross Loans
	(In thousands)			
Single-family residential	$5,775,510	97.8 %	$129,295	2.2 %
Construction - speculative	118,317	90.5	12,424	9.5
Construction - custom	209,949	99.7	539	0.3
Land - acquisition & development	122,878	90.8	12,514	9.2
Land - consumer lot loans	139,285	96.0	5,844	4.0
Multi-family	689,358	99.5	3,405	0.5
Commercial real estate	304,303	98.0	6,285	2.0
Commercial & industrial	148,577	100.0	—	—
HELOC	113,171	99.7	388	0.3
Consumer	67,863	99.5	339	0.5
	$7,689,211	97.8	$171,033	2.2

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September 30, 2011	Performing Loans			Non-Performing Loans		
	Amount	% of Total Gross Loans		Amount	% of Total Gross Loans	
	(In thousands)					
Single-family residential	$6,092,254	98.0	%	$126,624	2.0	%
Construction - speculative	125,076	89.0		15,383	11.0	
Construction - custom	279,216	99.8		635	0.2	
Land - acquisition & development	163,353	81.4		37,339	18.6	
Land - consumer lot loans	154,303	94.6		8,843	5.4	
Multi-family	693,009	98.9		7,664	1.1	
Commercial real estate	292,062	96.2		11,380	3.8	
Commercial & industrial	107,653	98.5		1,679	1.5	
HELOC	114,611	99.6		481	0.4	
Consumer	67,072	99.4		437	0.6	
	$8,088,609	97.5	%	$210,465	2.5	%

The following table provides information on impaired loans based on loan types as of June 30, 2012 and September 30, 2011:

June 30, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment Quarter Ended June 30, 2012	Average Recorded Investment Nine Months Ended June 30, 2012
	(In thousands)				
With no related allowance recorded:					
Single-family residential	$76,505	$94,492	$—	$60,077	$33,103
Construction - speculative	14,041	16,819	—	15,463	13,697
Construction - custom	—	157	—	—	—
Land - acquisition & development	16,213	35,449	—	16,422	18,025
Land - consumer lot loans	794	1,000	—	438	219
Multi-family	8,276	8,484	—	7,889	6,638
Commercial real estate	26,038	39,965	—	14,982	7,962
Commercial & industrial	1,568	13,265	—	885	443
HELOC	90	3,018	—	83	42
Consumer	—	60	—	—	—
	143,525	212,709	—	116,239	80,129
With an allowance recorded:					
Single-family residential	345,103	345,103	25,796	334,249	333,820
Construction - speculative	14,602	14,602	4,238	14,600	14,519
Construction - custom	—	—	—	—	—
Land - acquisition & development	26,985	26,984	11,617	27,232	27,966
Land - consumer lot loans	1,622	1,622	890	811	406
Multi-family	11,312	11,312	2,110	11,332	11,367
Commercial real estate	7,269	7,269	2,012	6,912	6,656
Commercial & industrial	13	13	13	18	28
HELOC	—	—	—	—	—
Consumer	—	—	—	—	—
	406,906	406,905	46,676	(1) 395,154	394,762
Total:					
Single-family residential	421,608	439,595	25,796	394,326	366,923
Construction - speculative	28,643	31,421	4,238	30,063	28,216
Construction - custom	—	157	—	—	—
Land - acquisition & development	43,198	62,433	11,617	43,654	45,991
Land - consumer lot loans	2,416	2,622	890	1,249	625
Multi-family	19,588	19,796	2,110	19,221	18,005
Commercial real estate	33,307	47,234	2,012	21,894	14,618
Commercial & industrial	1,581	$13,278	13	903	471
HELOC	90	3,018	—	83	42
Consumer	—	60	—	—	—
	$550,431	$619,614	$46,676	(1) $511,393	$474,891

(1)Includes $21,787,000 of specific reserves and $24,889,000 included in the general reserves.

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September 30, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance		Average Recorded Investment
	(In thousands)				
With no related allowance recorded:					
Single-family residential	$5,597	$9,575	$—		$5,935
Construction - speculative	8,286	11,026	—		7,374
Construction - custom	—	—	—		—
Land - acquisition & development	22,436	50,970	—		28,168
Land - consumer lot loans	—	—	—		—
Multi-family	3,233	4,508	—		4,058
Commercial real estate	3,462	3,963	—		2,141
Commercial & industrial	—	—	—		—
HELOC	—	—	—		—
Consumer	—	—	—		—
	43,014	80,042	—		47,676
With an allowance recorded:					
Single-family residential	331,546	331,546	29,378		261,736
Construction - speculative	29,255	29,255	6,859		26,385
Construction - custom	—	—	—		—
Land - acquisition & development	49,036	49,912	22,230		41,006
Land - consumer lot loans	352	352	1,135		110
Multi-family	17,149	17,149	4,180		12,380
Commercial real estate	6,429	6,429	1,601		3,351
Commercial & industrial	41	41	41		31
HELOC	—	—	—		—
Consumer	—	—	—		—
	433,808	434,684	65,424	(1)	344,999
Total:					
Single-family residential	337,143	341,121	29,378		267,671
Construction - speculative	37,541	40,281	6,859		33,759
Construction - custom	—	—	—		—
Land - acquisition & development	71,472	100,882	22,230		69,174
Land - consumer lot loans	352	352	1,135		110
Multi-family	20,382	21,657	4,180		16,438
Commercial real estate	9,891	10,392	1,601		5,492
Commercial & industrial	41	41	41		31
HELOC	—	—	—		—
Consumer	—	—	—		—
	$476,822	$514,726	$65,424	(1)	$392,675

(1) Includes $41,912,000 of specific reserves and $23,512,000 included in the general reserves.

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NOTE F – New Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2011-11, Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities. The amendments in this ASU will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with current U.S. GAAP or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with current U.S. GAAP. 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 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. Under the amendments in ASU 2011-05, entities are required to present reclassification adjustments and the effect of those reclassification adjustments on the face of the financial statements where net income is presented, by component of net income, and on the face of the financial statements where other comprehensive income is presented, by component of other comprehensive income. In addition, the amendments in ASU 2011-05 require that reclassification adjustments be presented in interim financial periods. The amendments in ASU 2011-12 supersede and defer changes to those paragraphs in ASU 2011-05 that pertain to how, when and where reclassification adjustments are presented while the FASB redeliberates the presentation of reclassification adjustments. All other requirements of ASU 2011-05 are not affected by ASU 2011-12.

In July 2012, the FASB issued ASU 2012-02, Intangibles - Goodwill and Other (Topic 350) – Testing Indefinite-Lived Intangible Assets for Impairment. The objective of this ASU is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. This ASU permits an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles - Goodwill and Other - General Intangibles Other than Goodwill. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance in Subtopic 350-30 required an entity to test indefinite-lived intangible assets for impairment, on at least an annual basis, by comparing the fair value of the asset with its carrying amount. If the fair value of the asset is less than its carrying amount, an entity should recognize an impairment loss in the amount of the difference. In accordance with the amendments in this ASU, an entity will have an option not to calculate annually the fair value of an indefinite-lived intangible asset if the entity determines that it is not more likely than not that the asset is impaired. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in Update 2011-08. The Company early adopted this ASU and the guidance had no impact on the Company's financial condition and results of operations.

NOTE G – Fair Value Measurements

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

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

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

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

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, 2012:

	Fair Value at June 30, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Available-for-sale securities				
Equity securities	$—	$—	$—	$—
Obligations of U.S. government	—	114,141	—	114,141
Obligations of states and political subdivisions	—	24,001	—	24,001
Obligations of foreign governments	—	—	—	—
Corporate debt securities	—	303,214	—	303,214
Mortgage-backed securities			—	
Agency pass-through certificates	—	3,184,759	—	3,184,759
Other debt securities	—	—	—	—
Balance at end of period	$—	$3,626,115	$—	$3,626,115

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2012.

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, 2012 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 quarter ended June 30, 2012, and the total losses resulting from those fair value adjustments for the quarter and nine months ended June 30, 2012. The following estimated fair values are shown gross of estimated selling costs:

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	Through June 30, 2012				Quarter Ended June 30, 2012	Nine Months Ended June 30, 2012
	Level 1	Level 2	Level 3	Total	Total Losses	
	(In thousands)					
Impaired loans (1)	$—	$—	$133,929	$133,929	$13,459	$36,291
Covered REO (2)	—	—	32,817	32,817	923	2,124
Real estate held for sale (2)	—	—	157,547	157,547	21,756	61,100
Balance at end of period	$—	$—	$324,293	$324,293	$36,138	$99,515

(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, 2012.

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

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

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

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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, 2012		September 30, 2011	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
		(In thousands)			
Financial assets					
Cash and cash equivalents	1	$963,766	$963,766	$816,002	$816,002
Available-for-sale securities	2				
Equity securities		—	—	—	—
Obligations of U.S. government		114,141	114,141	190,527	190,527
Obligations of states and political subdivisions		24,001	24,001	23,568	23,568
Obligations of foreign governments		—	—	—	—
Corporate debt securities		303,214	303,214	29,959	29,959
Mortgage-backed securities					
Agency pass-through certificates		3,184,759	3,184,759	3,011,090	3,011,090
Other debt securities		—	—	—	—
Total available-for-sale securities		3,626,115	3,626,115	3,255,144	3,255,144
Held-to-maturity securities	2				
Equity securities		—	—	—	—
Obligations of U.S. government		—	—	—	—
Obligations of states and political subdivisions		795	812	1,950	2,023
Obligations of foreign governments		—	—	—	—
Corporate debt securities		—	—	—	—
Mortgage-backed securities					
Agency pass-through certificates		34,433	37,215	45,086	48,593
Other debt securities		—	—	—	—
Total held-to-maturity securities		35,228	38,027	47,036	50,616
Loans receivable	3	7,616,205	8,262,700	7,935,877	8,479,307
Covered loans	3	302,681	304,420	382,183	375,027
FDIC indemnification asset	3	97,380	95,138	98,871	101,751
FHLB stock	2	151,674	151,674	151,755	151,755
Financial liabilities					
Customer accounts	2	8,683,181	8,500,515	8,665,903	8,557,357
FHLB advances and other borrowings	2	2,757,146	3,097,509	2,762,066	3,038,127

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The following methods and assumptions were used to estimate the fair value of financial instruments:
Cash and cash equivalents – The carrying amount of these items is a reasonable estimate of their fair value.
Available-for-sale securities and held-to-maturity securities – Securities at fair value are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method.
Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan characteristics, using the same methodology described above for AFS and HTM securities. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating 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:

	June 30, 2012					
	Amortized	Gross Unrealized		Fair	Yield	
	Cost	Gains	Losses	Value		
	(In thousands)					
Available-for-sale securities						
U.S. government and agency securities due						
Within 1 year	$500	$36	$—	$536	4.00	%
1 to 5 years	—	—	—	—	—	
5 to 10 years	109,300	4,330	(25)	113,605	1.34	
Over 10 years	—	—	—	—	—	
Corporate bonds due						
1 to 5 years	273,658	350	(58)	273,950	0.87	
5 to 10 years	30,000	464	(1,200)	29,264	4.00	
Municipal bonds due						
Over 10 years	20,446	3,555	—	24,001	6.45	
Mortgage-backed securities						
Agency pass-through certificates	3,093,024	94,775	(3,040)	3,184,759	4.48	
	3,526,928	103,510	(4,323)	3,626,115	4.11	
Held-to-maturity securities						
Tax-exempt municipal bonds due						
Within 1 year	795	17	—	812	5.72	
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	34,433	2,782	—	37,215	5.31	
	35,228	2,799	—	38,027	5.32	
	$3,562,156	$106,309	$(4,323)	$3,664,142	4.12	%

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	September 30, 2011				
	Amortized Cost	Gross Unrealized Gains	Losses	Fair Value	Yield
	(In thousands)				
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$500	$34	$—	$534	4.00 %
1 to 5 years	—	—	—	—	—
5 to 10 years	9,300	4,547	—	13,847	10.38
Over 10 years	175,515	631	—	176,146	2.57
Corporate bonds due					
5 to 10 years	30,000	284	(325)	29,959	4.00
Municipal bonds due					
Over 10 years	20,461	3,107	—	23,568	6.45
Mortgage-backed securities					
Agency pass-through certificates	2,883,734	127,356	—	3,011,090	4.72
	3,119,510	135,959	(325)	3,255,144	4.62
Held-to-maturity securities					
Tax-exempt municipal bonds due					
1 to 5 years	405	5	—	410	6.52
5 to 10 years	1,545	68	—	1,613	5.60
Over 10 years	—	—	—	—	—
U.S. government and agency securities due					
1 to 5 years	—	—	—	—	—
Mortgage-backed securities					
Agency pass-through certificates	45,086	3,507	—	48,593	5.31
	47,036	3,580	—	50,616	5.33
	$3,166,546	$139,539	$(325)	$3,305,760	4.63 %

During the period ending June 30, 2012, $3,500,000 of available-for-sale securities were sold, resulting in a gain of $0. $131,361,000 of available-for-sale securities were sold during the period ending June 30, 2011, resulting in a gain of $8,147,000.

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

The following table shows the unrealized gross losses and fair value of securities at June 30, 2012, 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.

	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	$(1,258)	$32,400	$—	$—	$(1,258)	$32,400

U.S. government and agency securities due	(25)	99,975	—	—	(25)	99,975
Agency pass-through certificates	(2,787)	401,777	(253)	33,822	(3,040)	435,599
	(4,070)	$534,152	$(253)	$33,822	(4,323)	$567,974

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NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and were $335,823,000 as of June 30, 2012, versus $438,566,000 as of September 30, 2011.
Changes in the carrying amount and accretable yield for acquired impaired and non-impaired loans were as follows:

June 30, 2012	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	$37,072	$116,061	$30,370	$269,888
Accretion	(15,142)	15,142	(4,939)	4,939
Transfers to REO	—	(13,094)	—	—
Payments received, net	—	(43,361)	—	(46,894)
Balance at end of period	$21,930	$74,748	$25,431	$227,933

September 30, 2011	Acquired Impaired		Acquired Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
	(In thousands)			
Balance at beginning of period	$27,019	$190,530	$39,813	$343,944
Reclassification from nonaccretable balance, net	24,025	—	—	—
Accretion	(13,972)	13,972	(9,443)	9,443
Transfers to REO	—	(54,638)	—	—
Payments received, net	—	(33,803)	—	(83,499)
Balance at end of period	$37,072	$116,061	$30,370	$269,888

At June 30, 2012, 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 allowance for credit losses related to the acquired loans resulted from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools.
The outstanding principal balance of acquired loans was $399,768,000 and $495,358,000 as of June 30, 2012 and September 30, 2011, respectively. The discount balance related to the acquired loans was $93,321,000 and $109,409,000 as of June 30, 2012 and September 30, 2011, respectively.
The following table shows the year to date activity for the FDIC indemnification asset:

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	June 30, 2012	September 30, 2011
	(In thousands)	
Balance at beginning of period	$101,634	$131,128
Additions	5,742	10,470
Payments made (received)	(276)	(32,828)
Amortization	(11,023)	(10,239)
Accretion	1,303	3,103
Balance at end of period	$97,380	$101,634

The following tables provide information on covered loans based on credit quality indicators (defined in Note A) as of June 30, 2012 and September 30, 2011:
Credit Risk Profile by Internally Assigned Grade:

June 30, 2012	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Net Loans
	(In thousands)					
Purchased non credit-impaired loans:						
Single-family residential	$34,874	$—	$3,868	$—	$—	$38,742
Construction - speculative	—	—	—	—	—	—
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	4,623	2,669	6,031	—	—	13,323
Land - consumer lot loans	503	—	—	—	—	503
Multi-family	29,347	—	2,754	—	—	32,101
Commercial real estate	93,387	1,104	30,843	—	—	125,334
Commercial & industrial	6,953	917	6,707	—	—	14,577
HELOC	19,307	—	—	—	—	19,307
Consumer	973	—	—	—	—	973
	189,967	4,690	50,203	—	—	244,860
Total grade as a % of total net loans	77.6 %	1.9 %	20.5 %	— %	— %	
Purchased credit-impaired loans:						
Pool 1 - Construction and land A&D	9,807	5,865	39,582	—	—	55,254
Pool 2 - Single-family residential	379	—	3,959	—	—	4,338
Pool 3 - Multi-family	—	3,019	—	—	—	3,019
Pool 4 - HELOC & other consumer	1,171	—	3,469	—	—	4,640
Pool 5 - Commercial real estate	408	27,739	42,447	—	—	70,594
Pool 6 - Commercial & industrial	3,881	1,497	11,685	—	—	17,063

$15,646	$38,120	$101,142	$—	$—	154,908
				Total covered loans	399,768
				Discount	(93,321)
				Allowance	(3,766)
				Covered loans, net	$302,681

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September 30, 2011	Internally Assigned Grade					Total
	Pass	Special mention	Substandard	Doubtful	Loss	Net Loans
	(In thousands)					
Purchased non credit-impaired loans:						
Single-family residential	$45,619	$—	$595	$—	$—	$46,214
Construction - speculative	1,315	—	—	—	—	1,315
Construction - custom	—	—	—	—	—	—
Land - acquisition & development	8,383	6,315	360	—	—	15,058
Land - consumer lot loans	543	—	111	—	—	654
Multi-family	32,448	—	2,458	—	—	34,906
Commercial real estate	118,124	1,361	28,979	—	—	148,464
Commercial & industrial	13,717	4,481	4,239	444	—	22,881
HELOC	21,730	—	—	—	—	21,730
Consumer	1,199	—	—	—	—	1,199
	243,078	12,157	36,742	444	—	292,421
Total grade as a % of total net loans	83.1 %	4.2 %	12.6 %	0.2 %	— %	
Purchased credit-impaired loans:						
Pool 1 - Construction and land A&D	9,982	2,980	54,682	—	—	67,644
Pool 2 - Single-family residential	3,667	—	8,263	—	—	11,930
Pool 3 - Multi-family	—	—	3,324	—	—	3,324
Pool 4 - HELOC & other consumer	3,544	—	5,411	—	—	8,955
Pool 5 - Commercial real estate	418	30,579	48,069	—	—	79,066
Pool 6 - Commercial & industrial	2,859	2,725	25,662	772	—	32,018
	$20,470	$36,284	$145,411	$772	$—	202,937
					Total covered loans	495,358
					Discount	(109,409)
					Allowance	(3,766)
					Covered loans, net	$382,183

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2012 AND 2011
(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, 2012 and September 30, 2011:

June 30, 2012	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loans	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
Single-Family Residential	$ 38,742	$36,523	$81	$—	$2,138	$2,219	5.73	%
Construction - Speculative	—	—	—	—	—	—	NM	
Construction - Custom	—	—	—	—	—	—	NM	
Land - Acquisition & Development	13,323	12,847	476	—	—	476	3.57	
Land - Consumer Lot Loans	503	405	—	—	98	98	19.48	
Multi-Family	32,101	30,593	—	—	1,508	1,508	4.70	
Commercial Real Estate	125,334	123,411	—	—	1,923	1,923	1.53	
Commercial & Industrial	14,577	11,094	30	—	3,453	3,483	23.89	
HELOC	19,307	18,814	18	244	231	493	2.55	
Consumer	973	961	1	11	—	12	1.23	
	$ 244,860	$234,648	$606	$255	$9,351	$10,212	4.17	%

September 30, 2011	Amount of Loans	Days Delinquent Based on $ Amount of Loans					% based	
Type of Loans	Net of LIP & Chg.-Offs	Current	30	60	90	Total	on $	
Single-Family Residential	$ 46,214	$43,445	$1,034	$30	$1,705	$2,769	5.99	%
Construction - Speculative	1,315	1,315	—	—	—	—	NM	
Construction - Custom	—	—	—	—	—	—	NM	
Land - Acquisition & Development	15,058	13,344	487	—	1,227	1,714	11.38	
Land - Consumer Lot Loans	654	527	16	—	111	127	19.42	
Multi-Family	34,906	33,398	—	—	1,508	1,508	4.32	
Commercial Real Estate	148,464	142,060	1,527	—	4,877	6,404	4.31	
Commercial & Industrial	22,881	18,049	3,606	703	523	4,832	21.12	
HELOC	21,730	20,339	731	391	269	1,391	6.40	
Consumer	1,199	1,123	31	8	37	76	6.34	
	$ 292,421	$273,600	$7,432	$1,132	$10,257	$18,821	6.44	%

NM - not meaningful

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FORWARD LOOKING STATEMENTS

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

GENERAL

Washington Federal, Inc. ("Company") is a savings and loan holding company. The Company's primary operating subsidiary is Washington Federal.

INTEREST RATE RISK

The Company accepts a higher level of interest rate volatility as a result of its significant holdings of fixed-rate single-family home loans that are longer in term than the characteristics of its primary liabilities of customer accounts and borrowings. As a result, assets do not respond as quickly to changes in interest rates as liabilities and net interest income typically declines when interest rates rise and expands when interest rates fall as compared to a portfolio of matched maturities of assets and liabilities.

At June 30, 2012, the Company had approximately $1.18 billion more liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 8.8% of total assets. This was a decrease from the 16.5% negative gap as of September 30, 2011.

The potential impact of rising interest rates on net income for one year has also been estimated using a model that is based on account level of detail for loans and deposits. In the event of an immediate and parallel increase of 200 basis points in interest rates, we would expect net interest income to decrease by 1.35%. In the event of a gradual increase from current rates by 200 basis points over a twelve-month period, we would expect a decrease in net interest income of .5%.

This analysis assumes zero balance sheet growth and constant percentage composition of assets and liabilities. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

The net portfolio value ("NPV") is the difference between the present value of 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 $451 million and the NPV to total assets ratio to decline to 12.78%. As of September 30, 2011 the estimated decrease in NPV in the event of a 200 basis point increase in rates was estimated to decline by $619 million and the NPV to total assets ratio to decline to 11.04%.

The interest rate spread decreased to 2.88% at June 30, 2012 from 3.13% at September 30, 2011. The spread decreased due to a decline in the average rate on earning assets. As of June 30, 2012, the weighted average rate on earning assets decreased by 40 basis points compared to September 30, 2011, while the weighted average rates on customer deposit accounts and borrowings

decreased by 15 basis points over the same period.
As of June 30, 2012, the Company had increased total assets by $24,600,000 from $13,440,749,000 at September 30, 2011. For the quarter ended June 30, 2012, compared to September 30, 2011, loans (both non-covered and covered) decreased $399,174,000, or 4.8%. To help offset the reduced income from loans, investment securities increased $359,163,000, or 10.9%. Cash and cash equivalents of $963,766,000 and stockholders' equity of $1,933,281,000 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES
The Company's net worth at June 30, 2012 was $1,933,281,000, or 14.36% of total assets. This was an increase of $26,748,000 from September 30, 2011 when net worth was $1,906,533,000, or 14.18% of total assets. The Company's net worth was impacted in the nine months ended June 30, 2012 by net income of $102,651,000, the payment of $25,580,000 in cash dividends, treasury stock purchases that totaled $30,307,000, as well as a decrease in other comprehensive income of $23,053,000.
Management believes this strong net worth position will help the Company manage its interest rate risk and provide the capital support needed for controlled growth in a regulated environment. To be categorized as well capitalized, Washington Federal must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

	Actual			Capital Adequacy Guidelines			Categorized as Well Capitalized Under Prompt Corrective Action Provisions		
	Capital	Ratio		Capital	Ratio		Capital	Ratio	
	(In thousands)								
June 30, 2012									
Total capital to risk-weighted assets	$1,646,427	26.43	%	$498,333	8.00	%	$622,917	10.00	%
Tier I capital to risk-weighted assets	1,567,757	25.17	%	N/A	N/A		373,750	6.00	%
Core capital to adjusted tangible assets	1,567,757	11.87	%	N/A	N/A		660,630	5.00	%
Core capital to total assets	1,567,757	11.87	%	528,504	4.00	%	N/A	N/A	
Tangible capital to tangible assets	1,567,757	11.87	%	528,504	4.00	%	N/A	N/A	
September 30, 2011									
Total capital to risk-weighted assets	1,624,817	24.68	%	526,765	8.00	%	658,456	10.00	%
Tier I capital to risk-weighted assets	1,543,438	23.44	%	N/A	N/A		395,074	6.00	%
Core capital to adjusted tangible assets	1,543,438	11.82	%	N/A	N/A		652,672	5.00	%
Core capital to total assets	1,543,438	11.82	%	391,603	3.00	%	N/A	N/A	
Tangible capital to tangible assets	1,543,438	11.82	%	195,802	1.50	%	N/A	N/A	

CHANGES IN FINANCIAL CONDITION
Available-for-sale and held-to-maturity securities: Available-for-sale securities increased $370,971,000, or 11.4%, during the nine months ended June 30, 2012, which included the purchase of $1,499,227,000 of available-for-sale securities. There were $3,500,000 of available-for-sale securities sold during the nine months ended June 30, 2012, resulting in no gain or loss. During the same period, there were no purchases or sales of held-to-maturity securities. As of June 30, 2012, the Company had net unrealized gains on available-for-sale securities of $62,736,000, net of tax, which were recorded as part of stockholders' equity. The Company increased its available-for-sale investment portfolio

to partially replace some of the lost interest income on maturing and prepaying loans and mortgage-backed securities. Loans receivable: During the nine months ended June 30, 2012, the balance of loans receivable decreased 4.0% to $7,616,205,000 compared to $7,935,877,000 at September 30, 2011. This decrease is consistent with management’s strategy to reduce the Company’s exposure to land and construction loans and not aggressively compete for 30 year fixed-rate mortgages at current market rates. Additionally, during the year to date period, $124,482,000 of loans were transferred to REO. If the current low rates on 30 year fixed-rate mortgages persist, management will consider continuing to shrink the Company's loan portfolio. The following

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

Loan Portfolio by Category *	December 31, 2011			March 31, 2012			June 30, 2012		
Non-Acquired loans	(In thousands)								
Single-family residential	$6,079,712	74.0	%	$5,971,540	74.0	%	$5,904,805	74.0	%
Construction - speculative	129,766	1.6		128,719	1.6		130,741	1.6	
Construction - custom	271,227	3.3		235,566	3.3		210,488	2.6	
Land - acquisition & development	171,678	2.1		151,967	2.1		135,392	1.7	
Land - consumer lot loans	154,874	1.9		149,967	1.9		145,129	1.8	
Multi-family	687,367	8.4		686,467	8.4		692,763	8.7	
Commercial real estate	308,529	3.8		293,234	3.8		310,588	3.9	
Commercial & industrial	85,463	1.0		94,919	1.0		148,577	1.9	
HELOC	113,781	1.4		113,368	1.4		113,559	1.4	
Consumer	63,106	0.8		71,081	0.8		68,202	0.9	
Total non-acquired loans	8,065,503	98.3		7,896,828	98.3		7,860,244	98.5	
Credit-impaired acquired loans									
Single-family residential	2,778	—		2,093	—		343	—	
Construction - speculative	354	—		139	—		1,889	—	
Land - acquisition & development	4,287	0.1		4,490	0.1		4,211	0.1	
Multi-family	1,782	—		1,229	—		1,074	—	
Commercial real estate	106,345	1.3		101,254	1.3		91,006	1.1	
Commercial & industrial	8,849	0.1		7,765	0.1		5,100	0.1	
HELOC	18,308	0.2		17,215	0.2		15,037	0.2	
Consumer	137	—		125	—		115	—	
Total credit-impaired acquired loans	142,840	1.7		134,310	1.7		118,775	1.5	
Total loans									
Single-family residential	6,082,490	74.0		5,973,633	74.0		5,905,148	74.0	
Construction - speculative	130,120	1.6		128,858	1.6		132,630	1.7	
Construction - custom	271,227	3.3		235,566	3.3		210,488	2.6	
Land - acquisition & development	175,965	2.2		156,457	2.2		139,603	1.7	
Land - consumer lot loans	154,874	1.9		149,967	1.9		145,129	1.8	
Multi-family	689,149	8.4		687,696	8.4		693,837	8.7	
Commercial real estate	414,874	5.1		394,488	5.1		401,594	5.1	
Commercial & industrial	94,312	1.1		102,684	1.1		153,677	1.9	
HELOC	132,089	1.6		130,583	1.6		128,596	1.6	
Consumer	63,243	0.8		71,206	0.8		68,317	0.9	
Total loans	8,208,343	100	%	8,031,138	100	%	7,979,019	100	%
Less:									
Allowance for probable losses	154,540			143,819			137,951		
Loans in process	159,437			133,379			155,051		

Discount on acquired loans	48,929	43,687	35,200
Deferred net origination fees	35,362	34,236	34,612
	398,268	355,121	362,814
	$7,810,075	$7,676,017	$7,616,205

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* Excludes covered loans

Covered loans: As of June 30, 2012, covered loans had decreased 20.8%, or $79,502,000, to $302,681,000, compared to September 30, 2011, due to continued paydowns and transfers of the properties into covered real estate owned.

Non-performing assets: Non-performing assets, which excludes discounted acquired assets, decreased during the quarter ended June 30, 2012 to $278,490,000 from $370,294,000 at September 30, 2011, a 24.8% decrease. The continued elevated level of NPAs is a result of the significant decline in housing values in the western United States and the national recession over the last three years. Non-performing assets as a percentage of total assets was 2.07% at June 30, 2012 compared to 2.76% at September 30, 2011. This level of NPAs remains significantly higher than the 0.91% average in the Company's 28+ year history as a public company. The Company anticipates NPAs will continue to be elevated in the future until the residential real estate market stabilizes and values recover.

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

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	June 30, 2012 (In thousands)			September 30, 2011		
Restructured loans:						
Single-family residential	$360,150	83.2	%	$309,372	82.0	%
Construction - speculative	15,875	3.7		15,481	4.1	
Construction - custom	1,196	0.3		—	—	
Land - acquisition & development	17,075	3.9		18,033	4.8	
Land - consumer lot loans	14,107	3.3		13,124	3.5	
Multi - family	17,007	3.9		19,046	5.0	
Commercial real estate	7,049	1.6		1,435	0.4	
Commercial & industrial	2	—		828	0.2	
HELOC	290	0.1		177	—	
Consumer	—	—		—	—	
Total restructured loans (1)	432,751	100	%	377,496	100	%
Non-accrual loans:						
Single-family residential	129,295	75.6	%	126,624	60.3	%
Construction - speculative	12,424	7.3		15,383	7.3	
Construction - custom	539	0.3		635	0.3	
Land - acquisition & development	12,514	7.3		37,339	17.7	
Land - consumer lot loans	5,844	3.4		8,843	4.2	
Multi-family	3,405	2.0		7,664	3.6	
Commercial real estate	6,285	3.7		11,380	5.4	
Commercial & industrial	—	—		1,679	0.8	
HELOC	388	0.2		481	0.2	
Consumer	339	0.2		437	0.2	
Total non-accrual loans (2)	171,033	100	%	210,465	100	%
Total REO (3)	88,231			129,175		
Total REHI (3)	19,226			30,654		
Total non-performing assets	$278,490			$370,294		
Total non-performing assets and performing restructured loans as a percentage of total assets	5.03 %			5.14 %		
(1) Restructured loans were as follows:						
Performing	$399,299	92.3	%	$320,018	84.8	%
Non-accrual *	33,452	7.7		57,478	15.2	
	$432,751	100	%	$377,496	100	%

* Included in "Total non-accrual loans" above

(2) The Company recognized interest income on nonaccrual loans of approximately $2,224,000 in the nine months ended June 30, 2012. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $7,891,000 for the nine months ended June 30, 2012.

In addition to the nonaccrual loans reflected in the above table, at June 30, 2012, the Company had $156,281,000 of loans that were less than 90 days delinquent but which it had classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company’s ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 6.19% at June 30, 2012.

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

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

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 83.2% of restructured loans as of June 30, 2012. 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, 2012					September 30, 2011				
	Amount	Loans to Total Loans (1)		Coverage Ratio (2)		Amount	Loans to Total Loans (1)		Coverage Ratio (2)	
	(In thousands)					(In thousands)				
Single-family residential	$81,344	75.1	%	1.4	%	$83,307	74.9	%	1.3	%
Construction - speculative	12,853	1.7		9.8		13,828	1.7		9.8	
Construction - custom	344	2.7		0.2		623	3.4		0.2	
Land - acquisition & development	17,394	1.7		12.8		32,719	2.4		16.3	
Land - consumer lot loans	7,337	1.8		5.1		5,520	2.0		40.0	
Multi-family	4,838	8.8		0.7		7,623	8.4		1.1	
Commercial real estate	3,148	4.0		1.0		4,331	3.7		1.4	
Commercial & industrial	6,963	1.9		4.7		5,099	1.3		4.7	
HELOC	972	1.4		0.9		1,139	1.4		1.0	
Consumer	2,758	0.9		4.0		2,971	0.8		4.4	
	$137,951	100	%			$157,160	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 $17,278,000, or 0.20%, to $8,683,181,000 at June 30, 2012 compared with $8,665,903,000 at September 30, 2011. The following table shows the composition of the Company’s customer accounts as of the dates shown:

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Deposits by Type

	June 30, 2012 (In thousands)					September 30, 2011				
				Wtd. Avg. Rate					Wtd. Avg. Rate	
Non-interest checking	$272,819	3.1	%	—	%	$235,146	2.7	%	—	%
Interest checking	595,208	6.9		0.14	%	543,907	6.3		0.13	%
Savings (passbook/stmt)	300,182	3.5		0.20	%	255,396	2.9		0.20	%
Money Market	1,700,233	19.5		0.26	%	1,627,739	18.8		0.26	%
CD’s	5,814,739	67.0		1.32	%	6,003,715	69.3		1.55	%
Total	$8,683,181	100	%	0.95	%	$8,665,903	100	%	1.14	%

FHLB advances and other borrowings: Total borrowings decreased slightly to $2,757,146,000 at June 30, 2012, compared with $2,762,066,000 at September 30, 2011. The Company has a credit line with the FHLB Seattle equal to 50% of total assets, providing a substantial source of liquidity if needed. FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreement by all FHLB stock owned by the Company, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the agreements with the FHLB.

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RESULTS OF OPERATIONS

Net Income: The quarter ended June 30, 2012, produced net income of $35,163,000 compared to $30,121,000 for the same quarter one year ago. For the nine months ended June 30, 2012, net income totaled $102,651,000 compared to $80,475,000 for the nine months ended June 30, 2011. The net income for the quarter and nine months ended June 30, 2012 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 $10,367,000 and $39,576,000 for the quarter and nine months ended June 30, 2012, as compared to $21,000,000 and $77,750,000 for the three 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. In addition, gains/losses recognized on real estate acquired through foreclosure was a net gain of $1,146,000 for the three months ended June 30, 2012 and a net loss of $11,005,000 for the nine months ended June 30, 2012 as compared to net losses of $8,171,000 and $28,369,000 for the three and nine month periods one year ago.

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

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

Rate / Volume Analysis:

	Comparison of Quarters Ended 6/30/12 and 6/30/11			Comparison of Nine Months Ended 6/30/12 and 6/30/11		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income:						
Loans and covered loans	$(8,563)	$(1,058)	$(9,621)	$(26,116)	$1,196	$(24,920)
Mortgaged-backed securities	5,015	(10,443)	(5,428)	22,801	(23,108)	(307)
Investments (1)	822	(1,920)	(1,098)	(214)	(4,328)	(4,542)
All interest-earning assets	(2,726)	(13,421)	(16,147)	(3,529)	(26,240)	(29,769)
Interest expense:						
Customer accounts	13	(6,691)	(6,678)	(554)	(22,343)	(22,897)
FHLB advances and other borrowings	960	(832)	128	3,066	(2,368)	698
All interest-bearing liabilities	973	(7,523)	(6,550)	2,512	(24,711)	(22,199)
Change in net interest income	$(3,699)	$(5,898)	$(9,597)	$(6,041)	$(1,529)	$(7,570)

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

Provision for Loan Losses: The Company recorded a $10,367,000 provision for loan losses during the quarter ended June 30, 2012, while a $21,000,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to $278,490,000, or 2.07% , of total assets at June 30, 2012, compared to $394,679,000, or 2.96%, of total assets one year ago. Non-accrual loans decreased from $232,752,000 at June 30, 2011, to $171,033,000 at June 30, 2012, a 26.5% decrease. The Company had net charge-offs of $16,235,000 for the quarter ended June 30, 2012, compared with $23,519,000 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; second, non-accrual loans as a percentage of net loans decreased from 2.9% at June 30, 2011, to 2.25% at June 30, 2012; third, the percentage of loans 30 days or more delinquent decreased from from 3.66% at June 30, 2011, to 2.69% at June 30, 2012; and finally, the Company's exposure in the land A&D and speculative construction portfolios, the source of the majority of losses during this period of the cycle, has decreased from a combined 4.5% of the gross loan portfolio at June 30, 2011, to 3.4% at June 30, 2012. Management believes the allowance for loan losses, totaling $137,951,000, 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, 2012.
Other Income: The quarter ended June 30, 2012 produced total other income of $3,590,000 compared to $4,277,000 for the same quarter one year ago, a decrease of $687,000.
Other Expense: The quarter ended June 30, 2012, produced total other expense of $35,963,000 compared to $34,174,000 for the same quarter one year ago, a 5.2% increase. The increase in total other expense over the same comparable period one year ago was primarily due to the increase of $810,000 in compensation and benefits, which, for the quarter ended June 30, 2012 included the addition of the employees from the Charter Bank acquisition October 2011 and the Western National Bank transaction with the FDIC in December 2011. Also impacted by these acquisitions were the increases in occupancy expense and other expense of $324,000 and $1,755,000 respectively, for the quarter ended June 30, 2012 as compared to the prior year. Total other expense for the quarters ended June 30, 2012 and 2011 equaled 1.06% and 1.02%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,237 and 1,215 at June 30, 2012 and 2011, respectively.
Taxes: Income taxes increased to $19,778,000 for the quarter ended June 30, 2012, as compared to $16,943,000 for the same period one year ago. The effective tax rate for the quarters ended June 30, 2012 and 2011, 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, 2011. 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 2011 Form 10-K.

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

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

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information
Item 1. Legal Proceedings
From time to time the Company or its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's financial position or results of operations.

Item 1A. Risk Factors
In addition to the other information contained in this Quarterly Report on Form 10-Q, the following risk factors represent material updates and additions to the risk factors previously disclosed in the Company's Annual Report on Form 10-K. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.
Financial reform legislation has, among other things, eliminated the Office of Thrift Supervision ("OTS"), tightened capital standards, created a new Consumer Financial Protection Bureau and resulted in new laws and regulations that may increase our costs of operations.
On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). This new law significantly changed the current bank regulatory structure and affected the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies. It requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act may not be known for many months or years.
One change that was particularly significant to the Company and the Bank was the abolition of the OTS, the Bank's historical federal financial institution regulator. After the OTS was abolished, supervision and regulation of the Company moved to the Board of Governors of the Federal Reserve System ("Federal Reserve") and supervision and regulation of the Bank moved to the Office of the Comptroller of the Currency ("OCC"). Except as described below, however, the laws and regulations applicable to the Company and the Bank will not generally change – the Home Owners Loan Act and the regulations issued under the Act will generally still apply (although these laws and regulations will be interpreted by the Federal Reserve and the OCC, respectively).
In addition, the Company for the first time is subject to consolidated capital requirements and is required to serve as a source of strength to the Bank. The Bank is subject to the same lending limits as national banks. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.
The Act also broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. This could result in an increase in deposit insurance assessments to be paid by the Bank. The Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts will have unlimited deposit insurance from March 31, 2011 through December 31, 2012. The Federal Reserve also adopted a rule addressing interchange fees applicable to debit card transactions that lowers fee income generated from this source. At this time, we do not anticipate that being subject to any of these provisions will have a material effect on the Company or the Bank.
The Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, and authorizes the Securities and Exchange Commission to promulgate rules that would allow stockholders to nominate their own candidates for election as directors using a company's proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives.
The Act created a new Consumer Financial Protection Bureau to take over responsibility for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, with broad rule-making, supervisory and examination authority in this area over institutions that have assets of $10 billion or more, such as the Bank. The Act

also narrowed the scope of federal preemption of state laws related to federally chartered institutions.
Many of the provisions of the Act did not become effective until a year or more after its enactment and some provisions require the adoption and implementation of new or revised regulations. In addition, the scope and impact of many of the Act’s provisions

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

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

As previously disclosed, the Bank entered into a memorandum of understanding ("MOU") with the OTS on July 28, 2010. The MOU and our compliance with it is being monitored by the OCC since the OTS was abolished in July 2011. The MOU does not affect dividend policy or require additional capital, but a finding by the OCC that the Bank failed to comply with the MOU could result in additional regulatory scrutiny, constraints on the Bank's business, or formal enforcement action. Any of those events could have a material adverse effect on the Bank's future operations, financial condition, growth or other aspects of our business.

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

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended June 30, 2012.

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, 2012 to April 30, 2012	—	$—	—	6,908,314
May 1, 2012 to May 31, 2012	—	—	—	6,908,314
June 1, 2012 to June 30, 2012	—	—	—	6,908,314
Total	—	$—	—	6,908,314

(1) The Company's only stock repurchase program was publicly announced by the Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 31,956,264 shares have been authorized for repurchase.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 5. Other Information

In June 2011, the FASB issued guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. We adopted this standard as of October 1, 2011 and present net income and other comprehensive income in two separate, but consecutive, statements. The table below reflects the retrospective application of this guidance for each of the three years ended September 30. The retrospective application did not have a material impact on our financial condition or results of operations.

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	Fiscal Years Ended September 30, 2011	2010	2009
	(In thousands)		
Net income	$111,141	$118,653	$48,172
Other comprehensive income (loss) net of tax:			
Net unrealized gains (losses) on available-for-sales securities, net of taxes of $16,981 for 2011	30,852	(19,203)	51,273
Reclassification adjustment of net gains from sale of available-for-sale securities included in net income, net of taxes of $2,892 for 2011	5,255	14,454	686
Other comprehensive income (loss)	36,107	(4,749)	51,959
Comprehensive income	$147,248	$113,904	$100,131

Item 6. Exhibits

(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 and nine months ended June 30, 2012 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

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

August 7, 2012	/S/ ROY M. WHITEHEAD ROY M. WHITEHEAD Chairman, President and Chief Executive Officer
August 7, 2012	/S/ BRENT J. BEARDALL BRENT J. BEARDALL Executive Vice President and Chief Financial Officer