WASHINGTON FEDERAL INC
Form 10-K
November 21, 2012

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012.

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-34654

Washington Federal, Inc.
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:
Title of each class NA Name of each exchange on which registered NA
Securities registered pursuant to section 12(g) of the Act:
Common Stock, $1.00 par value per share (title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required 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 ¨

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 (§ 229.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 the 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 ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
As of March 31, 2012, the aggregate market value of the 105,112,135 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 1,065,480 shares held by all directors and executive officers of the Registrant as a group, was $1,769,037,232. This figure is based on the closing sale price of $16.83 per share of the Registrant's Common Stock on March 31, 2012, as reported by Bloomberg.
Number of shares of Common Stock outstanding as of November 16, 2012: 106,227,990
DOCUMENTS INCORPORATED BY REFERENCE
List hereunder the following documents incorporated by reference and the Part of Form 10-K into which the document is incorporated:
(1) Portions of the Registrant’s Annual Report to Stockholders for the fiscal year ended September 30, 2012, are incorporated into Part II, Items 5-8 and Part III, Item 12 of this Form 10-K.
(2) Portions of the Registrant’s definitive proxy statement for its Annual Meeting of Stockholders to be held on January 16, 2013 are incorporated into Part III, Items 10-14 of this Form 10-K.

PART I

We make statements in this Annual Report on Form 10-K that constitute forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates," "intends," "forecasts," "projects" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to help identify such forward-looking statements. These statements are not historical facts, but instead represent current expectations, plans or forecasts of the Company and are based on the beliefs and assumptions of the management of the Company and the information available to management at the time that these disclosures were prepared. The Company intends for all such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and often are beyond the Company's control. Actual outcomes and results may differ materially from those expressed in, or implied by, the Company's forward-looking statements.

You should not place undue reliance on any forward-looking statement and should consider the following uncertainties and risks, as well as the risks and uncertainties discussed elsewhere in this report, including under Item 1A. "Risk Factors," and in any of the Company's other subsequent Securities and Exchange Commission filings, which could cause our future results to differ materially from the plans, objectives, goals, estimates, intentions, and expectations expressed in forward-looking statements:

- a deterioration in economic conditions, including declines in the real estate market and home sale volumes and financial stress on borrowers as a result of the uncertain economic environment;
- the severe effects of the continued economic downturn, including high unemployment rates and declines in housing prices and property values, in our primary market areas;
- the effects of and changes in monetary and fiscal policies of the Board of Governors of the Federal Reserve System and the U.S. Government;
- fluctuations in interest rate risk and changes in market interest rates;
- the Company's ability to make accurate assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of its borrowers and the value of the assets securing these loans;
- the Company's ability to successfully complete merger and acquisition activities and realize expected strategic and operating efficiencies associated with such activities;
- legislative and regulatory limitations, including those arising under the Dodd-Frank Wall Street Reform Act and potential limitations in the manner in which we conduct our business and undertake new investments and activities;
- the ability of the Company to obtain external financing to fund its operations or obtain this financing on favorable terms;
- changes in other economic, competitive, governmental, regulatory, and technological factors affecting the Company's markets, operations, pricing, products, services and fees;
- the success of the Company at managing the risks involved in the foregoing and managing its business; and
- the timing and occurrence or non-occurrence of events that may be subject to circumstances beyond the Company's control.

All forward-looking statements speak only as of the date on which such statements are made, and Washington Federal undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, changes to future operating results over time, or the impact of circumstances arising after the date the forward-looking statement was made.

Item 1. Business

General
Washington Federal, Inc., formed in November 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a non-diversified unitary savings and loan holding company within the meaning of the Home Owners' Loan Act ("HOLA"),that conducts its operations through a federally-insured savings association subsidiary, Washington Federal ("Bank"). As used throughout this document, the terms "Washington Federal" or the "Company" refer to Washington Federal, Inc. and its consolidated subsidiaries and the term "Bank" refers to the operating subsidiary Washington Federal.
The Bank is a federal savings association that began operations in Washington as a state-chartered mutual company in 1917. In 1935, the Company converted to a federal charter and became a member of the Federal Home Loan Bank ("FHLB") system. On November 9, 1982, Washington Federal converted from a federal mutual to a federal capital stock savings association.
The Company's fiscal year end is September 30th. All references to 2012, 2011 and 2010 represent balances as of September 30, 2012, September 30, 2011 and September 30, 2010, respectively, or activity for the fiscal years then ended.
The business of the Bank consists primarily of attracting deposits from the general public and investing these funds in loans of various types, including first lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans. It also invests in certain United States government and agency obligations and other investments permitted by applicable laws and regulations. Washington Federal has 166 full service branches located in Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. Through its subsidiaries, the Company is also engaged in real estate investment and insurance brokerage activities.

The principal sources of funds for the Company's activities are retained earnings, loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings. Washington Federal's principal sources of revenue are interest on loans and interest and dividends on investments. Its principal expenses are interest paid on deposits, credit costs, general and administrative expenses, interest on borrowings and income taxes. The Company's growth has been generated both internally and as a result of 16 acquisitions. Six of those acquisitions involved government assistance in some form.

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

Charter Bank. Effective October 14, 2011, the Company acquired six branch locations, four in Albuquerque, New Mexico, and two in Santa Fe, New Mexico, from Charter Bank. $254,821,000 of deposits were acquired for a premium of $1,061,000.

Horizon Bank. Effective January 8, 2010, the Bank acquired certain assets and liabilities, including most of the loans and deposits, of Horizon Bank, headquartered in Bellingham, Washington ("Horizon") from the ("FDIC"), as receiver for Horizon. The Bank acquired certain assets with a book value of $1.19 billion, including $968 million in

loans and $32 million in foreclosed real estate, and selected liabilities with a book value of $1.03 billion, including $820 million in deposits. The loans and foreclosed real estate purchased are covered by two loss share agreements between the FDIC and the Bank (one for single family loans and the other for all other loans and foreclosed real estate), which affords the Bank significant loss protection. Under the loss share agreements, the FDIC will cover 80% of covered loan and foreclosed real estate losses up to $536 million and 95% of losses in excess of that amount. The term for loss sharing on residential real estate loans is 10 years, while the term

for loss sharing on non-residential real estate loans is 5 years with respect to losses and 8 years with respect to loss recoveries. The losses reimbursable by the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction. New loans made after that date are not covered by the loss share agreements. Loans that were classified as non-performing loans by Horizon are no longer classified as non-performing because, at acquisition, the carrying value of these loans was adjusted to reflect fair value and are covered under the FDIC loss sharing agreements. Management believes that the new book value reflects an amount that will ultimately be collected.

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 Bank. Under the terms of the definitive merger agreement, Washington Federal issued 1,995,936 shares and paid $10.4 million in cash consideration. Aggregate consideration, cash and stock combined, totaled $44 million. The transaction closed on October 31, 2012. The combined company has 190 offices in eight western states with total assets of approximately $13.3 billion and total deposits of approximately $9.3 billion.

The Bank is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency (“OCC”), its primary federal regulator, the Bureau of Consumer Financial Protection ("CFPB") and the Federal Deposit Insurance Corporation ("FDIC"), which insures its deposits up to applicable limits. Washington Federal, as a savings and loan holding company, is subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve System (" Federal Reserve"). The CFPB has broad authority to regulate providers of credit, payment and other consumer financial products and services and to bring actions to enforce federal consumer protection legislation as necessary.

The regulatory structure gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OCC, the FDIC, the Federal Reserve, or the U.S. Congress, could have a significant impact on the Company and its operations. See “Regulation” section below.

On October 25, 2012, the Bank received written notification from the OCC, that the Memorandum of Understanding ("MOU") that was put into place by the Office of Thrift Supervision ("OTS"), the OCC's predecessor as the Bank's primary regulator, on July 28, 2010, has been removed in its entirety

	Average Statements of Financial Condition Year Ended September 30,								
	2010			2011			2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	(In thousands)								
Assets									
Loans (1)	$9,215,231	$561,069	6.09 %	$8,622,994	$522,230	6.06 %	$8,019,317	$484,833	6.05 %
Mortgage-backed securities	1,989,979	91,775	4.61	2,587,369	108,207	4.18	3,169,620	96,142	3.03
Investment securities (2)	1,103,888	10,709	.97	1,084,716	14,190	1.31	1,157,346	9,293	.80
FHLB stock	149,103	7	—	151,751	8	.01	151,957	3	—
Total interest-earning assets	12,458,201	663,560	5.33 %	12,446,830	644,635	5.18 %	12,498,240	590,271	4.72 %
Other assets	915,566			975,714			881,776		
Total assets	$13,373,767			$13,422,544			$13,380,016		
Liabilities and Stockholders' Equity									
Checking accounts	$644,999	2,299	.36 %	$735,399	1,908	.26 %	$874,510	857	.10 %
Passbook and statement accounts	215,629	1,192	.55	242,037	682	.28	286,946	574	.20
Insured money market accounts	1,475,920	12,029	.82	1,647,363	7,148	.43	1,701,721	4,610	.27
Certificate accounts (time deposits)	6,255,530	130,552	2.09	6,143,456	105,845	1.72	5,845,670	80,771	1.38
Repurchase agreements with customers	46,112	288	.62	35,211	252	.72	32,677	127	.39
FHLB advances	2,070,843	92,400	4.46	1,883,135	81,994	4.35	1,949,020	80,617	4.14
Securities sold under agreements to repurchase	800,000	29,869	3.73	800,000	29,867	3.73	692,473	25,693	3.71
Other borrowings	9,479	472	4.98	—	—	—	—	—	—
Total interest-bearing liabilities	11,518,512	269,101	2.34 %	11,486,601	227,696	1.98 %	11,383,017	193,249	1.70 %
Other liabilities	44,511			81,600			85,669		
Total liabilities	11,563,023			11,568,201			11,468,686		
Stockholders' equity	1,810,744			1,854,343			1,911,330		
Total liabilities and stockholders' equity	$13,373,767			$13,422,544			$13,380,016		
Net interest income/Interest rate spread		$394,459	2.99 %		$416,939	3.20 %		$397,022	3.02 %
Net interest margin (3)			3.17 %			3.35 %			3.18 %

(1) The average balance of loans includes nonaccruing loans and covered loans, interest on which is recognized on a cash basis. It also includes net accretion of deferred loan fees and costs of $10.2 million, $11.6 million and $16.0 million for years 2010, 2011 and 2012, respectively.
(2) Includes cash equivalents and repurchase agreements.
(3) Net interest income divided by average interest-earning assets.

Lending Activities

General. The Company's net portfolio of loans totaled $7.5 billion at September 30, 2012, representing approximately 60% of its total assets. The Company concentrates its lending activities on the origination of 30-year, fixed-rate mortgage loans, which are neither insured nor guaranteed by agencies of the United States government. Washington Federal's lending activity is concentrated on the origination of loans secured by real estate, including long-term fixed-rate mortgage loans, adjustable-rate construction loans, adjustable-rate land development loans, fixed-rate multi-family loans and business loans.

The following table sets forth the composition of the Company's gross loan portfolio, by loan type, as of September 30 for the years indicated.

	2008		2009		2010		2011		2012	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
					(In thousands)					
Loans (excluding covered loans):										
Single-family residential	$6,868,956	69.5 %	$6,785,723	72.3 %	$6,551,837	74.8 %	$6,218,878	74.9 %	$5,779,264	73.5
Construction – speculative	439,616	4.4	267,430	2.8	169,712	1.9	140,459	1.7	131,526	1.7
Construction – custom	317,894	3.2	258,839	2.8	256,384	2.9	279,851	3.4	211,690	2.7
Land – acquisition and development	724,421	7.3	519,130	5.5	307,230	3.5	200,692	2.4	128,379	1.6
Land – consumer lot loans	210,816	2.1	195,812	2.1	186,840	2.1	163,146	2.0	141,844	1.8
Multi-family	683,508	6.9	705,212	7.5	697,351	7.9	700,673	8.4	710,741	9.0
Commercial real estate	282,138	2.8	294,109	3.1	315,915	3.6	303,442	3.7	406,364	5.2
Commercial & industrial	151,844	1.5	119,019	1.3	83,070	0.9	109,332	1.3	166,115	2.1
HELOC	80,407	.8	122,184	1.3	116,143	1.3	115,092	1.4	126,942	1.6
Consumer	153,072	1.5	120,081	1.3	92,624	1.1	67,509	0.8	63,471	0.8
GROSS LOANS	$9,912,672	100.0%	$9,387,539	100.0%	$8,777,106	100.0%	$8,299,074	100.0%	$7,866,336	100.0
Less LIP, Allowance and net def. costs & fees	(411,052)		(404,109)		(353,403)		(363,197)		(414,338)	
NET LOANS	$9,501,620		$8,983,430		$8,423,703		$7,935,877		$7,451,998	

The following table sets forth the composition of the Company's covered loan portfolio, by loan type, as of September 30, for the years indicated. There were no covered loans in the years prior to the acquisition of Horizon Bank on January 8, 2010.

	2010			2011			2012		
	Amount	%		Amount	%		Amount	%	
				(In thousands)					
Loans:									
Single-family residential	$66,735	9.7	%	$55,449	11.3	%	$43,375	11.6	%
Construction – speculative	29,630	4.4		9,321	2.2		4,609	1.2	
Construction – custom	6,927	1.0		2,799	0.6		1,196	0.3	
Land – acquisition and development	102,982	15.0		47,217	9.5		34,177	9.2	
Land – consumer lot loans	1,813	0.1		1,153	0.2		995	0.3	
Multi-family	54,258	8.1		44,239	8.9		32,343	8.7	
Commercial real estate	308,987	45.1		250,063	50.2		205,376	55.0	
Commercial & industrial	83,554	12.1		58,874	11.9		31,527	8.4	
HELOC	26,587	3.9		23,559	4.7		18,280	4.9	
Consumer	3,911	0.6		2,684	0.5		1,577	0.4	
Total covered loans	$685,384	100.0	%	$495,358	100.0	%	$373,455	100.0	%
Allowance for losses	—			(3,766)			—		
	$685,384			$491,592			$373,455		
Discount	(150,910)			(109,409)			(85,079)		
Covered loans, net	$534,474			$382,183			$288,376		

The following table summarizes the scheduled contractual gross loan maturities for the Company’s total loan portfolio due for the periods indicated as of September 30, 2012. Amounts are presented prior to deduction of discounts, premiums, loans in process, deferred net loan origination fees and allowance for loan losses. Adjustable-rate loans are shown in the period in which loan principal payments are contractually due.

Contractual Maturities (excludes covered loans):

	Total	Less than 1 Year	1 to 5 Years	After 5 Years
	(In thousands)			
Single-family residential	$5,779,264	$9,542	$83,380	$5,686,342
Construction – speculative	131,526	32,529	96,242	2,755
Construction – custom	211,690	173,411	28,804	9,475
Land – acquisition and development	128,379	65,445	61,179	1,755
Land – consumer lot loans	141,844	4,407	20,776	116,661
Multi-family	710,741	31,147	173,337	506,257
Commercial real estate	406,364	53,147	172,166	181,051
Commercial & industrial	166,115	30,264	77,134	58,717
HELOC	126,942	63	11,980	114,899
Consumer	63,471	23,354	16,912	23,205
	$7,866,336	$423,309	$741,910	$6,701,117
Loans maturing after one year:				
Adjustable-rate	$1,208,367			
Fixed-rate	6,234,660			
Total	$7,443,027			

The original contractual loan payment period for residential mortgage loans originated by the Company normally ranges from 15 to 30 years. Experience during recent years has indicated that, because of prepayments in connection with refinancing and sales of property, residential loans have a weighted average life of four to eight years.

Lending Programs and Policies. The Company's principal lending activity is the origination of real estate mortgage loans to purchase or refinance single-family residences. The Company also originates a significant number of construction and land development loans, along with multi-family residential and commercial loans. At September 30, 2012, single-family residential loans totaled $5.8 billion, or 73.5% of the Company's gross loan portfolio; construction- speculative loans totaled $132 million, or 1.7% of the Company's gross loan portfolio; construction - custom loans totaled $212 million, or 2.7% of the Company's gross loan portfolio; land acquisition and development loans totaled $128 million, or 1.6% of the Company's gross loan portfolio; land - consumer lot loans totaled $142 million, or 1.8% of the Company's gross loan portfolio; multi-family loans totaled $711 million, or 9.0% of the Company's gross loan portfolio; commercial real estate loans totaled $406 million, or 5.2% of the Company's gross loan portfolio; commercial and industrial loans totaled $166 million, or 2.1% of the Company's gross loan portfolio; HELOC loans totaled $127 million, or 1.6% of the Company's gross loan portfolio and consumer loans totaled $65 million, or 0.8% of the Company's gross loan portfolio.

Single-family residential loans. The Company primarily originates 30 year fixed-rate loans secured by single-family residences. Generally, these loans are made on terms, conditions and documentation that permit sale in the secondary market. Moreover, it is the Company's general policy to include in the documentation evidencing its conventional mortgage loans a due-on-sale clause, which facilitates adjustment of interest rates on such loans when the property securing the loan is sold or transferred.

All of the Company's mortgage lending is subject to written, nondiscriminatory underwriting standards, loan origination procedures and lending policies prescribed by the Company's Board of Directors. Property valuations are required on all real estate loans. Appraisals are prepared by independent appraisers approved by the Company's

management, and reviewed by the Company's staff. Property evaluations are sometimes utilized in lieu of appraisals on single-family real estate loans of $250,000 or less and are reviewed by the Company's staff. Detailed loan applications are obtained to determine the borrower's ability to repay and the more significant items on these applications are verified through the use of credit reports, financial statements or

written confirmations. Depending on the size of the loan involved, a varying number of officers of the Company must approve the application before the loan can be granted. Federal guidelines limit the amount of a real estate loan made by a federal savings association, such as the Bank, to a specified percentage of the value of the property securing the loan, as determined by an evaluation at the time the loan is originated. This is referred to as the loan-to-value ratio. Maximum loan-to-value ratios for each type of real estate loan are established by the Company's Board of Directors. When establishing general reserves for loans with loan-to-value ratios exceeding 80% that are not insured by private mortgage insurance, Washington Federal considers the additional risk inherent in these products, as well as their relative loan loss experience, and provides reserves when deemed appropriate. The total balance for loans with loan-to-value ratios exceeding 80% at origination as of September 30, 2012, was $503 million, with allocated reserves of $12.1 million.

Construction loans. The Company originates construction loans to finance construction of single-family and multi-family residences as well as commercial properties. These loans to builders are generally indexed to the "prime rate" and normally have maturities of two years or less. Loans made to individuals for construction of their home generally are 30 year fixed rate loans. The Company's policies provide that for residential construction loans, loans may be made for 80% or less of the appraised value of the property upon completion. As a result of activity over the past three decades, the Company believes that builders of single-family residences in its primary market areas consider it to be a construction lender of choice. Because of this history, the Company has developed a staff with in-depth land development and construction experience and working relationships with selected builders based on their operating histories and financial stability.

Construction lending involves a higher level of risk than single-family residential lending due to the concentration of principal in a limited number of loans and borrowers, and the effects of general economic conditions in the homebuilding industry. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. These loans are generally more difficult to evaluate and monitor.

Land loans. The Company's land development loans are of a short-term nature and are generally made for 75% or less of the appraised value of the unimproved property. Funds are disbursed periodically at various stages of completion as authorized by the Company's personnel. The interest rate on these loans generally adjusts every 90 days in accordance with a designated index.

Land development loans involve a higher degree of credit risk than long-term financing on owner-occupied real estate. Mitigation of risk of loss on a land development loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of development compared to the estimated cost (including interest) of development and the financial strength of the borrower.

The Company's permanent land loans (also called consumer lot loans) are generally made on improved land, with the intent of building a primary or secondary residence. These loans are limited to 80% or less of the appraised value of the property, up to a maximum loan amount of $350,000. The interest rate on permanent land loans is generally fixed for 20 years.

Multi-family residential loans. Multi-family residential (five or more dwelling units) loans generally are secured by multi-family rental properties, such as apartment buildings. In underwriting multi-family residential loans, the Company considers a number of factors, which include the projected net cash flow to the loan's debt service requirement, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. Multi-family residential loans are originated in amounts up to 80% of the appraised value of the property securing the loan.

Loans secured by multi-family residential real estate generally involve a greater degree of credit risk than single-family residential loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. The Company seeks to minimize these risks through its underwriting policies, which

require such loans to be qualified at origination on the basis of the property's income and debt service ratio. The Company generally limits its multi-family residential loans to $10.0 million on any one loan.

It is the Company's policy to obtain title insurance ensuring that the Company has a valid first lien on the mortgaged real estate serving as collateral. Borrowers must also obtain hazard insurance prior to closing and, when required by regulation, flood insurance. Borrowers may be required to advance funds on a monthly basis, together with each payment of principal and

interest, to a mortgage escrow account from which the Company makes disbursements for items such as real estate taxes, hazard insurance premiums and private mortgage insurance premiums when due.
Commercial and industrial loans. The Company makes various types of business loans to customers in its market area for working capital, acquiring real estate, equipment or other business purposes, such as acquisitions. The terms of these loans generally range from less than one year to a maximum of ten years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to prime or another market rate.

Commercial loans are based upon the Company's assessment of the borrower's ability and willingness to repay along with an evaluation of secondary repayment sources such as the value and marketability of collateral. Most such loans are extended to closely held businesses and the personal guaranty of the principals is usually obtained. Commercial loans have a relatively high risk of default compared to residential real estate loans. Pricing of commercial loans is based on the credit risk of the borrower with consideration given to the overall relationship of the borrower, including deposits. The acquisition of business deposits is an important focus of this business line. The cost of funds from businesses is usually lower than the cost of funds raised through CDs in our retail branches.

During 2012, the Company formed an Equipment Finance Division which specializes in providing equipment leases and loans to capital-intensive businesses primarily within our market area. This Division is staffed with an experienced group of equipment finance professionals and is expected to augment the growth of our business banking group.

Consumer loans. Through its two most recent acquisitions prior to Horizon, the Company obtained its portfolio of $68 million of consumer loans. These loans are primarily home improvement loans made through third party originators that bear interest at rates of 10% and higher. Due to the nature of these loans the average charge-off rate has been 3-5% per year. After extensive review of this program, the Company decided in fiscal 2009 to cease origination of these consumer loans, as the risk profile did not match with the Company's long-term business plan. The Company will continue to service the portfolio until the balances are repaid.

Home equity loans. The Company extends revolving lines of credit to consumers that are secured by a first or second mortgage on a single family residence. The interest rates on these loans adjust monthly indexed to prime. Total loan-to-value ratios when combined with any underlying first liens are limited to 80% or less. Terms are a ten year draw period followed by a fifteen year amortization period.
Origination and Purchase of Loans. The Company has general authority to lend anywhere in the United States; however, its primary lending areas are within the states of Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. Loan originations come from a number of sources. Residential loan originations result from referrals from real estate brokers, walk-in customers, purchasers of property in connection with builder projects financed by the Company, mortgage brokers and refinancings for existing customers. Business purpose loans are obtained primarily by direct solicitation of borrowers and continued business from borrowers who have previously borrowed from the Company.

The Company also purchases loans and mortgage-backed securities when lending rates and mortgage volume for new loan originations in its market area do not fulfill its needs. As discussed in the Management's Discussion and Analysis and CEO letter, loan originations of SFR have declined over the last few years due to the low interest rate environment and excessive government participation in the mortgage market.
The table below shows total loan origination, purchase and repayment activities on non-covered loans of the Company for the years indicated.

	2008	2009	2010	2011	2012
	(In thousands)				
Loans originated (1, 3):					
Single-family residential	$857,334	$855,212	$583,429	$557,902	$539,222
Construction – speculative	218,145	102,630	132,328	126,042	146,494
Construction – custom	303,844	262,952	276,057	289,113	210,308
Land – acquisition & development	148,221	45,425	31,179	14,957	21,323
Land – consumer lot loans	25,909	14,681	11,334	9,968	13,169
Multi-family	105,805	97,621	49,179	122,618	189,692
Commercial real estate	66,876	117,447	59,600	18,120	87,471
Commercial & industrial	187,748	243,240	272,102	134,940	143,849
HELOC	63,855	85,755	59,084	33,711	38,750
Consumer	96,438	15,497	3,241	219	—
Total loans originated	2,074,175	1,840,460	1,477,533	1,307,590	1,390,278
Loans purchased (2,3)	946,826	385,645	1,922	400	129,670
Loan principal repayments	(1,845,324)	(2,116,355)	(1,855,560)	(1,704,826)	(1,855,484)
Net change in loans in process, discounts, etc.	137,665	(627,940)	(183,622)	(90,990)	(148,343)
Net loan activity increase (decrease)	$1,313,342	$(518,190)	$(559,727)	$(487,826)	$(483,879)
Beginning balance	$8,188,278	$9,501,620	$8,983,430	$8,423,703	$7,935,877
Ending balance	$9,501,620	$8,983,430	$8,423,703	$7,935,877	$7,451,998

(1) Includes undisbursed loan in process and does not include savings account loans, which were not material during the periods indicated.
(2) Includes loans acquired through acquisitions and whole loan purchases.
(3) Excludes covered loans.

The table below shows total loan purchases and repayment activities on covered loans of the Company for the years indicated.
Prior to the acquisition of Horizon Bank in 2010 the company had no covered loans.

	2010	2011	2012
	(In thousands)		
Total loans originated	$—	$—	$—
Loans purchased	671,383	—	—
Loan principal repayments	(122,272)	(117,302)	(109,109)
Net change in loans in process, discounts, etc	(14,637)	(34,989)	15,302
Net loan activity	534,474	(152,291)	(93,807)
Beginning balance	—	534,474	382,183
Ending balance	$534,474	$382,183	$288,376

Interest Rates, Loan Fees and Service Charges. Interest rates charged by the Company on mortgage loans are primarily determined by the competitive loan rates offered in its lending areas and in the secondary market. Mortgage loan rates reflect factors such as general interest rates, the supply of money available to the industry and the demand for such loans. These factors are in turn affected by general economic conditions, the regulatory programs and policies of federal and state agencies, changes in tax laws and governmental budgetary programs.
The Company receives fees for originating loans in addition to various fees and charges related to existing loans, including prepayment charges, late charges and assumption fees.
In making one-to-four- family home mortgage loans, the Company does not normally charge a commitment fee. As part of the loan application, the borrower pays the Company for out-of-pocket costs, such as the appraisal fee, in reviewing the application, whether or not the borrower closes the loan. The interest rate charged is normally the prevailing rate at the time the loan application is approved and accepted. In the case of construction loans, the Company normally charges an origination fee. Loan origination fees and other terms of multi-family residential loans are individually negotiated.
Non-performing Assets. When a borrower fails to make a required payment on a loan, the Company attempts to cure the default by contacting the borrower. In most cases, defaults are cured promptly. If the default is not cured within 90 days, the Company may institute appropriate action to foreclose on the property. If foreclosed, the property will be sold at a public sale and may be purchased by the Company.
The company will consider modifying the interest rates and terms of a loan if it determines that a modification is a better alternative to foreclosure.
Loans are placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. The Company does not accrue interest on loans 90 days past due or more. See Note A to the Consolidated Financial Statements included in Item 8 hereof.
Real estate acquired by foreclosure or deed-in-lieu thereof (“REO” or “Real Estate Owned”) is classified as real estate held for sale until it is sold or transferred to Real Estate Held for Investment(“REHI”). When property is acquired, it is recorded at the lower of carrying cost or fair value at the date of acquisition, and any write-down resulting therefrom is charged to the allowance for loan losses. Interest accrual ceases on the date of acquisition and all costs incurred in maintaining the property from that date forward are expensed as incurred. Costs incurred for the improvement or development of such property are capitalized. See Note A to the Consolidated Financial Statements included in Item 8 hereof.

Most loans restructured in troubled debt restructurings ("TDRs") 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. The modification of 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. Principal forgiveness is not an available option for restructured loans. As of September 30, 2012 single-family residential loans comprised 83% of restructured loans.

The Bank reserves for restructured loans within its allowance for loan loss methodology by taking into account the following performance indicators: 1) time since modification, 2) current payment status and 3) geographic area. The following table sets forth information regarding restructured and non-accrual loans and REO held by the Company at the dates indicated.

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

	2008	2009	2010	2011	2012
	(In thousands)				
Performing restructured loans	$—	$117,234	$225,195	$320,018	$403,238
Non-Performing restructured loans	6,210	19,660	47,727	57,478	30,040
Total restructured loans	6,210	136,894	272,922	377,496	433,278
Non-accrual loans:					
Single-family residential	38,017	116,268	123,624	126,624	131,193
Construction – speculative	33,003	50,348	39,915	15,383	10,634
Construction – custom	1,315	—	—	635	539
Land – Acquisition & development	51,562	187,061	64,883	37,339	13,477
Land – consumer lot loans		—	—	8,843	5,149
Multi-family	748	4,368	4,931	7,664	4,185
Commercial real estate	1,929	2,733	10,831	11,380	7,653
Commercial & industrial	—	18,823	371	1,679	16
HELOC		—	—	481	198
Consumer	535	656	977	437	383
Total non-accrual loans (1)	127,109	380,257	245,532	210,465	173,427
Total REO (2)	37,082	120,105	160,754	129,175	80,800
Total REHI(3)	—	56,758	28,244	30,654	18,678
Total non-performing assets	$164,191	$557,120	$434,530	$370,294	$272,905
Total non-performing assets and performing restructured loans	$164,191	$674,354	$659,725	$690,312	$676,143
Total non-performing assets and restructured loans as a percent of total assets	1.39 %	5.36 %	4.89 %	5.14 %	5.42 %
Total non-performing assets to total assets	1.39 %	4.43 %	3.22 %	2.76 %	2.19 %

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(1) Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $10,398,000 in 2012. In addition to the nonaccrual loans reflected in the above table, at September 30, 2012, the Company had $135.0 million of loans that were less than 90 days delinquent but that were classified as substandard for one or more reasons. If these loans were deemed nonperforming, the Company's ratio of total nonperforming assets and restructured loans as a percent of total assets would have been 6.50% at September 30, 2012. For a discussion of the Company's policy for placing loans on nonaccrual status, see Note A to the Consolidated Financial Statements included in Item 8 hereof.

(2) Total REO includes real estate held for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans. Excludes covered REO.

(3) Total REHI includes real estate held for investment acquired in settlement of loans.

The following table analyzes the Company's allowance for loan losses at the dates indicated.

	September 30,				
	2008	2009	2010	2011	2012
	(In thousands)				
Beginning balance	$28,520	$85,058	$166,836	$163,094	$157,160
Charge-offs:					
Single-family residential	2,177	18,013	33,812	38,465	53,789
Construction – speculative	6,858	22,604	28,930	13,197	4,916
Construction – custom	—	289	359	237	—
Land – Acquisition & development	3,513	50,552	105,576	39,797	16,978
Land – consumer lot loans	140	1,822	359	4,196	2,670
Multi-family	25	1,028	2,010	1,950	1,393
Commercial real estate	225	—	651	1,593	814
Commercial & industrial loans	14	11,573	8,902	4,733	249
HELOC	—	151	118	939	232
Consumer	2,471	6,841	6,670	4,602	3,538
	15,423	112,873	187,387	109,709	84,579
Recoveries:					
Single-family residential	—	117	104	3,072	8,164
Construction – speculative	34	8	523	2,143	711
Construction – custom	—	—	188	—	—
Land – Acquisition & development	—	16	844	2,271	1,341
Land – consumer lot loans	—	—	11	—	—
Multi-family	—	—	—	71	504
Commercial real estate	—	—	3	328	225
Commercial & industrial loans	—	948	923	1,925	2,366
HELOC	—	—	—	185	66
Consumer	230	562	1,140	1,429	1,480
	264	1,651	3,736	11,424	14,857
Net charge-offs	15,159	111,222	183,651	98,285	69,722
Acquired through acquisition	11,181	—	—	—	—
Provision (reversal of reserve) for loan losses	60,516	193,000	179,909	92,351	45,709
Ending balance	$85,058	$166,836	$163,094	$157,160	$133,147
Ratio of net charge-offs to average loans outstanding	.17 %	1.18 %	1.99 %	1.14 %	.87 %

The following table sets forth the allocation of the Company's allowance for loan losses at the dates indicated.

	September 30,									
	2008		2009		2010		2011		2012	
	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)
	(In thousands)									
Allowance allocation:										
Single-family residential	$17,055	69.5 %	$18,547	72.3 %	$21,575	74.8 %	$83,307	74.9 %	$81,815	73.5 %
Construction – speculative	10,069	4.4	21,841	2.8	26,346	1.9	13,828	1.7	12,060	1.7
Construction – custom	1,328	3.2	81	2.8	26,355	2.9	623	3.4	347	2.7
Land – acquisition & development	28,679	7.3	104,569	5.5	61,637	3.5	32,719	2.4	15,598	1.6
Land – consumer lot loans	2,279	2.1	1,298	2.1	4,793	2.1	5,520	2.0	4,937	1.8
Multi-family	4,514	6.9	1,878	7.5	5,050	7.9	7,623	8.4	5,280	9.0
Commercial real estate	4,536	2.8	1,344	3.1	3,165	3.6	4,331	3.7	1,956	5.2
Commercial & industrial	3,807	1.5	7,327	1.3	6,193	.9	5,099	1.3	7,626	2.1
HELOC	1,338	.8	377	1.3	586	1.3	1,139	1.4	965	1.6
Consumer	11,453	1.5	9,574	1.3	7,394	1.1	2,971	.8	2,563	.8
Unallocated	—		—		—		—		—	
Total allowance for loan losses	$85,058		$166,836		$163,094		$157,160		$133,147	

(1) Represents the total amount of the loan category as a percentage of total loans outstanding.

The Company maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The amount of this allowance is based on ongoing, quarterly assessments of the probable and estimable losses inherent in the loan portfolio. The Company's method for assessing the appropriateness of the allowance consists of two components, which include the general allowance and specific allowance. As part of the process for determining the adequacy of the allowance for loan losses, management reviews the loan portfolio for specific weaknesses.

The general loan loss allowance is established by applying a loss percentage factor to each of the different loan types. The allowance is 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, 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. In those cases, a portion of the allowance is then allocated to reflect the estimated loss exposure. Residential real estate loans are not individually analyzed for impairment and loss exposure because of the significant number of loans, their relatively small balances and their historically low level of losses. In determining the adequacy of reserves, management considers the above mentioned factors.

Specific allowances are established in cases where management has identified conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred.

Investment Activities

As a federal association, the Bank is obligated to maintain adequate liquidity and does so by holding cash and cash equivalents and by investing in securities. These investments may include, among other things, certain certificates of deposit, repurchase agreements, bankers' acceptances, loans to financial institutions whose deposits are federally-insured, federal funds, United States government and agency obligations and mortgage-backed securities. The following table sets forth the composition of the Company's investment portfolio at the dates indicated.

	September 30, 2010		2011		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
U.S. government and agency obligations	$344,415	$352,660	$215,315	$220,486	$578,558	$586,885
State and political subdivisions	7,055	7,268	22,411	25,591	21,237	25,646
Agency mortgage-backed securities	2,131,182	2,207,719	2,928,820	3,059,683	2,352,360	2,386,397
	$2,482,652	$2,567,647	$3,166,546	$3,305,760	$2,952,155	$2,998,928

The investment portfolio at September 30, 2012 was categorized by maturity as follows:

	Amortized Cost	Wtd Avg Yield	
	(In thousands)		
Due in less than 1 year	$20,794	0.77	%
Due after 1 year through 5 years	336,340	.91	
Due after 5 years through 10 years	122,219	2.48	
Due after 10 years	2,472,802	2.66	
	$2,952,155	2.44	%

Sources of Funds

General. Deposits are the primary source of the Company's funds for use in lending and other general business purposes. In addition to deposits, Washington Federal derives funds from loan repayments, advances from the FHLB and other borrowings and, to a lesser extent, from investment repayments and sales. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in normal sources of funds, such as deposit inflows at lower than projected levels. Borrowings may also be used on a longer-term basis to support expanded activities.

Deposits. The Company chooses to rely on term certificate accounts and other deposit alternatives that have no fixed term and that pay interest rates more responsive to market interest rates than those of passbook accounts. This greater variety of deposits allows the Company to be more competitive in obtaining funds and to manage its liabilities more effectively.

Certificates with a maturity of one year or less have penalties for premature withdrawal equal to 90 days of interest. When the maturity is greater than one year but less than four years, the penalty is 180 days of interest. When the maturity is greater than four years, the penalty is 365 days interest. Early withdrawal penalties during 2010, 2011 and 2012 amounted to approximately $727,000, $781,000 and $607,000, respectively.

The Company offers several checking account products; interest is paid for accounts with monthly average balances over $1,000 and $10,000 respectively, depending on the type of account.

The Company's deposits are obtained primarily from residents of Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. The Company does not advertise for deposits outside of these states.

The following table sets forth certain information relating to the Company’s savings deposits at the dates indicated.

	September 30, 2010 Amount (In thousands)	Rate	2011 Amount	Rate	2012 Amount	Rate
Balance by interest rate:						
Checking accounts	$666,372	.29 %	$779,053	.09 %	$894,639	.10 %
Passbook and statement accounts	234,673	.51	255,396	.20	314,634	.20
Money market accounts	1,653,717	.66	1,627,739	.26	1,737,180	.26
	2,554,762		2,662,188		2,946,453	
Fixed-rate certificates:						
Under 2.00%	3,608,935		4,170,232		4,308,341	
2.00% to 2.99%	1,929,112		1,229,918		841,520	
3.00% to 3.99%	498,956		418,720		381,324	
4.00% to 4.99%	237,852		174,854		98,119	
5.00% to 5.99%	22,923		9,991		861	
6.00% and above	—		—		—	
	6,297,778		6,003,715		5,630,165	
	$8,852,540		$8,665,903		$8,576,618	

The following table sets forth, by various interest rate categories, the amount of certificates of deposit of the Company at September 30, 2012, which mature during the periods indicated.

	Maturing in 1 to 3 Months (In thousands)	4 to 6 Months	7 to 12 Months	13 to 24 Months	25 to 36 Months	37 to 60 Months	Total
Fixed-rate certificates:							
Under 2.00%	$1,368,523	$664,767	$1,015,085	$874,263	$253,853	$131,850	$4,308,341
2.00% to 2.99%	55,332	96,576	77,514	34,694	76,277	501,127	841,520
3.00 to 3.99%	55,257	134,032	17,974	77,827	95,429	805	381,324
4.00 to 4.99%	38,561	15,753	17,327	26,416	—	62	98,119
5.00 to 5.99%	—	—	—	250	—	611	861
Total	$1,517,673	$911,128	$1,127,900	$1,013,450	$425,559	$634,455	$5,630,165

Historically, a significant number of certificate holders roll over their balances into new certificates of the same term at the Company’s then current rate. To ensure a continuity of this trend, the Company expects to continue to offer market rates of interest. Its ability to retain maturing deposits in certificate accounts is difficult to project; however, the Company is confident that by competitively pricing these certificates, levels deemed appropriate by management can be achieved on a continuing basis. At September 30, 2012, the Company had $389.1 million of certificates of deposit in amounts of $250,000 or more outstanding, maturing as follows: $98.7 million within 3 months; $57.7 million over 3 months through 6 months; $56.6 million over 6 months through 12 months; and $176.2 million thereafter.

The following table sets forth the customer account and customer repurchase activities of the Company for the years indicated.

	September 30, 2010	2011	2012
	(In thousands)		
Deposits	$8,258,975	$2,989,003	$2,660,961
Acquired deposits	820,000	—	390,000
Withdrawals	(8,215,105)	(3,291,475)	(3,227,185)
Net increase (decrease) in deposits before interest credited	863,870	(302,472)	(176,224)
Interest credited	146,360	115,835	86,939
Net increase (decrease) in customer accounts	$1,010,230	$(186,637)	$(89,285)

Borrowings. The Company obtains advances from the FHLB upon the security of the FHLB capital stock it owns and certain of its loans, provided certain standards related to credit worthiness have been met. See “Regulation-Washington Federal-Federal Home Loan Bank System” below. Such advances are made pursuant to several different credit programs. Each credit program has its own interest rate and range of maturities, and the FHLB prescribes acceptable uses to which the advances pursuant to each program may be put, as well as limitations on the size of such advances. Depending on the program, such limitations are based either on a fixed percentage of assets or the Company's credit worthiness. The FHLB is required to review its credit limitations and standards at least annually. FHLB advances have, from time to time, been available to meet seasonal and other withdrawals of savings accounts and to expand Washington Federal's lending program. The Company had $1.9 billion of FHLB advances outstanding at September 30, 2012.

The Company also uses reverse repurchase agreements as a form of borrowing. Under reverse repurchase agreements, the Company sells an investment security to a dealer for a period of time and agrees to buy back that security at the end of the period and pay the dealer a stated interest rate for the use of the dealer's funds. The amount of securities sold under such agreements depends on many factors, including the terms available for such transactions, the perceived ability to apply the proceeds to investments yielding a higher return, the demand for the securities and management's perception of trends in interest rates. The Company had no securities sold under such agreements at September 30, 2012. See Note I to the Consolidated Financial Statements included in Item 8 hereof for additional information.

The Company may need to borrow funds for short periods of time to meet day-to-day financing needs. In these instances, funds are borrowed from other financial institutions for periods generally ranging from one to seven days at the then current borrowing rate. At September 30, 2012, the Company had no such short-term borrowings.

The Company also offers two forms of repurchase agreements to its customers. One form has an interest rate that floats like that of a money market deposit account. The other form has a fixed rate and is offered in a minimum denomination of $100,000. Both forms are fully collateralized by securities. These obligations are not insured by FDIC and are classified as borrowings for regulatory purposes. The Company had $33.6 million of such agreements outstanding at September 30, 2012.

The following table presents certain information regarding borrowings of Washington Federal for the years indicated.

	September 30, 2010	2011	2012
	(In thousands)		
Federal funds and securities sold to dealers under agreements to repurchase:			
Average balance outstanding	$809,479	$800,000	$692,473
Maximum amount outstanding at any month-end during the period	800,211	800,000	800,000
Weighted-average interest rate during the period (1)	3.75 %	3.73 %	3.71 %
FHLB advances:			
Average balance outstanding	$2,070,843	$1,883,135	$1,949,019
Maximum amount outstanding at any month-end during the period	2,078,695	1,962,616	1,961,895
Weighted-average interest rate during the period (1)	4.46 %	4.35 %	4.14 %
Securities sold to customers under agreements to repurchase:			
Average balance outstanding	$45,393	$35,211	$32,697
Maximum amount outstanding at any month-end during the period	55,222	44,078	37,977
Weighted-average interest rate during the period (1)	2.24 %	0.78 %	0.39 %
Total average borrowings:	$2,925,715	$2,718,396	$2,674,189
Weighted-average interest rate on total average borrowings (1)	4.23 %	4.13 %	3.98 %

(1) Interest expense divided by average daily balances.

Other Ratios

The following table sets forth certain ratios related to the Company for the periods indicated.

	September 30, 2010	2011	2012
Return on assets (1)	.89 %	.83 %	1.03 %
Return on equity (2)	6.55	5.99	7.23
Average equity to average assets	13.54	13.82	14.28
Dividend payout ratio (3)	19.05	23.00	24.81

(1) Net income divided by average total assets.
(2) Net income divided by average equity.
(3) Dividends declared per share divided by net income per share.

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Company for the years indicated. 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 average 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.

	September 30, 2010 vs. 2009			2011 vs. 2010			2012 vs. 2011		
	Increase (Decrease) Due to			Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)			(In thousands)			(In thousands)		
Interest income:									
Loan portfolio	$(8,770)	$(9,405)	$(18,175)	$(36,101)	$(2,738)	$(38,839)	$(36,593)	$(804)	$(37,397)
Mortgage-backed securities	825	(18,536)	(17,711)	25,601	(9,169)	16,432	21,346	(33,411)	(12,065)
Investments (1)	7,672	—	7,672	(142)	3,624	3,482	799	(5,701)	(4,902)
All interest-earning assets	(273)	(27,941)	(28,214)	(10,642)	(8,283)	(18,925)	(14,448)	(39,916)	(54,364)
Interest expense:									
Customer accounts	26,602	(71,677)	(45,075)	2,684	(33,209)	(30,525)	(795)	(28,101)	(28,896)
FHLB advances and other borrowings	(14,599)	10,148	(4,451)	(8,315)	(2,565)	(10,880)	(1,741)	(3,810)	(5,551)
All interest-bearing liabilities	12,003	(61,529)	(49,526)	(5,631)	(35,774)	(41,405)	(2,536)	(31,911)	(34,447)
Change in net interest income	$(12,276)	$33,588	$21,312	$(5,011)	$27,491	$22,480	$(11,912)	$(8,005)	$(19,917)

(1) Includes interest on cash equivalents and dividends on stock of the FHLB of Seattle.

Interest Rate Risk

The primary source of income for the Company is net interest income, which is the difference between the interest income generated by our interest-earning assets and the interest expense generated by our interest-bearing liabilities. The level of net interest income is a function of the average balances of our interest-earning assets and liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities. Typically, if the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in our earnings. During the past year, interest rates on our earning assets have declined at a faster pace than the interest rates on our interest-bearing accounts which has reduced our earnings. In this low interest rate environment, higher rate assets are prepaying while we have been reluctant to lower interest rates on interest-bearing liabilities further due to concerns about our customers who rely on those payments

The Company accepts an elevated level of interest rate volatility as a result of its significant holdings of fixed-rate single-family home loans, which are longer-term than the customer accounts that constitute the Company's primary liabilities. Accordingly, assets do not respond as quickly to changes in interest rates as liabilities. As a result, net interest income can be expected to decline when interest rates rise and to expand when interest rates fall as compared to a portfolio of matched maturities of assets and liabilities.

The Company manages its interest rate risk in part by originating more fixed-rate loans when yields are higher and adding loans and investments with shorter term characteristics, such as construction and commercial loans, when loan rates are lower. This balance sheet strategy, in conjunction with a strong capital position and low operating costs, has allowed the Company to manage interest rate risk, within guidelines established by the Board of Directors, through all interest rate cycles. Although a significant increase in market interest rates could adversely affect net interest income of the Company, the Company's interest rate risk approach has never resulted in the recording of a monthly operating loss.

The Company's objective in managing its interest rate risk is to grow the dollar amount of net interest income, through the rate cycles, acknowledging that there will be some periods of time when that will not be feasible. The chart below shows the volatility of our period end net interest spread (dotted line which is measured against the right axis) compared to the relatively consistent growth in net interest income (solid line which is measured against the left axis). This consistency is accomplished by managing the size and composition of the balance sheet through different rate cycles.

The following table shows the estimated repricing periods for earning assets and paying liabilities.

	Repricing Period Within One Year (In thousands)	After 1 year - before 6 Years	Thereafter	Total
As of September 30, 2012				
Earning Assets (1)	$5,125,945	$4,563,372	$1,929,366	$11,618,683
Paying Liabilities	(6,380,043)	(3,012,010)	(1,177,982)	(10,570,035)
Excess (Liabilities) Assets	$(1,254,098)	$1,551,362	$751,384	
Excess as % of Total Assets	(10.05)%			
Policy limit for one year excess	(35.00)%			

(1) Asset repricing period includes estimated prepayments based on historical activity

At September 30, 2012, the Company had approximately $1.3 billion more liabilities than assets subject to repricing in the next year, which amounted to a negative maturity gap of 10.05% of total assets, approximately the same gap as the prior year. Having this excess of liabilities relative to assets that will be repricing within the next year, the Company is subject to decreasing net interest income should interest rates rise. However, if management were to take steps to change the size and/or mix of the balance sheet, rising rates might not cause a decrease in net interest income. The following table shows the potential impact of rising interest rates on net income for one year. We focus primarily on the impact of rising rates, given our negative gap position which implies that generally when rates fall income should increase and when rates increase income is at risk to decrease (assuming no change in the size or composition of the balance sheet). It is important to note that this is not a forecast or prediction of future events, but is used as a tool for measuring potential risk.

Basis Point Increase in Interest Rates	Potential Impact on Net Income As of 09/30/12 (In thousands)	As of 09/30/11
100	$(2,140)	$(5,951)
200	(7,431)	(14,852)
300	(18,387)	(37,175)

The analysis presented assumes zero balance sheet growth and constant percentage composition of assets and liabilities. Actual results will differ from the assumptions used in this model, as management monitors and adjusts both the size and the composition of the balance sheet in order to respond to changing interest rates. In a rising rate environment, it is likely that the Company will grow its balance sheet to offset margin compression. Improvement in the net income sensitivity during the year are the result of changing our loan and borrowing mix toward shorter term and/or floating rate instruments.

Another method used to quantify interest rate risk is the net portfolio value ("NPV") analysis. This analysis calculates the difference between the present value of interest-bearing liabilities and the present value of expected cash flows from interest-earning assets and off-balance-sheet contracts. The following tables set forth an analysis of the Company's interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (measured in 100-basis-point increments). The improvement in the net portfolio value sensitivity during the year is due to shorter estimated lives of our assets and a higher beginning net portfolio value position.
These are expressed as a percentage of assets in the table below.
September 30, 2012

Change in Interest Rates	Estimated NPV Amount	Estimated (Decrease) in NPV Amount	NPV as % of Assets	Minimum NPV Policy Limit
(Basis Points)	(In thousands)	(In thousands)		
300	$1,549,463	$(552,237)	13.35%	5.00%
200	1,805,061	(296,638)	15.00	6.00
100	2,008,610	(93,089)	16.16	7.00
No change	2,101,699	—	16.51	8.00

September 30, 2011

Change in Interest Rates	Estimated NPV Amount	Estimated (Decrease) in NPV Amount	NPV as % of Assets	Minimum NPV Policy Limit
(Basis Points)	(In thousands)	(In thousands)		
300	$1,005,687	$(1,024,500)	8.25%	5.00%
200	1,427,554	(602,633)	11.17	6.00
100	1,775,588	(254,598)	13.36	7.00
No change	2,030,187	—	14.78	8.00

As of September 30, 2012 and 2011, the Company was in compliance with all of its interest rate risk policy guidelines as shown in the tables above.

Subsidiaries
Washington Federal, Inc., is a unitary thrift holding company that conducts its primary business through its only subsidiary, Washington Federal. Washington Federal has four active wholly owned subsidiaries which are discussed further below.
Washington Federal is permitted by current federal regulations to invest up to 2% of its assets in stock, paid-in surplus and unsecured loans in service corporations. Washington Federal may invest an additional 1% of its assets when the additional funds are utilized for inner-city or community development purposes. In addition, federally-chartered savings institutions that are in compliance with regulatory capital requirements and other conditions may make loans to service corporations in an aggregate amount of up to 50% of the institution's capital as defined in federal regulations.
At September 30, 2012, Washington Federal was authorized under the current regulations to have a maximum investment of $249.0 million in its service corporations, exclusive of the additional 1% of investment assets permitted for inner-city or community development purposes but inclusive of the ability to make loans to its subsidiaries. On September 30, 2012, Washington Federal's investment in, and unsecured loans to, its wholly owned service corporations was $20.4 million.

First Insurance Agency, Inc., a wholly owned subsidiary of Washington Federal, is an insurance agency that offers a full line of individual and business insurance products to customers of the Company, as well as to others.

Statewide Mortgage Services Company, a wholly owned subsidiary of Washington Federal, is incorporated under the laws of the state of Washington. It holds and markets REHI. As of September 30, 2012, Statewide Mortgage Services held $18,678,000 of REHI.

Washington Services, Inc., a wholly owned subsidiary of Washington Federal, is incorporated under the laws of the state of Washington. It holds and markets REHI and also acts as a trustee under deeds of trust as to which the Bank is beneficiary.
First Mutual Sales Finance, Inc., a wholly owned subsidiary of Washington Federal, is incorporated under the laws of the State of Delaware. It services consumer loans.

For purposes of determining compliance with minimum capital requirements, a savings institution is required to deduct the amount of the investment in, and the extensions of credit to, all subsidiaries engaged in any activities not permissible for national banks. Because the acquisition and development of real estate is not a permissible activity for national banks, all investments in, and loans to, the Bank's subsidiaries engaged in such activities are subject to exclusion from the Bank's capital calculation. See “Regulation-Washington Federal-Regulatory Capital Requirements” below.

Employees

As of September 30, 2012, the Company had approximately 1,260 employees, including service corporation employees and part-time employees equivalent to 37. None of these employees are represented by a collective bargaining agreement, and the Company has enjoyed harmonious relations with its personnel.

Regulation

Set forth below is a brief description of certain laws and regulations that relate to the regulation of the Company and Washington Federal. The description of these laws and regulations, and descriptions of laws and regulations contained elsewhere herein, do not purport to be complete and are qualified in their entirety by reference to applicable laws and regulations. Certain federal banking laws have been recently amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). See “Regulation-Financial Modernization” below.

The Company

General. The Company is registered as a savings and loan holding company under the HOLA and is subject to Federal Reserve regulation, examination, supervision and reporting requirements. The HOLA has been amended by the Dodd-Frank Act and the implementing regulations are being issued by the Federal Reserve and the OCC, respectively.
Activities Restrictions. Under current federal law, no company may acquire control of a savings and loan holding company after May 4, 1999, unless the company is engaged only in activities traditionally permitted to a multiple savings and loan holding company or newly permitted to a financial holding company under Section 4(k) of the Bank Holding Company Act. Existing savings and loan holding companies and those formed pursuant to an application filed with the OTS before May 4, 1999, may engage in any activity, including non-financial and commercial activities, provided such companies control only one savings and loan association that meets the Qualified Thrift Lender (“QTL”) test. Corporate reorganizations are permitted, but the transfer of grandfathered unitary thrift holding company status through acquisition is not permitted. The Company has grandfathered unitary thrift holding company status.
There are generally no restrictions on the activities of a grandfathered savings and loan holding company that holds only one subsidiary savings institution. However, if the savings institution subsidiary of such a holding company fails to meet the QTL test, then the unitary holding company also becomes subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year must register as, and become subject to the restrictions applicable to, a bank holding company. See “Washington Federal-Qualified Thrift Lender Test” below.
If the Company were to acquire control of another savings institution, other than through a merger or other business combination with the Bank, the Company would become a multiple savings and loan holding company. Except where such acquisition is pursuant to regulatory authority to approve emergency thrift acquisitions, and where each subsidiary savings institution meets the QTL test, the activities of the Company and any of its subsidiaries (other than the Washington Federal or other subsidiary savings institutions) would thereafter be subject to further restrictions. A multiple savings and loan holding company, or subsidiary thereof that is not a savings institution, may not commence or continue a business activity, without prior notice to and non-objection from the Federal Reserve, other than:

(i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) performing activities authorized by regulation as of March 5, 1987, to be engaged in by multiple savings and loan holding companies; or (vii) engaging in those activities

authorized by the Federal Reserve Board as permissible for bank holding companies. A multiple savings and loan holding company may require approval by the Federal Reserve prior to engaging in the activities described in (vii).
Restrictions on Acquisitions. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Federal Reserve: (i) control of any other savings institution or savings and loan holding company, or substantially all the assets thereof, or (ii) more than 5% of the voting shares of a savings institution or holding company thereof that is not a subsidiary. Except with the prior approval of the Federal Reserve, no director or officer of a savings and loan holding company, or person owning or controlling by proxy or otherwise more than 25% of such company's stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.
Control of Company or Bank. Under the HOLA and the Change in Bank Control Act, individuals, corporations or other entities acquiring Company equity interests may, alone or together with other investors, be deemed to control a savings and loan holding company or savings institution. If deemed to control the holding company or institution, such person or group will be required to obtain Federal Reserve approval to acquire ownership interests in the company or institution and could be subject to ongoing reporting procedures and restrictions under federal laws and regulations as a control person or savings and loan holding company. Ownership of more than 10% of the voting equity or 25% or more of the total equity of a savings and loan holding company or savings institution may be deemed to constitute “control,” and the acquirer may be required to file a notice with the Federal Reserve and enter into certain commitments that place restrictions on the ability for such an acquirer to exercise any influence or control over the savings and loan holding company or savings institution.

Washington Federal, wholly owned operating subsidiary (Bank)
General. The Bank is a federally-chartered savings association, the deposits of which are federally insured and backed by the full faith and credit of the United States government. Accordingly, the Bank is subject to broad federal regulation and oversight by the OCC and the FDIC extending to all aspects of its operations. The Bank is a member of the FHLB of Seattle and is subject to certain limited regulations by the Board of Governors of the Federal Reserve System. The Bank is a member of the FDIC and its deposits are insured up to applicable limits by the FDIC. As a result, the FDIC has certain regulatory and examination authority over the Bank.
In July 2011 the operating subsidiary changed the name of its operating subsidiary from “Washington Federal Savings and Loan Association” to “Washington Federal” acknowledging the increasing mix of product offerings as well as customer recognition of the Washington Federal brand.
Federal Institution Regulations. The OCC has extensive authority over the operations of savings institutions. As part of this authority, savings institutions are required to file periodic reports with the OCC and are subject to periodic examinations by the OCC.
The investment and lending authority of Washington Federal is prescribed by federal laws and regulations, and Washington Federal is prohibited from engaging in any activities not permitted by such laws and regulations. In particular, many types of lending authority for Federal associations, such as non-residential mortgage loans, are limited to a specified percentage of the institution's capital or assets. Separate from the QTL, the law limits a savings institution to a maximum of 20% of its total assets in commercial loans not secured by real estate, and amounts in excess of 10% of assets may be used only for small business loans, as defined by the Small Business Administration Act. Commercial loans secured by real estate may not be held in an amount exceeding four times an institution's total risk-based capital. An institution can also hold commercial leases, in addition to the above items, up to 10% of its assets. Commercial paper, corporate bonds, and consumer loans taken together cannot exceed 35% of an institution's assets. For this purpose, however, residential mortgage loans and credit card loans are not considered consumer loans, and are both unlimited in amount. The foregoing limitations are established by statute, and cannot be waived by the OCC.
Interstate Branching. As a Federal association, Washington Federal, subject to OCC oversight and approval, is permitted by Section 5(r) of HOLA to establish branches in any State or the District of Columbia without regard to State interstate branching laws, provided that it remains in compliance with the QTL Test or a similar test under the U.S. Internal Revenue Code on a state-by-state basis.

Insurance of Deposit Accounts. Under the Dodd-Frank Act, the maximum amount of federal deposit insurance coverage has been permanently increased from $100,000 to $250,000 per depositor, per institution. Due to the significant number of bank failures and the current balance of the Deposit Insurance Fund ("DIF"), the Company anticipates continued increases in its FDIC premiums going forward.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. In addition, the Dodd-Frank Act raises the minimum designated reserve ratio, which the FDIC is required to set each year for the DIF, to 1.35% and requires that the DIF meets that minimum ratio by September 30, 2020. It eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds. The FDIC has established a higher reserve ratio of 2% as a long-term goal beyond what is required by statute. The deposit insurance assessments to be paid by Washington Federal could increase as a result.

All insured institutions are also required to pay assessments to the FDIC at an annual Financing Corporation rate 0.0066% of average consolidated total assets minus tangible equity (as of the fourth quarter of 2012), in order to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 to 2019.

Regulatory Capital Requirements. Federally insured savings institutions currently are required to maintain minimum levels of regulatory capital. Pursuant to federal law, the OCC has established capital standards applicable to all federal savings associations. These standards generally are as stringent as the comparable capital requirements imposed on national banks. The OCC also is authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

The capital regulations create three capital requirements: a tangible capital requirement, a leverage or core capital requirement and a risk-based capital requirement. All savings institutions must have tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. For purposes of this requirement, tangible capital is core capital less all intangibles other than certain purchased mortgage servicing rights.

Core capital includes common stockholders' equity, non-cumulative perpetual preferred stock and related surplus and minority interests in consolidated subsidiaries, less intangibles (unless included under certain limited conditions, but in no event exceeding 25% of core capital), plus purchased mortgage servicing rights in an amount not to exceed 50% of core capital. The current leverage or core capital requirement is at least 3.0% of adjusted total assets.

The risk-based capital standard requires savings institutions to maintain a minimum ratio of total capital to risk-weighted assets of 8.0%. Total capital consists of core capital (defined above) and supplementary capital. Supplementary capital consists of certain capital instruments that do not qualify as core capital as well as general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only in an amount equal to the amount of core capital. In determining the required amount of risk-based capital, total assets, including certain off-balance-sheet items, are multiplied by a risk-weight factor based on the risks inherent in the
type of assets held by an institution. The risk categories range from 0% for low-risk assets such as U.S. Treasury securities and GNMA securities to 100% for various types of loans and other assets deemed to be of higher risk. Single-family residential loans having loan-to-value ratios not exceeding 80% and meeting certain additional criteria, as well as certain multi-family residential loans, qualify for a 50% risk-weight treatment. The book value of each asset is multiplied by the risk factor applicable to the asset category, and the sum of the products of this calculation equals total risk-weighted assets.

OCC regulations impose special capitalization standards for savings institutions that own service corporations and other subsidiaries. In addition, certain exclusions from capital and assets are required when calculating total capital in addition to the adjustments for calculating core capital. These adjustments do not materially affect the regulatory capital of Washington Federal.

For information regarding Washington Federal's compliance with each of these three capital requirements at September 30, 2012, see Note M to the Consolidated Financial Statements included in Item 8 hereof.

Any federal savings association that fails any of the capital requirements is subject to possible enforcement actions by the OCC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on an institution's operations and/or the appointment of a conservator or receiver. OCC capital regulations provide that such supervisory actions, through enforcement proceedings or otherwise, could require

one or more of a variety of corrective actions.

The Dodd-Frank Act contains a number of provisions that will affect the capital requirements applicable to Washington Federal and to the Company, including the requirement that savings and loan holding companies be subject to consolidated capital requirements. See “Regulation-Financial Modernization” below. On June 7, 2012, U.S. banking regulators

(OCC, FDIC & the Federal Reserve) released three draft notices of proposed rulemaking which include proposals for: 1) revised capital requirements (“Basel III NPR”, 2) revised calculations of risk weighted assets (“Standardized Approach NPR”), and 3) advanced approaches risk based capital Rules (“Advanced Approaches and Market Risk NPR”). The Basel III and Standardized Approach NPRs would apply to all insured banks, savings associations, and top-tier bank holding companies domiciled in the U.S. with more than $500 million in assets, and savings and loan holding companies that are domiciled in the U.S. The Advanced Approaches NPR would apply to institutions with $250 billion or more in consolidated assets or $10 billion or more in foreign exposure. These rules, which will be phased in over a period of years, set new standards for common equity, Tier 1 and total capital, determined on a risk-weighted basis. The full impact on Washington Federal and the Company of the Dodd-Frank requirements and the Basel III rules cannot be determined at this time as many regulations are still being written and implemented and the implementation date not yet finalized.

Prompt Corrective Action. Under federal law, each federal banking agency has implemented a system of prompt corrective action for institutions that it regulates. Under OCC regulations, an institution shall be deemed to be: (i) well capitalized if it has total risk-based capital of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a Tier 1 leverage capital ratio of 5.0% or more and if it is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and if it does not meet the definition of well capitalized; (iii) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal law authorizes the OCC to reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category. (The OCC may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of September 30, 2012, Washington Federal exceeded the requirements of a well capitalized institution.

Qualified Thrift Lender Test. Under current legislation and applicable regulations, any savings institution is a QTL if: (i) it qualifies as a domestic building and loan association under Section 7701(a)(19) of the Internal Revenue Code (which generally requires that at least 60% of the institution's assets constitute housing-related and other qualifying assets) or (ii) at least 65% of the institution's portfolio assets (as defined) consist of certain housing and consumer-related assets on a monthly average basis in at least nine out of every twelve months. A savings institution that does not meet the QTL test set forth in the HOLA and implementing regulations must immediately comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank; (iii) the institution shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank, must be necessary to meet obligations of a company that controls the institution, and may not be made without the specific approval of the OCC and the Federal Reserve. In addition, a savings institution that fails to met the QTL test may be subject to OCC enforcement action. Upon the expiration of three years from the date the institution ceases to be a QTL, it must cease any activity and must not retain any investment not permissible for a national bank, and must immediately repay any outstanding FHLB advances (subject to safety and soundness considerations). At September 30, 2012, Washington Federal was in compliance with the QTL test set forth in the HOLA.

Transactions with Affiliates. Under current federal law, all transactions between and among a savings institution and its affiliates, including holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder as applied by the HOLA. Generally, these requirements limit such transactions

to a percentage of the institution's capital and require all of them to be on terms at least as favorable to the institution as transactions with non-affiliates. In addition, a savings institution may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The OCC is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a savings institution.

Extensions of credit by a savings institution to executive officers, directors and principal shareholders are subject to Section 22(h) of the Federal Reserve Act, which, among other things, generally prohibits loans to any such individual where the aggregate amount exceeds an amount equal to 15% of an institution's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral. Section 22(h) permits loans to directors, executive officers and principal stockholders made pursuant to a benefit or compensation program that is widely available to employees of a subject savings institution provided that no preference is given to any officer, director or principal stockholder, or related interest thereto, over any other employee. In addition, the aggregate amount of extensions of

credit by a savings institution to all insiders cannot exceed the institution's unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

Effective on July 21, 2012, the affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act were expanded to broaden the definition of affiliate and to apply these rules to securities lending, repurchase agreements and derivatives. These revisions also strengthened collateral requirements and limited Federal Reserve exemptive authority. Further, the definition of “extension of credit” for transactions with executive officers, directors and principal shareholders was expanded to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement or a securities lending or borrowing transaction. At this time, we do not anticipate that any of these provisions will have a material effect on the Company or the Bank.

Restrictions on Capital Distributions. OCC regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A savings association must file an application for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;
- the savings association would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or OCC imposed condition; or
- the savings association is not eligible for expedited treatment of its filings.

A savings association must file a notice with the OCC for a proposed capital distribution if the savings association would not be well capitalized following the distribution or the proposed capital distribution would reduce the amount of its capital.

Even if an application is not otherwise required, every savings association that is a subsidiary of a holding company, such as Washington Federal, must still file a notice with the Federal Reserve at least 30 days before the Board of Directors declares a dividend.

The OCC or the Federal Reserve may disapprove a notice or application if:

- the savings association would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

Federal Home Loan Bank System. Washington Federal is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that provide funding to their members for making home mortgage loans, as well as loans for affordable housing and community development. Each FHLB serves members within its assigned region and is funded primarily through proceeds derived from the sale of consolidated obligations of the FHLB system. Loans are made to members in accordance with the policies and procedures established by the Board of Directors of the FHLB. At September 30, 2012, the Company's advances from the FHLB amounted to $1.9 billion.

As a member, the Company is required to purchase and maintain stock in the FHLB of Seattle in an amount equal to 3.50% of FHLB advances outstanding and .75% of mortgage loans and pass-through securities. At September 30, 2012, the Company had $149.8 million in FHLB Seattle stock, which was in compliance with this requirement.

Federal law requires the FHLB to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future.

Community Reinvestment Act and Fair Lending Laws. Savings institutions have a responsibility under the Community Reinvestment Act (CRA) and related regulations of the OCC to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act (together, the Fair Lending Laws) prohibit lenders from discriminating in their lending practices on the basis of characteristics

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specified in those statutes. An institution's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. Failure to comply with the Fair Lending Laws could result in enforcement actions by the OCC or CFPB, and other federal regulatory agencies and by the U.S. Department of Justice.
USA Patriot Act of 2001. A major focus of recent governmental policy regarding financial institutions has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the Patriot Act) substantially broadened the scope of United States anti money-laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial scope of United States jurisdiction. The United States Treasury Department has issued a number of regulations under the Patriot Act that apply to financial institutions such as Washington Federal. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply satisfactorily with all relevant Patriot Act requirements, could have serious legal and reputational consequences for the institution.

Financial Modernization
The Dodd-Frank Act significantly changed the bank regulatory structure and is affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including the Company and Washington Federal. 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.
Some of the changes that are significant to the Company and Washington Federal include:
The abolition on July 21, 2011, of the OTS, the historical federal financial institution regulator. Supervision and regulation of the Company has moved to the Federal Reserve and supervision and regulation of Washington Federal has moved to the OCC.

The Dodd-Frank Act contains a number of provisions intended to strengthen capital. The Company for the first time will be subject to consolidated capital requirements and will be required to serve as a source of strength to Washington Federal. See “Regulation - Washington Federal - Regulatory Capital Requirements”. The Federal Reserve has issued final rules establishing company-run stress tests for savings and loan holding companies with assets between $10 and $50 billion, and the OCC has issued a final rule establishing annual stress test guidelines for federal savings associations.
The establishment of the CFPB, which on July 21, 2011 took 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. The CFPB has broad rule-making authority in this area, and also has primary supervisory and examination authority on these issues over institutions such as Washington Federal that have assets of $10 billion or more. The Act also gives the CFPB expanded data collecting powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint authority of the OTS also has been transferred into the CFPB. Washington Federal was examined by the Consumer Financial Protection Bureau during 2012.
The affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act are expanded to broaden the definition of affiliate and to apply these rules to securities lending, repurchase agreement and derivatives. See “Regulation - Washington Federal - Transactions with Affiliates”.
The Dodd-Frank Act also contains provisions that expand the insurance assessment base and increase the scope of deposit insurance coverage. See “Regulation - Washington Federal - Insurance of Deposit Accounts”.
The Dodd-Frank 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. These changes have been adopted by the Company.

The Dodd-Frank Act also provides that the same standards for federal preemption of state laws apply both to national banks and federal savings associations.

As required by the Dodd-Frank Act, the Federal Reserve adopted a rule that restricted interchange fees applicable to debit card transactions. Effective October 1, 2011, interchange fees on debit card transactions are limited to a maximum of 21 cents per transaction plus 5 basis points of the transaction amount. A debit card issuer may recover an additional one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements prescribed by the Federal Reserve. It is not anticipated that the reduced debit card fee income will have a material impact on the Bank.

Taxation

Federal Taxation. For federal and state income tax purposes, the Company reports its income and expenses on the accrual basis method of accounting and files its federal and state income tax returns on a September 30, fiscal year basis. The Company files consolidated federal and state income tax returns with its wholly-owned subsidiaries.

The Company has been examined by the Internal Revenue Service through the year ended September 30, 1990. There were no material changes made to the Company's originally reported taxable income as a result of this examination.

State Taxation. The states of Washington and Nevada do not have income taxes. A business and occupation tax based on a percentage of gross receipts is assessed against businesses in Washington state; however, interest received on loans secured by mortgages or deeds of trust on residential properties is not subject to this tax.

The state of Idaho has a corporate income tax with a statutory rate of 7.4% of apportionable income.

The state of Oregon has a corporate excise tax with a statutory rate of 6.6% on the first $250,000 of apportionable income and then 7.9% over $250,000 of apportionable income.

The state of Utah has a corporate franchise tax with a statutory rate of 5.0% of apportionable income.

The state of Arizona has a corporate income tax with a statutory rate of 7.0% of apportionable income.

The state of Texas has a corporate franchise tax with a statutory rate of 1.0% of marginal apportionable income.

The state of New Mexico has a corporate income tax with statutory rates ranging from 4.8% to 7.6% over $1 million of apportionable income.

Availability of Financial Data

Under the Securities Exchange Act of 1934, Washington Federal is required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document Washington Federal files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Washington Federal files electronically with the SEC.

Washington Federal makes available, free of charge through its website, its reports on Forms 10-K, 10-Q and 8-K, and amendments to those reports, as soon as reasonably practicable after such reports are filed with or furnished to the SEC. Additionally, the Company has adopted and posted on its website a code of ethics that applies to its senior financial officers. The Company's website also includes the charters for its audit committee and nominating committee. The address for the Company's website is www.washingtonfederal.com. The Company will provide a printed copy of any of the aforementioned documents to any requesting shareholder.

Item 1A. Risk Factors

Ownership of the Company's common stock involves risk. Investors should carefully consider, in addition to the other information set forth herein, the following risk factors:

Current economic conditions pose significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including sluggish and generally uncertain national and local conditions. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past four years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment will have an adverse effect on our borrowers and their customers, which could adversely affect our financial condition and results of operations. A worsening of these conditions would likely exacerbate the adverse effects on us. A further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses. We may also face the following risks in connection with these events:

Economic conditions that negatively affect housing prices and demand, the demand for other goods and services and the job market have resulted, and may continue to lower the credit quality of the Company's loan portfolios to deteriorate, and such deterioration in credit quality has had, and could continue to have, a negative impact on the Company's business.

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.
- The processes we use to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, that may no longer be capable of accurate estimation.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.
- We expect to face increased regulation of our industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

If these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition.

The effects of the current economic recession have been particularly severe in our primary market areas.

Substantially all of our loans are to individuals, businesses and real estate developers in the Pacific Northwest, Arizona, Utah, Texas, New Mexico and Nevada, and our business depends significantly on general economic conditions in these market areas. The Pacific Northwest has one of the nation's highest unemployment rates. Severe declines in housing prices and property values have been particularly acute in our primary market areas. A further deterioration in economic conditions or a prolonged delay in economic recovery in our primary market areas could result in the following consequences, any of which could have a material adverse effect on our business:

- Loan delinquencies may increase.
- Problem assets and foreclosures may increase.
- Demand for our products and services may decline.
- Collateral for loans made by us, especially real estate, may continue to decline in value, in turn reducing a customer's borrowing power, and reducing the value of assets and collateral associated with our loans.

A downturn in the real estate market would hurt the Company's business.

The Company's business activities and credit exposure are concentrated in real estate lending. The market for residential housing has experienced dramatic declines in recent years, with falling home prices and increasing foreclosures, and the future economic outlook for this sector is uncertain. A downturn in the real estate market would

hurt the Company's business because the vast majority of its loans are secured by real estate.

The Company's provision for loan losses in fiscal 2012 was significantly higher than historical amounts, prior to the current economic downturn. Actions by other lenders or bank regulators could further depress the value of our real estate holdings, if lenders aggressively dispose of properties because of demand by their regulators or the prevailing business conditions. If the significant decline in market values continues, the collateral for the Company's loans will provide decreasing levels of security. As a result, the Company's ability to recover the principal amount due on defaulted loans by selling the underlying real estate will be diminished, and the Company will be more likely to suffer losses on defaulted loans.

We also own elevated amounts of real estate as a result of foreclosures resulting from non-performing loans. We believe that it may prove less expensive to hold these foreclosed lands or finished lots until market conditions improve, rather than to sell at current market prices. If other lenders or borrowers liquidate significant amounts of real estate in a rapid or disorderly fashion, however, or if the FDIC elects to dispose of significant amounts of real estate from failed financial institutions in a similar fashion, it could have an adverse effect on the values of the properties we own. In such a case, we may incur further write-downs and charge-offs, which could, in turn, adversely affect our results of operations and financial condition

The Company may suffer losses in its loan portfolio despite its underwriting and loan collection practices.

The Company seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting and loan collection practices. Underwriting practices often include analysis of a borrower's prior credit history, financial statements, tax returns and cash flow projections; valuation of collateral; personal guarantees of loans to businesses; and verification of liquid assets. If the underwriting process fails to capture accurate information or proves to be inadequate, we may incur losses on loans that meet our underwriting criteria, and those losses may exceed the amounts set aside as reserves in the allowance for loan losses. Our loan collection practices have expanded to meet the increase in nonperforming loans resulting from the current economic environment and to service the loans from our acquisitions. This has increased loan administration costs. It has also exposed the Company to risks of improper documentation or foreclosure proceedings. There is also the risk that loss sharing agreements with the FDIC may not be fulfilled.

The Company's business is subject to interest rate risk and changes in market interest rates may negatively affect its results of operations and financial condition.

Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including inflation, recession, unemployment, monetary policy, domestic and international disorder, instability in domestic and foreign financial markets, and investor and consumer demand.

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of single-family residential loans) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits). The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the amounts of the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and the mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the “FOMC”), and market interest rates.

The cost of our deposits is largely based on short-term interest rates, the level of which is driven by the FOMC. However, the yields generated by our loans and securities are typically driven by long-term (10 year) interest rates, which are set by the market and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates, the pace at which such movements occur, and the volume and mix of our interest-bearing assets and liabilities.

If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in our earnings. Our net interest income and earnings would be similarly impacted were the interest rates on our interest-earning assets to decline more quickly than the interest rates on our interest-bearing liabilities.

In addition, such changes in interest rates could affect our ability to originate loans and attract and retain deposits; the fair values of our securities and other financial assets; the fair values of our liabilities; and the average lives of our loan and securities portfolios. Decreases in interest rates could lead to increased loan refinancing activity which, in turn, would alter the balance of our interest-earning assets and impact net interest income. Increases in interest rates could reduce loan refinancing activity which could result in compression of the spread between loan yields and funding rates.

The Company is exposed to movements in market rates to a degree that may not be experienced by other financial institutions. The Company accepts this elevated level of interest rate risk as a result of its significant portfolio of fixed-rate single-family home loans which are longer-term in nature than the customer accounts and short-term borrowed money that constitute its liabilities. The Company manages its interest rate risk in part by growing the fixed-rate loan portfolio when yields are higher and focusing on loans or investments with shorter term characteristics, such as construction or commercial loans, when loan rates are lower. This balance sheet strategy in conjunction with a strong capital position has allowed the Company to manage interest rate risk through all interest rate cycles. Low operating costs have contributed further to the strong capital position. Unlike some lenders, we have chosen not to hedge our exposure to interest rates through the use of complicated derivatives. Although the company has implemented asset and liability management policies and procedures that seek to manage this interest rate risk, these policies may not be successful.

The Company relies, in part, on external financing to fund its operations and the unavailability of such funds in the future could adversely impact its growth and prospects.

The Company relies on deposits (primarily certificates of deposit), advances from the Federal Home Loan Bank of Seattle and other borrowings to fund its operations. Management has historically been able to replace maturing deposits if desired; however the Company may not be able to replace such funds at any given point in time if its financial condition or market conditions change or if the cost of doing so might adversely affect our financial condition or results of operations.

Although the Company considers its sources of funds adequate for its liquidity needs, it may seek additional debt in the future to achieve its long-term business objectives. Such borrowings, if sought, may not be available to the Company or, if available, may not be on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, the Company's growth and future prospects could be adversely affected.

The Company's ability to pay dividends is subject to regulatory limitations and other limitations which may affect its ability to pay dividends to its shareholders.

The Company is a separate legal entity from its subsidiary and does not have significant operations of its own. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the OCC or the Federal Reserve could prohibit the payment of dividends or other payments. If the Bank is unable to pay dividends to the Company, the Company may not be able to pay dividends on its common stock. Consequently, the inability to receive dividends from the Bank could adversely affect the Company's financial condition, results of operations and prospects.

The market price for our common stock may be volatile.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including those discussed below. The market price of our common stock has in the past fluctuated significantly and is likely to continue to fluctuate significantly. Some of the factors that may cause the price of our common stock to fluctuate include:

- variations in our and our competitors' operating results
- changes in securities analysts' estimates of our future performance and the future performance of our competitors
- announcements by us or our competitors of mergers, acquisitions and strategic partnerships
- additions or departure of key personnel
- events affecting other companies that the market deems comparable to us
- general conditions in the financial markets and real estate markets
- general conditions in the United States
- the presence or absence of short selling of our common stock
- future sales of our common stock or debt securities

The stock markets in general have experienced substantial price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the trading price of our common stock.

A person holding our common stock could have the voting power of their shares of common stock on all matters significantly reduced under Washington's anti-takeover statutes, if the person acquires in excess of 10% of the voting

power in the election of directors.

We are incorporated in the state of Washington and subject to Washington state law. Some provisions of Washington state law could interfere with or restrict takeover bids or other change-in-control events affecting us. For example, Chapter 23B.19 of the Washington Business Corporation Act, with limited exceptions, prohibits a “target corporation” from engaging in specified “significant business transactions” for a period of five years after the share acquisition by an acquiring person, unless:

the prohibited transaction or the acquiring person's purchase of shares was approved by a majority of the members of the target corporation's board of directors prior to the acquiring person's share acquisition; or
the prohibited transaction was both approved by the majority of the members of the target corporation's board and authorized at a shareholder meeting by at least two-thirds of the outstanding voting shares (excluding the acquiring person's shares) at or subsequent to the acquiring person's share acquisition. An acquiring person is defined as a person or group of persons that beneficially own 10% or more of the voting securities of the target corporation. Such prohibited transactions include, among other things:
certain mergers, or consolidations with, disposition of assets to, or issuances of stock to or redemption of stock from, the acquiring person;
termination of 5% or more of the employees of the target corporation as a result of the acquiring person's acquisition of 10% or more of the shares;
allowing the acquiring person to receive any disproportionate benefit as a shareholder; and
liquidating or dissolving the target corporation.
After the five-year period, certain “significant business transactions” are only permitted, if they comply with certain “fair price” provisions of the statute or are approved by a majority of the outstanding shares other than those of which the acquiring person has beneficial ownership. As a Washington corporation, we are not permitted to “opt out” of this statute.
Our results of operations, financial condition or liquidity may be adversely impacted by issues arising from certain industry deficiencies in foreclosure practices, including delays and challenges in the foreclosure process
Announcements of deficiencies in foreclosure documentation by several large seller/servicer financial institutions have raised concerns relating to mortgage foreclosure practices in the United States. These foreclosure process issues and the potential legal and regulatory responses to them could impact the foreclosure process and timing to completion of foreclosures for residential mortgage lenders, including the Bank. Over the past few years, foreclosure timelines have increased due to, among other reasons, delays associated with the significant increase in the number of foreclosure cases as a result of the economic downturn, additional consumer protection initiatives related to the foreclosure process and voluntary and, in some cases, mandatory programs intended to permit or require lenders to consider loan modifications or other alternatives to foreclosure. Further increases in the foreclosure timeline may have an adverse effect on collateral values and our ability to minimize our losses.
Our ability to originate mortgage loans for portfolio has been adversely affected by the increased competition resulting from the unprecedented involvement of the U.S. Government, the Federal Reserve and Government-Sponsored Enterprises (“GSEs”) in the residential mortgage market.
Over the past few years, we have faced increased competition for mortgage loans due to the unprecedented involvement of the GSEs in the mortgage market as a result of the recent economic crisis, which has caused the interest rate for thirty year fixed-rate mortgage loans that conform to GSE guidelines to remain artificially low. Additionally, the Federal Reserve is participating in the mortgage market in an unprecedented manner, through its purchases of GSE mortgage-backed securities as part of its "quantitative easing" program. We expect that our one-to-four- family mortgage loan repayments will remain at elevated levels and will continue to outpace our loan production as a result of these factors, making it difficult for us to grow our mortgage loan portfolio and balance sheet.
The Company may need to increase its allowance for loan losses in material amounts. We have also experienced and may continue to experience elevated amounts of net charge-offs.
Our customers may not repay their loans according to the original terms, and the collateral securing the payment of those loans may be insufficient to pay any remaining loan balance. While we maintain an allowance for loan losses to provide for loan defaults and non-performance, losses may exceed the value of the collateral securing the loans and the allowance may not fully cover any excess loss.
We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Our allowance for loan losses is based on these judgments, as well as historical loss experience and an evaluation of the other risks associated with our loan portfolio, including but not limited to, the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio.

Federal regulatory agencies, as part of their examination process, review our loans and allowance for loan losses. If our assumptions and judgments used to determine the allowance prove to be incorrect, if the value of the collateral securing the loans decreases substantially or if our regulators disagree with our judgments, we may need to increase the allowance in amounts that exceed our expectations. Material additions to the allowance would adversely affect our results of operations and financial condition.

We recorded a $45.7 million provision for loan losses during the year ended September 30, 2012, compared to a $92.4 million provision for the year ended September 30, 2011. Our non-performing assets amounted to $272.9 million or 2.19% of total assets, at September 30, 2012, compared to $370.3 million, or 2.76% of total assets one year earlier. We had net charge-offs of $70 million for the year ended September 30, 2012, compared with $98 million of net charge-offs for the year ended September 30, 2011.
The decrease in the provision for loan losses is in response to improving credit conditions in the loan portfolio. However, we expect our loan loss provision to remain at historically elevated levels until non-performing assets and charge-offs improve substantially and until national and regional economic conditions begin to stabilize.
The Company operates in a highly regulated industry, which limits the manner and scope of our business activities.
The Bank is subjected to extensive supervision, regulation and examination by the OCC, CFPB and by the FDIC. In addition, the Federal Reserve is now responsible for regulating the Company. Due to restrictions on our activities as a result of our thrift charter, we are limited in the manner in which we conduct our business, undertake new investments and activities and obtain financing. This regulatory structure is designed primarily for the protection of the deposit insurance funds and our depositors, and not to benefit our stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies to address not only compliance with applicable laws and regulations (including laws and regulations governing consumer credit, and anti-money laundering and anti-terrorism laws), but also capital adequacy, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. As part of this regulatory structure, we are subject to policies and other guidance developed by the regulatory agencies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Under this structure the OCC, the FDIC, the CFPB and the Federal Reserve have broad discretion to impose restrictions and limitations on our operations if they determine, among other things, that our operations are unsafe or unsound, fail to comply with applicable law or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies. This supervisory framework could materially impact the conduct, growth and profitability of our operations.
Failure to comply with applicable laws and regulations also could result in a range of sanctions and enforcement actions, including the imposition of civil money penalties, formal agreements and cease and desist orders. In addition, the OCC and the FDIC have specific authority to take “prompt corrective action,” depending on our capital level. Currently, we
are considered “well-capitalized” for prompt corrective action purposes. If we were designated by the OCC as “adequately capitalized,” our ability to take brokered deposits would become limited. If we were to be designated by the OCC in one of the lower capital levels-“undercapitalized,” “significantly undercapitalized” or “critically undercapitalized”-we would be required to raise additional capital and also would be subject to progressively more severe restrictions on our operations, management and capital distributions and replacement of senior executive officers and directors. If we became “critically undercapitalized,” we would also be subject to the appointment of a conservator or receiver.
Recent legislation and regulatory initiatives to support the financial services industry have been coupled with numerous restrictions and requirements that could detrimentally affect the Company's business.
The Dodd-Frank Act is having a substantial impact on the financial services industry. The Dodd-Frank Act creates a framework through which regulatory reform is being written. Many of the rules required by the Dodd-Frank Act are still being drafted and implemented. As a result, the impact of the future regulatory requirements is uncertain.
Recent legislative, both state and national, initiatives to support housing finance could detrimentally affect the Company's business.
Legislative initiatives could detrimentally impact the Company in the future. The extent of the impact of any such legislation will be dependent on the specific details of the final legislation passed, if any.
The Company faces strong competition from other financial institutions and new market participants, offering services similar to those offered by us.
Many competitors offer the types of loans and deposit services that the Company offers. These competitors include other savings associations, community banks, credit unions and other financial intermediaries. In particular, the

Company's competitors include national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, recent technological breakthroughs have made it possible for other non-traditional competitors to enter the marketplace and compete for traditional banking services. Increased competition within the Company's market area

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may result in reduced loan originations and deposits. Ultimately, the Company may not be able to compete with full success against current and future competitors.

Our deposit insurance premiums have increased and could increase further in the future, which could have a material adverse impact on our future earnings and financial condition.

The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF ("deposit insurance fund") at a specific level. The Bank's FDIC insurance premiums increased substantially beginning in 2009, and we expect to pay significantly higher premiums in the future. Current economic conditions have increased bank failures and additional failures are expected, all of which decrease the DIF. In order to restore the DIF to its statutorily mandated minimum of 1.35% of total deposits , the FDIC has increased deposit insurance premium rates. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The FDIC has issued regulations to implement these provisions of the Dodd-Frank Act. It has, in addition, established a higher reserve ratio of 2% as a long-term goal beyond what is required by statute. There is no implementation deadline for the 2% ratio. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at the statutory target level. Any increase in our FDIC premiums could have an adverse effect on the Bank's profits and financial condition.

Non-Compliance with the USA PATRIOT Act, Bank Secrecy Act, Real Estate Settlement Procedures Act, Truth-in-Lending Act Community Reinvestment Act, Fair lending laws or other laws and regulations could result in fines or sanctions, and curtail expansion opportunities.

Financial institutions are required under the USA PATRIOT and Bank Secrecy Acts to develop programs to prevent financial institutions from being used for money-laundering and terrorist activities. Financial institutions are also obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network if such activities are detected. These rules also require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure or the inability to comply with these regulations could result in fines or penalties, curtailment of expansion opportunities, intervention or sanctions by regulators and costly litigation or expensive additional controls and systems. During the last few years, several banking institutions have received large fines for non-compliance with these laws and regulations. In addition, the U.S. Government imposed and will continue to expand laws and regulations relating to residential and consumer lending activities that create significant new compliance burdens and financial risks. We have developed policies and continue to augment procedures and systems designed to assist in compliance with these laws and regulations.

We are subject to a variety of operational risks, including legal and compliance risk, fraud and theft risk and the risk of operational errors, which may adversely affect our business and results of operations.

We are from time to time subject to claims and proceedings related to our operations. These claims and legal actions, which could include supervisory or enforcement actions by our regulators, or criminal proceedings by prosecutorial authorities, could involve large monetary claims, including civil money penalties or fines imposed by government authorities, and significant defense costs. To mitigate the cost of some of these claims, we maintain insurance coverage in amounts and with deductibles that we believe are appropriate for our operations.

Both internal and external fraud and theft are risks. If personal, non-public, confidential or proprietary information of customers in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or if such information were to be intercepted or otherwise inappropriately taken by third parties.

Operational errors include clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. Because of our large transaction volume and our necessary dependence upon automated systems to record and process these transactions there is a risk that technical flaws or tampering or manipulation of those automated systems arising

from events wholly or partially beyond our control may give rise to disruption of service to customers and to financial loss or liability. We are exposed to the risk that our business continuity and data security systems prove to be inadequate.

The occurrence of any of these risks could result in a diminished ability to operate our business, additional costs to correct defects, potential liability to clients, reputational damage and regulatory intervention, any of which could adversely affect our business, financial condition and results of operations, perhaps materially.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common stock.

We are not restricted from issuing additional shares of common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The issuance of any additional shares of common or of preferred stock or convertible securities or the exercise of such securities could be substantially dilutive to stockholders of our common stock. For instance, exercise of the warrant issued to the U.S. Treasury in connection with our participation in the Capital Purchase Program diluted the value of our common shares. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase their pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The Company owns the building in which its principal executive offices are located in Seattle, Washington. The following table sets forth certain information concerning the Company's offices:

Location	Number of Offices	Building		Net Book Value at September 30, 2012 (2)
		Owned	Leased (1)	
				(In thousands)
Washington	65	52	13	$116,436
Idaho	16	16	—	7,802
Oregon	28	18	10	10,359
Utah	10	5	5	2,945
Arizona	23	15	8	16,497
Texas	4	2	2	2,824
New Mexico	16	14	2	20,466
Nevada	4	1	3	1,516
Total	166	123	43	$178,845

(1) The leases have varying terms expiring from 2012 through 2070, including renewal options.
(2) Amount represents the net book value of all land, property and equipment owned by the Company and the book value of leasehold improvements, where applicable.

Washington Federal evaluates on a continuing basis the suitability and adequacy of its offices, both branches and administrative centers, and has opened, relocated, remodeled or closed them as necessary to maintain efficient and attractive premises. Washington Federal's net investment in premises, equipment and leaseholds was $178.8 million at September 30, 2012.

Item 3. Legal Proceedings

The Company is involved in legal proceedings occurring in the ordinary course of business that in the aggregate are believed by management to be immaterial to the financial statements of the Company. The effects of legal proceedings did not have a material impact on the statements of operations for any of the three years ended September 30, 2012.

Item 4. Mine Safety Disclosures

None

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The information required herein is incorporated by reference from page 76 of the Company's Annual Report to Stockholders for 2012 , which is included herein as Exhibit 13 ("Annual Report").

The Company's stock repurchase program was publicly announced by the board of directors on February 3, 1995 and has no expiration date. Under this program, a total of 31,956,264 shares of the Company's common stock have been authorized for repurchase. During the year ended September 30, 2012 the Company repurchased 2,895,484 shares at a weighted average price of $14.48. As of September 30, 2012, 6,188,030 shares remained authorized for share repurchase.

Item 6. Selected Financial Data

The information required herein is incorporated by reference from page 21 of the Annual Report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required herein is incorporated by reference on pages 8 through 20 of the Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference to Interest Rate Risk commencing on page 21 of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required herein are incorporated by reference from pages 22 through 73 of the Annual Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer along with the Company's Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15. Based upon that evaluation, the Company's President and Chief Executive Officer, along with the Company's Executive Vice President and Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective.

Disclosure controls and procedures are Company controls and other procedures that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files under the Exchange Act is accumulated and communicated to the Company's management, including its President and Chief Executive Officer; and its Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The annual Management's Report on Internal Control over Financial Reporting and the attestation reports of the Company's Registered Public Accounting Firm required herein is incorporated by reference on pages 73 and 74 of the Annual Report.

Item 9B. Other Information
Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference to the Proxy Statement which is expected to be dated on or about December 7, 2012, for the Company's annual meeting of stockholders to be held on January 16, 2013 ("Proxy Statement").

The Company has adopted a code of ethics that applies to all senior financial officers, including its Chief Executive Officer and Chief Financial Officer. The code of ethics is publicly available on the Company's website at www.washingtonfederal.com. If the Company makes any substantive amendments to the code of ethics or grants any waiver from a provision of the code, it will disclose the nature of such amendment or waiver on its website or in a report on Form 8-K.

Item 11. Executive Compensation

The information required herein is incorporated by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required herein is incorporated by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required herein is incorporated by reference to the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required herein is incorporated by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules
(a)(1) The following financial statements are incorporated herein by reference in the sections immediately following the Selected Financial Data of the Annual Report.
Reports of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition as of September 30, 2012 and 2011
Consolidated Statements of Operations for each of the years in the three-year period ended September 30, 2012
Consolidated Statements of Stockholders' Equity for each of the years in the three-year period ended September 30, 2012
Consolidated Statements of Cash Flows for each of the years in the three-year period ended September 30, 2012
Notes to Consolidated Financial Statements
(a)(2) There are no financial statement schedules filed herewith.
(a)(3) The following exhibits are filed as part of this report, and this list includes the Exhibit Index:

No.	Exhibit	Page/ Footnote
3.1	Restated Articles of Incorporation of the Company	(1)
3.1.1	Articles of Amendment to the Restated Articles of Incorporation of the Company, dated June 7, 2005	(2)
3.1.2	Articles of Amendment to the Restated Articles of Incorporation of the Company, dated November 10, 2008	(3)
3.2	Bylaws of the Company	(1)
10.4	2001 Long-Term Incentive Plan*	(5)
10.5	Form of award agreement for restricted stock for 2001 Long Term Incentive Plan *	(6)
10.6	Form of award agreement for stock options for all plans*	(6)
13	Annual Report to Stockholders	
21	Subsidiaries of the Company - Reference is made to Item 1, "Business - Subsidiaries" for the required information	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Section 302 Certification by the Chief Executive Officer	
31.2	Section 302 Certification by the Chief Financial Officer	
32	Section 906 Certification pursuant to the Sarbanes-Oxley Act of 2002	

101	Financial Statements from the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 formatted in XBRL

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* Management contract or compensation plan

(1) Incorporated by reference from the Registrant's Registration Statement on Form S-3ASR filed with the SEC on September 14, 2009.

(2) Incorporated by reference from the Registrant's Annual Report on Form 10-K filed with the SEC on November 22, 2006.

(3) Incorporated by reference from the Registrant's Current Report on Form 8-K filed with the SEC on November 17, 2008.

(4) Incorporated by reference from the Registrant's Registration Statement on Form 8-B filed with the SEC on January 26, 1995.

(5) Incorporated by reference from the Registrant's Registration Statement on Form S-8 filed with the SEC on January 23, 2002.
(6) Incorporated by reference from the Registrant's Annual Report on Form 10-K filed with the SEC on November 8, 2005.
(7) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.
(8) All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

WASHINGTON FEDERAL, INC.

November 19, 2012

By: /S/ ROY M. WHITEHEAD
Roy M. Whitehead, Chairman,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Roy M. Whitehead Roy M. Whitehead, Director, Chairman, President and Chief Executive Officer (Principal Executive Officer)	November 19, 2012
/s/ Brent J. Beardall Brent J. Beardall, CPA Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	November 19, 2012
/s/ Derek L. Chinn Derek L. Chinn, Director	November 19, 2012
/s/ John F. Clearman John F. Clearman, Director	November 19, 2012
/s/ David K. Grant David K. Grant, Director	November 19, 2012
/s/ Anna C. Johnson Anna C. Johnson, Director	November 19, 2012
/s/ Thomas J. Kelley Thomas J. Kelley, Director	November 19, 2012
/s/ Liane J. Pelletier Liane J. Pelletier, Director	November 19, 2012
/s/ Charles R. Richmond Charles R. Richmond, Director	November 19, 2012
/s/ Barbara L. Smith Barbara L. Smith, Director	November 19, 2012
/s/ Mark N. Tabbutt Mark N. Tabbutt, Director	November 19, 2012
/s/ Randy H. Talbot Randy H. Talbot, Director	November 19, 2012