WASHINGTON FEDERAL INC
Form 10-Q
January 27, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended December 31, 2009**

**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 0-25454**

# WASHINGTON FEDERAL, INC.

**(Exact name of registrant as specified in its charter)**

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

**425 Pike Street Seattle, Washington 98101**

**(Address of principal executive offices and zip code)**

**(206) 624-7930**

**(Registrant s telephone number, including area code)**

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

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

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

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

Large accelerated filer 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 Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

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

| **Title of class:** | **at January 25, 2010** |
|---|---|
| Common stock, $1.00 par value | 112,446,911 |

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I**


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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION***

***(UNAUDITED)***

| | December 31, 2009 | September 30, 2009 |
|---|---|---|
| | (In thousands, except share data) | |
| **ASSETS** | | |
| Cash and cash equivalents | **$ 936,833** | $ 498,388 |
| Available-for-sale securities, including encumbered securities of **$918,499** and $860,655, at fair value | **1,920,165** | 2,201,083 |
| Held-to-maturity securities, including encumbered securities of **$76,488** and $80,717, at amortized cost | **97,795** | 103,042 |
| Loans receivable, net | **8,855,533** | 8,983,430 |
| Interest receivable | **49,459** | 53,288 |
| Premises and equipment, net | **134,397** | 133,477 |
| Real estate held for sale | **183,508** | 176,863 |
| FHLB stock | **144,495** | 144,495 |
| Intangible assets, net | **256,069** | 256,797 |
| Other assets | **84,212** | 31,612 |
| | **$ 12,662,466** | $ 12,582,475 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Liabilities** | | |
| Customer accounts | | |
| Savings and demand accounts | **$ 7,921,117** | $ 7,786,467 |
| Repurchase agreements with customers | **50,137** | 55,843 |
| | **7,971,254** | 7,842,310 |
| FHLB advances | **2,074,507** | 2,078,930 |
| Other borrowings | **800,000** | 800,600 |
| Advance payments by borrowers for taxes and insurance | **15,075** | 38,376 |
| Federal and state income taxes | **13,384** | 18,075 |
| Accrued expenses and other liabilities | **54,496** | 58,699 |
| | **10,928,716** | 10,836,990 |
| **Stockholders equity** | | |
| Common stock, $1.00 par value, 300,000,000 shares authorized; **129,512,273** and 129,320,072 shares issued; **112,439,949** and 112,247,748 shares outstanding | **129,512** | 129,320 |
| Paid-in capital | **1,576,352** | 1,574,555 |
| Accumulated other comprehensive income, net of taxes | **38,386** | 54,431 |
| Treasury stock, at cost; **17,072,324** shares | **(208,985)** | (208,985) |
| Retained earnings | **198,485** | 196,164 |
| | **1,733,750** | 1,745,485 |
| | **$ 12,662,466** | $ 12,582,475 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***CONSOLIDATED STATEMENTS OF OPERATIONS***

***(UNAUDITED)***

| | Quarter Ended December 31, 2009 | 2008 |
|---|---|---|
| | (In thousands, except per share data) | |
| **INTEREST INCOME** | | |
| Loans | **$ 137,451** | $ 152,319 |
| Mortgage-backed securities | **27,281** | 25,312 |
| Investment securities and cash equivalents | **938** | 908 |
| | **165,670** | 178,539 |
| **INTEREST EXPENSE** | | |
| Customer accounts | **36,485** | 55,908 |
| FHLB advances and other borrowings | **31,420** | 32,618 |
| | **67,905** | 88,526 |
| **Net interest income** | **97,765** | 90,013 |
| Provision for loan losses | **69,750** | 35,000 |
| **Net interest income after provision for loan losses** | **28,015** | 55,013 |
| **OTHER INCOME** | | |
| Gain on sale of investments | **20,428** | |
| Other | **3,809** | 4,175 |
| | **24,237** | 4,175 |
| **OTHER EXPENSE** | | |
| Compensation and fringe benefits | **13,637** | 14,805 |
| Occupancy | **3,249** | 3,174 |
| FDIC insurance | **3,564** | 279 |
| Other | **6,525** | 6,329 |
| | **26,975** | 24,587 |
| Gain (loss) on real estate acquired through foreclosure, net | **(12,720)** | (1,239) |
| **Income before income taxes** | **12,557** | 33,362 |
| Income taxes | **4,646** | 11,844 |
| **NET INCOME** | **7,911** | 21,518 |
| Preferred dividends accrued | | 1,349 |
| **NET INCOME AVAILABLE TO COMMON SHAREHOLDERS** | **$ 7,911** | $ 20,169 |
| **PER SHARE DATA** | | |
| Basic earnings | **$ 0.07** | $ 0.23 |
| Diluted earnings | **.07** | .23 |

| | | |
|---|---|---|
| Cash dividends | **.05** | .05 |
| Basic weighted average number of shares outstanding | **112,353,941** | 87,966,308 |
| Diluted weighted average number of shares outstanding, including dilutive stock options | **112,583,127** | 88,028,272 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***CONSOLIDATED STATEMENTS OF CASH FLOWS***

***(UNAUDITED)***

| | Quarter Ended December 31, 2009 | Quarter Ended December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | **$ 7,911** | $ 20,169 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization (accretion) of fees, discounts, premiums and intangible assets, net | **3,099** | 621 |
| Depreciation | **1,350** | 1,275 |
| Stock option compensation expense | **300** | 300 |
| Provision for loan losses | **69,750** | 35,000 |
| Loss (gain) on investment securities and real estate held for sale, net | **(7,708)** | 1,055 |
| Decrease (increase) in accrued interest receivable | **3,829** | (3,068) |
| Increase in income taxes payable | **4,632** | 11,855 |
| FHLB stock dividends | | (11) |
| Decrease (increase) in other assets | **(52,600)** | 3,305 |
| Decrease in accrued expenses and other liabilities | **(4,203)** | (11,251) |
| Net cash provided by operating activities | **26,360** | 59,250 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Loans originated | | |
| Single-family residential loans | **(181,228)** | (218,519) |
| Construction loans - speculative | **(21,524)** | (28,573) |
| Construction loans - custom | **(72,525)** | (64,752) |
| Land - acquisition & development | **(16,395)** | (12,693) |
| Land - consumer lot loans | **(3,359)** | (3,790) |
| Multi-family loans | **(18,840)** | (27,287) |
| Commercial real estate | **(11,815)** | (50,607) |
| Commercial & industrial | **(55,433)** | (60,229) |
| HELOC | **(17,381)** | (24,715) |
| Consumer | **(567)** | (12,765) |
| | **(399,067)** | (503,930) |
| Loan principal repayments | **453,184** | 353,585 |
| Other changes in loans, net | **(62,418)** | (56,775) |
| FHLB stock redemption | | 394 |
| Available-for-sale securities purchased | **(237,080)** | (489,454) |
| Principal payments and maturities of available-for-sale securities | **195,273** | 36,596 |
| Available-for-sale securities sold | **315,836** | |
| Principal payments and maturities of held-to-maturity securities | **5,285** | 2,824 |
| Proceeds from sales of real estate held for sale | **47,002** | 13,058 |
| Premises and equipment purchased | **(2,270)** | (2,475) |
| Net cash provided (used) by investing activities | **315,745** | (646,177) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in customer accounts | **128,944** | 115,204 |
| Net increase (decrease) in borrowings | **(5,023)** | 367,718 |
| Proceeds from exercise of common stock options | **1,310** | 17 |
| Dividends paid | **(5,590)** | (4,553) |
| Proceeds from issuance of preferred stock and related warrants | | 200,000 |

| | | | |
|---|---|---|---|
| Decrease in advance payments by borrowers for taxes and insurance | **(23,301)** | | (21,014) |
| Net cash provided by financing activities | **96,340** | | 657,372 |
| **Increase in cash and cash equivalents** | **438,445** | | 70,445 |
| **Cash and cash equivalents at beginning of period** | **498,388** | | 82,600 |
| Cash and cash equivalents at end of period | **$ 936,833** | $ | 153,045 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | | |
| **Non-cash investing activities** | | | |
| Real estate acquired through foreclosure | **$ 66,367** | $ | 38,938 |
| **Cash paid during the period for** | | | |
| Interest | **68,872** | | 95,393 |
| Income taxes | **14,150** | | 275 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

NOTE A Basis of Presentation

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. ( Company ). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2009 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company s 2009 Annual Report on Form 10-K ( 2009 Form 10-K ) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

References to Net Income in this document refer to Net Income Available to Common Shareholders.

Events occurring subsequent to the date of the balance sheet have been evaluated for potential recognition or disclosure in the consolidated financial statements through January 27, 2010, the date of the filing of the consolidated financial statements with the Securities and Exchange Commission.

NOTE B Subsequent Event

Effective January 8, 2010, Washington Federal Savings & Loan Association, a federally-chartered savings and loan association (the Bank ) and wholly-owned subsidiary of the Company, acquired certain assets and liabilities, including most of the loans and deposits, of Horizon Bank, headquartered in Bellingham, Washington ( Horizon ) from the Federal Deposit Insurance Corporation ( FDIC ), as receiver for Horizon (the Acquisition ). As of September 30, 2009, Horizon reported total assets of $1.3 billion and total deposits of $1.2 billion. All branches of Horizon have reopened as offices of the Bank.

Horizon operated through eighteen full-service offices, four commercial loan centers and four real estate loan centers in Washington with approximately 225 employees. Total assets purchased by the Bank amounted to approximately $1.141 billion, including an estimated $971 million in loans and $32 million in foreclosed real estate, and total liabilities assumed were approximately $1.005 billion, including an estimated $874 million in deposits. Pursuant to the Agreement, the Bank received a discount of approximately $177 million on the assets and paid a 0% deposit premium. Following the acquisition, the Company received a cash payment from the FDIC for $41 million.

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 ten years, while the term for loss sharing on non-residential real estate loans is five years with respect to losses and eight 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.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

The assets acquired and liabilities assumed will be subject to purchase accounting adjustments when recorded on the Bank s financial statements.

NOTE C Dividends

On January 15, 2010 the Company paid its 108th consecutive quarterly cash dividend on common stock. Dividends per share were $.05 for the quarters ended December 31, 2009 and 2008.

NOTE D Comprehensive Income

The Company s comprehensive income (loss) includes all items which comprise net income plus the unrealized gains (losses) on available-for-sale securities. Total comprehensive (loss) income for the quarters ended December 31, 2009 and 2008 totaled $(8,134,000) and $52,973,000, respectively. The difference between the Company s net income and total comprehensive loss for the quarter ended December 31, 2009 was $16,045,000, which equals the change in the net unrealized gain on available-for-sale securities of $25,368,000, less tax of $9,323,000. In addition, $3,124,000 of net unrealized loss on available-for-sale securities were included in comprehensive income for the quarter ended December 31, 2009, which included $12,921,000 of gain on sale of investments reclassified into earnings for the same period.

NOTE E Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses for the periods ended December 31, 2009 and 2008:

| | Quarter Ended December 31, 2009 | 2008 |
|---|---|---|
| | (In thousands) | |
| Balance at beginning of period | $ 166,836 | $ 85,058 |
| Provision for loan losses | 69,750 | 35,000 |
| Charge-offs | (46,745) | (15,387) |
| Recoveries | 708 | 164 |
| Acquired reserves | | |
| Balance at end of period | $ 190,549 | $ 104,835 |

In comparison to the process used for the period ending December 31, 2008, the Company enhanced its general reserve allowance calculation to be more reflective of the current economic environment. Changes included shortening the look-back period for determining historical loss factors ( HLF ) and modifying the methodology to give more weighting to risks by asset type rather than geographic exposure. In addition to utilizing the HLF to calculate the general reserve, the Company utilizes a qualitative risk factor ( QRF ), which is determined by loan type and allows management to augment reserve levels to reflect the current environment and portfolio performance trends.

By shortening the look-back period the Company has taken into account the current housing environment where home values have declined substantially from the housing peak of 2007. We monitor delinquency trends as well as regional economic conditions including employment and housing values when determining the QRF.

The Company recorded a $69,750,000 provision for loan losses during the quarter ended December 31, 2009, while a $35,000,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to $553,285,000, or 4.37%, of total assets at December 31, 2009 compared to $305,066,000, or 2.44%, of total assets one year ago. The Company had net charge-offs of $46,037,000 for the quarter ended December 31, 2009 compared with 15,223,000 of net charge-offs for the same quarter one year ago. This

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

significant increase in the provision for loan losses is in response to three primary factors: first, the overall deterioration in the housing market in general in the Company s eight western state territory, second, the significant increase in the combined balance of non-performing assets in the land A&D and speculative construction portfolios, and finally, the material increase in net charge-offs for the quarter. Management expects the provision to remain at elevated levels until non-performing assets and charge-offs improve. $75,152,000 of the allowance was calculated under the formulas contained in our methodology and the remaining $115,397,000 was made up of specific reserves on loans that were deemed to be impaired at December 31, 2009. For the period ending December 31, 2008, $58,802,000 of the allowance was calculated under the formulas contained in our methodology and the remaining $46,033,000 was made up of specific reserves on loans that were deemed to be impaired.

At December 31, 2009, the Company s recorded investment in impaired loans was $588,829,000, of which $305,742,000 had specific reserves of $115,397,000. At September 30, 2009, the Company s recorded investment in impaired loans was $531,817,000, of which $318,543,000 had specific reserves of $107,375,000.

NOTE F Accounting Pronouncements Not Yet Adopted

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Codification ( ASC ) 860-10, *Transfers and Servicing*. This standard was issued to improve the relevance and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and the transferor s continuing involvement, if any, in transferred financial assets. ASC 860-10 is effective for interim and annual reporting periods that begin after November 15, 2009. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial position and results of operations.

In June 2009, the FASB issued ASC 810-10, *Consolidation*. This standard significantly changes the criteria for determining whether the consolidation of a variable interest entity is required. ASC 810-10 is effective for interim and annual reporting periods that begin after November 15, 2009. The Company is currently assessing the impact of the adoption of this standard on its consolidated financial position and results of operations.

NOTE G Fair Value Measurements

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

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

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

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

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

The following is a description of the valuation methodologies used to measure and report fair value of financial assets and liabilities on a recurring or nonrecurring basis:

Measured on a Recurring Basis

*Securities*

Securities available for sale are recorded at fair value on a recurring basis. Fair value is determined with quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data (Level 2).

The following table presents the balance of assets measured at fair value on a recurring basis at December 31, 2009:

| | Fair Value at December 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (In thousands) | | |
| **Available-for-sale securities** | | | | |
| Equity securities | $ | $ 515 | $ | $ 515 |
| Obligations of U.S. government | | 92,863 | | 92,863 |
| Obligations of states and political subdivisions | | | | |
| Obligations of foreign governments | | | | |
| Corporate debt securities | | | | |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | | 1,826,787 | | 1,826,787 |
| Other debt securities | | | | |
| Balance at end of period | $ | $ 1,920,165 | $ | $ 1,920,165 |

Measured on a Nonrecurring Basis

*Impaired Loans*

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

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

*REO*

Real estate owned consists principally of properties acquired through foreclosure.

The following table presents the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the quarter ended December 31, 2009, and the total losses resulting from those fair value adjustments for the quarter ended December 31, 2009. The Company s general estimate of selling costs for assets shown in the following table is 8%; as a result, the following estimated fair values are shown gross of the estimated selling costs:

| | Through December 31, 2009 | | | | Quarter Ended December 31, 2009 |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Total Losses |
| | | | (In thousands) | | |
| Impaired loans (1) | $ | $ | $ 171,387 | $ 171,387 | $ 35,217 |
| REO (2) | | | 47,965 | 47,965 | 16,835 |
| Balance at end of period | $ | $ | $ 219,352 | $ 219,352 | $ 52,052 |

(1) The loss represents remeasurements of collateral dependent loans.
(2) The loss represents charge-offs on REO.

There were no liabilities carried at fair value, measured on a recurring or nonrecurring basis, at December 31, 2009.

Fair Values of Financial Instruments

U. S GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although Management is not aware of any factors that would materially affect the estimated fair value amounts presented below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

| | December 31, 2009 | | September 30, 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (In thousands) | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 936,833 | $ 936,833 | $ 498,388 | $ 498,388 |
| Available-for-sale securities: | | | | |
| Equity securities | 515 | 515 | | |
| Obligations of U.S. government | 92,863 | 92,863 | 13,824 | 13,824 |
| Obligations of states and political subdivisions | | | | |
| Obligations of foreign governments | | | | |
| Corporate debt securities | | | | |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | 1,826,787 | 1,826,787 | 2,187,259 | 2,187,259 |
| Other debt securities | | | | |
| Total available-for-sale securities | 1,920,165 | 1,920,165 | 2,201,083 | 2,201,083 |
| Held-to-maturity securities: | | | | |
| Equity securities | | | | |
| Obligations of U.S. government | | | | |
| Obligations of states and political subdivisions | 7,080 | 7,544 | 7,435 | 7,980 |
| Obligations of foreign governments | | | | |
| Corporate debt securities | | | | |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | 90,715 | 94,165 | 95,607 | 99,283 |
| Other debt securities | | | | |
| Total held-to-maturity securities | 97,795 | 101,709 | 103,042 | 107,263 |
| Loans receivable | 8,855,533 | 9,195,242 | 8,983,430 | 9,223,038 |
| FHLB stock | 144,494 | 144,494 | 144,495 | 144,495 |
| Financial liabilities | | | | |
| Customer accounts | 7,971,254 | 7,995,177 | 7,842,310 | 7,861,129 |
| FHLB advances and other borrowings | 2,874,507 | 2,953,216 | 2,879,530 | 2,968,519 |

The following methods and assumptions were used to estimate the fair value of financial instruments:

*Cash and cash equivalents* The carrying amount of these items is a reasonable estimate of their fair value.

*Available-for-sale securities and held-to-maturity securities* Estimated fair value for investment securities is based on quoted market prices.

*Loans receivable* For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated using quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other loan types is estimated by discounting the

**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating rate or expected maturity characteristics. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

*FHLB stock* The fair value is based upon the par value of the stock which equates to its carrying value.

*Customer accounts* The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the estimated future cash flows using the rates currently offered for deposits with similar remaining maturities.

*FHLB advances and other borrowings* The fair value of FHLB advances and other borrowings is estimated by discounting the estimated future cash flows using rates currently available to the Company for debt with similar remaining maturities.

Reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities:

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| | (In thousands) | | | | |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| Within 1 year | $ 500 | $ 15 | $ | 515 | 4.00% |
| 1 to 5 years | 82,481 | | (2,576) | 79,905 | 4.00% |
| 5 to 10 years | 9,300 | 3,658 | | 12,958 | 10.38% |
| Over 10 years | | | | | 0.00% |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,767,195 | 60,225 | (633) | 1,826,787 | 5.72% |
| | 1,859,476 | 63,898 | (3,209) | 1,920,165 | 5.67% |
| Held-to-maturity securities | | | | | |
| Tax-exempt municipal bonds due | | | | | |
| Within 1 year | | | | | 0.00% |
| 1 to 5 years | 785 | 114 | | 899 | 6.60% |
| 5 to 10 years | | | | | 0.00% |
| Over 10 years | 6,295 | 386 | | 6,681 | 5.72% |
| U.S. government and agency securities due | | | | | |
| 1 to 5 years | | | | | 0.00% |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 90,715 | 3,450 | | 94,165 | 5.58% |
| | 97,795 | 3,950 | | 101,745 | 5.59% |

| | | | | | |
|---|---|---|---|---|---|
| | $ 1,957,271 | $ 67,848 | $ (3,209) | $ 2,021,910 | 5.66% |

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

***NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***

***QUARTERS ENDED DECEMBER 31, 2009 AND 2008***

***(UNAUDITED)***

| | September 30, 2009 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| | (In thousands) | | | | |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| Within 1 year | $ 500 | $ 15 | $ | $ 515 | 4.00% |
| 1 to 5 years | | | | | 0.00% |
| 5 to 10 years | 9,300 | 4,009 | | 13,309 | 10.38% |
| Over 10 years | | | | | 0.00% |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2,105,227 | 82,041 | (9) | 2,187,259 | 5.77% |
| | 2,115,027 | 86,065 | (9) | 2,201,083 | 5.79% |
| Held-to-maturity securities | | | | | |
| Tax-exempt municipal bonds due | | | | | |
| 1 to 5 years | 1,140 | 100 | | 1,240 | 6.60% |
| 5 to 10 years | | | | | 0.00% |
| Over 10 years | 6,295 | 445 | | 6,740 | 5.72% |
| U.S. government and agency securities due | | | | | |
| 1 to 5 years | | | | | 0.00% |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 95,607 | 3,676 | | 99,283 | 5.57% |
| | 103,042 | 4,221 | | 107,263 | 5.59% |
| | $ 2,218,069 | $ 90,286 | $ (9) | $ 2,308,346 | 5.78% |

$315,836,000 of available-for-sale securities were sold during the period ending December 31, 2009, resulting in a gain of $20,428,000. There were no sales of available-for-sale securities during the period ending December 31, 2008.

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

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***(UNAUDITED)***

The following table shows the unrealized gross losses and fair value of securities at December 31, 2009, by length of time that individual securities in each category have been in a continuous loss position. The Company had only $262,000 in fair value of securities in a continuous loss position for 12 or more months at December 31, 2009, which consisted of mortgage-backed securities. This decline represents only a 1.5% decline of the book value of these investments. Management believes that the declines in fair value of these investments were due to changes in market interest rates and a temporary lack of liquidity in the mortgage market, not in estimated cash flows.

| | Less than 12 months | | 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| | | | (In thousands) | | | |
| U.S. agency securities | $ (2,576) | $ 79,904 | $ | $ | $ (2,576) | $ 79,904 |
| Agency pass-through certificates | (626) | 126,217 | (7) | 262 | (633) | 126,479 |
| | $ (3,202) | $ 206,121 | $ (7) | $ 262 | $ (3,209) | $ 206,383 |

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**
**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q includes certain forward-looking statements, as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934, based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company s operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

**GENERAL**

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

**INTEREST RATE RISK**

The Company assumes a high level of interest rate risk as a result of its policy to originate and hold for investment fixed-rate single-family home loans, which are longer-term in nature than the short-term characteristics of its liabilities of customer accounts and borrowed money. At December 31, 2009, the Company had a negative one-year maturity gap of approximately 23% of total assets, a decrease from the 33% negative one-year gap as of September 30, 2009. The decrease was due to increasing cash balances and the deposit accounts shifting into maturities beyond one year.

The interest rate spread decreased to 3.08% at December 31, 2009 from 3.17% at September 30, 2009. The spread decreased primarily because of the decreasing yield on loans as a result of the repricing of variable rate loans and the impact of refinancing of fixed-rate mortgages into historically low long-term interest rates. As of December 31, 2009, the weighted average rates on earning assets decreased by 26 basis points since September 30, 2009, while the weighted average rates on customer accounts and borrowings decreased by 17 basis points over the same period. As of December 31, 2009, the Company had grown total assets by $79,991,000, or 0.6%, from $12,582,475,000 at September 30, 2009, by deploying funds obtained through lower cost short-term deposits. For the quarter ended December 31, 2009, compared to September 30, 2009, loans decreased $127,897,000, or 1.4%, and investment securities decreased $286,165,000, or 12.4%. Cash and cash equivalents of $936,833,000 and stockholders equity of $1,733,750,000 provides management with flexibility in managing interest rate risk going forward.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company s net worth at December 31, 2009 was $1,733,750,000, or 13.69% of total assets. This was a decrease of $11,735,000 from September 30, 2009 when net worth was $1,745,485,000, or 13.87% of total assets. The decrease in the Company s net worth included $7,911,000 from net income and a $16,045,000 decrease in accumulated other comprehensive income. The vast majority of the Company s available for sale investments are fixed rate. As a result of market interest rates increasing, the value of fixed rate investments generally decreased. Net worth was reduced by $5,590,000 of cash dividend payments.

Management believes this strong net worth position will help the Company manage its interest rate risk and enable it to compete more effectively for controlled growth through acquisitions, de novo expansion and increased customer deposits. To be categorized as well capitalized, Washington Federal Savings must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

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| | Actual | | Capital Adequacy Guidelines | | Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Capital | Ratio | Capital | Ratio | Capital | Ratio |
| | | | (In thousands) | | | |
| December 31, 2009 | | | | | | |
| Total capital to risk-weighted assets | 1,505,230 | 22.36% | 538,661 | 8.00% | 673,326 | 10.00% |
| Tier I capital to risk-weighted assets | 1,424,078 | 21.15% | N/A | N/A | 403,996 | 6.00% |
| Core capital to adjusted tangible assets | 1,424,078 | 11.53% | N/A | N/A | 617,364 | 5.00% |
| Core capital to total assets | 1,424,078 | 11.53% | 370,419 | 3.00% | N/A | N/A |
| Tangible capital to tangible assets | 1,424,078 | 11.53% | 185,209 | 1.50% | N/A | N/A |
| September 30, 2009 | | | | | | |
| Total capital to risk-weighted assets | $ 1,469,857 | 21.57% | $ 545,034 | 8.00% | $ 681,293 | 10.00% |
| Tier I capital to risk-weighted assets | 1,414,885 | 20.77% | N/A | N/A | 408,776 | 6.00% |
| Core capital to adjusted tangible assets | 1,414,885 | 11.56% | N/A | N/A | 612,094 | 5.00% |
| Core capital to total assets | 1,414,885 | 11.56% | 367,257 | 3.00% | N/A | N/A |
| Tangible capital to tangible assets | 1,414,885 | 11.56% | 183,628 | 1.50% | N/A | N/A |

**CHANGES IN FINANCIAL CONDITION**

Available-for-sale and held-to-maturity securities: Available-for-sale securities decreased $280,918,000, or 12.8%, during the quarter ended December 31, 2009, which included the purchase of $237,080,000 of available-for-sale investment securities. During the same period $315,836,000 of available-for-sale securities were sold, resulting in a gain of $20,428,000. There were no purchases or sales of held-to-maturity securities in the same period. As of December 31, 2009, the Company had net unrealized gains on available-for-sale securities of $38,386,000, net of tax, which were recorded as part of stockholders equity. The Company decreased its available-for-sale investment portfolio to take advantage of elevated mortgage-backed securities prices which were influenced by U.S. government participation in the mortgage-backed securities market.

Loans receivable: During the quarter ended December 31, 2009, the balance of loans receivable decreased 1.4% to $8,855,533,000 compared to $8,983,430,000 at September 30, 2009. This decrease is consistent with management s strategy to reduce the Company s exposure to land and construction loans and not aggressively compete for 30 year fixed-rate mortgages at current market rates. If the current low rates on 30 year fixed-rate mortgages persists, management will consider continuing to shrink its loan portfolio. The following table shows the loan portfolio by category for the last three quarters.

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Loan Portfolio by Category
(In thousands)

| | AS OF 6/30/09 | | AS OF 9/30/09 | | AS OF 12/31/09 | |
|---|---|---|---|---|---|---|
| | **AMOUNT** | **%** | **AMOUNT** | **%** | **AMOUNT** | **%** |
| Single-family residential | $ 6,763,040 | 71.2% | $ 6,785,723 | 72.3% | $ 6,755,256 | 72.8% |
| Construction - speculative | 311,995 | 3.3 | 267,430 | 2.8 | 216,793 | 2.3 |
| Construction - custom | 240,885 | 2.5 | 258,839 | 2.8 | 266,537 | 2.9 |
| Land - acquisition & development | 613,499 | 6.5 | 519,130 | 5.5 | 479,353 | 5.2 |
| Land - consumer lot loans | 198,127 | 2.1 | 195,812 | 2.1 | 191,413 | 2.1 |
| Multi-family | 695,795 | 7.3 | 705,212 | 7.5 | 706,494 | 7.6 |
| Commercial real estate | 306,994 | 3.2 | 294,109 | 3.1 | 301,932 | 3.3 |
| Commercial & industrial | 123,978 | 1.3 | 119,019 | 1.3 | 111,356 | 1.2 |
| HELOC | 118,001 | 1.2 | 122,184 | 1.3 | 128,277 | 1.4 |
| Consumer | 128,764 | 1.4 | 120,081 | 1.3 | 111,869 | 1.2 |
| | 9,501,078 | 100% | 9,387,539 | 100% | 9,269,280 | 100% |
| Less: | | | | | | |
| ALL | 161,695 | | 166,836 | | 190,549 | |
| Loans in Process | 193,119 | | 200,919 | | 186,763 | |
| Deferred Net Origination Fees | 34,924 | | 36,354 | | 36,435 | |
| | 389,738 | | 404,109 | | 413,747 | |
| | $ 9,111,340 | | $ 8,983,430 | | $ 8,855,533 | |

Non-performing assets: Non-performing assets decreased during the quarter ended December 31, 2009 to $553,285,000 from $557,120,000 at September 30, 2008, a 0.69% decrease. A disproportionate share of the Company s non-performing assets come from the land A&D and speculative construction portfolios. These assets have seen the largest declines in value in the loan portfolio. The continued elevated level of non-performing assets is attributable to the weakening economy and housing market throughout the Company s eight state branch network. Non-performing assets as a percentage of total assets was 4.37% at December 31, 2009 compared to 4.43% at September 30, 2009. This level of non-performing assets is unprecedented in the Company s 27 year history as a public company. The Company anticipates non-performing assets will continue to be elevated in the future until the residential real estate market stabilizes and values recover.

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

| | December 31, 2009 | | September 30, 2009 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| Restructured loans | | | | |
| Single-family residential | $ 161,156 | 79.6% | $ 116,988 | 85.4% |
| Construction - speculative | 13,457 | 6.6 | 6,235 | 4.6 |
| Construction - custom | | 0.0 | | 0.0 |
| Land - acquisition & development | 24,337 | 12.0 | 11,186 | 8.2 |
| Land - consumer lot loans | 3,724 | 1.8 | 2,485 | 1.8 |
| Multi-family | | 0.0 | | 0.0 |
| Commercial real estate | | 0.0 | | 0.0 |
| Commercial & industrial | | 0.0 | | 0.0 |
| HELOC | | 0.0 | | 0.0 |
| Consumer | | 0.0 | | 0.0 |
| Total restructured loans (1) | 202,674 | 100% | 136,894 | 100% |
| Non-accrual loans: | | | | |
| Single-family residential | 134,123 | 36.4% | 116,268 | 30.6% |
| Construction - speculative | 61,558 | 16.6 | 50,348 | 13.2 |
| Construction - custom | | 0.0 | | 0.0 |
| Land - acquisition & development | 151,005 | 40.8 | 187,061 | 49.2 |
| Land - consumer lot loans | | 0.0 | | 0.0 |
| Multi-family | 2,587 | 0.7 | 4,368 | 1.1 |
| Commercial real estate | 908 | 0.2 | 2,733 | 0.7 |
| Commercial & industrial | 18,843 | 5.1 | 18,823 | 5.0 |
| HELOC | | 0.0 | | 0.0 |
| Consumer | 753 | 0.2 | 656 | 0.2 |
| Total non-accrual loans (2) | 369,777 | 100% | 380,257 | 100% |
| Total REO (3) | 133,235 | | 120,105 | |
| Total REHI (3) | 50,273 | | 56,758 | |
| Total non-performing assets | $ 553,285 | | $ 557,120 | |
| Total non-performing assets and performing restructured loans | $ 725,906 | | $ 674,354 | |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 5.73% | | 5.36% | |

(1) Restructured loans were as follows:

| | | | | |
|---|---|---|---|---|
| Performing | $ 172,621 | 85.2% | $ 117,234 | 85.6% |
| Non-accrual * | 30,053 | 14.8% | 19,660 | 14.4% |
| * - Included in Total non-accrual loans above | $ 202,674 | 100.0% | $ 136,894 | 100.0% |

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

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(2) The Company recognized interest income on nonaccrual loans of approximately $10,053,000 in the quarter ended December 31, 2009. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $22,876,000 for the quarter ended December 31, 2009.

In addition to the nonaccrual loans reflected in the above table, at December 31, 2009, the Company had $301,747,000 of loans that were less than 90 days delinquent but which it had classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company s ratio of total non-performing assets and restructured loans as a percent of total assets would have increased to 8.35% at December 31, 2009.

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

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

| | December 31, 2009 | | September 30, 2009 | |
|---|---|---|---|---|
| | Amount | Loans to Total Loans (1) | Amount | Loans to Total Loans (1) |
| | (In thousands) | | | |
| Single-family residential | $ 24,450 | 72.8% | $ 18,547 | 72.3% |
| Construction - speculative | 25,072 | 2.3 | 21,841 | 2.8 |
| Construction - custom | 239 | 2.9 | 81 | 2.8 |
| Land - acquisition & development | 115,846 | 5.2 | 104,569 | 5.5 |
| Land - consumer lot loans | 1,768 | 2.1 | 1,298 | 2.1 |
| Multi-family | 2,647 | 7.6 | 1,878 | 7.5 |
| Commercial real estate | 1,825 | 3.3 | 1,344 | 3.1 |
| Commercial & industrial | 9,336 | 1.2 | 7,327 | 1.3 |
| HELOC | 641 | 1.4 | 377 | 1.3 |
| Consumer | 8,725 | 1.2 | 9,574 | 1.3 |
| | $ 190,549 | 100.0% | $ 166,836 | 100.0% |

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

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Customer accounts: Customer accounts increased $128,944,000, or 1.6%, to $7,971,254,000 at December 31, 2009 compared with $7,842,310,000 at September 30, 2009. The increase in customer deposits reflects the opportunity created in the marketplace by the failure and/or merger of several large institutions throughout the Company s footprint. The following table shows the composition of the Company s customer accounts as of the dates shown:

Deposits by Type
(In thousands)

| | December 31, 2009 | | | September 30, 2009 | | |
|---|---|---|---|---|---|---|
| | Amount | % | Wtd. Avg. Rate | Amount | % | Wtd. Avg. Rate |
| Checking (noninterest) | $ 112,041 | 1.5% | 0.00% | $ 119,654 | 1.5% | 0.00% |
| NOW (interest) | 442,312 | 5.5 | 0.50% | 406,667 | 5.2 | 0.50% |
| Savings (passbook/stmt) | 201,867 | 2.5 | 0.50% | 197,025 | 2.5 | 0.50% |
| Money Market | 1,333,251 | 16.7 | 0.87% | 1,214,812 | 15.5 | 0.87% |
| CD s | 5,881,783 | 73.8 | 2.12% | 5,904,152 | 75.3 | 2.37% |
| Total | $ 7,971,254 | 100% | 1.75% | $ 7,842,310 | 100% | 1.96% |

FHLB advances and other borrowings: Total borrowings decreased $5,023,000, or 0.2%, to $2,874,507,000 at December 31, 2009, compared with $2,879,530,000 at September 30, 2009. See Interest Rate Risk above.

**RESULTS OF OPERATIONS**

Throughout this document we will refer to net income, which is defined as net income available to common shareholders after the payment of preferred dividends.

Net Income: The quarter ended December 31, 2009, produced net income of $7,911,000 compared to $20,169,000 for the same quarter one year ago. The decrease for the quarter resulted primarily from the significant increase in the provision for loan losses and other credit costs, offset somewhat by growth in net interest income as well as a gain on sale of available-for-sale securities of $20,428,000.

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

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

Rate / Volume Analysis:

| | Comparison of Quarters Ended 12/31/09 and 12/31/08 | | |
|---|---|---|---|
| | Volume | Rate | Total |
| | | (In thousands) | |
| Interest income: | | | |
| Loan portfolio | $ (8,295) | $ (6,573) | $ (14,868) |
| Mortgaged-backed securities | 5,318 | (3,349) | 1,969 |
| Investments (1) | 927 | (897) | 30 |
| All interest-earning assets | (2,050) | (10,819) | (12,869) |
| Interest expense: | | | |
| Customer accounts | 5,674 | (25,097) | (19,423) |
| FHLB advances and other borrowings | (5,843) | 4,645 | (1,198) |
| All interest-bearing liabilities | (169) | (20,452) | (20,621) |
| Change in net interest income | $ (1,881) | $ 9,633 | $ 7,752 |

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

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

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Provision for Loan Losses: The Company recorded a $69,750,000 provision for loan losses during the quarter ended December 31, 2009, while a $35,000,000 provision was recorded for the same quarter one year ago. Non-performing assets amounted to $553,285,000, or 4.37%, of total assets at December 31, 2009, compared to $305,066,000, or 2.44%, of total assets one year ago. The Company had net charge-offs of $46,037,000 for the quarter ended December 31, 2009 compared with $15,223,000 of net charge-offs for the same quarter one year ago. This significant increase in the provision for loan losses is in response to three primary factors: first, the overall deterioration in the housing market in general in the Company s eight western state territory, second, the significant increase in the combined balance of non-performing assets in the land A&D and speculative construction portfolios, and finally, the material increase in net charge-offs for the quarter. Management believes that higher non-performing assets and charge-offs may continue going forward until the housing market begins to recover. Similarly, management expects the provision to remain at elevated levels until non-performing assets and charge-offs improve.

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

| | Quarter Ended December 31, 2009 | Quarter Ended December 31, 2008 |
|---|---|---|
| | (In thousands) | |
| Beginning balance | $ 166,836 | $ 85,058 |
| Charge-offs: | | |
| Single-family residential | 7,636 | 3,079 |
| Construction - speculative | 7,151 | 4,503 |
| Construction - custom | 95 | |
| Land - acquisition & development | 29,180 | 3,557 |
| Land - consumer lot loans | 331 | 720 |
| Multi-family | | |
| Commercial real estate | | |
| Commercial & industrial | 383 | 2,171 |
| HELOC | 69 | |
| Consumer | 1,900 | 1,357 |
| | 46,745 | 15,387 |
| Recoveries: | | |
| Single-family residential | 89 | 2 |
| Construction - speculative | 200 | |
| Construction - custom | | |
| Land - acquisition & development | 33 | 16 |
| Land - consumer lot loans | | |
| Multi-family | | |
| Commercial real estate | 1 | |
| Commercial & industrial | 155 | 43 |
| HELOC | | |
| Consumer | 230 | 103 |
| | 708 | 164 |
| Net charge-offs | 46,037 | 15,223 |
| Provision for loan losses | 69,750 | 35,000 |
| Acquired reserves | | |
| Ending balance | $ 190,549 | $ 104,835 |
| Ratio of net charge-offs to average loans outstanding | 0.51% | 0.16% |

Other Income: The quarter ended December 31, 2009 produced total other income of $24,237,000 compared to $4,175,000 for the same quarter one year ago, an increase of $20,062,000. The quarter ended December 31, 2009, included $20,428,000 of gain on sale of investments, whereas the quarter ended December 31, 2008, included no gain on sale of investments.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

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

Other Expense: The quarter ended December 31, 2009, produced total other expense of $26,975,000 compared to $24,587,000 for the same quarter one year ago, a 9.7% increase. The increase in total other expense over the same comparable period one year ago was primarily due to the increase in FDIC insurance premiums incurred by the Company. Total other expense for the quarters ended December 31, 2009 and 2008 equaled .85% and .80%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,085 and 1,103 at December 31, 2009 and 2008, respectively.

Taxes: Income taxes decreased $7,198,000, or 60.8%, for the quarter ended December 31, 2009, when compared to the same period one year ago. This decrease was a result of lower pretax income. The effective tax rate for the quarter ended December 31, 2009, was 37.00%, compared to 35.50% for the same period one year ago.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company s quantitative and qualitative information about market risk since September 30, 2009. For a complete discussion of the Company s quantitative and qualitative market risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s 2009 Form 10-K.

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART I Financial Information**

**Item 4. Controls and Procedures**

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

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

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART II Other Information**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Not applicable

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company s common stock during the three months ended December 31, 2009.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period |
|---|---|---|---|---|
| October 1, 2009 to October 31, 2009 | | $ | | 2,888,314 |
| November 1, 2009 to November 30, 2009 | | | | 2,888,314 |
| December 1, 2009 to December 31, 2009 | | | | 2,888,314 |
| Total | | | | 2,888,314 |

(1) The Company s only stock repurchase program was publicly announced by the Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 21,956,264 shares have been authorized for repurchase.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

**PART II Other Information**

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and the Chief Financial Officer

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**WASHINGTON FEDERAL, INC. AND SUBSIDIARIES**

## SIGNATURES

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

| | |
|---|---|
| January 27, 2010 | /s/ Roy M. Whitehead<br>**ROY M. WHITEHEAD**<br>**Chairman, President and Chief Executive Officer** |
| January 27, 2010 | /s/ Brent J. Beardall<br>**BRENT J. BEARDALL**<br>**Executive Vice President and Chief Financial Officer** |