

WASHINGTON FEDERAL INC
Form 10-Q
February 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended December 31, 2014

or

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

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

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

Washington
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Title of class: _____ at January 31, 2015

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Common stock, \$1.00 par value

96,383,502

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Consolidated Financial Statements of Washington Federal, Inc. and Subsidiaries filed as a part of the report are as follows:

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CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

| | December 31, 2014 | September 30, 2014 |
|--|-----------------------------------|-----------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$542,769 | \$781,843 |
| Available-for-sale securities, at fair value | 2,895,056 | 3,049,442 |
| Held-to-maturity securities, at amortized cost | 1,516,219 | 1,548,265 |
| Loans receivable, net | 8,253,917 | 8,148,322 |
| Covered loans, net | 161,478 | 176,476 |
| Interest receivable | 40,757 | 52,037 |
| Premises and equipment, net | 254,284 | 257,543 |
| Real estate held for sale | 61,970 | 55,072 |
| Real estate held for investment | 3,994 | 4,808 |
| Covered real estate held for sale | 19,405 | 24,082 |
| FDIC indemnification asset | 30,356 | 36,860 |
| FHLB and FRB stock | 154,870 | 158,839 |
| Bank owned life insurance | 100,216 | — |
| Intangible assets, net | 301,885 | 302,909 |
| Federal and state income tax assets, net | — | 16,515 |
| Other assets | 157,580 | 143,028 |
| | \$14,494,756 | \$14,756,041 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Transaction deposit accounts | \$5,464,198 | \$5,490,687 |
| Time deposit accounts | 5,114,655 | 5,226,241 |
| | 10,578,853 | 10,716,928 |
| FHLB advances | 1,830,000 | 1,930,000 |
| Advance payments by borrowers for taxes and insurance | 19,301 | 29,004 |
| Federal and state income taxes, net | 4,278 | — |
| Accrued expenses and other liabilities | 80,985 | 106,826 |
| | 12,513,417 | 12,782,758 |
| Stockholders' equity | | |
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 133,590,428 and 133,322,909 shares issued; 97,556,077 and 98,404,705 shares outstanding | 133,591 | 133,323 |
| Paid-in capital | 1,639,350 | 1,638,211 |
| Accumulated other comprehensive income, net of taxes | 23,435 | 20,708 |
| Treasury stock, at cost; 36,034,351 and 34,918,204 shares | (549,434 |) (525,108 |
| Retained earnings | 734,397 | 706,149 |
| | 1,981,339 | 1,973,283 |
| | \$14,494,756 | \$14,756,041 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Three Months Ended December 31, | |
|---|---------------------------------------|-----------------|
| | 2014 | 2013 |
| | (In thousands, except per share data) | |
| INTEREST INCOME | | |
| Loans | \$ 108,293 | \$ 107,227 |
| Mortgage-backed securities | 19,175 | 19,368 |
| Investment securities and cash equivalents | 5,816 | 4,663 |
| | 133,284 | 131,258 |
| INTEREST EXPENSE | | |
| Customer accounts | 13,445 | 15,499 |
| FHLB advances and other borrowings | 17,656 | 17,447 |
| | 31,101 | 32,946 |
| Net interest income | 102,183 | 98,312 |
| Reversal of provision for loan losses | (5,500 |) (4,600 |
| Net interest income after reversal of provision for loan losses | 107,683 | 102,912 |
| OTHER INCOME | | |
| Loan fee income | 2,065 | 2,046 |
| Deposit fee income | 5,977 | 1,704 |
| Other income (loss) | (2,662 |) 2,038 |
| | 5,380 | 5,788 |
| OTHER EXPENSE | | |
| Compensation and benefits | 29,160 | 25,126 |
| Occupancy | 8,135 | 7,050 |
| FDIC insurance premiums | 674 | 2,934 |
| Information technology | 4,030 | 1,318 |
| Product delivery | 5,627 | 2,929 |
| Other expense | 5,974 | 4,763 |
| | 53,600 | 44,120 |
| Gain (loss) on real estate acquired through foreclosure, net | 315 | (1,951 |
| Income before income taxes | 59,778 | 62,629 |
| Income tax provision | 21,371 | 22,393 |
| NET INCOME | \$38,407 | \$40,236 |
| PER SHARE DATA | | |
| Basic earnings | \$0.39 | \$0.39 |
| Diluted earnings | 0.39 | 0.39 |
| Dividends paid on common stock per share | 0.15 | 0.10 |
| Basic weighted average number of shares outstanding | 98,147,939 | 102,329,578 |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 98,524,839 | 102,813,154 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | |

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

| | Quarter Ended December 31, | |
|---|----------------------------|----------|
| | 2014 | 2013 |
| | (In thousands) | |
| Net income | \$38,407 | \$40,236 |
| Other comprehensive income (loss) net of tax: | | |
| Net unrealized gain (loss) on available-for-sale securities | 8,560 | (9,661) |
| Net unrealized (loss) on long-term borrowing hedge | (4,249) | —) |
| Related tax benefit (expense) | (1,584) | 3,478) |
| Other comprehensive income (loss) | 2,727 | (6,183) |
| Comprehensive income | \$41,134 | \$34,053 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | |

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|--|-----------------|-----------------|----------------------|---|----------------|--------------|
| Balance at October 1, 2014 | \$ 133,323 | \$ 1,638,211 | \$ 706,149 | \$ 20,708 | \$(525,108) | \$ 1,973,283 |
| Net income | | | 38,407 | | | 38,407 |
| Other comprehensive income | | | | 2,727 | | 2,727 |
| Dividends on common stock | | | (10,159) |) | | (10,159) |
| Compensation expense related to common stock options | | 300 | | | | 300 |
| Proceeds from exercise of common stock options | 18 | 248 | | | | 266 |
| Restricted stock | 250 | 591 | | | | 841 |
| Treasury stock acquired | | | | | (24,326) | (24,326) |
| Balance at December 31, 2014 | \$ 133,591 | \$ 1,639,350 | \$ 734,397 | \$ 23,435 | \$(549,434) | \$ 1,981,339 |

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total |
|--|-----------------|-----------------|----------------------|---|----------------|--------------|
| Balance at October 1, 2013 | \$ 132,573 | \$ 1,625,051 | \$ 594,450 | \$ 6,378 | \$(420,817) | \$ 1,937,635 |
| Net income | | | 40,236 | | | 40,236 |
| Other comprehensive loss | | | | (6,183) |) | (6,183) |
| Dividends on common stock | | | (10,179) |) | | (10,179) |
| Compensation expense related to common stock options | | 300 | | | | 300 |
| Proceeds from exercise of common stock options | 444 | 8,836 | | | | 9,280 |
| Restricted stock | 256 | 584 | | | | 840 |
| Treasury stock acquired | | | | | (18,945) | (18,945) |
| Balance at December 31, 2013 | \$ 133,273 | \$ 1,634,771 | \$ 624,507 | \$ 195 | \$(439,762) | \$ 1,952,984 |

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, | |
|---|----------------------------|-------------|
| | 2014 | 2013 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$38,407 | \$40,236 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and Amortization | 5,299 | 3,757 |
| Cash received from (paid to) FDIC under loss share | (431) |) 1,295 |
| Stock option compensation expense | 300 | 300 |
| Reversal of provision for loan losses | (5,500) |) (4,600) |
| Gain on real estate held for sale | (9,606) |) (597) |
| Decrease (increase) in accrued interest receivable | 11,280 | (411) |
| Decrease in federal and state income tax | 19,208 | 22,629 |
| Decrease (increase) in cash surrender value in bank owned life insurance | (216) |) — |
| Decrease (increase) in other assets | (14,552) |) 1,649 |
| Decrease in accrued expenses and other liabilities | (25,890) |) (12,768) |
| Net cash provided by operating activities | 18,299 | 51,490 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net (loan originations) principal collections | (36,993) |) (68,870) |
| Loans purchased | (46,831) |) — |
| FHLB & FRB stock redemption | 3,969 | 1,376 |
| Available-for-sale securities purchased | (41,225) |) (565,080) |
| Principal payments and maturities of available-for-sale securities | 202,760 | 76,805 |
| Principal payments and maturities of held-to-maturity securities | 31,178 | 23,117 |
| Net cash received from acquisition | — | 1,280,077 |
| Proceeds from sales of real estate held for sale and investment | 13,496 | 14,295 |
| Proceeds from sales of covered REO | 4,413 | 6,098 |
| Purchase of bank owned life insurance | (100,000) |) — |
| Premises and equipment purchased and REO improvements | (2,019) |) (9,232) |
| Net cash provided by investing activities | 28,748 | 758,586 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net decrease in customer accounts | (137,999) |) (1,795) |
| Proceeds from borrowings | — | 625,000 |
| Repayments of borrowings | (100,000) |) (625,000) |
| Proceeds from exercise of common stock options and related tax benefit | 266 | 9,280 |
| Dividends paid on common stock | (14,359) |) (10,179) |
| Treasury stock purchased | (24,326) |) (18,945) |
| Decrease in advance payments by borrowers for taxes and insurance | (9,703) |) (24,652) |
| Net cash used by financing activities | (286,121) |) (46,291) |
| Increase (decrease) in cash and cash equivalents | (239,074) |) 763,785 |
| Cash and cash equivalents at beginning of period | 781,843 | 203,563 |
| Cash and cash equivalents at end of period | \$542,769 | \$967,348 |

(CONTINUED)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Quarter Ended December 31, | |
|--|----------------------------|----------------|
| | 2014 | 2013 |
| | (In thousands) | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Non-covered real estate acquired through foreclosure | \$8,852 | \$9,956 |
| Covered real estate acquired through foreclosure | 51 | 179 |
| Cash paid during the period for | | |
| Interest | 34,653 | 33,644 |
| Income taxes | 23 | (236) |
| The following summarizes the non-cash activities related to acquisitions | | |
| Fair value of assets and intangibles acquired, including goodwill | \$— | \$65,531 |
| Fair value of liabilities assumed | — | (1,345,608) |
| Net fair value of assets (liabilities) | \$— | \$(1,280,077) |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2014 AND 2013
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

Nature of Operations - Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary. The Bank is principally engaged in the business of attracting deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential real estate loans, multi-family real estate loans and commercial loans. 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, National Association.

Basis of Presentation - The unaudited interim financial statements included in this report have been prepared by Washington Federal. All intercompany transactions and accounts have been eliminated in consolidation. 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, 2014 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 the financial statements and related notes in the Company's 2014 Annual Report on Form 10-K ("2014 Form 10-K") as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

Summary of Significant Accounting Policies - The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2014 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2014 Form 10-K disclosure for the year ended September 30, 2014.

Correction of Immaterial Errors Related to Prior Periods - During the three months ended December 31, 2014, the Company made an \$8,200,000 adjustment which increased the value of real estate owned and other income to correct an error in prior years. The adjustment reflects a one-time correction necessary to change the accounting for real estate owned to be in conformity with GAAP. The Company also made an \$8,900,000 adjustment which decreased accrued interest receivable and other income as a result of the Company identifying a reconciliation error which had overstated interest income and accrued interest receivable. Based upon an evaluation of all relevant factors, management believes these correcting adjustments did not have a material impact on the Company's current quarter financial statement or on any previously reported quarterly or yearly results.

Off-Balance-Sheet Credit Exposures – The only material off-balance-sheet credit exposures are loans in process and unused lines of credit, which had a combined balance at December 31, 2014 and September 30, 2014, excluding covered loans, of \$584,227,000 and \$583,838,000, respectively. The Company estimates losses on off-balance-sheet credit exposures by allocating a loss percentage derived from historical loss factors for each asset class.

Reclassifications - Reclassification of Other Expenses into Product delivery and Information technology line items have been made to the financial statements for years prior to September 30, 2014 to conform to current year classifications.

NOTE B - Acquisitions

There were no acquisitions completed during the quarter ended December 31, 2014. During the fiscal year 2014, the Bank acquired seventy-four branches from Bank of America, National Association. Effective as of the close of

business on October 31, 2013, the Bank completed the acquisition of eleven branches that are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches that are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of another twenty-three branches that are located in Arizona and Nevada. Management believes that these transactions represent a significant enhancement of our branch network. This transaction will bring new customers to the Company and improve the deposit mix and reduce overall funding costs. The combined acquisitions provided \$1,853,798,000 in deposit accounts, \$12,881,000 of loans, and \$25,097,000 in branch properties. The Bank paid a 1.99% premium on the total deposits and received \$1,776,660,000 in cash from the transactions. The acquisition method of accounting was used to account for the acquisitions. The purchased assets and assumed liabilities are recorded at their respective acquisition date estimated fair values. The Bank recorded \$11,040,000 in core deposit intangible and \$31,225,000 in goodwill related to these transactions.

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(UNAUDITED)

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to December 31, 2014, for the additional forty branches from December 7, 2013 to December 31, 2014, and for the most recent twenty-three branches from May 3, 2014 to December 31, 2014.

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

| | Adjusted Fair Value Recorded by Washington Federal (In thousands) |
|-----------------------------------|---|
| Assets: | |
| Cash | \$ 1,776,660 |
| Available for sale securities | — |
| FHLB stock | — |
| Loans receivable, net | 12,881 |
| Covered loans receivable, net | — |
| FDIC indemnification asset | — |
| Property and equipment, net | 25,097 |
| Core deposit intangible | 11,040 |
| Real estate held for sale | — |
| Covered real estate held for sale | — |
| Goodwill | 31,225 |
| Other assets | 70 |
| Total Assets | 1,856,973 |
| Liabilities: | |
| Customer accounts | 1,853,798 |
| FHLB advances | — |
| Other liabilities | 3,175 |
| Total Liabilities | 1,856,973 |
| Net assets acquired | \$— |

NOTE C – Dividends

On October 17, 2014, the Company paid its 127th consecutive quarterly cash dividend on common stock. Dividends paid per share were \$.15 and \$.10 for the quarters ended December 31, 2014 and 2013, respectively. Due to a one-time change in the schedule of quarterly dividends, the Company increased the normal \$.11 per share payout for pro-ration over four months for the most recent dividend payment.

On January 21, 2015, the Company announced its 128th consecutive quarterly cash dividend on common stock of \$.13 per share. This payout represents an increase of \$.02, or 18%, over the prior quarterly dividend rate of \$.11 per share. The current dividend will be paid on February 16, 2015 to common stockholders of record on February 2, 2015.

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(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

| | December 31, 2014 (In thousands) | | September 30, 2014 | | |
|--------------------------------------|-------------------------------------|------|--------------------|------|---|
| Non-acquired loans | | | | | |
| Single-family residential | \$5,608,208 | 63.9 | % \$5,560,203 | 64.1 | % |
| Construction - speculative | 152,450 | 1.7 | 140,060 | 1.6 | |
| Construction - custom | 377,561 | 4.3 | 385,824 | 4.5 | |
| Land - acquisition & development | 84,000 | 1.0 | 77,832 | 0.9 | |
| Land - consumer lot loans | 104,492 | 1.2 | 108,623 | 1.3 | |
| Multi-family | 977,752 | 11.2 | 917,286 | 10.6 | |
| Commercial real estate | 597,436 | 6.8 | 591,336 | 6.9 | |
| Commercial & industrial | 391,327 | 4.5 | 379,226 | 4.4 | |
| HELOC | 118,047 | 1.3 | 116,042 | 1.4 | |
| Consumer | 126,929 | 1.4 | 132,590 | 1.5 | |
| Total non-acquired loans | 8,538,202 | 97.3 | 8,409,022 | 97.2 | |
| Acquired loans | | | | | |
| Single-family residential | 11,163 | 0.1 | 11,716 | 0.1 | |
| Land - acquisition & development | 872 | — | 905 | — | |
| Land - consumer lot loans | 2,496 | — | 2,507 | — | |
| Multi-family | 2,954 | — | 2,999 | — | |
| Commercial real estate | 92,133 | 1.0 | 97,898 | 1.1 | |
| Commercial & industrial | 58,836 | 0.7 | 51,386 | 0.6 | |
| HELOC | 7,749 | 0.1 | 8,274 | 0.1 | |
| Consumer | 4,369 | — | 5,670 | 0.1 | |
| Total acquired loans | 180,572 | 1.9 | 181,355 | 2.0 | |
| Credit-impaired acquired loans | | | | | |
| Single-family residential | 323 | — | 325 | — | |
| Land - acquisition & development | 1,533 | — | 1,622 | — | |
| Commercial real estate | 60,287 | 0.7 | 63,723 | 0.7 | |
| Commercial & industrial | 3,255 | — | 3,476 | — | |
| HELOC | 9,202 | 0.1 | 10,139 | 0.1 | |
| Consumer | 54 | — | 55 | — | |
| Total credit-impaired acquired loans | 74,654 | 0.8 | 79,340 | 0.8 | |
| Total loans | | | | | |
| Single-family residential | 5,619,694 | 64.0 | 5,572,244 | 64.2 | |
| Construction - speculative | 152,450 | 1.7 | 140,060 | 1.6 | |
| Construction - custom | 377,561 | 4.3 | 385,824 | 4.5 | |
| Land - acquisition & development | 86,405 | 1.0 | 80,359 | 0.9 | |
| Land - consumer lot loans | 106,988 | 1.2 | 111,130 | 1.3 | |
| Multi-family | 980,706 | 11.2 | 920,285 | 10.6 | |
| Commercial real estate | 749,856 | 8.5 | 752,957 | 8.7 | |
| Commercial & industrial | 453,418 | 5.2 | 434,088 | 5.0 | |
| HELOC | 134,998 | 1.5 | 134,455 | 1.6 | |

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| | | | | | |
|-------------|-----------|-----|-------------|-----|---|
| Consumer | 131,352 | 1.4 | 138,315 | 1.6 | |
| Total loans | 8,793,428 | 100 | % 8,669,717 | 100 | % |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2014 AND 2013
(UNAUDITED)

Less:

| | | |
|-------------------------------|-------------|-------------|
| Allowance for probable losses | 108,700 | 112,347 |
| Loans in process | 370,655 | 346,172 |
| Discount on acquired loans | 22,535 | 25,391 |
| Deferred net origination fees | 37,621 | 37,485 |
| | 539,511 | 521,395 |
| | \$8,253,917 | \$8,148,322 |

Changes in the carrying amount and accretable yield for acquired credit impaired and non-impaired loans for the three months ended December 31, 2014 and the fiscal year ended September 30, 2014 were as follows:

| | Acquired Impaired | | Acquired Non-impaired | | |
|--|-------------------|--------------------------|-----------------------|--------------------------|---|
| | Accretable Yield | Carrying Amount of Loans | Accretable Yield | Carrying Amount of Loans | |
| December 31, 2014 | | | | | |
| | (In thousands) | | | | |
| Balance as of beginning of period | \$32,591 | \$57,771 | \$4,254 | \$177,440 | |
| Accretion | (2,970 |) 2,970 | (1,424 |) 1,424 | |
| Payments received, net | — | (6,455 |) — | (1,193 |) |
| Balance as of end of period | \$29,621 | \$54,286 | \$2,830 | \$177,671 | |
| September 30, 2014 | | | | | |
| | (In thousands) | | | | |
| Balance as of beginning of period | \$37,236 | \$69,718 | \$4,977 | \$245,373 | |
| Reclassification from nonaccretable balance, net (1) | 7,300 | — | — | — | |
| Accretion | (11,945 |) 11,945 | (723 |) 723 | |
| Transfers to REO | — | (1,188 |) — | (4,710 |) |
| Payments received, net | — | (22,704 |) — | (63,946 |) |
| Balance as of end of period | \$32,591 | \$57,771 | \$4,254 | \$177,440 | |
| (1) reclassification due to improvements in expected cash flows of the underlying loans. | | | | | |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTER ENDED DECEMBER 31, 2014 AND 2013
(UNAUDITED)

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

| | December 31, 2014 | | September 30, 2014 | | |
|----------------------------------|-------------------|-------|--------------------|------|---|
| | (In thousands) | | | | |
| Non-accrual loans: | | | | | |
| Single-family residential | \$74,416 | 75.6 | % \$74,067 | 84.8 | % |
| Construction - speculative | 1,329 | 1.4 | 1,477 | 1.7 | |
| Land - acquisition & development | — | — | 811 | 0.9 | |
| Land - consumer lot loans | 2,260 | 2.3 | 2,637 | 3.0 | |
| Multi-family | 1,019 | 1.0 | 1,742 | 2.0 | |
| Commercial real estate | 15,970 | 16.2 | 5,106 | 5.8 | |
| Commercial & industrial | 672 | 0.7 | 7 | — | |
| HELOC | 1,454 | 1.5 | 795 | 0.9 | |
| Consumer | 1,233 | 1.3 | 789 | 0.9 | |
| Total non-accrual loans | \$98,353 | 100.0 | % \$87,431 | 100 | % |

The following tables provide an analysis of the age of loans in past due status as of December 31, 2014 and September 30, 2014, respectively.

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| December 31, 2014 Type of Loan | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | | Total | % based on \$ | |
|-----------------------------------|--|---|----------|---------|----------|----------|-------|------------------|--|
| | | Current | 30 | 60 | 90 | | | | |
| Non-acquired loans | | | | | | | | | |
| Single-Family Residential | \$5,605,917 | \$5,518,834 | \$17,503 | \$7,804 | \$61,776 | \$87,083 | 1.55 | % | |
| Construction - Speculative | 95,367 | 95,199 | 168 | — | — | 168 | 0.18 | | |
| Construction - Custom | 191,787 | 191,670 | 114 | 3 | — | 117 | 0.06 | | |
| Land - Acquisition & Development | 70,347 | 68,008 | 2,339 | — | — | 2,339 | 3.32 | | |
| Land - Consumer Lot Loans | 104,444 | 100,639 | 596 | 368 | 2,841 | 3,805 | 3.64 | | |
| Multi-Family | 906,295 | 905,532 | — | — | 763 | 763 | 0.08 | | |
| Commercial Real Estate | 559,808 | 541,939 | 2,607 | — | 15,262 | 17,869 | 3.19 | | |
| Commercial & Industrial | 388,588 | 387,149 | 339 | — | 1,100 | 1,439 | 0.37 | | |
| HELOC | 118,143 | 117,362 | 162 | 58 | 561 | 781 | 0.66 | | |
| Consumer | 126,929 | 125,745 | 756 | 230 | 198 | 1,184 | 0.93 | | |
| Total non-acquired loans | 8,167,625 | 8,052,077 | 24,584 | 8,463 | 82,501 | 115,548 | 1.41 | % | |
| Acquired loans | | | | | | | | | |
| Single-Family Residential | 11,164 | 10,907 | 232 | — | 25 | 257 | 2.30 | % | |
| Land - Acquisition & Development | 872 | 872 | — | — | — | — | — | | |
| Land - Consumer Lot Loans | 2,495 | 1,686 | 560 | — | 249 | 809 | — | | |
| Multi-Family | 2,954 | 2,954 | — | — | — | — | — | | |
| Commercial Real Estate | 92,066 | 91,211 | — | 97 | 758 | 855 | 0.93 | | |
| Commercial & Industrial | 58,832 | 58,733 | — | — | 99 | 99 | 0.17 | | |
| HELOC | 7,749 | 7,290 | 241 | — | 218 | 459 | 5.92 | | |
| Consumer | 4,369 | 3,301 | 412 | — | 656 | 1,068 | 24.44 | | |
| Total acquired loans | 180,501 | 176,954 | 1,445 | 97 | 2,005 | 3,547 | 1.97 | % | |
| Credit-impaired acquired loans | | | | | | | | | |
| Single-Family Residential | 323 | 323 | — | — | — | — | — | % | |
| Land - Acquisition & Development | 1,533 | 1,533 | — | — | — | — | — | | |
| Commercial Real Estate | 60,280 | 56,301 | 2,064 | 430 | 1,485 | 3,979 | 6.60 | | |
| Commercial & Industrial | 3,255 | 3,255 | — | — | — | — | — | | |
| HELOC | 9,201 | 8,799 | — | — | 402 | 402 | 4.37 | | |

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| | | | | | | | | |
|---|-------------|-------------|----------|---------|----------|-----------|------|---|
| Consumer | 54 | 54 | — | — | — | — | — | |
| Total credit-impaired acquired loans | 74,646 | 70,265 | 2,064 | 430 | 1,887 | 4,381 | 5.87 | % |
| Total loans | \$8,422,772 | \$8,299,296 | \$28,093 | \$8,990 | \$86,393 | \$123,476 | 1.47 | % |

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| September 30, 2014 Type of Loan | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Current | Amount of Loans | | | Total | % based on \$ | |
|------------------------------------|--|--|-----------------|---------|----------|----------|------------------|---|
| | | | 30 | 60 | 90 | | | % |
| Single-Family Residential | \$5,557,753 | \$5,467,239 | \$15,926 | \$9,139 | \$65,449 | \$90,514 | 1.63 | % |
| Construction - Speculative | 87,035 | 87,035 | — | — | — | — | — | |
| Construction - Custom | 192,098 | 191,262 | 836 | — | — | 836 | 0.44 | |
| Land - Acquisition & Development | 68,066 | 67,911 | 155 | — | — | 155 | 0.23 | |
| Land - Consumer Lot Loans | 108,589 | 104,571 | 1,246 | 304 | 2,468 | 4,018 | 3.70 | |
| Multi-Family | 892,196 | 891,372 | 205 | 16 | 603 | 824 | 0.09 | |
| Commercial Real Estate | 529,453 | 513,409 | 67 | 15,118 | 859 | 16,044 | 3.03 | |
| Commercial & Industrial | 379,226 | 377,848 | 53 | 1,318 | 7 | 1,378 | 0.36 | |
| HELOC | 116,262 | 115,262 | 335 | 292 | 373 | 1,000 | 0.86 | |
| Consumer | 132,686 | 131,642 | 654 | 262 | 128 | 1,044 | 0.79 | |
| Total non-acquired loans | 8,063,364 | 7,947,551 | 19,477 | 26,449 | 69,887 | 115,813 | 1.44 | % |
| Acquired loans | | | | | | | | |
| Single-Family Residential | 11,716 | 11,693 | — | — | 23 | 23 | 0.20 | |
| Land - Acquisition & Development | 905 | 905 | — | — | — | — | — | |
| Land - Consumer Lot Loans | 2,502 | 2,132 | — | 370 | — | 370 | 14.79 | |
| Multi-Family | 2,999 | 2,999 | — | — | — | — | — | |
| Commercial Real Estate | 97,715 | 96,948 | 104 | — | 663 | 767 | 0.78 | |
| Commercial & Industrial | 51,329 | 51,229 | — | 100 | — | 100 | 0.19 | |
| HELOC | 8,056 | 8,056 | — | — | — | — | — | |
| Consumer | 5,670 | 4,983 | 22 | 4 | 661 | 687 | 12.12 | |
| Total acquired loans | 180,892 | 178,945 | 126 | 474 | 1,347 | 1,947 | 1.08 | % |
| Credit-impaired acquired loans | | | | | | | | |
| Single-Family Residential | 325 | 325 | — | — | — | — | — | % |
| Land - Acquisition & Development | 1,581 | 1,581 | — | — | — | — | — | |

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| | | | | | | | | |
|--------------------------------------|-------------|-------------|----------|----------|----------|-----------|------|---|
| Commercial Real Estate | 63,713 | 61,713 | 152 | 909 | 939 | 2,000 | 3.14 | |
| Commercial & Industrial | 3,477 | 3,470 | 7 | — | — | 7 | 0.20 | |
| HELOC | 10,138 | 9,641 | — | 75 | 422 | 497 | 4.90 | |
| Consumer | 54 | 54 | — | — | — | — | — | |
| Total credit-impaired acquired loans | 79,288 | 76,784 | 159 | 984 | 1,361 | 2,504 | 3.16 | % |
| Total loans | \$8,323,544 | \$8,203,280 | \$19,762 | \$27,907 | \$72,595 | \$120,264 | 1.44 | % |

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Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of December 31, 2014, single-family residential loans comprised 86.6% of TDRs.

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

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

| | Quarter Ended December 31, 2014 | | 2013 | | | |
|-------------------------------|--|--|--|--|----------|-----------|
| | Pre-Modification Outstanding Number of Contracts Recorded Investment (In thousands) | Post-Modification Outstanding Recorded Investment | Pre-Modification Outstanding Number of Contracts Recorded Investment (In thousands) | Post-Modification Outstanding Recorded Investment | | |
| Troubled Debt Restructurings: | | | | | | |
| Single-Family Residential | 35 | \$9,600 | \$ 9,600 | 113 | \$23,607 | \$ 23,607 |
| Construction - Speculative | 2 | 718 | 718 | — | — | — |
| Land - Consumer Lot Loans | 2 | 532 | 532 | 5 | 1,098 | 1,098 |
| Multi-Family | — | — | — | 2 | 1,213 | 1,213 |
| Commercial Real Estate | — | — | — | 1 | 810 | 810 |
| HELOC | — | — | — | 1 | 261 | 261 |
| Consumer | 1 | 85 | 85 | 2 | 39 | 39 |
| | 40 | \$10,935 | \$ 10,935 | 124 | \$27,028 | \$ 27,028 |

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

| Quarter Ended December 31, 2014 | | 2013 | |
|--|--|--|--|
| Number of Contracts (In thousands) | Recorded Investment (In thousands) | Number of Contracts (In thousands) | Recorded Investment (In thousands) |

Troubled Debt Restructurings That Subsequently
Defaulted:

| | | | | |
|---------------------------|----|---------|----|---------|
| Single-Family Residential | 8 | \$1,431 | 24 | \$3,624 |
| Land - Consumer Lot Loans | 3 | 389 | 2 | 166 |
| | 11 | \$1,820 | 26 | \$3,790 |

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NOTE E – Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses for the quarter ended December 31, 2014 and fiscal year ended September 30, 2014:

| Quarter Ended December 31, 2014 | Beginning Allowance (In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|--------------------------------------|---------------------------------------|-------------|------------|-----------------------|------------------|
| Single-family residential | \$62,763 | \$(1,694) |) \$2,553 | \$(8,127) |) \$55,495 |
| Construction - speculative | 6,742 | (388) |) — | (903) |) 5,451 |
| Construction - custom | 1,695 | — |) — | (730) |) 965 |
| Land - acquisition & development | 5,592 | (38) |) 1 | 1,116 | 6,671 |
| Land - consumer lot loans | 3,077 | (35) |) — | 71 | 3,113 |
| Multi-family | 4,248 | — |) 220 | 32 | 4,500 |
| Commercial real estate | 7,548 | (27) |) 28 | (1,677) |) 5,872 |
| Commercial & industrial | 16,527 | — |) 34 | 6,767 | 23,328 |
| HELOC | 928 | — |) — | (36) |) 892 |
| Consumer | 3,227 | (427) |) 615 | (1,002) |) 2,413 |
| | \$112,347 | \$(2,609) |) \$3,451 | \$(4,489) |) \$108,700 |
| Fiscal Year Ended September 30, 2014 | Beginning Allowance (In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
| Single-family residential | \$64,184 | \$(8,529) |) \$17,684 | \$(10,576) |) \$62,763 |
| Construction - speculative | 8,407 | (949) |) 97 | (813) |) 6,742 |
| Construction - custom | 882 | — |) — | 813 | 1,695 |
| Land - acquisition & development | 9,165 | (541) |) 3,071 | (6,103) |) 5,592 |
| Land - consumer lot loans | 3,552 | (658) |) 22 | 161 | 3,077 |
| Multi-family | 3,816 | — |) — | 432 | 4,248 |
| Commercial real estate | 5,595 | (105) |) 33 | 2,025 | 7,548 |
| Commercial & industrial | 16,614 | (826) |) 5,043 | (4,304) |) 16,527 |
| HELOC | 1,002 | (48) |) — | (26) |) 928 |
| Consumer | 3,524 | (3,443) |) 3,513 | (367) |) 3,227 |
| | \$116,741 | \$(15,099) |) \$29,463 | \$(18,758) |) \$112,347 |

The Company recorded a \$5,500,000 reversal for loan losses during the quarter ended December 31, 2014, while a \$4,600,000 reversal was recorded for the same quarter one year ago. The credit quality of the portfolio has been improving significantly and economic conditions are more favorable. The primary reason for the reversal in the quarter ended December 31, 2013, was the favorable settlement of a lawsuit related to previously purchased loans. During the fiscal year ended September 30, 2014, there was a transfer of \$2,910,000 to establish a reserve for unfunded commitments. This reserve was \$1,898,000 as of December 31, 2014.

Non-performing assets (“NPAs”) amounted to \$164,317,000, or 1.13%, of total assets at December 31, 2014, compared to \$197,910,000, or 1.37%, of total assets one year ago. Acquired loans, including covered loans, are not classified as non-performing loans because at acquisition the carrying value of these loans was adjusted to reflect fair value. As of December 31, 2014, \$37,136,000 in acquired loans were subject to the general allowance as the discount related to these balances is not sufficient to absorb potential losses. There was no additional provision for loan losses recorded

on acquired or covered loans during the quarter ended December 31, 2014. Non-accrual loans decreased from \$114,717,000 at December 31, 2013, to \$98,352,555 at December 31, 2014, a 14.3% decrease.

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The Company had net recoveries of \$841,000 for the quarter ended December 31, 2014, compared with \$6,017,000 of net recoveries for the same quarter one year ago largely attributed to the lawsuit settlement discussed above. A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations.

At December 31, 2014, \$108,700,000 of the allowance was calculated under the formulas contained in our general allowance methodology. At September 30, 2014, \$112,287,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$60,000 was made up of specific reserves on loans that were deemed to be impaired.

The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of December 31, 2014 and September 30, 2014:

| December 31, 2014 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | |
|----------------------------------|---|--|-------|---|---|-------|---|
| | General Reserve Allocation | Gross Loans Subject to General Reserve (1) | Ratio | Specific Reserve Allocation | Gross Loans Subject to Specific Reserve (1) | Ratio | |
| | (In thousands) | | | (In thousands) | | | |
| Single-family residential | \$55,495 | \$ 5,542,825 | 1.0 | % \$— | \$ 63,091 | — | % |
| Construction - speculative | 5,451 | 87,711 | 6.2 | — | 7,656 | — | |
| Construction - custom | 965 | 191,787 | 0.5 | — | — | — | |
| Land - acquisition & development | 6,671 | 66,953 | 10.0 | — | 3,394 | — | |
| Land - consumer lot loans | 3,113 | 91,588 | 3.4 | — | 12,856 | — | |
| Multi-family | 4,500 | 901,277 | 0.5 | — | 5,019 | — | |
| Commercial real estate | 5,872 | 533,593 | 1.1 | — | 26,217 | — | |
| Commercial & industrial | 23,328 | 425,724 | 5.4 | — | — | — | |
| HELOC | 892 | 116,544 | 0.8 | — | 1,598 | — | |
| Consumer | 2,413 | 126,920 | 1.9 | — | 9 | — | |
| | \$108,700 | \$ 8,084,922 | 1.4 | % \$— | \$ 119,840 | — | % |

(1) Excludes acquired loans with sufficient discounts and covered loans

| September 30, 2014 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | |
|----------------------------------|---|--|-------|---|---|-------|---|
| | General Reserve Allocation | Gross Loans Subject to General Reserve (1) | Ratio | Specific Reserve Allocation | Gross Loans Subject to Specific Reserve (1) | Ratio | |
| | (In thousands) | | | (In thousands) | | | |
| Single-family residential | \$62,067 | \$ 5,487,331 | 1.1 | % \$— | \$ 72,869 | — | % |
| Construction - speculative | 6,682 | 130,901 | 5.5 | 60 | 9,159 | 0.7 | |
| Construction - custom | 1,695 | 385,464 | 0.5 | — | 360 | — | |
| Land - acquisition & development | 5,592 | 73,999 | 7.6 | — | 3,833 | — | |
| Land - consumer lot loans | 3,077 | 95,684 | 3.2 | — | 12,939 | — | |
| Multi-family | 4,248 | 911,162 | 0.5 | — | 6,124 | — | |
| Commercial real estate | 7,548 | 563,534 | 1.4 | — | 27,802 | — | |

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| | | | | | | |
|-------------------------|-----------|--------------|-----|--------|------------|-----|
| Commercial & industrial | 17,223 | 421,816 | 4.6 | — | — | — |
| HELOC | 928 | 114,393 | 0.9 | — | 1,650 | — |
| Consumer | 3,227 | 132,590 | 2.4 | — | — | — |
| | \$112,287 | \$ 8,316,874 | 1.4 | % \$60 | \$ 134,736 | — % |

(1) Excludes acquired loans with sufficient discounts and covered loans

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

Pass – the credit does not meet one of the definitions below.

Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.

Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

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

The following tables provide information on loans based on credit quality indicators (defined above) as of December 31, 2014 and September 30, 2014.

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

| December 31, 2014 | Internally Assigned Grade | | | | | Total Gross Loans |
|---|---------------------------|-----------------|-------------|----------|------|----------------------|
| | Pass (In thousands) | Special mention | Substandard | Doubtful | Loss | |
| Non-acquired loans | | | | | | |
| Single-family residential | \$5,484,864 | \$2,357 | \$120,987 | \$— | \$— | \$5,608,208 |
| Construction - speculative | 147,979 | — | 4,471 | — | — | 152,450 |
| Construction - custom | 377,561 | — | — | — | — | 377,561 |
| Land - acquisition & development | 78,428 | — | 5,572 | — | — | 84,000 |
| Land - consumer lot loans | 103,890 | — | 602 | — | — | 104,492 |
| Multi-family | 971,647 | — | 6,105 | — | — | 977,752 |
| Commercial real estate | 566,553 | 1,955 | 28,928 | — | — | 597,436 |
| Commercial & industrial | 333,082 | 13,653 | 44,592 | — | — | 391,327 |
| HELOC | 117,799 | — | 248 | — | — | 118,047 |
| Consumer | 126,929 | — | — | — | — | 126,929 |
| | 8,308,732 | 17,965 | 211,505 | — | — | 8,538,202 |
| Acquired loans | | | | | | |
| Single-family residential | 11,163 | — | — | — | — | 11,163 |
| Land - acquisition & development | 479 | — | 393 | — | — | 872 |
| Land - consumer lot loans | 2,496 | — | — | — | — | 2,496 |
| Multi-family | 2,954 | — | — | — | — | 2,954 |
| Commercial real estate | 83,991 | 742 | 7,400 | — | — | 92,133 |
| Commercial & industrial | 45,643 | 13,001 | 171 | 21 | — | 58,836 |
| HELOC | 7,749 | — | — | — | — | 7,749 |
| Consumer | 4,369 | — | — | — | — | 4,369 |
| | 158,844 | 13,743 | 7,964 | 21 | — | 180,572 |
| Credit impaired acquired loans | | | | | | |
| Pool 1 - Construction and land A&D | 1,244 | — | 289 | — | — | 1,533 |
| Pool 2 - Single-family residential | 323 | — | — | — | — | 323 |
| Pool 3 - Multi-family | — | — | — | — | — | — |
| Pool 4 - HELOC & other consumer | 9,256 | — | — | — | — | 9,256 |
| Pool 5 - Commercial real estate | 48,716 | — | 11,571 | — | — | 60,287 |
| Pool 6 - Commercial & industrial | 452 | 2,803 | — | — | — | 3,255 |
| Total credit impaired acquired loans | 59,991 | 2,803 | 11,860 | — | — | 74,654 |
| Total gross loans | \$8,527,567 | \$34,511 | \$231,329 | \$21 | \$— | \$8,793,428 |

| | | | | | | |
|---|------|-------|-------|-----|-----|---|
| Total grade as a % of total gross loans | 97.0 | % 0.4 | % 2.6 | % — | % — | % |
|---|------|-------|-------|-----|-----|---|

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| September 30, 2014 | Internally Assigned Grade | | | | | Total Gross Loans |
|--------------------------------------|---------------------------|-----------------|-------------|----------|------|----------------------|
| | Pass (In thousands) | Special mention | Substandard | Doubtful | Loss | |
| Non-acquired loans | | | | | | |
| Single-family residential | \$5,426,895 | \$2,793 | \$130,515 | \$— | \$— | \$5,560,203 |
| Construction - speculative | 134,950 | — | 5,110 | — | — | 140,060 |
| Construction - custom | 385,824 | — | — | — | — | 385,824 |
| Land - acquisition & development | 71,692 | — | 6,140 | — | — | 77,832 |
| Land - consumer lot loans | 108,013 | — | 610 | — | — | 108,623 |
| Multi-family | 912,728 | — | 4,558 | — | — | 917,286 |
| Commercial real estate | 557,914 | 1,971 | 31,451 | — | — | 591,336 |
| Commercial & industrial | 359,221 | 14,740 | 5,265 | — | — | 379,226 |
| HELOC | 115,794 | — | 248 | — | — | 116,042 |
| Consumer | 132,349 | — | 241 | — | — | 132,590 |
| | 8,205,380 | 19,504 | 184,138 | — | — | 8,409,022 |
| Acquired loans | | | | | | |
| Single-family residential | 11,716 | — | — | — | — | 11,716 |
| Land - acquisition & development | 503 | — | 402 | — | — | 905 |
| Land - consumer lot loans | 2,507 | — | — | — | — | 2,507 |
| Multi-family | 2,999 | — | — | — | — | 2,999 |
| Commercial real estate | 88,974 | 2,571 | 6,353 | — | — | 97,898 |
| Commercial & industrial | 36,311 | 13,642 | 1,375 | 58 | — | 51,386 |
| HELOC | 8,274 | — | — | — | — | 8,274 |
| Consumer | 5,670 | — | — | — | — | 5,670 |
| | 156,954 | 16,213 | 8,130 | 58 | — | 181,355 |
| Credit impaired acquired loans | | | | | | |
| Pool 1 - Construction and land A&D | 1,292 | — | 330 | — | — | 1,622 |
| Pool 2 - Single-family residential | 325 | — | — | — | — | 325 |
| Pool 3 - Multi-family | — | — | — | — | — | — |
| Pool 4 - HELOC & other consumer | 10,194 | — | — | — | — | 10,194 |
| Pool 5 - Commercial real estate | 48,878 | 2,143 | 12,702 | — | — | 63,723 |
| Pool 6 - Commercial & industrial | 643 | — | 2,833 | — | — | 3,476 |
| Total credit impaired acquired loans | 61,332 | 2,143 | 15,865 | — | — | 79,340 |
| Total gross loans | \$8,423,666 | \$37,860 | \$208,133 | \$58 | \$— | \$8,669,717 |

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Total grade as a % of total gross loans 97.2 % 0.4 % 2.4 % — % — %

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

| December 31, 2014 | Performing Loans | | Non-Performing Loans | | |
|----------------------------------|------------------|---------------------------|----------------------|---------------------------|---|
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans | |
| | (In thousands) | | | | |
| Single-family residential | \$5,533,792 | 98.7 | % \$74,416 | 1.3 | % |
| Construction - speculative | 151,121 | 99.1 | 1,329 | 0.9 | |
| Construction - custom | 377,561 | 100.0 | — | — | |
| Land - acquisition & development | 84,000 | 100.0 | — | — | |
| Land - consumer lot loans | 102,232 | 97.8 | 2,260 | 2.2 | |
| Multi-family | 976,733 | 99.9 | 1,019 | 0.1 | |
| Commercial real estate | 581,466 | 97.3 | 15,970 | 2.7 | |
| Commercial & industrial | 390,655 | 99.8 | 672 | 0.2 | |
| HELOC | 116,593 | 98.8 | 1,454 | 1.2 | |
| Consumer | 125,696 | 99.0 | 1,233 | 1.0 | |
| | \$8,439,849 | 98.8 | % \$98,353 | 1.2 | % |
| | | | | | |
| September 30, 2014 | Performing Loans | | Non-Performing Loans | | |
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans | |
| | (In thousands) | | | | |
| Single-family residential | \$5,486,136 | 98.7 | % \$74,067 | 1.3 | % |
| Construction - speculative | 138,583 | 98.9 | 1,477 | 1.1 | |
| Construction - custom | 385,824 | 100.0 | — | — | |
| Land - acquisition & development | 77,021 | 99.0 | 811 | 1.0 | |
| Land - consumer lot loans | 105,986 | 97.6 | 2,637 | 2.4 | |
| Multi-family | 915,544 | 99.8 | 1,742 | 0.2 | |
| Commercial real estate | 586,230 | 99.1 | 5,106 | 0.9 | |
| Commercial & industrial | 379,219 | 100.0 | 7 | — | |
| HELOC | 115,247 | 99.3 | 795 | 0.7 | |
| Consumer | 131,801 | 99.4 | 789 | 0.6 | |
| | \$8,321,591 | 99.0 | % \$87,431 | 1.0 | % |

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The following table provides information on impaired loan balances and the related allowances by loan types as of December 31, 2014 and September 30, 2014:

| December 31, 2014 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-------------------------------------|---------------------|--------------------------|-------------------|-----------------------------|
| | (In thousands) | | | |
| With no related allowance recorded: | | | | |
| Single-family residential | \$24,441 | \$26,661 | \$— | \$21,251 |
| Construction - speculative | 1,006 | 1,201 | — | 1,040 |
| Land - acquisition & development | 790 | 2,163 | — | 813 |
| Land - consumer lot loans | 1,689 | 1,787 | — | 1,268 |
| Multi-family | 1,255 | 1,255 | — | 1,068 |
| Commercial real estate | 27,233 | 33,352 | — | 26,902 |
| Commercial & industrial | 4,429 | 16,320 | — | 3,812 |
| HELOC | 1,163 | 1,948 | — | 1,075 |
| Consumer | 651 | 836 | — | 647 |
| | 62,657 | 85,523 | — | 57,876 |
| With an allowance recorded: | | | | |
| Single-family residential | 304,029 | 309,207 | 9,964 | 304,359 |
| Construction - speculative | 6,317 | 7,182 | — | 6,506 |
| Land - acquisition & development | 4,238 | 5,178 | — | 4,467 |
| Land - consumer lot loans | 12,231 | 12,614 | — | 12,446 |
| Multi-family | 3,492 | 3,492 | — | 3,828 |
| Commercial real estate | 18,028 | 18,896 | — | 18,072 |
| HELOC | 1,486 | 1,486 | — | 1,486 |
| Consumer | 126 | 297 | — | 85 |
| | 349,947 | 358,352 | 9,964 | (1) 351,249 |
| Total: | | | | |
| Single-family residential | 328,470 | 335,868 | 9,964 | 325,610 |
| Construction - speculative | 7,323 | 8,383 | — | 7,546 |
| Land - acquisition & development | 5,028 | 7,341 | — | 5,280 |
| Land - consumer lot loans | 13,920 | 14,401 | — | 13,714 |
| Multi-family | 4,747 | 4,747 | — | 4,896 |
| Commercial real estate | 45,261 | 52,248 | — | 44,974 |
| Commercial & industrial | 4,429 | 16,320 | — | 3,812 |
| HELOC | 2,649 | 3,434 | — | 2,561 |
| Consumer | 777 | 1,133 | — | 732 |
| | \$412,604 | \$443,875 | \$9,964 | (1) \$409,125 |

(1)Included in the general reserves.

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| September 30, 2014 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| | (In thousands) | | | |
| With no related allowance recorded: | | | | |
| Single-family residential | \$24,044 | \$26,628 | \$— | \$16,843 |
| Construction - speculative | 1,603 | 2,173 | — | 1,804 |
| Land - acquisition & development | 837 | 2,325 | — | 1,038 |
| Land - consumer lot loans | 974 | 1,072 | — | 713 |
| Multi-family | 1,111 | 1,111 | — | 327 |
| Commercial real estate | 13,234 | 20,085 | — | 11,720 |
| Commercial & industrial | 3,195 | 17,166 | — | 3,900 |
| HELOC | 1,019 | 1,730 | — | 612 |
| Consumer | 663 | 833 | — | 517 |
| | 46,680 | 73,123 | — | 37,474 |
| With an allowance recorded: | | | | |
| Single-family residential | 322,320 | 327,869 | 10,527 | 316,348 |
| Construction - speculative | 7,556 | 7,986 | 60 | 7,532 |
| Land - acquisition & development | 4,696 | 5,636 | — | 4,114 |
| Land - consumer lot loans | 13,002 | 13,385 | — | 12,858 |
| Multi-family | 5,243 | 5,463 | — | 4,957 |
| Commercial real estate | 34,159 | 35,028 | — | 18,572 |
| HELOC | 1,486 | 1,486 | — | 1,204 |
| Consumer | 43 | 214 | — | 79 |
| | 388,505 | 397,067 | 10,587 | (1) 365,664 |
| Total: | | | | |
| Single-family residential | 346,364 | 354,497 | 10,527 | 333,191 |
| Construction - speculative | 9,159 | 10,159 | 60 | 9,336 |
| Land - acquisition & development | 5,533 | 7,961 | — | 5,152 |
| Land - consumer lot loans | 13,976 | 14,457 | — | 13,571 |
| Multi-family | 6,354 | 6,574 | — | 5,284 |
| Commercial real estate | 47,393 | 55,113 | — | 30,292 |
| Commercial & industrial | 3,195 | 17,166 | — | 3,900 |
| HELOC | 2,505 | 3,216 | — | 1,816 |
| Consumer | 706 | 1,047 | — | 596 |
| | \$435,185 | \$470,190 | \$10,587 | (1) \$403,138 |

(1) Includes \$60,000 of specific reserves and \$10,527,000 included in the general reserves.

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NOTE F – New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-11, Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. Under this new accounting guidance, repurchase-to-maturity transactions will be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with contemporaneous repurchase financings will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged in repurchase financings accounted for as secured borrowings. The amendments in this update will be effective for the first interim or annual period beginning after December 31, 2014, with the exception of the collateral disclosures which will be effective for interim periods beginning after March 15, 2015. Early application is not permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new accounting guidance clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance does not apply to financial instruments. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2016. The Company does not expect the new guidance to have a material impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. This new guidance clarifies that if an in substance repossession or foreclosure occurs, a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE G – Fair Value Measurements

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

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

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

observable market data.

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

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

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Measured on a Recurring Basis

Securities

Securities available for sale are recorded at fair value on a recurring basis. Most securities at fair value are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Securities that are traded on active exchanges are considered a Level 1 input method.

The following tables present the balance of assets measured at fair value on a recurring basis at December 31, 2014 and September 30, 2014:

| | Fair Value at December 31, 2014 | | | Total |
|--|---------------------------------|-------------|---------|-------------|
| | Level 1 (In thousands) | Level 2 | Level 3 | |
| Available-for-sale securities | | | | |
| Equity securities | \$101,636 | \$— | \$— | \$101,636 |
| Obligations of U.S. government | — | 620,018 | — | 620,018 |
| Obligations of states and political subdivisions | — | 24,068 | — | 24,068 |
| Corporate debt securities | — | 527,938 | — | 527,938 |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | — | 1,527,810 | — | 1,527,810 |
| Other commercial MBS | — | 93,586 | — | 93,586 |
| Balance at end of period | \$101,636 | \$2,793,420 | \$— | \$2,895,056 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended December 31, 2014.

| | Fair Value at September 30, 2014 | | | Total |
|--|----------------------------------|-------------|---------|-------------|
| | Level 1 (In thousands) | Level 2 | Level 3 | |
| Available-for-sale securities | | | | |
| Equity securities | \$101,387 | \$— | \$— | \$101,387 |
| Obligations of U.S. government | — | 731,943 | — | 731,943 |
| Obligations of states and political subdivisions | — | 23,681 | — | 23,681 |
| Corporate debt securities | — | 509,007 | — | 509,007 |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | — | 1,584,508 | — | 1,584,508 |
| Other commercial MBS | — | 98,916 | — | 98,916 |
| Balance at end of period | \$101,387 | \$2,948,055 | \$— | \$3,049,442 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended September 30, 2014.

Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Held for Sale

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

Real estate held for sale consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, fair value adjustments are recorded to reflect write-downs or write-ups, but only up to the fair value of the real estate owned as of the initial transfer date, of principal balances based on the current appraised or

estimated value of the collateral.

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When management determines that the fair value of the loan collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at December 31, 2014 included loans for which a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

The following tables present the aggregated balance of assets measured at estimated fair value on a nonrecurring basis through the three months ended December 31, 2014 and December 31, 2013, and the total losses (gains) resulting from those fair value adjustments for the quarters ended December 31, 2014 and December 31, 2013. These estimated fair values are shown gross of estimated selling costs.

| | Through December 31, 2014 | | | | Quarter Ended December 31, 2014 Total Losses (Gains) |
|-------------------------------|---------------------------|---------|----------|----------|---|
| | Level 1 (In thousands) | Level 2 | Level 3 | Total | |
| Impaired loans (1) | \$— | \$— | \$146 | \$146 | \$64 |
| Covered REO (1) | — | — | 1,041 | 1,041 | 75 |
| Real estate held for sale (2) | — | — | 36,901 | 36,901 | (8,312) |
| Balance at end of period | \$— | \$— | \$38,088 | \$38,088 | \$(8,173) |

(1) The losses represent remeasurements of collateral-dependent loans.

(2) The gains in this period include a one-time correction of \$8.2 million (see Note A for description).

| | Through December 31, 2013 | | | | Quarter Ended December 31, 2013 Total Losses (Gains) |
|-------------------------------|---------------------------|---------|----------|----------|---|
| | Level 1 (In thousands) | Level 2 | Level 3 | Total | |
| Impaired loans (1) | \$— | \$— | \$5,580 | \$5,580 | \$(805) |
| Covered REO (2) | — | — | 1,286 | 1,286 | 65 |
| Real estate held for sale (2) | — | — | 10,342 | 10,342 | 3,725 |
| Balance at end of period | \$— | \$— | \$17,208 | \$17,208 | \$2,985 |

(1) The gains represent remeasurements of collateral-dependent loans.

(2) The losses represent aggregate writedowns and charge-offs on real estate held for sale.

There were no liabilities carried at fair value, measured on a recurring or nonrecurring basis, at December 31, 2014 or December 31, 2013.

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

The evaluations for impairment are prepared by the Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for probable loan & lease losses process. Applicable loans that were included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary.

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The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following method is used to value impaired loans:

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

Real estate held for sale ("REO") - When a loan is reclassified from loan status to real estate held for sale due to the Company taking possession of the collateral, a Special Credits officer, along with the Special Credits manager, obtains a valuation, which may include appraisals or third-party price opinions, which is used to establish the fair value of the underlying collateral. The determined fair value, less selling costs, becomes the carrying value of the REO asset. The following method is used to value real estate held for sale:

The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the lower of cost or fair value as necessary. After foreclosure, valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer. The carrying balance of REO assets are also written down or up once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the cost basis established on the transfer date.

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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.

| | Level in Fair Value Hierarchy | December 31, 2014 | | September 30, 2014 | |
|--|-------------------------------|-------------------|----------------------|--------------------|----------------------|
| | | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| (In thousands) | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1 | \$542,769 | \$542,769 | \$781,843 | \$781,843 |
| Available-for-sale securities | | | | | |
| Equity securities | 1 | 101,636 | 101,636 | 101,387 | 101,387 |
| Obligations of U.S. government | 2 | 620,018 | 620,018 | 731,943 | 731,943 |
| Obligations of states and political subdivisions | 2 | 24,068 | 24,068 | 23,681 | 23,681 |
| Corporate debt securities | 2 | 527,938 | 527,938 | 509,007 | 509,007 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,527,810 | 1,527,810 | 1,584,508 | 1,584,508 |
| Other commercial MBS | 2 | 93,586 | 93,586 | 98,916 | 98,916 |
| Total available-for-sale securities | | 2,895,056 | 2,895,056 | 3,049,442 | 3,049,442 |
| Held-to-maturity securities | | | | | |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,516,219 | 1,503,781 | 1,548,265 | 1,499,218 |
| Total held-to-maturity securities | | 1,516,219 | 1,503,781 | 1,548,265 | 1,499,218 |
| Loans receivable, net | | | | | |
| Covered loans, net | 3 | 8,253,917 | 8,816,245 | 8,148,322 | 8,667,771 |
| FDIC indemnification asset | 3 | 161,478 | 167,129 | 176,476 | 176,761 |
| FHLB and FRB stock | 2 | 30,356 | 29,559 | 36,860 | 35,976 |
| | | 154,870 | 154,870 | 158,839 | 158,839 |
| Financial liabilities | | | | | |
| Customer accounts | 2 | 10,578,853 | 9,936,221 | 10,716,928 | 9,946,586 |
| FHLB advances | 2 | 1,830,000 | 1,953,751 | 1,930,000 | 2,054,437 |
| Off balance sheet - interest rate swaps | 2 | — | (4,517) | — | (170) |

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

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

Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third

party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Equity securities which are exchange traded are considered a Level 1 input method.

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

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

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

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

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

The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of December 31, 2014 and September 30, 2014:

| | December 31, 2014 | | | Fair Value | Yield |
|---|-------------------|-------------|-------------------|------------|-------|
| | Amortized Cost | Gross Gains | Unrealized Losses | | |
| | (In thousands) | | | | |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| 1 to 5 years | \$120,467 | \$2,396 | \$(426) | \$122,437 | 1.47 |
| 5 to 10 years | 153,525 | 64 | (5) | 153,584 | 1.12 |
| Over 10 years | 344,088 | 336 | (427) | 343,997 | 1.26 |
| Equity Securities | | | | | |
| Within 1 year | 500 | 16 | — | 516 | 1.80 |
| 1 to 5 years | 100,000 | 1,120 | — | 101,120 | 1.90 |
| 5 to 10 years | — | — | — | — | — |
| Corporate bonds due | | | | | |
| Within 1 year | 15,000 | 67 | — | 15,067 | 1.00 |
| 1 to 5 years | 302,627 | 1,524 | (6) | 304,145 | 0.71 |
| 5 to 10 years | 158,236 | 1,787 | (1,297) | 158,726 | 1.42 |
| Over 10 years | 50,000 | — | — | 50,000 | 3.00 |
| Municipal bonds due | | | | | |
| Over 10 years | 20,397 | 3,671 | — | 24,068 | 6.45 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,495,114 | 34,386 | (1,690) | 1,527,810 | 2.57 |
| Other commercial MBS | 93,533 | 53 | — | 93,586 | 1.51 |
| | 2,853,487 | 45,420 | (3,851) | 2,895,056 | 1.99 |

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Held-to-maturity securities

Mortgage-backed securities

| | | | | | | | |
|----------------------------------|-------------|----------|-----------|---|-------------|------|---|
| Agency pass-through certificates | 1,516,219 | 9,084 | (21,522 |) | 1,503,781 | 3.13 | |
| | \$4,369,706 | \$54,504 | \$(25,373 |) | \$4,398,837 | 2.39 | % |

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| | September 30, 2014 | | | | |
|---|-------------------------------------|----------------|----------------------|----------------|-------|
| | Amortized Cost (In thousands) | Gross Gains | Unrealized Losses | Fair Value | Yield |
| Available-for-sale securities | | | | | |
| U.S. government and agency securities due | | | | | |
| 1 to 5 years | \$ 171,154 | \$ 2,585 | \$(748) |) \$ 172,991 | 1.26 |
| 5 to 10 years | 203,317 | 300 | (102) |) 203,515 | 1.45 |
| Over 10 years | 354,828 | 1,028 | (419) |) 355,437 | 1.25 |
| Equity Securities | | | | | |
| 1 to 5 years | 100,500 | 887 | — | 101,387 | 1.90 |
| 5 to 10 years | — | — | — | — | — |
| Corporate bonds due | | | | | |
| Within 1 year | 15,000 | 75 | — | 15,075 | 1.00 |
| 1 to 5 years | 302,540 | 2,372 | — | 304,912 | 0.71 |
| 5 to 10 years | 138,201 | 1,789 | (970) |) 139,020 | 1.43 |
| Over 10 years | 50,000 | — | — | 50,000 | 3.00 |
| Municipal bonds due | | | | | |
| Over 10 years | 20,402 | 3,279 | — | 23,681 | 6.45 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,561,639 | 24,893 | (2,024) |) 1,584,508 | 2.57 |
| Other commercial MBS | 98,851 | 65 | — | 98,916 | 1.49 |
| | 3,016,432 | 37,273 | (4,263) |) 3,049,442 | 1.99 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 1,548,265 | 4,855 | (53,902) |) 1,499,218 | 3.13 |
| | \$ 4,564,697 | \$ 42,128 | \$(58,165) |) \$ 4,548,660 | 2.38 |

%

During the quarter ended December 31, 2014, there were no available-for-sale securities sold. There were no available-for-sale securities sold during the quarter ended December 31, 2013. Substantially all agency mortgage-backed securities have contractual due dates that exceed 10 years.

The following tables show the unrealized gross losses and fair value of securities at December 31, 2014 and September 30, 2014, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value is attributable to changes in interest rates. Because the Company does not intend to sell these securities and does not consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other than temporarily impaired.

| December 31, 2014 | 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) | | | | | |
| Corporate bonds due | \$(406) |) \$72,688 | \$(897) |) \$24,104 | \$(1,303) |) \$96,792 |
| | (422) |) 246,045 | (436) |) 99,564 | (858) |) 345,609 |

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U.S. government and agency
securities due

| | | | | | | | | | | |
|---------------------------------------|---|----------|---------|-----------|-----------|---------|-------------|-----------|---|-------------|
| Agency pass-through certificates (421 |) | 62,689 | (22,791 |) | 1,332,778 | (23,212 |) | 1,395,467 | | |
| | | \$(1,249 |) | \$381,422 | \$(24,124 |) | \$1,456,446 | \$(25,373 |) | \$1,837,868 |

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| September 30, 2014 | Less than 12 months | | 12 months or more | | Total | |
|--|---|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Unrealized Gross Losses (In thousands) | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| Corporate bonds due | \$(125) | \$24,875 | \$(845) | \$24,155 | \$(970) | \$49,030 |
| U.S. government and agency securities due | (472) | 316,578 | (797) | 109,354 | (1,269) | 425,932 |
| Agency pass-through certificates | (215) | 19,212 | (55,711) | 1,509,209 | (55,926) | 1,528,421 |
| | \$(812) | \$360,665 | \$(57,353) | \$1,642,718 | \$(58,165) | \$2,003,383 |

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NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and were \$180,883,000 as of December 31, 2014, versus \$200,558,000 as of September 30, 2014.

Changes in the carrying amount and accretible yield for acquired impaired and non-impaired loans for the quarter ended December 31, 2014 and the fiscal year ended September 30, 2014 were as follows:

| December 31, 2014 | Acquired Impaired | | Acquired Non-impaired | |
|--|-------------------|--------------------------|-----------------------|--------------------------|
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance at beginning of period | \$64,534 | \$78,055 | \$10,259 | \$98,422 |
| Accretion | (4,509) |) 4,509 | (1,909) |) 1,909 |
| Transfers to REO | — | (51) |) — | — |
| Payments received, net | — | (4,025) |) — | (16,942) |
| Balance at end of period | \$60,025 | \$78,488 | \$8,350 | \$83,389 |
| | | | | |
| September 30, 2014 | Acquired Impaired | | Acquired Non-impaired | |
| | Accretible Yield | Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance at beginning of period | \$78,277 | \$138,091 | \$17,263 | \$157,856 |
| Reclassification from nonaccretible balance, net | 10,186 | (2,069) |) — | — |
| Accretion | (23,929) |) 23,929 | (7,004) |) 7,004 |
| Transfers to REO | — | (8,943) |) — | — |
| Payments received, net | — | (72,953) |) — | (66,438) |
| Balance at end of period | \$64,534 | \$78,055 | \$10,259 | \$98,422 |

At December 31, 2014, none of the acquired impaired or non-impaired loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans. The allowance for credit losses related to the acquired loans results from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools.

The outstanding principal balance of acquired loans was \$192,637,000 and \$213,203,000 as of December 31, 2014 and September 30, 2014, respectively. The discount balance related to the acquired loans was \$28,916,000 and \$34,483,000 as of December 31, 2014 and September 30, 2014, respectively.

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

| | December 31, 2014 | September 30, 2014 |
|---|-------------------|--------------------|
| | (In thousands) | |
| Balance at beginning of fiscal year 2014 and 2013 | \$36,860 | \$64,615 |
| Additions | — | 1,795 |
| Payments made (received) | 430 | (2,502) |
| Amortization | (7,074) | (27,850) |
| Accretion | 140 | 802 |
| Balance at end of period | \$30,356 | \$36,860 |

The following tables provide information on covered loans based on credit quality indicators (defined in Note E) as of December 31, 2014 and September 30, 2014:

| December 31, 2014 | Internally Assigned Grade | | | | | Total Net Loans |
|---------------------------------------|---------------------------|-----------------|-------------|----------|------|-----------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| | (In thousands) | | | | | |
| Purchased non credit-impaired loans: | | | | | | |
| Single-family residential | \$20,664 | \$— | \$1,212 | \$— | \$— | \$21,876 |
| Land - acquisition & development | 353 | — | 36 | — | — | 389 |
| Land - consumer lot loans | 73 | — | — | — | — | 73 |
| Multi-family | 4,250 | — | — | — | — | 4,250 |
| Commercial real estate | 25,317 | — | 14,810 | — | — | 40,127 |
| Commercial & industrial | 2,476 | — | 2,635 | — | — | 5,111 |
| HELOC | 11,226 | — | — | — | — | 11,226 |
| Consumer | 393 | — | — | — | — | 393 |
| | 64,752 | — | 18,693 | — | — | 83,445 |
| Total grade as a % of total net loans | 77.6 | % — | % 22.4 | % — | % — | % |
| Purchased credit-impaired loans: | | | | | | |
| Pool 1 - Construction and land A&D | 7,128 | — | 12,142 | — | — | 19,270 |
| Pool 2 - Single-family residential | 15,061 | — | 324 | — | — | 15,385 |
| Pool 3 - Multi-family | 51 | — | 440 | — | — | 491 |
| Pool 4 - HELOC & other consumer | 2,772 | — | 1,167 | — | — | 3,939 |
| Pool 5 - Commercial real estate | 33,543 | 692 | 28,437 | — | — | 62,672 |
| Pool 6 - Commercial & industrial | 3,125 | — | 3,793 | 517 | — | 7,435 |

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| | | | | | | |
|----------|--------|----------|-------|-----|-----------------------|-----------|
| \$61,680 | \$ 692 | \$46,303 | \$517 | \$— | 109,192 | |
| | | | | | Total covered loans | 192,637 |
| | | | | | Discount | (28,916) |
| | | | | | Allowance | (2,243) |
| | | | | | Covered loans, net | \$161,478 |

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| September 30, 2014 | Internally Assigned Grade | | | | | Total Net Loans |
|---------------------------------------|---------------------------|-----------------|-------------|---------------------|--------------------|--------------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | |
| | (In thousands) | | | | | |
| Purchased non credit-impaired loans: | | | | | | |
| Single-family residential | \$21,311 | \$— | \$1,756 | \$— | \$— | \$23,067 |
| Land - acquisition & development | 972 | — | 392 | — | — | 1,364 |
| Land - consumer lot loans | 73 | — | — | — | — | 73 |
| Multi-family | 6,598 | — | — | — | — | 6,598 |
| Commercial real estate | 26,940 | 115 | 24,281 | — | — | 51,336 |
| Commercial & industrial | 2,801 | — | 2,691 | — | — | 5,492 |
| HELOC | 11,777 | — | — | — | — | 11,777 |
| Consumer | 454 | — | — | — | — | 454 |
| | 70,926 | 115 | 29,120 | — | — | 100,161 |
| Total grade as a % of total net loans | 70.8 | % 0.1 | % 29.1 | % — | % — | % |
| Purchased credit-impaired loans: | | | | | | |
| Pool 1 - Construction and land A&D | 8,349 | — | 11,912 | — | — | 20,261 |
| Pool 2 - Single-family residential | 15,585 | — | 379 | — | — | 15,964 |
| Pool 3 - Multi-family | 52 | — | 471 | — | — | 523 |
| Pool 4 - HELOC & other consumer | 2,804 | — | 1,173 | — | — | 3,977 |
| Pool 5 - Commercial real estate | 33,909 | 700 | 29,782 | — | — | 64,391 |
| Pool 6 - Commercial & industrial | 3,509 | — | 3,892 | 525 | — | 7,926 |
| | \$64,208 | \$ 700 | \$47,609 | \$525 | \$— | 113,042 |
| | | | | Total covered loans | | 213,203 |
| | | | | | Discount | (34,483) |
| | | | | | Allowance | (2,244) |
| | | | | | Covered loans, net | \$176,476 |

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The following tables provide an analysis of the age of purchased non credit-impaired loans in past due status as of December 31, 2014 and September 30, 2014:

| December 31, 2014 Type of Loans | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | | Total | % based on \$ | |
|-------------------------------------|--|---|------|-------|-------|-------|-------|------------------|---|
| | | Current | 30 | 60 | 90 | | | | % |
| Single-Family Residential | \$21,876 | \$21,306 | \$27 | \$201 | \$342 | \$570 | 2.61 | % | |
| Land - Acquisition & Development | 389 | 353 | — | — | 36 | 36 | 9.25 | | |
| Land - Consumer Lot Loans | 73 | 73 | — | — | — | — | — | | |
| Multi-Family | 4,250 | 4,250 | — | — | — | — | — | | |
| Commercial Real Estate | 40,127 | 40,127 | — | — | — | — | — | | |
| Commercial & Industrial | 5,111 | 5,111 | — | — | — | — | — | | |
| HELOC | 11,226 | 11,197 | 29 | — | — | 29 | 0.26 | | |
| Consumer | 393 | 390 | — | 3 | — | 3 | 0.76 | | |
| | \$83,445 | \$82,807 | \$56 | \$204 | \$378 | \$638 | 0.76 | % | |

| September 30, 2014 Type of Loans | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on \$ Amount of Loans | | | | | Total | % based on \$ | |
|-------------------------------------|--|---|-------|------|---------|---------|-------|------------------|---|
| | | Current | 30 | 60 | 90 | | | | % |
| Single-Family Residential | \$23,067 | \$22,391 | \$230 | \$40 | \$406 | \$676 | 2.93 | % | |
| Land - Acquisition & Development | 1,364 | 1,328 | — | — | 36 | 36 | 2.64 | | |
| Land - Consumer Lot Loans | 73 | 73 | — | — | — | — | — | | |
| Multi-Family | 6,598 | 5,502 | — | — | 1,096 | 1,096 | 16.61 | | |
| Commercial Real Estate | 51,336 | 51,336 | — | — | — | — | — | | |
| Commercial & Industrial | 5,492 | 5,492 | — | — | — | — | — | | |
| HELOC | 11,777 | 11,777 | — | — | — | — | — | | |
| Consumer | 454 | 443 | 11 | — | — | 11 | 2.42 | | |
| | \$100,161 | \$98,342 | \$241 | \$40 | \$1,538 | \$1,819 | 1.82 | % | |

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NOTE I – Derivatives and Hedging Activities

The Bank periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the bank retains a variable rate loan. Under these agreements, the Bank enters into a variable-rate loan agreement with a customer in addition to a swap agreement. This swap agreement effectively converts the customer's variable rate loan into a fixed rate. The Bank then enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the customer agreement. As the interest rate swap agreements with the customers and third parties are not designated as hedges under ASC 815, the Derivatives and Hedging topic, the instruments are marked to market in earnings.

The notional amount of open interest rate swap agreements at December 31, 2014 was \$291,896,000 compared to \$264,169,000 as of September 30, 2014. There was no impact to the statement of operations for the three months ended December 31, 2014 as the asset and liability side of the swaps offset each other. The fee income related to swaps was \$196,000 for the Quarter Ended December 31, 2014.

Additionally, the Bank had \$200,000,000 in forward starting interest rate swaps to hedge future borrowing rates. Their impact on accumulated other comprehensive income as of December 31, 2014 was an after-tax loss of \$2,857,000.

The following table presents the fair value and balance sheet classification of derivatives at December 31, 2014 and September 30, 2014:

| | Asset Derivatives | | | | Liability Derivatives | | | |
|---------------------------|-------------------|------------|--------------------|------------|-----------------------|------------|--------------------|------------|
| | December 31, 2014 | | September 30, 2014 | | December 31, 2014 | | September 30, 2014 | |
| | Location | Fair Value | Location | Fair Value | Location | Fair Value | Location | Fair Value |
| | (In thousands) | | | | | | | |
| Interest rate contracts | Other assets | \$5,626 | Other assets | \$2,879 | Other liabilities | \$5,626 | Other liabilities | \$2,879 |
| Long term borrowing hedge | Other assets | — | Other assets | — | Other liabilities | 4,517 | Other liabilities | — |

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PART I – Financial Information

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

FORWARD LOOKING STATEMENTS

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

GENERAL

Washington Federal, Inc., formed in 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through a federally-insured national bank subsidiary, Washington Federal, National Association. The Bank converted from a federal savings association to a national bank charter with the Office of the Comptroller of the Currency on July 17, 2013. At the same time, the Company which had previously been a savings and loan holding company, became a bank holding company under the Bank Holding Company Act.

The Company's fiscal year end is September 30th. All references to 2014 and 2013 represent balances as of September 30, 2014 and September 30, 2013, respectively, or activity for the fiscal years then ended.

INTEREST RATE RISK

Based on Management's assessment of the current interest rate environment, the Bank has taken steps to reduce its interest rate risk profile compared to its historical norms, including growing shorter-term business loans, transaction deposit accounts and extending the maturity on borrowings. Last year's branch acquisitions accelerated these efforts. The mix of transaction accounts is now 52% of total deposits. The Bank has also been purchasing more variable rate investments. The composition of the investment portfolio is now 46% variable and 54% fixed rate. In addition, \$1,516,219,000 of its purchased 30-year fixed rate mortgage-backed securities have been designated as held-to-maturity. With rising interest rates, these securities may be subject to unrealized losses. As of December 31, 2014, the net unrealized losses on these securities was \$12,438,000. The net unrealized gain on the Available for sale securities of \$2,853,487,000 was \$41,569,000 as of December 31, 2014. The Bank has executed \$200,000,000 in forward starting interest rate swaps to hedge future borrowing rates. The net unrealized loss on the interest rate swaps as of December 31, 2014 was \$4,517,000. These are pre-tax net unrealized gains/(losses).

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

Maturity Gap (Term to Reprice) Analysis. At December 31, 2014, the Company had approximately \$1,593,442,000 more in liabilities subject to repricing in the next year than assets, which amounted to a negative one-year maturity gap of 11.0% of total assets. This was an decrease from the 11.3% negative gap as of September 30, 2014. A negative maturity gap implies that funding costs will change more rapidly than interest income on earning assets with movement in interest rates. A negative maturity gap typically results in lower margins when interest rates rise and higher margins when interest rates decline. Gap analysis provides management with a high-level indication of interest rate risk, but is considered less reliable than more detailed modeling.

Net Interest Income Sensitivity. The potential impact of rising interest rates on net interest income in the future under various rate change scenarios is estimated using a model that is based on account level detail for loans and deposits. In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income will decrease by 1.4% in the next year. This compares to an estimated decrease of 1.5% in the prior quarter's analysis. In the event

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of a gradual increase from current rates by 200 basis points over a twelve-month period, the model forecasts a decrease in net interest income of 2.2% in the first year. This analysis assumes zero balance sheet growth and a constant percentage composition of assets and liabilities. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates.

NPV Sensitivity. The NPV is an estimate of the market value of shareholder's equity. It is derived by calculating the difference between the present value of expected cash flows from interest-earning assets and the present value of expected cash flows from interest-paying liabilities and off-balance-sheet contracts. The sensitivity of the NPV to changes in interest rates provides a longer term view of interest rate risk as it incorporates all future expected cash flows. In the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$531,000,000 or 18.9% and the NPV to total assets ratio to decline to 16.56% from a base of 18.99%. As of September 30, 2014, the NPV in the event of a 200 basis point increase in rates was estimated to decline by \$598,000,000 or 21.7% and the NPV to total assets ratio to decline to 15.68% from a base of 18.53%. The decreased NPV sensitivity and higher base NPV ratio is due to lower interest rates and higher prices as of December 31, 2014.

Interest Rate Spread. The interest rate spread increased to 2.74% at December 31, 2014 from 2.66% at September 30, 2014. The spread increased due to an increase in the average rate on investment securities and decline in the average rate of borrowings. As of December 31, 2014, the weighted average rate on customer deposit accounts and borrowings decreased by 3 basis points compared to September 30, 2014, while the weighted average rates on earning assets increased by 5 basis points over the same period.

Net Interest Margin. The net interest margin decreased to 3.01% for the quarter ended December 31, 2014 from 3.12% for the quarter ended December 31, 2013. The yield on earning assets declined 24 basis points to 3.89% and the cost of interest bearing liabilities declined 15 basis points to 0.98%. The greater decline in the yield on earning assets was due to lower loan yields on new originations compared to prepaying and maturing loans. In addition, there is a greater portion of floating rate loans and securities than in the prior year.

The following table sets forth the information explaining the changes in the net interest margin for the periods indicated compared to the same periods one year ago.

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| | December 31, 2014 | | | | December 31, 2013 | | | |
|---|--------------------------------------|-------------------|-----------------|----------|--------------------------------------|-----------------|-----------------|----------|
| | Average Balance (In thousands) | Interest | Average Rate | | Average Balance (In thousands) | Interest | Average Rate | |
| Assets | | | | | | | | |
| Loans and covered loans | \$8,367,285 | \$ 108,293 | 5.13 | % | \$7,826,159 | \$107,227 | 5.44 | % |
| Mortgaged-backed securities | 3,191,365 | 19,175 | 2.38 | | 3,129,915 | 19,368 | 2.46 | |
| Cash & Investments | 1,876,824 | 5,415 | 1.14 | | 1,474,296 | 4,261 | 1.15 | |
| FHLB & FRB stock | 158,194 | 401 | 1.01 | | 172,607 | 402 | 0.92 | |
| Total interest-earning assets | 13,593,668 | 133,284 | 3.89 | % | 12,602,977 | 131,258 | 4.13 | % |
| Other assets | 1,062,770 | | | | 946,963 | | | |
| Total assets | \$ 14,656,438 | | | | \$ 13,549,940 | | | |
| Liabilities and Equity | | | | | | | | |
| Customer accounts | \$10,680,974 | \$13,445 | 0.50 | % | \$9,538,339 | \$15,499 | 0.64 | % |
| FHLB advances | 1,920,217 | 17,656 | 3.65 | | 2,030,000 | 17,447 | 3.41 | |
| Other borrowings | — | — | — | | — | — | — | |
| Total interest-bearing liabilities | 12,601,191 | 31,101 | 0.98 | % | 11,568,339 | 32,946 | 1.13 | % |
| Other liabilities | 95,026 | | | | 28,618 | | | |
| Total liabilities | 12,696,217 | | | | 11,596,957 | | | |
| Stockholder's equity | 1,960,221 | | | | 1,952,983 | | | |
| Total liabilities and equity | \$ 14,656,438 | | | | \$ 13,549,940 | | | |
| Net interest income | | \$ 102,183 | | | | \$98,312 | | |
| Net interest margin | | | 3.01 | % | | | 3.12 | % |

As of December 31, 2014, total assets decreased by \$261,285,000 to \$14,494,756,000 compared to \$14,756,041,000 at September 30, 2014. For the quarter ended December 31, 2014, compared to September 30, 2014, loans (both non-covered and covered) increased \$90,597,000, or 1.1%. Investment securities decreased \$186,432,000, or 4.1%. Cash and cash equivalents of \$542,769,000 and stockholders’ equity of \$1,981,339,000 as of December 31, 2014 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s net worth at December 31, 2014 was \$1,981,339,000, or 13.67% of total assets. This was an increase of \$8,056,000 from September 30, 2014 when net worth was \$1,973,283,000, or 13.37% of total assets. The

Company's net worth was impacted in the three months ended December 31, 2014 by net income of \$38,407,000, cash dividends of \$10,159,000, treasury stock purchases that totaled \$24,326,000, as well as an increase in other comprehensive income of \$2,727,000.

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

| | Actual | | Capital Adequacy Guidelines | | Categorized as Well Capitalized Under Prompt Corrective Action Provisions | | |
|--|---------------------------|-------|-----------------------------|-------|---|-------|---|
| | Capital (In thousands) | Ratio | Capital | Ratio | Capital | Ratio | |
| December 31, 2014 | | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | | |
| The Company | \$1,741,484 | 23.51 | % \$592,659 | 8.00 | % NA | NA | |
| The Bank | 1,715,440 | 23.16 | % 592,596 | 8.00 | % \$740,745 | 10.00 | % |
| Tier I capital (to risk-weighted assets) | | | | | | | |
| The Company | 1,648,120 | 22.25 | % 296,330 | 4.00 | % NA | NA | |
| The Bank | 1,622,086 | 21.90 | % 296,298 | 4.00 | % 444,447 | 6.00 | % |
| Tier I Capital (to average assets) | | | | | | | |
| The Company | 1,648,120 | 11.51 | % 572,941 | 4.00 | % NA | NA | |
| The Bank | 1,622,086 | 11.33 | % 572,648 | 4.00 | % 715,810 | 5.00 | % |
| September 30, 2014 | | | | | | | |
| Total capital (to risk-weighted assets) | | | | | | | |
| The Company | 1,739,658 | 23.97 | % 580,671 | 8.00 | % NA | NA | |
| The Bank | 1,750,179 | 24.11 | % 580,772 | 8.00 | % 725,965 | 10.00 | % |
| Tier I capital (to risk-weighted assets) | | | | | | | |
| The Company | 1,648,199 | 22.71 | % 290,335 | 4.00 | % NA | NA | |
| The Bank | 1,658,704 | 22.85 | % 290,386 | 4.00 | % 435,579 | 6.00 | % |
| Tier I Capital (to average assets) | | | | | | | |
| The Company | 1,648,199 | 11.39 | % 578,804 | 4.00 | % NA | N/A | |
| The Bank | 1,658,704 | 11.46 | % 578,816 | 4.00 | % 723,520 | 5.00 | % |

In July 2013, federal banking agencies released new regulatory capital rules which became effective January 1, 2015. These new rules raise the minimum capital ratios and establish new criteria for regulatory capital. The Company has estimated its capital ratios using the new rules and does not expect this change to have a material impact on its consolidated financial statements.

The Company's cash and cash equivalents amounted to \$542,769,000 at December 31, 2014, a decrease from \$781,843,000 at September 30, 2014. The Company is holding higher than normal amounts of liquidity due to concern about potentially rising interest rates in the future. Additionally, see "Interest Rate Risk" above and the "Statement of Cash Flows" included in the financial statements.

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities decreased \$154,386,000, or 5.1%, during the three months ended December 31, 2014, which included the purchase of \$41,225,000 of available-for-sale securities. There were no available-for-sale securities sold during the three months ended December 31, 2014. During the same period, there were no held-to-maturity securities purchased or sold. As of December 31, 2014, the Company

had net unrealized gains on available-for-sale securities of \$26,292,000, net of tax, which were recorded as part of stockholders' equity.

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Loans receivable: During the three months ended December 31, 2014, the balance of loans receivable increased to \$8,253,917,000 compared to \$8,148,322,000 at September 30, 2014. This increase includes net loan activity (originations and purchases less principal payments and maturities) for non covered loans of \$105,595,000. During the three month period, \$8,852,000 of loans were transferred to REO.

Covered loans: As of December 31, 2014, covered loans decreased 8.5%, or \$14,998,000 to \$161,478,000, compared to September 30, 2014 due primarily to principal payments and maturities. The FDIC loss share coverage for the majority of these loans will expire during fiscal year 2015. If all FDIC loss share coverage had expired as of December 31, 2014, the NPA ratio would increase from 1.13% to 1.33% and the delinquency rate would rise from 1.47% to 1.61%.

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

| Loan Portfolio by Category * | December 31, 2014 | | September 30, 2014 | | June 30, 2014 | |
|----------------------------------|-------------------|------|--------------------|------|---------------|------|
| | (In thousands) | | | | | |
| Non-Acquired loans | | | | | | |
| Single-family residential | \$5,608,208 | 63.9 | % \$5,560,203 | 64.1 | % \$5,466,771 | 64.7 |
| Construction - speculative | 152,450 | 1.7 | 140,060 | 1.6 | 126,926 | 1.5 |
| Construction - custom | 377,561 | 4.3 | 385,824 | 4.5 | 372,789 | 4.4 |
| Land - acquisition & development | 84,000 | 1.0 | 77,832 | 0.9 | 88,319 | 1.1 |
| Land - consumer lot loans | 104,492 | 1.2 | 108,623 | 1.3 | 111,919 | 1.4 |
| Multi-family | 977,752 | 11.2 | 917,286 | 10.6 | 893,742 | 10.6 |
| Commercial real estate | 597,436 | 6.8 | 591,336 | 6.9 | 523,850 | 6.2 |
| Commercial & industrial | 391,327 | 4.5 | 379,226 | 4.4 | 333,552 | 3.9 |
| HELOC | 118,047 | 1.3 | 116,042 | 1.4 | 117,177 | 1.4 |
| Consumer | 126,929 | 1.4 | 132,590 | 1.5 | 132,062 | 1.5 |
| Total non-acquired loans | 8,538,202 | 97.3 | 8,409,022 | 97.2 | 8,167,107 | 96.7 |
| Acquired loans | | | | | | |
| Single-family residential | 11,163 | 0.1 | 11,716 | 0.1 | 12,014 | 0.2 |
| Land - acquisition & development | 872 | — | 905 | — | 1,069 | — |
| Land - consumer lot loans | 2,496 | — | 2,507 | — | 2,654 | — |
| Multi-family | 2,954 | — | 2,999 | — | 3,057 | — |
| Commercial real estate | 92,133 | 1.0 | 97,898 | 1.1 | 103,215 | 1.1 |
| Commercial & industrial | 58,836 | 0.7 | 51,386 | 0.6 | 60,349 | 0.7 |
| HELOC | 7,749 | 0.1 | 8,274 | 0.1 | 8,469 | 0.1 |
| Consumer | 4,369 | — | 5,670 | 0.1 | 6,427 | 0.1 |
| Total acquired loans | 180,572 | 1.9 | 181,355 | 2.0 | 197,254 | 2.2 |
| Credit-impaired acquired loans | | | | | | |
| Single-family residential | 323 | — | 325 | — | 326 | — |
| Land - acquisition & development | 1,533 | — | 1,622 | — | 1,670 | — |
| Commercial real estate | 60,287 | 0.7 | 63,723 | 0.7 | 66,356 | 0.9 |
| Commercial & industrial | 3,255 | — | 3,476 | — | 4,280 | 0.1 |
| HELOC | 9,202 | 0.1 | 10,139 | 0.1 | 10,658 | 0.1 |
| Consumer | 54 | — | 55 | — | 58 | — |
| | 74,654 | 0.8 | 79,340 | 0.8 | 83,348 | 1.1 |

Total credit-impaired acquired
loans

Total loans

| | | | | | | |
|----------------------------|-----------|------|-----------|------|-----------|------|
| Single-family residential | 5,619,694 | 64.0 | 5,572,244 | 64.2 | 5,479,111 | 64.9 |
| Construction - speculative | 152,450 | 1.7 | 140,060 | 1.6 | 126,926 | 1.5 |
| Construction - custom | 377,561 | 4.3 | 385,824 | 4.5 | 372,789 | 4.4 |

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| | | | | | | | |
|----------------------------------|-------------|------|-------------|------|-------------|------|---|
| Land - acquisition & development | 86,405 | 1.0 | 80,359 | 0.9 | 91,058 | 1.1 | |
| Land - consumer lot loans | 106,988 | 1.2 | 111,130 | 1.3 | 114,573 | 1.4 | |
| Multi-family | 980,706 | 11.2 | 920,285 | 10.6 | 896,799 | 10.6 | |
| Commercial real estate | 749,856 | 8.5 | 752,957 | 8.7 | 693,421 | 8.2 | |
| Commercial & industrial | 453,418 | 5.2 | 434,088 | 5.0 | 398,181 | 4.7 | |
| HELOC | 134,998 | 1.5 | 134,455 | 1.6 | 136,304 | 1.6 | |
| Consumer | 131,352 | 1.4 | 138,315 | 1.6 | 138,547 | 1.6 | |
| Total loans | 8,793,428 | 100 | % 8,669,717 | 100 | % 8,447,709 | 100 | % |
| Less: | | | | | | | |
| Allowance for probable losses | 108,700 | | 112,347 | | 114,150 | | |
| Loans in process | 370,655 | | 346,172 | | 303,084 | | |
| Discount on acquired loans | 22,535 | | 25,391 | | 28,480 | | |
| Deferred net origination fees | 37,621 | | 37,485 | | 36,041 | | |
| | 539,511 | | 521,395 | | 481,755 | | |
| | \$8,253,917 | | \$8,148,322 | | \$7,965,954 | | |

* Excludes covered loans

Non-performing assets: Non-performing assets ("NPA's"), which excludes discounted acquired assets, increased during the quarter ended December 31, 2014 to \$164,317,173 from \$147,310,850 at September 30, 2014, an 11.5% increase. The increase was largely attributable to a single commercial loan, at a balance of \$15,127,000, which subsequently paid off in full during the current quarter. Non-performing assets as a percentage of total assets was 1.13% at December 31, 2014 compared to 1.00% at September 30, 2014.

The continued elevated level of NPAs is a result of the significant decline in housing values in the western United States and the national recession which began in 2007. This level of NPAs remains higher than the 0.96% average in the Company’s 29+ year history as a public company.

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

| | December 31, 2014 (In thousands) | | September 30, 2014 | | |
|---|--|------|-----------------------|------|---|
| Restructured loans: | | | | | |
| Single-family residential | \$304,784 | 86.6 | % \$323,732 | 86.3 | % |
| Construction - speculative | 6,651 | 1.9 | 7,360 | 2.0 | |
| Land - acquisition & development | 4,238 | 1.2 | 4,737 | 1.3 | |
| Land - consumer lot loans | 12,528 | 3.6 | 13,002 | 3.5 | |
| Multi - family | 4,141 | 1.2 | 5,243 | 1.4 | |
| Commercial real estate | 18,028 | 5.1 | 19,140 | 5.1 | |
| HELOC | 1,486 | 0.4 | 1,486 | 0.4 | |
| Consumer | 126 | — | 43 | — | |
| Total restructured loans (1) | 351,982 | 100 | % 374,743 | 100 | % |
| Non-accrual loans: | | | | | |
| Single-family residential | 74,415 | 75.7 | % 74,067 | 84.8 | % |
| Construction - speculative | 1,329 | 1.4 | 1,477 | 1.7 | |
| Land - consumer lot loans | 2,260 | 2.3 | 2,637 | 3.0 | |
| Multi-family | 1,019 | 1.0 | 1,742 | 2.0 | |
| Commercial real estate | 15,970 | 16.2 | 5,106 | 5.8 | |
| Commercial & industrial | 673 | 0.7 | 7 | — | |
| HELOC | 1,454 | 1.5 | 795 | 0.9 | |
| Consumer | 1,233 | 1.3 | 789 | 0.9 | |
| Total non-accrual loans (2) | 98,353 | 100 | % 87,431 | 100 | % |
| Total REO (3) | 61,970 | | 55,072 | | |
| Total REHI (3) | 3,994 | | 4,808 | | |
| Total non-performing assets | \$164,317 | | \$147,311 | | |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 3.44 | % | 3.37 | % | |
| (1) Restructured loans were as follows: | | | | | |
| Performing | \$333,854 | 94.8 | % \$350,653 | 93.6 | % |
| Non-accrual * | 18,128 | 5.2 | 24,090 | 6.4 | |
| | \$351,982 | 100 | % \$374,743 | 100 | % |

*Included in "Total non-accrual loans" above

(2) The Company received interest income on nonaccrual loans of approximately \$2,001,000 in the three months ended December 31, 2014. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$1,089,000 for the three months ended December 31, 2014. The received interest income may include more than three months of interest for some of the loans that were brought current. In addition to the nonaccrual loans reflected in the above table, at December 31, 2014 the Company had \$87,842,000 of loans that were less than 90 days delinquent but which it had classified as

substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 4.04% at December 31, 2014.

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

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Restructured single-family residential loans are reserved for under the Company’s general reserve methodology. If any individual loan is significant in balance, the Company may establish a specific reserve as warranted. Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 86.6% of restructured loans as of December 31, 2014. The concession for these loans is typically a payment reduction through a rate reduction of from 100 to 200 bps for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period.

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

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

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

| | December 31, 2014 | | | September 30, 2014 | | |
|----------------------------------|--------------------------|-----------------------------|-----------------------|--------------------------|-----------------------------|-----------------------|
| | Amount (In thousands) | Loans to Total Loans (1) | Coverage Ratio (2) | Amount (In thousands) | Loans to Total Loans (1) | Coverage Ratio (2) |
| Single-family residential | \$55,495 | 69.4 | % 1.0 | % \$62,763 | 65.6 | % 1.1 |
| Construction - speculative | 5,451 | 1.2 | 5.7 | 6,742 | 1.7 | 5.2 |
| Construction - custom | 965 | 2.4 | 0.5 | 1,695 | 4.6 | 0.5 |
| Land - acquisition & development | 6,671 | 0.9 | 9.5 | 5,592 | 0.9 | 7.2 |
| Land - consumer lot loans | 3,113 | 1.3 | 3.0 | 3,077 | 1.3 | 2.8 |
| Multi-family | 4,500 | 11.2 | 0.5 | 4,248 | 10.9 | 0.5 |
| Commercial real estate | 5,872 | 6.9 | 1.0 | 7,548 | 7.0 | 1.3 |
| Commercial & industrial | 23,328 | 3.6 | 5.4 | 16,527 | 5.0 | 4.6 |
| HELOC | 892 | 1.5 | 0.8 | 928 | 1.4 | 0.9 |
| Consumer | 2,413 | 1.6 | 1.9 | 3,227 | 1.6 | 2.4 |
| | \$108,700 | 100 | % | \$112,347 | 100 | % |

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

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

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Real Estate Held for Sale: Real estate held for sale increased during the quarter by \$6,898,000 to \$61,970,000, including upward net market value adjustments from prior period corrections of \$8,164,000 which are partially offset by a net decline in balances due to current period activities.

Interest Receivable: Interest receivable decreased by \$11,280,000, primarily as a result of the correction for the over-accrual of interest income of \$8,872,000 that had accumulated since fiscal 2011 and was recently detected. Management believes this error and correction had no material impact to any prior reporting period.

Bank Owned Life Insurance: The Company purchased \$100,000,000 in bank-owned life insurance, with a pro forma 2015 pre-tax equivalent yield of 5.14%, to assist in funding the growth of employee benefit costs.

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Customer accounts: Customer accounts decreased \$138,075,000, or 1.29%, to \$10,578,853,000 at December 31, 2014 compared with \$10,716,928,000 at September 30, 2014.

The following table shows the composition of the Company’s customer accounts by deposit type as of the dates shown:

| | December 31, 2014 | | | September 30, 2014 | | | |
|-------------------------|-------------------|------|-------------------|--------------------|------|-------------------|---|
| | (In thousands) | | | | | | |
| | | | Wtd. Avg. Rate | | | Wtd. Avg. Rate | |
| Non-interest checking | \$870,981 | 8.2 | % — | % \$883,601 | 8.2 | % — | % |
| Interest checking | 1,436,922 | 13.6 | 0.06 | % 1,447,569 | 13.5 | 0.09 | % |
| Savings (passbook/stmt) | 640,731 | 6.1 | 0.10 | % 622,546 | 5.8 | 0.10 | % |
| Money Market | 2,515,564 | 23.8 | 0.18 | % 2,536,971 | 23.7 | 0.18 | % |
| CD’s | 5,114,655 | 48.3 | 0.91 | % 5,226,241 | 48.8 | 0.92 | % |
| Total | \$10,578,853 | 100 | % 0.50 | % \$10,716,928 | 100 | % 0.51 | % |

FHLB advances and other borrowings: Total borrowings were \$1,830,000,000 as of December 31, 2014 which is a decrease of \$100,000,000 compared to the balance of \$1,930,000,000 as of September 30, 2014, due to a repayment of a FHLB advance with a maturity date of September 2015, resulting in a prepayment penalty of \$2,600,000.

The Company has a credit line with the FHLB Seattle equal to 50% of total assets, providing a substantial source of liquidity if needed. FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreement by all FHLB stock owned by the Company, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the agreements with the FHLB.

The Federal Housing Finance Agency has approved the merger application submitted by the Federal Home Loan Banks of Seattle and Des Moines to merge, and the next step in the process is ratification of the merger agreement by the members of both banks. The Company does not expect this change to have a material impact on its borrowing or liquidity position.

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RESULTS OF OPERATIONS

Net Income: The quarter ended December 31, 2014 produced net income of \$38,407,000 compared to \$40,236,000 for the same quarter one year ago. Net income for the quarter ended December 31, 2014 was lower by \$1,829,000 due to higher expenses that were partially offset by higher net interest margin, a slight gain instead of losses on sales of real estate acquired through foreclosure and additional recovery of loan loss provisions. Please see the related discussions below about these changes.

Net Interest Income: Net interest income increased to \$102,183,000 for the quarter ended December 31, 2014, compared to \$98,312,000 for the same quarter one year ago. This main reason is that average earning assets are higher by \$990,691,000 as a result of the loans and investments that were made with the lower costing liabilities from last year's branch acquisitions. The net interest margin declined to 3.01% from 3.12% in the same quarter of the prior year as the decline in the yield on interest earning assets of 24 bps has been more than the decline in the cost of funds of 15 bps.

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.

Interest Rate and Volume Analysis of Net Interest Income:

| | Comparison of Quarters Ended | | |
|------------------------------------|------------------------------|-----------|-----------|
| | 12/31/14 and 12/31/13 | | |
| | Volume | Rate | Total |
| | (In thousands) | | |
| Interest income: | | | |
| Loans and covered loans | \$6,961 | \$(5,895) |) \$1,066 |
| Mortgaged-backed securities | 354 | (547) |) (193) |
| Investments (1) | 1,310 | (157) |) 1,153 |
| All interest-earning assets | 8,625 | (6,599) |) 2,026 |
| Interest expense: | | | |
| Customer accounts | 1,638 | (3,692) |) (2,054) |
| FHLB advances and other borrowings | (784) |) 993 |) 209 |
| All interest-bearing liabilities | 854 | (2,699) |) (1,845) |
| Change in net interest income | \$7,771 | \$(3,900) |) \$3,871 |

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

Provision (Reversal) for Loan Losses: The Company recorded a \$5,500,000 reversal for loan losses during the quarter ended December 31, 2014, while a \$4,600,000 reversal was recorded for the same quarter one year ago. The reversal of the provision for loan losses in the recent quarter is the result of the continued improvement of the Company's loan portfolio. The Company had net recoveries of \$841,000 for the quarter ended December 31, 2014, compared with \$6,017,000 of net recoveries for the same quarter one year ago. The recoveries in the prior year included the favorable settlement of a lawsuit related to previously purchased loans. The improvement in the provision for loan losses is in response to three primary factors: first, the amount of NPA's improved year-over-year; second, non-accrual loans as a percentage of net loans decreased from 1.50% at December 31, 2013, to 1.20% at December 31, 2014; and third, the percentage of loans 30 days or more delinquent decreased from 1.81% at December 31, 2013, to 1.47% at

December 31, 2014.

Non-performing assets amounted to \$164,317,000, or 1.13% , of total assets at December 31, 2014, compared to \$197,910,000, or 1.37%, of total assets one year ago. Non-accrual loans decreased from \$114,717,000 at December 31, 2013, to \$98,352,555 at December 31, 2014, a 14.3% decrease. Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling \$110,598,000, or 1.26% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio. Please see Note E for further discussion and analysis of the allowance for loan losses for the quarter ended December 31, 2014.

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Other Income: The quarter ended December 31, 2014 produced total other income of \$5,380,000 compared to \$5,788,000 for the same quarter one year ago. Deposit fee income of \$5,977,000 was \$4,273,000 higher than the same quarter of the prior year due to the increased number of clients and branches. Loan fee income of \$2,065,000 was similar to the same quarter of the prior year.

The remaining other income was a loss of \$2,662,000 in the current quarter compared to \$2,038,000 in the same quarter of the prior year due primarily to four unusual items. First, Management corrected an over-accrual of interest income on loans of \$8,872,000 that had accumulated since fiscal 2011 and was recently detected. Second, there was also an upward net market value adjustment of REO of \$8,164,000 which is a correction from prior periods.

Management believes that these errors and their corrections were not material to any reporting period. Third, there was a prepayment charge of \$2,600,000 on a \$100,000,000 Federal Home Loan Bank advance that was accruing interest at 4% and scheduled to mature in September 2015. The prepayment charge will be offset by a corresponding reduction in interest expense over the remaining nine months of the fiscal year. Fourth, Management recorded a \$2,000,000 FDIC indemnification asset write-down related to the commercial loans acquired from Horizon Bank in 2010. The portion of that agreement related to commercial loans expires on March 31, 2015.

Other Expense: The quarter ended December 31, 2014, produced total other expense of \$53,600,000 compared to \$44,120,000 for the same quarter one year ago, a 21.5% increase. This increase was driven primarily by an increase in employees as well as occupancy, product delivery and technology expenses related to the branch acquisitions from Bank of America during the 2014 fiscal year. Technology expenses are also higher in preparation for an upgrade of core systems in 2015. FDIC insurance premiums are lower by \$1,700,000 this quarter due to recoveries from prior periods that reflect improvements in credit quality. FDIC insurance premiums were \$2,300,000 in the quarter, prior to this recovery.

Total other expense for the quarters ended December 31, 2014 and 2013 equaled 1.46% and 1.30%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,862 and 1,848 at December 31, 2014 and 2013, respectively. The number of branches increased from 235 as of December 31, 2013 to 247 as of December 31, 2014.

Loss on Real Estate Acquired Through Foreclosure: The quarter ended December 31, 2014, produced a net gain on the sale of real estate acquired through foreclosure of \$315,000 compared to a net loss of \$1,951,000 for the same quarter one year ago, a 116.20% increase. The table below indicates some of the activity in the gain (loss) on real estate acquired through foreclosure.

| | Quarter Ended December 31, | |
|--|-------------------------------|----------|
| | 2014 | 2013 |
| | (In thousands) | |
| Net Gain on Sale | \$2,588 | \$2,333 |
| REO Adjustments | (817 |) (2,219 |
| REO Operating Expenses | (1,456 |) (2,065 |
| Gain (Loss) on real estate acquired through foreclosure, net | \$315 | \$(1,951 |

Taxes: Income taxes decreased to \$21,371,000 for the quarter ended December 31, 2014, as compared to \$22,393,000 for the same period one year ago. The effective tax rate for both the quarters ended December 31, 2014 and December 31, 2013 was 35.75% . The Company expects an effective tax rate of 35.75% going forward.

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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, 2014. 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 2014 Form 10-K.

Item 4. Controls and Procedures

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

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

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in our Form 10-K for the year ended September 30, 2014. These factors could materially and adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

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

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended December 31, 2014.

| 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, 2014 to October 31, 2014 | 64,295 | \$20.49 | 64,295 | 4,978,139 |
| November 1, 2014 to November 30, 2014 | 340,052 | 21.87 | 340,052 | 4,638,087 |
| December 1, 2014 to December 31, 2014 | 711,800 | 21.88 | 711,800 | 3,926,287 |
| Total | 1,116,147 | \$21.79 | 1,116,147 | 3,926,287 |

The Company's only stock repurchase program was publicly announced by the Board of Directors on February 3, (1) 1995 and has no expiration date. Under this ongoing program, a total of 41,956,264 shares have been authorized for repurchase.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

The Company is refiling its Bylaws dated December 17, 2007, which were attached to the report on Form 8-K dated December 21, 2007, to correct a reference error in our exhibit table to the 10K. The Bylaws have not been amended since December 17, 2007.

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Item 6. Exhibits

(a) Exhibits

3.2 Bylaws of the Company dated December 17, 2007

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

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

101 Financial Statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2014 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

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

February 10, 2015

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

February 10, 2015

/S/ Diane L. Kelleher
Diane L. Kelleher
Senior Vice President and Chief
Financial Officer