

WASHINGTON FEDERAL INC  
Form 10-Q  
May 08, 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 March 31, 2015

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 May 6, 2015

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Common stock, \$1.00 par value

94,832,451

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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

|  | March 31, 2015                    | September 30,<br>2014 |
|--|-----------------------------------|-----------------------|
|  | (In thousands, except share data) |                       |
| <b>ASSETS</b>  |                                   |                       |
| Cash and cash equivalents  | \$675,064                         | \$781,843             |
| Available-for-sale securities, at fair value   | 2,756,906                         | 3,049,442             |
| Held-to-maturity securities, at amortized cost   | 1,479,781                         | 1,548,265             |
| Loans receivable, net  | 8,420,988                         | 8,148,322             |
| Covered loans, net   | 138,005                           | 176,476               |
| Interest receivable  | 40,359                            | 52,037                |
| Premises and equipment, net  | 264,063                           | 257,543               |
| Real estate held for sale  | 60,822                            | 55,072                |
| Real estate held for investment  | 4,068                             | 4,808                 |
| Covered real estate held for sale  | 15,668                            | 24,082                |
| FDIC indemnification asset   | 23,115                            | 36,860                |
| FHLB & FRB stock   | 150,918                           | 158,839               |
| Bank owned life insurance  | 100,961                           | —                     |
| Intangible assets, net   | 300,903                           | 302,909               |
| Federal and state income tax assets, net   | 7,908                             | 16,515                |
| Other assets   | 171,490                           | 143,028               |
|  | \$14,611,019                      | \$14,756,041          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                   |                       |
| <b>Liabilities</b>   |                                   |                       |
| Customer accounts  |                                   |                       |
| Transaction deposit accounts   | \$5,707,797                       | \$5,490,687           |
| Time deposit accounts  | 4,984,828                         | 5,226,241             |
|  | 10,692,625                        | 10,716,928            |
| FHLB advances  | 1,830,000                         | 1,930,000             |
| Advance payments by borrowers for taxes and insurance  | 18,008                            | 29,004                |
| Accrued expenses and other liabilities   | 102,246                           | 106,826               |
|  | 12,642,879                        | 12,782,758            |
| <b>Stockholders' equity</b>  |                                   |                       |
| Common stock, \$1.00 par value, 300,000,000 shares authorized;<br>133,622,663 and 133,322,909 shares issued; 95,088,294 and 98,404,705 shares<br>outstanding | 133,623                           | 133,323               |
| Paid-in capital  | 1,640,984                         | 1,638,211             |
| Accumulated other comprehensive income, net of taxes   | 23,485                            | 20,708                |
| Treasury stock, at cost; 38,534,369 and 34,918,204 shares  | (602,463                          | ) (525,108            |
| Retained earnings  | 772,511                           | 706,149               |
|  | 1,968,140                         | 1,973,283             |
|  | \$14,611,019                      | \$14,756,041          |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

|   | Quarter Ended March 31,               |                 | Six Months Ended March 31, |                 |
|---|---------------------------------------|-----------------|----------------------------|-----------------|
|   | 2015                                  | 2014            | 2015                       | 2014            |
|   | (In thousands, except per share data) |                 |                            |                 |
| <b>INTEREST INCOME</b>  |                                       |                 |                            |                 |
| Loans & covered assets  | \$109,274                             | \$106,334       | \$217,567                  | \$213,561       |
| Mortgage-backed securities  | 18,143                                | 20,968          | 37,318                     | 40,360          |
| Investment securities and cash equivalents  | 5,213                                 | 5,049           | 11,029                     | 9,688           |
|   | 132,630                               | 132,351         | 265,914                    | 263,609         |
| <b>INTEREST EXPENSE</b>   |                                       |                 |                            |                 |
| Customer accounts   | 12,574                                | 14,780          | 26,018                     | 30,279          |
| FHLB advances and other borrowings  | 16,176                                | 16,935          | 33,832                     | 34,383          |
|   | 28,750                                | 31,715          | 59,850                     | 64,662          |
| Net interest income   | 103,880                               | 100,636         | 206,064                    | 198,947         |
| Reversal of provision for loan losses   | (3,949)                               | (4,336)         | (9,449)                    | (8,936)         |
| Net interest income after reversal of provision for loan losses                         | 107,829                               | 104,972         | 215,513                    | 207,883         |
| <b>OTHER INCOME</b>   |                                       |                 |                            |                 |
| Loan fee income   | 2,048                                 | 1,324           | 4,112                      | 3,370           |
| Deposit fee income  | 5,405                                 | 3,381           | 11,383                     | 5,084           |
| Other income  | 3,388                                 | 1,997           | 726                        | 4,036           |
|   | 10,841                                | 6,702           | 16,221                     | 12,490          |
| <b>OTHER EXPENSE</b>  |                                       |                 |                            |                 |
| Compensation and benefits   | 30,469                                | 27,836          | 59,629                     | 52,962          |
| Occupancy   | 8,239                                 | 7,346           | 16,374                     | 14,396          |
| FDIC insurance premiums   | 2,380                                 | 2,767           | 3,055                      | 5,701           |
| Information technology  | 3,882                                 | 3,931           | 7,912                      | 6,860           |
| Product delivery  | 5,420                                 | 4,066           | 11,047                     | 5,384           |
| Other expense   | 6,934                                 | 6,113           | 12,909                     | 10,876          |
|   | 57,324                                | 52,059          | 110,926                    | 96,179          |
| Gain (loss) on real estate acquired through foreclosure, net                            | 1,473                                 | 553             | 1,788                      | (1,398)         |
| Income before income taxes  | 62,819                                | 60,168          | 122,596                    | 122,796         |
| Income tax provision  | 22,458                                | 21,511          | 43,828                     | 43,903          |
| <b>NET INCOME</b>   | <b>\$40,361</b>                       | <b>\$38,657</b> | <b>\$78,768</b>            | <b>\$78,893</b> |
| <b>PER SHARE DATA</b>   |                                       |                 |                            |                 |
| Basic earnings  | \$0.42                                | \$0.38          | \$0.81                     | \$0.77          |
| Diluted earnings  | 0.42                                  | 0.38            | 0.81                       | 0.77            |
| Dividends paid on common stock per share  | 0.13                                  | 0.10            | 0.28                       | 0.20            |
| Basic weighted average number of shares outstanding                                     | 96,373,366                            | 102,013,857     | 97,270,403                 | 102,173,829     |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 96,725,234                            | 102,488,844     | 97,635,201                 | 102,652,984     |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  |                                       |                 |                            |                 |



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

|  | Quarter Ended March 31, |          | Six Months Ended March 31, |          |
|--|-------------------------|----------|----------------------------|----------|
|  | 2015                    | 2014     | 2015                       | 2014     |
|  | (In thousands)          |          |                            |          |
| Net income   | \$40,361                | \$38,657 | \$78,768                   | \$78,893 |
| Other comprehensive income (loss) net of tax:        |                         |          |                            |          |
| Net unrealized gain on available-for-sale securities | 5,063                   | 16,277   | 13,623                     | 6,501    |
| Net unrealized (loss) on long-term borrowing hedge   | (4,985                  | ) —      | (9,233                     | ) —      |
| Related tax expense                                  | (28                     | ) (5,982 | ) (1,613                   | ) (2,389 |
| Other comprehensive income net of tax                | 50                      | 10,295   | 2,777                      | 4,112    |
| Comprehensive income                                 | \$40,411                | \$48,952 | \$81,545                   | \$83,005 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS       |                         |          |                            |          |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

|  | Common<br>Stock | Paid-in Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock | Total        |
|--|-----------------|-----------------|----------------------|---|----------------|--------------|
|  |                 |                 |                      |   |                |              |
|  |                 |                 | (In thousands)       |   |                |              |
| Balance at October 1, 2014                           | \$ 133,323      | \$ 1,638,211    | \$ 706,149           | \$ 20,708                                       | \$(525,108)    | \$ 1,973,283 |
| Net income   |                 |                 | 78,768               |   |                | 78,768       |
| Other comprehensive income                           |                 |                 |                      | 2,777   |                | 2,777        |
| Dividends on common stock                            |                 |                 | (12,406)             |   |                | (12,406)     |
| Compensation expense related to common stock options |                 | 600             |                      |   |                | 600          |
| Proceeds from exercise of common stock options       | 35              | 457             |                      |   |                | 492          |
| Restricted stock expense                             | 265             | 1,716           |                      |   |                | 1,981        |
| Treasury stock acquired                              |                 |                 |                      |   | (77,355)       | (77,355)     |
| Balance at March 31, 2015                            | \$ 133,623      | \$ 1,640,984    | \$ 772,511           | \$ 23,485                                       | \$(602,463)    | \$ 1,968,140 |
|  |                 |                 |                      |   |                |              |
|  | Common<br>Stock | Paid-in Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury Stock | Total        |
|  |                 |                 |                      |   |                |              |
|  |                 |                 | (In thousands)       |   |                |              |
| Balance at October 1, 2013                           | \$ 132,573      | \$ 1,625,051    | \$ 594,450           | \$ 6,378  | \$(420,817)    | \$ 1,937,635 |
| Net income   |                 |                 | 78,893               |   |                | 78,893       |
| Other comprehensive income                           |                 |                 |                      | 4,112   |                | 4,112        |
| Dividends on common stock                            |                 |                 | (20,372)             |   |                | (20,372)     |
| Compensation expense related to common stock options |                 | 600             |                      |   |                | 600          |
| Proceeds from exercise of common stock options       | 727             | 9,184           |                      |   |                | 9,911        |
| Restricted stock expense                             | —               | 1,680           |                      |   |                | 1,680        |
| Treasury stock acquired                              |                 |                 |                      |   | (31,776)       | (31,776)     |
| Balance at March 31, 2014                            | \$ 133,300      | \$ 1,636,515    | \$ 652,971           | \$ 10,490                                       | \$(452,593)    | \$ 1,980,683 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|   | Six Months Ended March 31, |            |
|---|----------------------------|------------|
|   | 2015                       | 2014       |
|   | (In thousands)             |            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                            |            |
| Net income  | \$78,768                   | \$78,893   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                            |            |
| Depreciation and amortization   | 10,566                     | 5,993      |
| Cash received from (paid to) FDIC under loss share                                | (738                       | ) 1,629    |
| Stock option compensation expense   | 600                        | 600        |
| Reversal of provision for loan losses   | (9,449                     | ) (8,936   |
| Gain on real estate held for sale   | (12,338                    | ) (1,042   |
| Decrease (increase) in accrued interest receivable                                | 11,678                     | (2,066     |
| Increase in FDIC loss share receivable  | 1,795                      | (1,896     |
| Decrease in federal and state income tax  | 6,995                      | 5,043      |
| Increase in cash surrender value in bank owned life insurance                     | (961                       | ) —        |
| Decrease (increase) in other assets   | (28,462                    | ) 6,113    |
| Increase (decrease) in accrued expenses and other liabilities                     | 586                        | (7,753     |
| Net cash provided by operating activities   | 59,040                     | 76,578     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                            |            |
| Net loan originations   | (78,301                    | ) (127,918 |
| Loans purchased   | (146,832                   | ) —        |
| FHLB & FRB stock redemption   | 7,921                      | 5,682      |
| Available-for-sale securities purchased   | (163,126                   | ) (930,476 |
| Principal payments and maturities of available-for-sale securities                | 466,991                    | 185,050    |
| Principal payments and maturities of held-to-maturity securities                  | 65,913                     | 42,253     |
| Net cash received from acquisitions   | —                          | 1,254,517  |
| Proceeds from sales of real estate owned and held for investment                  | 28,354                     | 28,489     |
| Proceeds from sales of covered REO  | 9,050                      | 17,216     |
| Purchase of bank owned life insurance   | (100,000                   | ) —        |
| Premises and equipment purchased and REO improvements                             | (16,897                    | ) (19,659  |
| Net cash provided by investing activities   | 73,073                     | 455,154    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                            |            |
| Net decrease in customer accounts   | (24,227                    | ) (59,630  |
| Repayments of borrowings  | (100,000                   | ) —        |
| Proceeds from exercise of common stock options and related tax benefit            | 492                        | 9,911      |
| Dividends paid on common stock  | (26,806                    | ) (20,372  |
| Treasury stock purchased  | (77,355                    | ) (31,776  |
| Decrease in advance payments by borrowers for taxes and insurance                 | (10,996                    | ) (25,192  |
| Net cash used in financing activities   | (238,892                   | ) (127,059 |
| Increase (decrease) in cash and cash equivalents                                  | (106,779                   | ) 404,673  |
| Cash and cash equivalents at beginning of period                                  | 781,843                    | 203,563    |
| Cash and cash equivalents at end of period  | \$675,064                  | \$608,236  |

(CONTINUED)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



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

|  | Six Months Ended March 31, |                |
|--|----------------------------|----------------|
|  | 2015                       | 2014           |
|  | (In thousands)             |                |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>                 |                            |                |
| Non-cash investing activities  |                            |                |
| Non-covered real estate acquired through foreclosure                     | \$ 18,991                  | \$ 20,898      |
| Covered real estate acquired through foreclosure                         | 936                        | 836            |
| Cash paid during the period for  |                            |                |
| Interest   | 62,193                     | 65,499         |
| Income taxes   | 32,517                     | 37,572         |
| The following summarizes the non-cash activities related to acquisitions |                            |                |
| Fair value of assets and intangibles acquired, including goodwill        | \$—                        | \$ 63,111      |
| Fair value of liabilities assumed  | —                          | (1,317,628 )   |
| Net fair value of assets (liabilities)                                   | \$—                        | \$(1,254,517 ) |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
QUARTER ENDED MARCH 31, 2015 AND 2014  
(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 consolidated 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 adjustments) 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 the Company's consolidated financial statements are disclosed in its 2014 Form 10-K. Other than the reclassifications 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 March 31, 2015 and September 30, 2014, of \$613,219,000 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 six months ended March 31, 2015. During the 2014 fiscal year, 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. These transactions have brought new customers to the Company and improved the deposit mix and reduced overall funding costs.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
(UNAUDITED)

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.

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to March 31, 2015, for the additional forty branches from December 7, 2013 to March 31, 2015, and for the most recent twenty-three branches from May 3, 2014 to March 31, 2015.

The table below displays the adjusted fair value as of the acquisition date for each major class of assets acquired and liabilities assumed during fiscal year 2014:

|                             | Adjusted Fair Value Recorded by<br>Washington Federal<br>(In thousands) |
|-----------------------------|---|
| Assets:                     |   |
| Cash                        | \$ 1,776,660  |
| Loans receivable, net       | 12,881  |
| Property and equipment, net | 25,097  |
| Core deposit intangible     | 11,040  |
| Goodwill                    | 31,225  |
| Other assets                | 70  |
| Total Assets                | 1,856,973   |
| Liabilities:                |   |
| Customer accounts           | 1,853,798   |
| Other liabilities           | 3,175   |
| Total Liabilities           | 1,856,973   |
| Net assets acquired         | \$—   |

## NOTE C – Dividends

On February 16, 2015, the Company paid its 128th consecutive quarterly cash dividend on common stock. Dividends per share were \$.13 and \$.10 for the quarters ended March 31, 2015 and 2014, respectively.

On May 4, 2015, the Company announced its 129th consecutive quarterly cash dividend on common stock of \$0.13 per share. The current dividend will be paid on May 29, 2015, to common shareholders of record on May 14, 2015.

The Company also announced the authorization of an additional 5 million shares that may be repurchased under Washington Federal's share repurchase program. For the six months ending March 31, 2015, the Company has repurchased 3.9 million shares or 4.0 percent of the shares that were outstanding at the beginning of the year at an

average price of \$21.44. The last authorization of 10 million shares was made in September 2013, and had 1.1 million shares remaining authorized to be repurchased as of May 4, 2015.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
(UNAUDITED)

## NOTE D – Loans Receivable (excluding Covered Loans)

|                                      | March 31, 2015<br>(In thousands) |      | September 30, 2014 |      |   |
|--------------------------------------|----------------------------------|------|--------------------|------|---|
| Non-acquired loans                   |                                  |      |                    |      |   |
| Single-family residential            | \$5,535,104                      | 61.4 | % \$5,560,203      | 64.1 | % |
| Construction - speculative           | 163,657                          | 1.8  | 140,060            | 1.6  |   |
| Construction - custom                | 370,693                          | 4.1  | 385,824            | 4.5  |   |
| Land - acquisition & development     | 105,058                          | 1.2  | 77,832             | 0.9  |   |
| Land - consumer lot loans            | 102,082                          | 1.2  | 108,623            | 1.3  |   |
| Multi-family                         | 1,010,003                        | 11.2 | 917,286            | 10.6 |   |
| Commercial real estate               | 741,137                          | 8.2  | 591,336            | 6.9  |   |
| Commercial & industrial              | 408,358                          | 4.6  | 379,226            | 4.4  |   |
| HELOC                                | 120,901                          | 1.3  | 116,042            | 1.4  |   |
| Consumer                             | 218,680                          | 2.5  | 132,590            | 1.5  |   |
| Total non-acquired loans             | 8,775,673                        | 97.5 | 8,409,022          | 97.2 |   |
| Non-impaired acquired loans          |                                  |      |                    |      |   |
| Single-family residential            | 10,977                           | 0.1  | 11,716             | 0.1  |   |
| Construction - speculative           | —                                | —    | —                  | —    |   |
| Construction - custom                | —                                | —    | —                  | —    |   |
| Land - acquisition & development     | 728                              | —    | 905                | —    |   |
| Land - consumer lot loans            | 2,476                            | —    | 2,507              | —    |   |
| Multi-family                         | 2,912                            | —    | 2,999              | —    |   |
| Commercial real estate               | 87,313                           | 1.0  | 97,898             | 1.1  |   |
| Commercial & industrial              | 55,659                           | 0.6  | 51,386             | 0.6  |   |
| HELOC                                | 6,700                            | 0.1  | 8,274              | 0.1  |   |
| Consumer                             | 2,794                            | —    | 5,670              | 0.1  |   |
| Total non-impaired acquired loans    | 169,559                          | 1.8  | 181,355            | 2.0  |   |
| Credit-impaired acquired loans       |                                  |      |                    |      |   |
| Single-family residential            | 322                              | —    | 325                | —    |   |
| Construction - speculative           | —                                | —    | —                  | —    |   |
| Land - acquisition & development     | 1,395                            | —    | 1,622              | —    |   |
| Multi-family                         | —                                | —    | —                  | —    |   |
| Commercial real estate               | 56,727                           | 0.6  | 63,723             | 0.7  |   |
| Commercial & industrial              | 2,190                            | —    | 3,476              | —    |   |
| HELOC                                | 8,838                            | 0.1  | 10,139             | 0.1  |   |
| Consumer                             | 51                               | —    | 55                 | —    |   |
| Total credit-impaired acquired loans | 69,523                           | 0.7  | 79,340             | 0.8  |   |
| Total loans                          |                                  |      |                    |      |   |
| Single-family residential            | 5,546,403                        | 61.5 | 5,572,244          | 64.2 |   |
| Construction - speculative           | 163,657                          | 1.8  | 140,060            | 1.6  |   |
| Construction - custom                | 370,693                          | 4.1  | 385,824            | 4.5  |   |
| Land - acquisition & development     | 107,181                          | 1.2  | 80,359             | 0.9  |   |
| Land - consumer lot loans            | 104,558                          | 1.2  | 111,130            | 1.3  |   |
| Multi-family                         | 1,012,915                        | 11.2 | 920,285            | 10.6 |   |

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|                         |         |     |         |     |
|-------------------------|---------|-----|---------|-----|
| Commercial real estate  | 885,177 | 9.8 | 752,957 | 8.7 |
| Commercial & industrial | 466,207 | 5.2 | 434,088 | 5.0 |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
(UNAUDITED)

|                               |             |     |             |     |   |
|-------------------------------|-------------|-----|-------------|-----|---|
| HELOC                         | 136,439     | 1.5 | 134,455     | 1.6 |   |
| Consumer                      | 221,525     | 2.5 | 138,315     | 1.6 |   |
| Total Loans                   | 9,014,755   | 100 | % 8,669,717 | 100 | % |
| Less:                         |             |     |             |     |   |
| Allowance for probable losses | 108,323     |     | 112,347     |     |   |
| Loans in process              | 426,836     |     | 346,172     |     |   |
| Discount on acquired loans    | 20,845      |     | 25,391      |     |   |
| Deferred net origination fees | 37,763      |     | 37,485      |     |   |
|                               | 593,767     |     | 521,395     |     |   |
|                               | \$8,420,988 |     | \$8,148,322 |     |   |

Changes in the carrying amount and accretable yield for acquired non-impaired and credit-impaired loans (excluding covered loans) for the six months ended March 31, 2015 and the fiscal year ended September 30, 2014 were as follows:

| March 31, 2015                                       | Acquired Impaired |                              | Acquired Non-impaired |                          |   |
|--|-------------------|------------------------------|-----------------------|--------------------------|---|
|  | Accretable Yield  | Net Carrying Amount of Loans | Accretable Yield      | Carrying Amount of Loans |   |
|  | (In thousands)    |                              |                       |                          |   |
| Balance as of beginning of period                    | \$32,591          | \$57,771                     | \$4,254               | \$177,440                |   |
| Additions  | —                 | —                            | 346                   | —                        |   |
| Accretion  | (6,036            | ) 6,036                      | (1,810                | ) 1,810                  |   |
| Transfers to REO                                     | —                 | —                            | —                     | —                        |   |
| Payments received, net                               | —                 | (12,362                      | ) —                   | (12,516                  | ) |
| Balance as of end of period                          | \$26,555          | \$51,445                     | \$2,790               | \$166,734                |   |
| September 30, 2014                                   | Acquired Impaired |                              | Acquired Non-impaired |                          |   |
|  | Accretable Yield  | Net Carrying Amount of Loans | Accretable Yield      | Carrying Amount of Loans |   |
|  | (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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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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The following table sets forth information regarding non-accrual loans (excluding covered loans) held by the Company as of the dates indicated:

|                                  | March 31, 2015<br>(In thousands) |      | September 30, 2014 |      |   |
|----------------------------------|----------------------------------|------|--------------------|------|---|
| Non-accrual loans:               |                                  |      |                    |      |   |
| Single-family residential        | \$59,948                         | 79.0 | % \$74,067         | 84.8 | % |
| Construction - speculative       | 1,152                            | 1.5  | 1,477              | 1.7  |   |
| Land - acquisition & development | —                                | —    | 811                | 0.9  |   |
| Land - consumer lot loans        | 2,246                            | 3.0  | 2,637              | 3.0  |   |
| Multi-family                     | —                                | —    | 1,742              | 2.0  |   |
| Commercial real estate           | 5,735                            | 7.6  | 5,106              | 5.8  |   |
| Commercial & industrial          | 5,018                            | 6.6  | 7                  | —    |   |
| HELOC                            | 1,175                            | 1.5  | 795                | 0.9  |   |
| Consumer                         | 576                              | 0.8  | 789                | 0.9  |   |
| Total non-accrual loans          | \$75,850                         | 100  | % \$87,431         | 100  | % |

The Company recognized interest income on nonaccrual loans of approximately \$4,220,000 in the six months ended March 31, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$3,108,000 for the six months ended March 31, 2015. The recognized interest income may include more than six months of interest for some of the loans that were brought current.

In addition to the nonaccrual loans reflected in the above table, the Company had \$77,912,000 of loans that were less than 90 days delinquent at March 31, 2015 but which it had classified as substandard for one or more reasons. The following tables provide an analysis of the age of loans (excluding covered loans) in past due status as of March 31, 2015 and September 30, 2014, respectively.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| March 31, 2015<br>Type of Loan                         | Amount of Loans<br>Net of LIP & Chg.-Off<br>(In thousands) | Days Delinquent Based on \$ Amount of Loans |          |         |          |          | Total | % based<br>on \$ |  |
|--|--|---|----------|---------|----------|----------|-------|------------------|--|
|  |  | Current                                     | 30       | 60      | 90       |          |       |                  |  |
| Non-acquired loans                                     |  |   |          |         |          |          |       |                  |  |
| Single-Family Residential                              | \$5,532,553  | \$5,450,820                                 | \$19,822 | \$8,082 | \$53,829 | \$81,733 | 1.48  | %                |  |
| Construction - Speculative                             | 105,392  | 103,044                                     | 2,348    | —       | —        | 2,348    | 2.23  |                  |  |
| Construction - Custom Land - Acquisition & Development | 201,777  | 200,608                                     | 355      | 814     | —        | 1,169    | 0.58  |                  |  |
| Land - Consumer Lot Loans                              | 90,838   | 90,838                                      | —        | —       | —        | —        | —     |                  |  |
| Land - Consumer Lot Loans                              | 102,003  | 98,717                                      | 466      | 478     | 2,342    | 3,286    | 3.22  |                  |  |
| Multi-Family   | 941,122  | 940,175                                     | 620      | —       | 327      | 947      | 0.10  |                  |  |
| Commercial Real Estate                                 | 627,843  | 627,209                                     | 62       | 93      | 479      | 634      | 0.10  |                  |  |
| Commercial & Industrial                                | 407,763  | 407,698                                     | 65       | —       | —        | 65       | 0.02  |                  |  |
| HELOC  | 120,904  | 120,098                                     | 150      | 74      | 582      | 806      | 0.67  |                  |  |
| Consumer   | 218,700  | 218,084                                     | 414      | 160     | 42       | 616      | 0.28  |                  |  |
| Total non-acquired loans                               | 8,348,895  | 8,257,291                                   | 24,302   | 9,701   | 57,601   | 91,604   | 1.10  | %                |  |
| Non-impaired acquired loans                            |  |   |          |         |          |          |       |                  |  |
| Single-Family Residential                              | 10,976   | 10,819                                      | 133      | —       | 24       | 157      | 1.43  | %                |  |
| Land - Acquisition & Development                       | 728  | 728   | —        | —       | —        | —        | —     |                  |  |
| Land - Consumer Lot Loans                              | 2,474  | 2,139                                       | 218      | —       | 117      | 335      | 13.54 |                  |  |
| Multi-Family   | 2,912  | 2,912                                       | —        | —       | —        | —        | —     |                  |  |
| Commercial Real Estate                                 | 87,290   | 85,063                                      | 492      | 1,561   | 174      | 2,227    | 2.55  |                  |  |
| Commercial & Industrial                                | 55,670   | 55,670                                      | —        | —       | —        | —        | —     |                  |  |
| HELOC  | 6,700  | 6,201                                       | 275      | —       | 224      | 499      | 7.45  |                  |  |
| Consumer   | 2,774  | 2,326                                       | 54       | —       | 394      | 448      | 16.15 |                  |  |
| Total non-impaired acquired loans                      | 169,524  | 165,858                                     | 1,172    | 1,561   | 933      | 3,666    | 2.16  | %                |  |
| Credit-impaired acquired loans                         |  |   |          |         |          |          |       |                  |  |
| Single-Family Residential                              | 322  | 322   | —        | —       | —        | —        | —     | %                |  |
| Land - Acquisition & Development                       | 1,395  | 1,395                                       | —        | —       | —        | —        | —     |                  |  |
| Commercial Real Estate                                 | 56,717   | 54,366                                      | 387      | 516     | 1,448    | 2,351    | 4.15  |                  |  |
| Commercial & Industrial                                | 2,179  | 2,179                                       | —        | —       | —        | —        | —     |                  |  |

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|   |             |             |          |          |          |          |      |   |
|---|-------------|-------------|----------|----------|----------|----------|------|---|
| HELOC                                   | 8,836       | 8,748       | —        | —        | 88       | 88       | 1.00 |   |
| Consumer                                | 51          | 51          | —        | —        | —        | —        | —    |   |
| Total credit-impaired<br>acquired loans | 69,500      | 67,061      | 387      | 516      | 1,536    | 2,439    | 3.51 | % |
| Total Loans                             | \$8,587,919 | \$8,490,210 | \$25,861 | \$11,778 | \$60,070 | \$97,709 | 1.14 | % |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| September 30, 2014<br>Type of Loan | Amount of Loans<br>Net of LIP & Chg.-Off<br>(In thousands) | Days Delinquent Based on \$ Amount of Loans |          |         |          | Total    | % based<br>on \$ |   |
|------------------------------------|--|---|----------|---------|----------|----------|------------------|---|
|                                    |  | Current                                     | 30       | 60      | 90       |          |                  |   |
| Non-acquired loans                 |  |   |          |         |          |          |                  |   |
| 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             | % |
| Non-impaired 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 non-impaired 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                                       | —        | —       | —        | —        | —                |   |
| Commercial Real Estate             | 63,713   | 61,713                                      | 152      | 909     | 939      | 2,000    | 3.14             |   |

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|                                      |             |             |          |          |          |           |      |   |
|--------------------------------------|-------------|-------------|----------|----------|----------|-----------|------|---|
| 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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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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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 March 31, 2015, single-family residential loans comprised 85.6% 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 March 31,<br>2015 |   | 2014   |                           | 2014  |  |
|-------------------------------|---------------------------------|---|--|---------------------------|---|--|
|                               | Number<br>of<br>Contracts       | Pre-Modification<br>Outstanding<br>Recorded<br>Investment<br>(In thousands) | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Number<br>of<br>Contracts | Pre-Modification<br>Outstanding<br>Recorded<br>Investment<br>(In thousands) | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| Troubled Debt Restructurings: |                                 |   |  |                           |   |  |
| Single-Family Residential     | 14                              | \$2,664   | \$ 2,664   | 23                        | \$4,218   | \$ 4,218   |
| Land - Consumer Lot           | 4                               | 720   | 720  | 1                         | 83  | 83   |
| Loans                         |                                 |   |  |                           |   |  |
| Commercial Real Estate        | 3                               | 3,175   | 3,175  | —                         | —   | —  |
|                               | 21                              | \$6,559   | \$ 6,559   | 24                        | \$4,301   | \$ 4,301   |

|                               | Six Months Ended March 31,<br>2015 |   | 2014   |                           | 2014  |  |
|-------------------------------|------------------------------------|---|--|---------------------------|---|--|
|                               | Number<br>of<br>Contracts          | Pre-Modification<br>Outstanding<br>Recorded<br>Investment<br>(In thousands) | Post-Modification<br>Outstanding<br>Recorded<br>Investment | Number<br>of<br>Contracts | Pre-Modification<br>Outstanding<br>Recorded<br>Investment<br>(In thousands) | Post-Modification<br>Outstanding<br>Recorded<br>Investment |
| Troubled Debt Restructurings: |                                    |   |  |                           |   |  |
| Single-Family Residential     | 49                                 | 12,264  | 12,264   | 38                        | 7,067   | 7,067  |
| Construction - Speculative    | 2                                  | 718   | 718  | —                         | —   | —  |
| Construction - Custom         | —                                  | —   | —  | —                         | —   | —  |
| Land - Consumer Lot           | 6                                  | 1,252   | 1,252  | 4                         | 358   | 358  |
| Loans                         |                                    |   |  |                           |   |  |

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|                        |    |          |           |    |         |          |
|------------------------|----|----------|-----------|----|---------|----------|
| Commercial Real Estate | 3  | 3,175    | 3,175     | —  | —       | —        |
| Consumer               | 1  | 85       | 85        | —  | —       | —        |
|                        | 61 | \$17,494 | \$ 17,494 | 42 | \$7,425 | \$ 7,425 |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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The following tables provide information on restructured loans for which a payment default occurred during the periods indicated that had been modified as a TDR within 12 months or less of the payment default:

|  | Quarter Ended March 31,<br>2015          |                        | 2014                                     |                        |
|--|--|------------------------|--|------------------------|
|  | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment |
| Troubled Debt Restructurings That Subsequently<br>Defaulted: |  |                        |  |                        |
| Single-Family Residential                                    | 2  | \$304                  | 23                                       | \$4,218                |
| Land - Consumer Lot Loans                                    | 2  | 301                    | 1  | 83                     |
|  | 4  | \$605                  | 24                                       | \$4,301                |
|  |  |                        |  |                        |
|  | Six Months Ended March 31,<br>2015       |                        | 2014                                     |                        |
|  | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment | Number of<br>Contracts<br>(In thousands) | Recorded<br>Investment |
| Troubled Debt Restructurings That Subsequently<br>Defaulted: |  |                        |  |                        |
| Single-Family Residential                                    | 7  | \$1,237                | 38                                       | \$7,067                |
| Land - Consumer Lot Loans                                    | 3  | 389                    | 4  | 358                    |
|  | 10                                       | \$1,626                | 42                                       | \$7,425                |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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## NOTE E – Allowance for Losses on Loans

The following table summarizes the activity in the allowance for loan losses (excluding acquired and covered loans) for the three and six months ended March 31, 2015 and 2014:

| Three Months Ended March 31,<br>2015 | Beginning<br>Allowance<br>(In thousands) | Charge-offs | Recoveries | Provision &<br>Transfers | Ending<br>Allowance |
|--------------------------------------|--|-------------|------------|--------------------------|---------------------|
| Single-family residential            | \$55,495                                 | \$(1,409)   | ) \$4,122  | \$(3,446)                | ) \$54,762          |
| Construction - speculative           | 5,451                                    | —           | ) 75       | (81)                     | ) 5,445             |
| Construction - custom                | 965                                      | —           | —          | 3                        | ) 968               |
| Land - acquisition & development     | 6,671                                    | —           | ) 204      | 530                      | ) 7,405             |
| Land - consumer lot loans            | 3,113                                    | (52)        | ) 34       | (60)                     | ) 3,035             |
| Multi-family                         | 4,500                                    | —           | —          | 173                      | ) 4,673             |
| Commercial real estate               | 5,872                                    | —           | ) 453      | 409                      | ) 6,734             |
| Commercial & industrial              | 23,328                                   | (355)       | ) 18       | (1,845)                  | ) 21,146            |
| HELOC                                | 892                                      | —           | —          | (42)                     | ) 850               |
| Consumer                             | 2,413                                    | (701)       | ) 734      | 859                      | ) 3,305             |
|                                      | \$108,700                                | \$(2,517)   | ) \$5,640  | \$(3,500)                | ) \$108,323         |
| Three Months Ended March 31,<br>2014 | Beginning<br>Allowance<br>(In thousands) | Charge-offs | Recoveries | Provision &<br>Transfers | Ending<br>Allowance |
| Single-family residential            | \$67,692                                 | \$(2,444)   | ) \$2,088  | \$(3,988)                | ) \$63,348          |
| Construction - speculative           | 8,142                                    | (488)       | ) \$—      | (881)                    | ) 6,773             |
| Construction - custom                | 1,474                                    | —           | —          | 125                      | ) 1,599             |
| Land - acquisition & development     | 7,084                                    | (85)        | ) 299      | (1,271)                  | ) 6,027             |
| Land - consumer lot loans            | 3,274                                    | (231)       | ) —        | (69)                     | ) 2,974             |
| Multi-family                         | 4,109                                    | —           | —          | 78                       | ) 4,187             |
| Commercial real estate               | 5,868                                    | (73)        | ) —        | 129                      | ) 5,924             |
| Commercial & industrial              | 16,505                                   | (444)       | ) 2,852    | 1,490                    | ) 20,403            |
| HELOC                                | 943                                      | —           | —          | 32                       | ) 975               |
| Consumer                             | 3,067                                    | (1,010)     | ) 1,059    | (395)                    | ) 2,721             |
|                                      | \$118,158                                | \$(4,775)   | ) \$6,298  | \$(4,750)                | ) \$114,931         |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| Six Months Ended March 31, 2015  | Beginning Allowance<br>(In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|----------------------------------|---------------------------------------|-------------|------------|-----------------------|------------------|
| Single-family residential        | \$62,763                              | \$(3,103)   | ) \$6,675  | \$(11,573)            | ) \$54,762       |
| Construction - speculative       | 6,742                                 | (388)       | ) \$75     | (984)                 | ) 5,445          |
| Construction - custom            | 1,695                                 | —           | —          | (727)                 | ) 968            |
| Land - acquisition & development | 5,592                                 | (38)        | ) 205      | 1,646                 | 7,405            |
| Land - consumer lot loans        | 3,077                                 | (87)        | ) 34       | 11                    | 3,035            |
| Multi-family                     | 4,248                                 | —           | 220        | 205                   | 4,673            |
| Commercial real estate           | 7,548                                 | (27)        | ) 481      | (1,268)               | ) 6,734          |
| Commercial & industrial          | 16,527                                | (355)       | ) 52       | 4,922                 | 21,146           |
| HELOC                            | 928                                   | —           | —          | (78)                  | ) 850            |
| Consumer                         | 3,227                                 | (1,128)     | ) 1,349    | (143)                 | ) 3,305          |
|                                  | \$112,347                             | \$(5,126)   | ) \$9,091  | \$(7,989)             | ) \$108,323      |
| Six Months Ended March 31, 2014  | Beginning Allowance<br>(In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
| Single-family residential        | \$64,184                              | \$(4,777)   | ) \$10,913 | \$(6,972)             | ) \$63,348       |
| Construction - speculative       | 8,407                                 | (938)       | ) \$95     | (791)                 | ) 6,773          |
| Construction - custom            | 882                                   | —           | —          | 717                   | 1,599            |
| Land - acquisition & development | 9,165                                 | (541)       | ) 738      | (3,335)               | ) 6,027          |
| Land - consumer lot loans        | 3,552                                 | (474)       | ) 22       | (126)                 | ) 2,974          |
| Multi-family                     | 3,816                                 | —           | —          | 371                   | 4,187            |
| Commercial real estate           | 5,595                                 | (73)        | ) —        | 402                   | 5,924            |
| Commercial & industrial          | 16,614                                | (692)       | ) 3,273    | 1,208                 | 20,403           |
| HELOC                            | 1,002                                 | —           | —          | (27)                  | ) 975            |
| Consumer                         | 3,524                                 | (2,091)     | ) 2,085    | (797)                 | ) 2,721          |
|                                  | \$116,741                             | \$(9,586)   | ) \$17,126 | \$(9,350)             | ) \$114,931      |

The Company recorded a \$3,949,000 reversal of the provision for loan losses during the quarter ended March 31, 2015, while a \$4,336,000 reversal was recorded for the same quarter one year ago. The reason is that the credit quality of the portfolio has been improving significantly and economic conditions are more favorable. During the fiscal year ended September 30, 2014, there was a transfer of \$2,910,000 from the general allowance to establish a reserve for unfunded commitments. This reserve was \$1,898,000 as of March 31, 2015.

Non-performing assets (“NPAs”) amounted to \$143,223,000, or 0.98%, of total assets at March 31, 2015, compared to \$147,311,000, or 1.00%, of total assets as of September 30, 2014. Including the covered assets from the Horizon Bank acquisition in 2010 that will not be covered after March 31, 2015, the NPAs would amount to \$153,202,000 or 1.05% of total assets.

Acquired loans, including covered loans, are usually not classified as non-performing loans because at acquisition, the carrying value of these loans is adjusted to reflect fair value. As of March 31, 2015, \$34,695,000 in acquired loans were subject to the general allowance as the discount related to these balances is no longer sufficient to absorb potential losses. There was a \$449,000 reversal of provision for loan losses recorded on acquired or covered loans during the quarter ended March 31, 2015. The reversal of allowance for credit losses related to the acquired loans resulted increased expectations of future cash flows due to decreased credit losses for certain acquired loan pools.



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Non-accrual loans decreased from \$87,431,000 at September 30, 2014, to \$75,850,000 at March 31, 2015, a 13.2% decrease.

A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations. The Company had net recoveries of \$3,123,000 for the quarter ended March 31, 2015, compared with \$1,523,000 of net recoveries for the same quarter one year prior.

As of March 31, 2015, \$108,323,000 of the allowance was calculated under the formulas contained in our general allowance methodology. As of 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 which 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 March 31, 2015 and September 30, 2014:

| March 31, 2015                   | 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        | \$54,762                                    | \$ 5,476,667                               | 1.0   | % \$—                                       | \$ 55,886                                   | —     | % |
| Construction - speculative       | 5,445                                       | 97,987                                     | 5.6   | —   | 7,405                                       | —     |   |
| Construction - custom            | 968   | 201,777                                    | 0.5   | —   | —   | —     |   |
| Land - acquisition & development | 7,405                                       | 87,541                                     | 8.5   | —   | 3,298                                       | —     |   |
| Land - consumer lot loans        | 3,035                                       | 89,279                                     | 3.4   | —   | 12,723                                      | —     |   |
| Multi-family                     | 4,673                                       | 936,010                                    | 0.5   | —   | 5,112                                       | —     |   |
| Commercial real estate           | 6,734                                       | 617,633                                    | 1.1   | —   | 10,210                                      | —     |   |
| Commercial & industrial          | 21,146                                      | 442,459                                    | 4.8   | —   | —   | —     |   |
| HELOC                            | 850   | 119,235                                    | 0.7   | —   | 1,669                                       | —     |   |
| Consumer                         | 3,305                                       | 218,605                                    | 1.5   | —   | 95  | —     |   |
|                                  | \$108,323                                   | \$ 8,287,193                               | 1.3   | % \$—                                       | \$ 96,398                                   | —     | % |

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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| 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                                      | —     |   |
| 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 discounts sufficient to absorb potential losses and covered loans

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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 (excluding covered loans) based on credit quality indicators as defined above as of March 31, 2015 and September 30, 2014.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014

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| March 31, 2015                       | Internally Assigned Grade |                 |             |          |      | Total<br>Gross Loans |
|--------------------------------------|---------------------------|-----------------|-------------|----------|------|----------------------|
|                                      | Pass                      | Special mention | Substandard | Doubtful | Loss |                      |
|                                      | (In thousands)            |                 |             |          |      |                      |
| Non-acquired loans                   |                           |                 |             |          |      |                      |
| Single-family residential            | \$5,426,579               | \$2,343         | \$106,182   | \$—      | \$—  | \$5,535,104          |
| Construction - speculative           | 157,847                   | —               | 5,810       | —        | —    | 163,657              |
| Construction - custom                | 370,693                   | —               | —           | —        | —    | 370,693              |
| Land - acquisition & development     | 99,686                    | —               | 5,372       | —        | —    | 105,058              |
| Land - consumer lot loans            | 101,505                   | —               | 577         | —        | —    | 102,082              |
| Multi-family                         | 1,004,149                 | —               | 5,854       | —        | —    | 1,010,003            |
| Commercial real estate               | 728,274                   | —               | 12,863      | —        | —    | 741,137              |
| Commercial & industrial              | 353,998                   | 13,949          | 35,542      | 4,869    | —    | 408,358              |
| HELOC                                | 120,653                   | —               | 248         | —        | —    | 120,901              |
| Consumer                             | 218,500                   | —               | 180         | —        | —    | 218,680              |
|                                      | 8,581,884                 | 16,292          | 172,628     | 4,869    | —    | 8,775,673            |
| Non-impaired acquired loans          |                           |                 |             |          |      |                      |
| Single-family residential            | 10,977                    | —               | —           | —        | —    | 10,977               |
| Land - acquisition & development     | 343                       | —               | 385         | —        | —    | 728                  |
| Land - consumer lot loans            | 2,476                     | —               | —           | —        | —    | 2,476                |
| Multi-family                         | 2,912                     | —               | —           | —        | —    | 2,912                |
| Commercial real estate               | 81,059                    | 514             | 5,740       | —        | —    | 87,313               |
| Commercial & industrial              | 53,666                    | 1,870           | 123         | —        | —    | 55,659               |
| HELOC                                | 6,700                     | —               | —           | —        | —    | 6,700                |
| Consumer                             | 2,794                     | —               | —           | —        | —    | 2,794                |
|                                      | 160,927                   | 2,384           | 6,248       | —        | —    | 169,559              |
| Credit-impaired acquired loans       |                           |                 |             |          |      |                      |
| Pool 1 - Construction and land A&D   | 1,146                     | —               | 249         | —        | —    | 1,395                |
| Pool 2 - Single-family residential   | 322                       | —               | —           | —        | —    | 322                  |
| Pool 3 - Multi-family                | —                         | —               | —           | —        | —    | —                    |
| Pool 4 - HELOC & other consumer      | 8,889                     | —               | —           | —        | —    | 8,889                |
| Pool 5 - Commercial real estate      | 45,472                    | 1,773           | 9,482       | —        | —    | 56,727               |
| Pool 6 - Commercial & industrial     | 2,190                     | —               | —           | —        | —    | 2,190                |
| Total credit impaired acquired loans | 58,019                    | 1,773           | 9,731       | —        | —    | 69,523               |
| Total gross loans                    | \$8,800,830               | \$20,449        | \$188,607   | \$4,869  | \$—  | \$9,014,755          |
|                                      | 97.6                      | % 0.2           | % 2.1       | % 0.1    | % —  | %                    |

Total grade as a % of total gross  
loans

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| September 30, 2014                   | Internally Assigned Grade |                 |             |          |      | Total<br>Gross Loans |
|--------------------------------------|---------------------------|-----------------|-------------|----------|------|----------------------|
|                                      | Pass<br>(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            |
| Non-impaired 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          |

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):

| March 31, 2015                   | Performing Loans |                           | Non-Performing Loans |                           |     |   |
|----------------------------------|------------------|---------------------------|----------------------|---------------------------|-----|---|
|                                  | Amount           | % of Total<br>Gross Loans | Amount               | % of Total<br>Gross Loans |     |   |
|                                  | (In thousands)   |                           |                      |                           |     |   |
| Single-family residential        | \$5,474,323      | 98.9                      | %                    | \$60,781                  | 1.1 | % |
| Construction - speculative       | 162,505          | 99.3                      |                      | 1,152                     | 0.7 |   |
| Construction - custom            | 370,693          | 100.0                     |                      | —                         | —   |   |
| Land - acquisition & development | 105,058          | 100.0                     |                      | —                         | —   |   |
| Land - consumer lot loans        | 99,624           | 97.6                      |                      | 2,458                     | 2.4 |   |
| Multi-family                     | 1,010,003        | 100.0                     |                      | —                         | —   |   |
| Commercial real estate           | 735,402          | 99.2                      |                      | 5,735                     | 0.8 |   |
| Commercial & industrial          | 403,340          | 98.8                      |                      | 5,018                     | 1.2 |   |
| HELOC                            | 119,726          | 99.0                      |                      | 1,175                     | 1.0 |   |
| Consumer                         | 218,104          | 99.7                      |                      | 576                       | 0.3 |   |
|                                  | \$8,698,778      | 99.1                      | %                    | \$76,895                  | 0.9 | % |
|                                  |                  |                           |                      |                           |     |   |
| September 30, 2014               | Performing Loans |                           | Non-Performing Loans |                           |     |   |
|                                  | Amount           | % of Total<br>Gross Loans | Amount               | % of Total<br>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 March 31, 2015 and September 30, 2014:

| March 31, 2015                      | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
|                                     | (In thousands)         |                                |                      |                                   |
| With no related allowance recorded: |                        |                                |                      |                                   |
| Single-family residential           | \$23,164               | \$25,986                       | \$—                  | \$21,135                          |
| Construction - speculative          | 997                    | 1,192                          | —                    | 1,001                             |
| Land - acquisition & development    | 685                    | 1,229                          | —                    | 738                               |
| Land - consumer lot loans           | 1,353                  | 1,451                          | —                    | 1,144                             |
| Multi-family                        | 1,079                  | 1,079                          | —                    | 1,080                             |
| Commercial real estate              | 9,768                  | 14,145                         | —                    | 9,587                             |
| Commercial & industrial             | 6,988                  | 18,865                         | —                    | 5,091                             |
| HELOC                               | 1,112                  | 1,898                          | —                    | 931                               |
| Consumer                            | 414                    | 614                            | —                    | 369                               |
|                                     | 45,560                 | 66,459                         | —                    | 41,076                            |
| With an allowance recorded:         |                        |                                |                      |                                   |
| Single-family residential           | 290,951                | 295,408                        | 8,597                | 289,495                           |
| Construction - speculative          | 6,408                  | 7,198                          | —                    | 6,260                             |
| Land - acquisition & development    | 4,179                  | 5,119                          | —                    | 4,208                             |
| Land - consumer lot loans           | 12,501                 | 12,884                         | —                    | 12,376                            |
| Multi-family                        | 3,862                  | 3,862                          | —                    | 3,547                             |
| Commercial real estate              | 20,673                 | 21,323                         | —                    | 19,160                            |
| HELOC                               | 1,394                  | 1,394                          | —                    | 1,390                             |
| Consumer                            | 123                    | 293                            | —                    | 124                               |
|                                     | 340,091                | 347,481                        | 8,597                | (1) 336,560                       |
| Total:                              |                        |                                |                      |                                   |
| Single-family residential           | 314,115                | 321,394                        | 8,597                | 310,630                           |
| Construction - speculative          | 7,405                  | 8,390                          | —                    | 7,261                             |
| Land - acquisition & development    | 4,864                  | 6,348                          | —                    | 4,946                             |
| Land - consumer lot loans           | 13,854                 | 14,335                         | —                    | 13,520                            |
| Multi-family                        | 4,941                  | 4,941                          | —                    | 4,627                             |
| Commercial real estate              | 30,441                 | 35,468                         | —                    | 28,747                            |
| Commercial & industrial             | 6,988                  | 18,865                         | —                    | 5,091                             |
| HELOC                               | 2,506                  | 3,292                          | —                    | 2,321                             |
| Consumer                            | 537                    | 907                            | —                    | 493                               |
|                                     | \$385,651              | \$413,940                      | \$8,597              | (1) \$377,636                     |

(1)Included in the general reserves.

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| September 30, 2014                  | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>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 January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-01,

Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The ASU eliminates the concept of extraordinary items. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. Early adoption is permitted. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued 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 was 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. This guidance does not have a material impact on the Company's 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, 2017. 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. The new guidance clarifies that an in substance repossession or foreclosure occurs, and 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 the Company's 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 March 31, 2015 and September 30, 2014:

|  | Fair Value at March 31, 2015 |             |         | Total       |
|--|------------------------------|-------------|---------|-------------|
|  | Level 1<br>(In thousands)    | Level 2     | Level 3 |             |
| <b>Financial Assets</b>                          |                              |             |         |             |
| Available-for-sale securities                    |                              |             |         |             |
| Equity securities                                | \$102,277                    | \$—         | \$—     | \$102,277   |
| Obligations of U.S. government                   | —                            | 534,445     | —       | 534,445     |
| Obligations of states and political subdivisions | —                            | 24,013      | —       | 24,013      |
| Corporate debt securities                        | —                            | 528,564     | —       | 528,564     |
| Agency pass-through certificates                 | —                            | 1,456,945   | —       | 1,456,945   |
| Other Commercial MBS                             | —                            | 110,662     | —       | 110,662     |
| Total available-for-sale securities              | 102,277                      | 2,654,629   | —       | 2,756,906   |
| Bank owned life insurance                        | —                            | 100,961     | —       | 100,961     |
| Total financial assets                           | \$102,277                    | \$2,755,590 | \$—     | \$2,857,867 |
| <b>Financial Liabilities</b>                     |                              |             |         |             |
| FDIC liability                                   | —                            | 29,825      | —       | 29,825      |
| Long term borrowing hedge                        | —                            | (9,503      | ) —     | (9,503      |
| Total financial liabilities                      | \$—                          | \$20,322    | \$—     | \$20,322    |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended March 31, 2015.

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|  | Fair Value at September 30, 2014 |              |         | Total        |
|--|----------------------------------|--------------|---------|--------------|
|  | Level 1<br>(In thousands)        | Level 2      | Level 3 |              |
| <b>Financial Assets</b>                          |                                  |              |         |              |
| 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       |
| Obligations of foreign governments               | —                                | —            | —       | —            |
| 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       |
| Total financial assets                           | \$ 101,387                       | \$ 2,948,055 | \$—     | \$ 3,049,442 |
| <b>Financial Liabilities</b>                     |                                  |              |         |              |
| FDIC liability                                   | —                                | 28,823       | —       | 28,823       |
| Long term borrowing hedge                        | —                                | (268         | ) —     | (268 )       |
| Total financial liabilities                      | \$—                              | \$ 28,555    | \$—     | \$ 28,555    |

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

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## Measured on a Nonrecurring Basis

## Impaired Loans &amp; Real Estate Held for Sale

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

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 appraisal or estimated value of the collateral.

When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at March 31, 2015 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at estimated fair value on a nonrecurring basis at March 31, 2015 and March 31, 2014, and the total losses (gains) resulting from those fair value adjustments for the quarters and six months ended March 31, 2015 and March 31, 2014. These estimated fair values are shown gross of estimated selling costs.

|                               | March 31, 2015 |         |          |          | Quarter Ended        | Six Months           |
|-------------------------------|----------------|---------|----------|----------|----------------------|----------------------|
|                               | Level 1        | Level 2 | Level 3  | Total    | March 31, 2015       | Ended March 31, 2015 |
|                               | (In thousands) |         |          |          | Total Losses (Gains) |                      |
| Impaired loans (1)            | \$—            | \$—     | \$3,478  | \$3,478  | \$515                | \$580                |
| Covered REO (2)               | —              | —       | 1,558    | 1,558    | 112                  | 188                  |
| Real estate held for sale (2) | —              | —       | 46,697   | 46,697   | (2,645)              | (10,957)             |
| Balance at end of period      | \$—            | \$—     | \$51,733 | \$51,733 | \$(2,018)            | \$(10,189)           |

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

(2) The gains represents net valuation adjustments on real estate held for sale.

|                               | March 31, 2014 |         |          |          | Quarter              | Six Months           |
|-------------------------------|----------------|---------|----------|----------|----------------------|----------------------|
|                               | Level 1        | Level 2 | Level 3  | Total    | Ended March 31, 2014 | Ended March 31, 2014 |
|                               | (In thousands) |         |          |          | Total Losses (Gains) |                      |
| Impaired loans (1)            | \$—            | \$—     | \$7,066  | \$7,066  | \$269                | \$(536)              |
| Covered REO (2)               | —              | —       | 2,760    | 2,760    | 64                   | 129                  |
| Real estate held for sale (2) | —              | —       | 26,725   | 26,725   | 2,657                | 6,382                |
| Balance at end of period      | \$—            | \$—     | \$36,551 | \$36,551 | \$2,990              | \$5,975              |

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

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

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

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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.

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

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

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

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 less selling costs 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 established on the transfer date.

**Fair Values of Financial Instruments**

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

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|  | Level in Fair Value Hierarchy | March 31, 2015  |                      | September 30, 2014 |                      |
|--|-------------------------------|-----------------|----------------------|--------------------|----------------------|
|  |                               | Carrying Amount | Estimated Fair Value | Carrying Amount    | Estimated Fair Value |
| (In thousands)                                   |                               |                 |                      |                    |                      |
| Financial assets                                 |                               |                 |                      |                    |                      |
| Cash and cash equivalents                        | 1                             | \$675,064       | \$675,064            | \$781,843          | \$781,843            |
| Available-for-sale securities                    |                               |                 |                      |                    |                      |
| Equity securities                                | 1                             | 102,277         | 102,277              | 101,387            | 101,387              |
| Obligations of U.S. government                   | 2                             | 534,445         | 534,445              | 731,943            | 731,943              |
| Obligations of states and political subdivisions | 2                             | 24,013          | 24,013               | 23,681             | 23,681               |
| Corporate debt securities                        | 2                             | 528,564         | 528,564              | 509,007            | 509,007              |
| Mortgage-backed securities                       |                               |                 |                      |                    |                      |
| Agency pass-through certificates                 | 2                             | 1,456,945       | 1,456,945            | 1,584,508          | 1,584,508            |
| Other Commercial MBS                             | 2                             | 110,662         | 110,662              | 98,916             | 98,916               |
| Total available-for-sale securities              |                               | 2,756,906       | 2,756,906            | 3,049,442          | 3,049,442            |
| Held-to-maturity securities                      |                               |                 |                      |                    |                      |
| Mortgage-backed securities                       |                               |                 |                      |                    |                      |
| Agency pass-through certificates                 | 2                             | 1,479,781       | 1,480,477            | 1,548,265          | 1,499,218            |
| Total held-to-maturity securities                |                               | 1,479,781       | 1,480,477            | 1,548,265          | 1,499,218            |
| Loans receivable                                 |                               |                 |                      |                    |                      |
| Covered loans                                    | 3                             | 8,420,988       | 9,038,242            | 8,148,322          | 8,667,771            |
| FDIC indemnification asset                       | 3                             | 138,005         | 144,672              | 176,476            | 176,761              |
| FHLB and FRB stock                               | 3                             | 23,115          | 22,543               | 36,860             | 35,976               |
| FHLB and FRB stock                               | 2                             | 150,918         | 150,918              | 158,839            | 158,839              |
| Bank owned life insurance                        | 1                             | 100,961         | 100,961              | —                  | —                    |
| Financial liabilities                            |                               |                 |                      |                    |                      |
| Customer accounts                                | 2                             | 10,692,625      | 10,057,164           | 10,716,928         | 9,946,586            |
| FHLB advances                                    | 2                             | 1,830,000       | 1,962,356            | 1,930,000          | 2,054,437            |
| FDIC liability                                   | 2                             | 29,825          | 29,825               | 28,823             | 28,823               |
| Other liabilities - long term borrowing          | 2                             | —               | (9,503)              | —                  | (268)                |
| hedge  |                               |                 |                      |                    |                      |

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.

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

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

Bank owned life insurance – Fair values of insurance policies owned are based on the insurance contracts' cash surrender values.

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 – 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.

Long Term Borrowing Hedges – The fair value of the forward starting interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.

The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of March 31, 2015, and September 30, 2014:

|   | March 31, 2015    |                           |                      |               |       |   |
|---|-------------------|---------------------------|----------------------|---------------|-------|---|
|   | Amortized<br>Cost | Gross Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value | Yield |   |
|   | (In thousands)    |                           |                      |               |       |   |
| Available-for-sale securities             |                   |                           |                      |               |       |   |
| U.S. government and agency securities due |                   |                           |                      |               |       |   |
| 1 to 5 years                              | \$142,283         | \$2,300                   | \$(119)              | ) \$144,464   | 1.41  | % |
| 5 to 10 years                             | 107,717           | 403                       | —                    | ) 108,120     | 1.19  |   |
| Over 10 years                             | 281,951           | 436                       | (526)                | ) 281,861     | 1.14  |   |
| Equity Securities                         |                   |                           |                      |               |       |   |
| Within 1 year                             | 500               | 17                        | —                    | ) 517         | 1.80  |   |
| 1 to 5 years                              | 100,000           | 1,760                     | —                    | ) 101,760     | 1.90  |   |
| 5 to 10 years                             | —                 | —                         | —                    | ) —           | —     |   |
| Corporate bonds due                       |                   |                           |                      |               |       |   |
| Within 1 year                             | 15,000            | —                         | (15)                 | ) 14,985      | 1.00  |   |
| 1 to 5 years                              | 327,715           | 1,860                     | —                    | ) 329,575     | 0.74  |   |
| 5 to 10 years                             | 133,271           | 1,432                     | (949)                | ) 133,754     | 1.48  |   |
| Over 10 years                             | 50,000            | 250                       | —                    | ) 50,250      | 3.00  |   |
| Municipal bonds due                       |                   |                           |                      |               |       |   |
| Over 10 years                             | 20,392            | 3,621                     | —                    | ) 24,013      | 6.45  |   |
| Mortgage-backed securities                |                   |                           |                      |               |       |   |
| Agency pass-through certificates          | 1,420,784         | 38,053                    | (1,892)              | ) 1,456,945   | 2.57  |   |
| Other Commercial MBS                      | 110,662           | —                         | —                    | ) 110,662     | 1.45  |   |
|   | 2,710,275         | 50,132                    | (3,501)              | ) 2,756,906   | 1.99  | % |
| Held-to-maturity securities               |                   |                           |                      |               |       |   |
| Mortgage-backed securities                |                   |                           |                      |               |       |   |
| Agency pass-through certificates          | 1,479,781         | 11,732                    | (11,036)             | ) 1,480,477   | 3.13  |   |
|   | \$4,190,056       | \$61,864                  | \$(14,537)           | ) \$4,237,383 | 2.39  | % |



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|   | September 30, 2014 |                  |            |               |       |   |
|---|--------------------|------------------|------------|---------------|-------|---|
|   | Amortized          | Gross Unrealized |            | Fair          | Yield |   |
|   | Cost               | Gains            | Losses     | Value         |       |   |
|   | (In thousands)     |                  |            |               |       |   |
| 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  |   |
| 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  | % |
| Held-to-maturity securities               |                    |                  |            |               |       |   |
| 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 March 31, 2015, there were no available-for-sale securities sold. There were also no available-for-sale securities sold during the quarter ended March 31, 2014. Substantially all of the 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 as of March 31, 2015 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.

| March 31, 2015                            | 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                       | \$(15)                  | ) \$14,985 | \$(949)                 | ) \$34,051 | \$(964)                 | ) \$49,036 |
| U.S. government and agency securities due | (533)                   | ) 182,146  | (112)                   | ) 58,083   | (645)                   | ) 240,229  |

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|                                       |   |            |            |   |              |            |   |              |
|---------------------------------------|---|------------|------------|---|--------------|------------|---|--------------|
| Agency pass-through certificates (252 | ) | 14,489     | (12,676    | ) | 1,431,457    | (12,928    | ) | 1,445,946    |
| \$ (800                               | ) | \$ 211,620 | \$ (13,737 | ) | \$ 1,523,591 | \$ (14,537 | ) | \$ 1,735,211 |

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| September 30, 2014                           | Less than 12 months        |               | 12 months or more          |               | Total                         |               |
|--|----------------------------|---------------|----------------------------|---------------|-------------------------------|---------------|
|  | Unrealized<br>Gross Losses | Fair<br>Value | Unrealized<br>Gross Losses | Fair<br>Value | Unrealized<br>Gross<br>Losses | Fair<br>Value |
|  | (In thousands)             |               |                            |               |                               |               |
| Corporate bonds due                          | \$(125                     | ) \$24,875    | \$(845                     | ) \$24,155    | \$(970                        | ) \$49,030    |
| U.S. government and agency<br>securities due | (472                       | ) 316,578     | (797                       | ) 109,354     | (1,269                        | ) 425,932     |
| Agency pass-through<br>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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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

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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 these net balances were \$153,673,000 as of March 31, 2015 compared to \$200,558,000 as of September 30, 2014. The FDIC loss share coverage for the acquired commercial loans will expire during fiscal year 2015. There are \$83,077,000 of covered assets from the former Horizon Bank that will lose their FDIC loss share coverage after March 31, 2015. As of March 31, 2015, there are \$53,181,000 of commercial loans from the former Home Valley Bank which are scheduled to expire on September 30, 2015. The FDIC loss share coverage for single family residential loans will continue for another five years.

Changes in the net carrying amount and accretible yield for acquired impaired and non-impaired covered loans for the year to date period ended March 31, 2015 and the fiscal year ended September 30, 2014 were as follows:

| March 31, 2015                                   | Acquired Impaired |                              | Acquired Non-impaired |                              |
|--|-------------------|------------------------------|-----------------------|------------------------------|
|  | Accretible Yield  | Net Carrying Amount of Loans | Accretible Yield      | Net Carrying Amount of Loans |
|  | (In thousands)    |                              |                       |                              |
| Balance at beginning of period                   | \$64,534          | \$78,055                     | \$10,259              | \$98,422                     |
| Reclassification from nonaccretible balance, net | 6,307             | —                            | —                     | —                            |
| Accretion  | (9,392)           | ) 9,392                      | (4,016)               | ) 4,016                      |
| Transfers to REO                                 | —                 | (936)                        | ) —                   | —                            |
| Payments received, net                           | —                 | (11,049)                     | ) —                   | (40,452)                     |
| Balance at end of period                         | \$61,449          | \$75,462                     | \$6,243               | \$61,986                     |
| September 30, 2014                               | Acquired Impaired |                              | Acquired Non-impaired |                              |
|  | Accretible Yield  | Net 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 March 31, 2015, none of the acquired impaired or non-impaired covered 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 as of September 30, 2014 results from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools.

The outstanding principal balance of acquired covered loans was \$159,018,000 and \$213,203,000 as of March 31, 2015 and September 30, 2014, respectively. The discount balance related to the acquired covered loans was \$21,013,000 and \$34,483,000 as of March 31, 2015 and September 30, 2014, respectively. There is no allowance for

covered loans as of March 31, 2015. There was an allowance of \$2,244,000 as of September 30, 2014.

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

|   | March 31, 2015 | September 30,<br>2014 |
|---|----------------|-----------------------|
|   | (In thousands) |                       |
| Balance at beginning of fiscal year 2015 and 2014 | \$36,860       | \$64,615              |
| Additions and deletions (1)                       | (1,795         | ) 1,795               |
| Payments made (received)                          | 738            | (2,502 )              |
| Amortization                                      | (12,972        | ) (27,850 )           |
| Accretion   | 284            | 802                   |
| Balance at end of period                          | \$23,115       | \$36,860              |

(1) reclassification of ALLL allowance due to changes in cash flows

The following tables provide information on covered loans based on credit quality indicators (defined in Note E ) as of March 31, 2015 and September 30, 2014:

| March 31, 2015                        | Internally Assigned Grade |                 |             |          |      | Total<br>Net Loans |
|---------------------------------------|---------------------------|-----------------|-------------|----------|------|--------------------|
|                                       | Pass                      | Special mention | Substandard | Doubtful | Loss |                    |
|                                       | (In thousands)            |                 |             |          |      |                    |
| Acquired non-impaired loans:          |                           |                 |             |          |      |                    |
| Single-family residential             | \$19,975                  | \$—             | \$775       | \$—      | \$—  | \$20,750           |
| Construction - speculative            | —                         | —               | —           | —        | —    | —                  |
| Construction - custom                 | —                         | —               | —           | —        | —    | —                  |
| Land - acquisition & development      | 349                       | —               | —           | —        | —    | 349                |
| Land - consumer lot loans             | 72                        | —               | —           | —        | —    | 72                 |
| Multi-family                          | 903                       | —               | —           | —        | —    | 903                |
| Commercial real estate                | 14,188                    | —               | 8,779       | —        | —    | 22,967             |
| Commercial & industrial               | 2,241                     | —               | 2,142       | —        | —    | 4,383              |
| HELOC                                 | 10,093                    | —               | —           | —        | —    | 10,093             |
| Consumer                              | 336                       | —               | —           | —        | —    | 336                |
|                                       | \$48,157                  | \$—             | \$11,696    | \$—      | \$—  | \$59,853           |
| Total grade as a % of total net loans | 80.5                      | %               | —           | %        | 19.5 | %                  |
| Acquired credit-impaired loans:       |                           |                 |             |          |      |                    |
| Pool 1 - Construction and land A&D    | \$6,639                   | \$—             | \$9,424     | \$—      | \$—  | \$16,063           |
| Pool 2 - Single-family residential    | 14,700                    | —               | 228         | —        | —    | 14,928             |
| Pool 3 - Multi-family                 | 49                        | —               | 409         | —        | —    | 458                |
| Pool 4 - HELOC & other consumer       | 2,728                     | —               | 581         | —        | —    | 3,309              |
| Pool 5 - Commercial real estate       | 32,425                    | 685             | 24,224      | 1,734    | —    | 59,068             |
| Pool 6 - Commercial & industrial      | 3,423                     | —               | 1,916       | —        | —    | 5,339              |
|                                       | \$59,964                  | \$685           | \$36,782    | \$1,734  | \$—  | 99,165             |

|                       |            |
|-----------------------|------------|
| Total covered loans   | 159,018    |
| Discount              | (21,013 )  |
| Allowance             | —          |
| Covered<br>loans, net | \$ 138,005 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| September 30, 2014                    | Internally Assigned Grade |                 |             |                     |           | Total<br>Net Loans |
|---------------------------------------|---------------------------|-----------------|-------------|---------------------|-----------|--------------------|
|                                       | Pass                      | Special mention | Substandard | Doubtful            | Loss      |                    |
|                                       | (In thousands)            |                 |             |                     |           |                    |
| Acquired non-impaired loans:          |                           |                 |             |                     |           |                    |
| Single-family residential             | \$21,311                  | \$—             | \$1,756     | \$—                 | \$—       | \$23,067           |
| Construction - speculative            | —                         | —               | —           | —                   | —         | —                  |
| Construction - custom                 | —                         | —               | —           | —                   | —         | —                  |
| 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      | % —                 | % —       | %                  |
| Acquired 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 |                    |

The following tables provide an analysis of the age of acquired non credit-impaired covered loans in past due status as of March 31, 2015 and September 30, 2014:

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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| March 31, 2015<br>Type of Loans  | Amount of Loans<br>Net of LIP & Chg.-Offs | Days Delinquent Based on \$ Amount of Loans |       |         |         |         | Total | % based<br>on \$ |   |
|----------------------------------|---|---|-------|---------|---------|---------|-------|------------------|---|
|                                  |   | Current                                     | 30    | 60      | 90      |         |       |                  | % |
| Single-Family Residential        | \$ 20,750                                 | \$20,068                                    | \$122 | \$—     | \$560   | \$682   | 3.29  | %                |   |
| Construction - Speculative       | —   | —   | —     | —       | —       | —       | —     |                  |   |
| Construction - Custom            | —   | —   | —     | —       | —       | —       | —     |                  |   |
| Land - Acquisition & Development | 349                                       | 349   | —     | —       | —       | —       | —     |                  |   |
| Land - Consumer Lot Loans        | 72  | 72  | —     | —       | —       | —       | —     |                  |   |
| Multi-Family                     | 903                                       | 903   | —     | —       | —       | —       | —     |                  |   |
| Commercial Real Estate           | 22,967                                    | 22,092                                      | —     | —       | 875     | 875     | 3.81  |                  |   |
| Commercial & Industrial          | 4,383                                     | 2,315                                       | —     | 2,068   | —       | 2,068   | 47.18 |                  |   |
| HELOC                            | 10,093                                    | 10,035                                      | 58    | —       | —       | 58      | 0.57  |                  |   |
| Consumer                         | 336                                       | 327   | 9     | —       | —       | 9       | 2.68  |                  |   |
|                                  | \$ 59,853                                 | \$56,161                                    | \$189 | \$2,068 | \$1,435 | \$3,692 | 6.17  | %                |   |

| September 30, 2014<br>Type of Loans | Amount of Loans<br>Net of LIP & Chg.-Offs | Days Delinquent Based on \$ Amount of Loans |       |      |         |         | Total | % based<br>on \$ |   |
|-------------------------------------|---|---|-------|------|---------|---------|-------|------------------|---|
|                                     |   | Current                                     | 30    | 60   | 90      |         |       |                  | % |
| Single-Family Residential           | \$ 23,067                                 | \$22,391                                    | \$230 | \$40 | \$406   | \$676   | 2.93  | %                |   |
| Construction - Speculative          | —   | —   | —     | —    | —       | —       | —     |                  |   |
| Construction - Custom               | —   | —   | —     | —    | —       | —       | —     |                  |   |
| Land - Acquisition & Development    | 1,364                                     | 1,328                                       | —     | —    | 36      | 36      | 2.64  |                  |   |
| Land - Consumer Lot Loans           | 73  | 73  | —     | —    | —       | —       | —     |                  |   |
| Multi-Family                        | 6,598                                     | 6,598                                       | —     | —    | —       | —       | —     |                  |   |
| Commercial Real Estate              | 51,336                                    | 50,240                                      | —     | —    | 1,096   | 1,096   | 2.13  |                  |   |
| 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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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED MARCH 31, 2015 and 2014  
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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 and a swap agreement with the client. The swap agreement effectively converts the client's variable rate loan into a fixed rate. The Bank enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the client's swap agreement. The interest rate swap agreements with the clients 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 March 31, 2015 was \$158,421,000 compared to \$264,169,000 as of September 30, 2014. There was no impact to the statement of operations for the six months ended March 31, 2015 as the asset and liability side of the swaps offset each other. The fee income related to swaps was \$754,897 for the six months ended March 31, 2015.

Additionally, the Bank had \$300,000,000 in forward starting interest rate swaps to hedge future borrowing rates as of March 31, 2015. Their impact on accumulated other comprehensive income as of March 31, 2015 was an after-tax loss of \$6,010,354. These derivatives are designated as cash flow hedging instruments in accordance with ASC 815.

The following table presents the fair value and balance sheet classification of derivatives at March 31, 2015 and September 30, 2014:

|                           | Asset Derivatives |            |                    |            | Liability Derivatives |            |                    |            |
|---------------------------|-------------------|------------|--------------------|------------|-----------------------|------------|--------------------|------------|
|                           | March 31, 2015    |            | September 30, 2014 |            | March 31, 2015        |            | September 30, 2014 |            |
|                           | Balance Sheet     |            | Balance Sheet      |            | Balance Sheet         |            | Balance Sheet      |            |
|                           | Location          | Fair Value | Location           | Fair Value | Location              | Fair Value | Location           | Fair Value |
|                           | (In thousands)    |            |                    |            |                       |            |                    |            |
| Interest rate contracts   | Other assets      | \$8,562    | Other assets       | \$2,879    | Other liabilities     | \$8,562    | Other liabilities  | \$2,879    |
| Long term borrowing hedge | Other assets      | —          | Other assets       | —          | Other liabilities     | 9,503      | Other liabilities  | 268        |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

**FORWARD LOOKING STATEMENTS**

In addition to historical information, this Quarterly Report on Form 10-Q includes certain “forward-looking statements,” as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934 as amended (the "Exchange Act"), 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. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through the Bank, 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 represent balances as of September 30, 2014 or activity for the fiscal year then ended.

The results discussed below were impacted by the acquisition on close of business October 31, 2013 of eleven branches from Bank of America, National Association; these branches 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 from Bank of America, National Association; these branches are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of an additional twenty-three branches from Bank of America, National Association; these branches are located in Arizona and Nevada. The combined acquisitions provided \$1,853,798,000 in deposit accounts, \$12,881,000 of loans, and \$25,097,000 in branch properties.

Washington Federal paid a 1.99% premium on the total deposits and received \$1,776,660,000 in cash from the transactions.

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to March 31, 2015, the additional forty branches from December 7, 2013 to March 31, 2015 and the twenty-three branches from May 3, 2014 to March 31, 2015.

**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. The recent branch acquisitions have accelerated these efforts. The mix of transaction accounts is now approximately 53% of total deposits. The Bank has also been

purchasing more variable rate investments. The composition of the investment portfolio is 44% variable and 56% fixed rate. In addition, \$1,479,781,000 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 March 31, 2015, the net unrealized gain on these securities was \$696,000. The net unrealized gain on the \$2,710,275,000 of available-for-sale securities was \$46,631,000 as of March 31, 2015. The Bank has executed \$300,000,000 in forward starting interest rate swaps to hedge future borrowing rates as of March 31, 2015. The net unrealized loss on the interest rate swaps as of March 31, 2015 was \$9,503,000. All of the above are pre-tax net unrealized gains/(losses).

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

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

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

**Repricing Gap Analysis.** At March 31, 2015, the Company had approximately \$1,507,912,000 more in liabilities subject to maturity or repricing in the next year than assets, which resulted in a negative one-year maturity gap of 10.3% of total assets. This was a 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 movements 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 it 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 1.1% in the next year. This compares to an estimated decrease of 1.5% as of the September 30, 2014 analysis. This analysis assumes zero balance sheet growth and a constant percentage composition of assets and liabilities for consistency. 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. It is noted that a flattening yield curve due to a greater increase in short term rates as compared to long term rates would likely result in a more significant decrease in net interest income.

**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 \$515,000,000 or 18.3% and the NPV to total assets ratio to decline to 16.50% from a base of 18.79%. 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 March 31, 2015.

**Interest Rate Spread.** The interest rate spread is measured as the difference between the rate on total loans and investments and the rate on costing liabilities at the end of each period. The interest rate spread increased to 2.71% at March 31, 2015 from 2.66% at September 30, 2014. The spread increased primarily due to lower rates on deposits and borrowings. As of March 31, 2015, the weighted average rate on customer deposit accounts and borrowings decreased by 5 basis points compared to September 30, 2014, while the weighted average rate on earning assets remained the same at 3.63%.

**Net Interest Margin.** The net interest margin is measured using the interest income and expense over the average assets and liabilities for the period. The net interest margin increased to 3.10% for the quarter ended March 31, 2015 from 3.03% for the quarter ended March 31, 2014. The yield on earning assets decreased 3 basis points to 4.01% and the cost of interest bearing liabilities declined 12 basis points to 0.93%. The yield on earning assets benefited from higher loan interest income as a result of improving credit quality and a shift from investments to higher yielding loans. The decrease in interest costs was a combination of continued downward repricing of time deposits and the prepayment of a \$100 million FHLB advance in the prior quarter.

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

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|                                    | Quarter Ended March 31, 2015         |           |                 |   | Quarter Ended March 31, 2014         |           |                 |   |
|------------------------------------|--------------------------------------|-----------|-----------------|---|--------------------------------------|-----------|-----------------|---|
|                                    | Average<br>Balance<br>(In thousands) | Interest  | Average<br>Rate |   | Average<br>Balance<br>(In thousands) | Interest  | Average<br>Rate |   |
| <b>Assets</b>                      |                                      |           |                 |   |                                      |           |                 |   |
| Loans and covered loans            | \$8,487,458                          | \$109,274 | 5.22            | % | \$7,899,864                          | \$106,334 | 5.46            | % |
| Mortgaged-backed securities        | 3,070,002                            | 18,143    | 2.40            |   | 3,305,428                            | 21,071    | 2.59            |   |
| Cash & Investments                 | 1,688,076                            | 4,814     | 1.16            |   | 1,915,724                            | 4,540     | 0.96            |   |
| FHLB & FRB stock                   | 154,342                              | 399       | 1.05            |   | 170,945                              | 406       | 0.96            |   |
| <br>                               |                                      |           |                 |   |                                      |           |                 |   |
| Total interest-earning assets      | 13,399,878                           | 132,630   | 4.01            | % | 13,291,961                           | 132,351   | 4.04            | % |
| Other assets                       | 1,150,996                            |           |                 |   | 1,101,299                            |           |                 |   |
| Total assets                       | \$14,550,874                         |           |                 |   | \$14,393,260                         |           |                 |   |
| <br>                               |                                      |           |                 |   |                                      |           |                 |   |
| <b>Liabilities and Equity</b>      |                                      |           |                 |   |                                      |           |                 |   |
| Customer accounts                  | \$10,659,570                         | \$12,574  | 0.48            | % | \$10,355,866                         | \$14,780  | 0.58            | % |
| FHLB advances                      | 1,830,000                            | 16,176    | 3.58            |   | 1,930,000                            | 16,935    | 3.56            |   |
| Other borrowings                   | —                                    | —         | —               |   | —                                    | —         | —               |   |
| <br>                               |                                      |           |                 |   |                                      |           |                 |   |
| Total interest-bearing liabilities | 12,489,570                           | 28,750    | 0.93            | % | 12,285,866                           | 31,715    | 1.05            | % |
| Other liabilities                  | 114,628                              |           |                 |   | 126,711                              |           |                 |   |
| Total liabilities                  | 12,604,198                           |           |                 |   | 12,412,577                           |           |                 |   |
| Stockholder's equity               | 1,946,676                            |           |                 |   | 1,980,683                            |           |                 |   |
| <br>                               |                                      |           |                 |   |                                      |           |                 |   |
| Total liabilities and equity       | \$14,550,874                         |           |                 |   | \$14,393,260                         |           |                 |   |
| <br>                               |                                      |           |                 |   |                                      |           |                 |   |
| Net interest income                |                                      | \$103,880 |                 |   |                                      | \$100,636 |                 |   |

Net interest margin 3.10 % 3.03 %

As of March 31, 2015, total assets had declined by \$145,022,000 to \$14,611,019,000 from \$14,756,041,000 at September 30, 2014. For the quarter ended March 31, 2015, compared to the quarter ended September 30, 2014, loans (including covered loans) increased \$234,195,000 or 2.81%. Investment securities decreased \$361,020,000, or 7.85%. Cash and cash equivalents of \$675,064,000 and stockholders’ equity of \$1,968,140,000 as of March 31, 2015 provides management with flexibility in managing interest rate risk going forward.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company’s net worth at March 31, 2015 was \$1,968,140,000, or 13.47% of total assets. This was a decrease of \$5,143,000 from September 30, 2014 when net worth was \$1,973,283,000, or 13.40% of total assets. The Company’s net worth was impacted in the six months ended March 31, 2015 by net income of \$78,768,000, the payment of \$26,806,000 in cash dividends, treasury stock purchases of \$77,355,000, as well as an increase in other comprehensive income of \$2,777,000.

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

Tier 1 leverage ratios as set forth in the following table.

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|  | Actual                    |       | Capital Adequacy Guidelines |       | Categorized as Well Capitalized Under Prompt Corrective Action Provisions |       |   |  |
|--|---------------------------|-------|-----------------------------|-------|---|-------|---|--|
|  | Capital<br>(In thousands) | Ratio | Capital                     | Ratio | Capital   | Ratio |   |  |
| March 31, 2015                           |                           |       |                             |       |   |       |   |  |
| Total capital (to risk-weighted assets)  |                           |       |                             |       |   |       |   |  |
| The Company                              | \$1,752,575               | 21.31 | % \$658,080                 | 8.00  | % NA  | NA    |   |  |
| The Bank                                 | 1,745,636                 | 21.23 | % 657,806                   | 8.00  | % \$822,258   | 10.00 | % |  |
| Tier I capital (to risk-weighted assets) |                           |       |                             |       |   |       |   |  |
| The Company                              | 1,648,859                 | 20.04 | % 493,560                   | 6.00  | % NA  | NA    |   |  |
| The Bank                                 | 1,641,962                 | 19.97 | % 493,355                   | 6.00  | % 657,806   | 8.00  | % |  |
| Tier I Capital (to average assets)       |                           |       |                             |       |   |       |   |  |
| The Company                              | 1,648,859                 | 11.57 | % 570,284                   | 4.00  | % NA  | NA    |   |  |
| The Bank                                 | 1,641,962                 | 11.52 | % 570,201                   | 4.00  | % 712,751   | 5.00  | % |  |
| Common Equity Tier I Capital             |                           |       |                             |       |   |       |   |  |
| The Company                              | 1,648,859                 | 11.57 | % 641,569                   | 4.50  | % NA  | NA    |   |  |
| The Bank                                 | 1,641,962                 | 11.52 | % 641,476                   | 4.50  | % 926,576   | 6.50  | % |  |

## 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. New minimum capital ratios for four measures are established. The common equity Tier 1 Capital Ratio is new; it recognizes common equity as the highest form of capital. The denominator for all except the leverage ratio is risk weighted assets. The new rules also sets forth a “capital conservation buffer” of up to 2.5%. In the event that a bank’s capital levels fall below minimum ratios plus these buffers, restrictions can be placed on the bank by regulators. These restrictions include reducing dividend payments, share-backs, and staff bonus payments. The purpose of these buffers is to require banks to build up capital outside of periods of stress that can be drawn down during periods of stress. As a result, even during periods where losses are incurred, the minimum capital ratios can still be met.

The new capital rules detail a phase-in period for the new minimum ratios and the capital buffers, before the full minimum ratios take effect in 2019. There are also new standards for Adequate and Well Capitalized criteria that are used for “Prompt Corrective Action” purposes. These new standards are indicated in the table above. The Company has calculated its capital ratios using the new rules as of March 31, 2015. This did not have a material impact on its consolidated financial statements.

The Company's cash and cash equivalents amounted to \$675,064,000 at March 31, 2015, a decrease from \$781,843,000 at September 30, 2014. The Company continues to hold higher than normal amounts of liquidity due to concern about potentially rising interest rates. Additionally, see "Interest Rate Risk" above and the "Statement of Cash Flows" included in the financial statements.

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## CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities decreased \$292,536,000, or 9.6%, during the six months ended March 31, 2015, due to prepayments, calls and maturities which were partially offset by the purchase of \$163,126,000 of available-for-sale securities. There were no available-for-sale securities sold during the six months ended March 31, 2015. During the same period, there were no held-to-maturity securities purchased or sold. As of March 31, 2015, the Company had net unrealized gains on available-for-sale securities and long term borrowing hedges of \$23,485,000, net of tax, which were recorded as part of other comprehensive income. This includes a net unrealized gain of \$29,495,000 on available for sale securities and a net unrealized loss of \$6,010,000 on long term borrowing hedges.

Loans receivable: During the six months ended March 31, 2015, the balance of net loans receivable increased to \$8,420,988,000 compared to \$8,148,322,000 at September 30, 2014. This increase includes net loan activity (originations less principal payments and maturities) for non-covered loans of \$128,057,000 and loan purchases of \$146,832,000. During the six month period, \$18,991,000 of non-covered loans were transferred to REO.

Covered loans: As of March 31, 2015, FDIC covered loans decreased 21.8%, or \$38,471,000 to \$138,005,000, compared to September 30, 2014 due primarily to \$50,257,000 of net principal payments, maturities and transfers to REO which were partially offset by \$11,786,000 in accretable yield.

The FDIC loss share coverage for the acquired commercial loans will expire during fiscal year 2015. The FDIC loss share coverage for single family residential loans will continue for another five years. There are \$83,077,000 of covered assets from the former Horizon Bank that will lose their FDIC loss share coverage after March 31, 2015. Including these loans as of March 31, 2015, the NPA ratio would rise from 0.98% to 1.05% and the delinquency rate would rise to 1.20% from 1.14%. There are also \$53,181,000 of covered assets from the former Home Valley Bank as of March 31, 2015 that will lose their FDIC loss share coverage as of September 30, 2015. If all FDIC loss share coverage had expired as of March 31, 2015, the NPA ratio would increase from 0.98% to 1.22% and the delinquency rate would rise from 1.14% to 1.31%.

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

| Loan Portfolio by Category *     | March 31, 2015 |      | December 31, 2014 |      | September 30, 2014 |      |
|----------------------------------|----------------|------|-------------------|------|--------------------|------|
| Non-Acquired loans               | (In thousands) |      |                   |      |                    |      |
| Single-family residential        | \$5,535,104    | 61.4 | % \$5,608,208     | 63.9 | % \$5,560,203      | 64.1 |
| Construction - speculative       | 163,657        | 1.8  | 152,450           | 1.7  | 140,060            | 1.6  |
| Construction - custom            | 370,693        | 4.1  | 377,561           | 4.3  | 385,824            | 4.5  |
| Land - acquisition & development | 105,058        | 1.2  | 84,000            | 1.0  | 77,832             | 0.9  |
| Land - consumer lot loans        | 102,082        | 1.2  | 104,492           | 1.2  | 108,623            | 1.3  |
| Multi-family                     | 1,010,003      | 11.2 | 977,752           | 11.2 | 917,286            | 10.6 |
| Commercial real estate           | 741,137        | 8.2  | 597,436           | 6.8  | 591,336            | 6.9  |
| Commercial & industrial          | 408,358        | 4.6  | 391,327           | 4.5  | 379,226            | 4.4  |
| HELOC                            | 120,901        | 1.3  | 118,047           | 1.3  | 116,042            | 1.4  |
| Consumer                         | 218,680        | 2.5  | 126,929           | 1.4  | 132,590            | 1.5  |
| Total non-acquired loans         | 8,775,673      | 97.5 | 8,538,202         | 97.3 | 8,409,022          | 97.2 |
| Non-impaired acquired loans      |                |      |                   |      |                    |      |
| Single-family residential        | 10,977         | 0.1  | 11,163            | 0.1  | 11,716             | 0.1  |
| Land - acquisition & development | 728            | —    | 872               | —    | 905                | —    |
| Land - consumer lot loans        | 2,476          | —    | 2,496             | —    | 2,507              | —    |

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|                                   |         |     |         |     |         |     |
|-----------------------------------|---------|-----|---------|-----|---------|-----|
| Multi-family                      | 2,912   | —   | 2,954   | —   | 2,999   | —   |
| Commercial real estate            | 87,313  | 1.0 | 92,133  | 1.0 | 97,898  | 1.1 |
| Commercial & industrial           | 55,659  | 0.6 | 58,836  | 0.7 | 51,386  | 0.6 |
| HELOC                             | 6,700   | 0.1 | 7,749   | 0.1 | 8,274   | 0.1 |
| Consumer                          | 2,794   | —   | 4,369   | —   | 5,670   | 0.1 |
| Total non-impaired acquired loans | 169,559 | 1.8 | 180,572 | 1.9 | 181,355 | 2.0 |

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|                                      |             |      |             |      |             |      |  |   |
|--------------------------------------|-------------|------|-------------|------|-------------|------|--|---|
| Credit-impaired acquired loans       |             |      |             |      |             |      |  |   |
| Single-family residential            | 322         | —    | 323         | —    | 325         | —    |  |   |
| Land - acquisition & development     | 1,395       | —    | 1,533       | —    | 1,622       | —    |  |   |
| Commercial real estate               | 56,727      | 0.6  | 60,287      | 0.7  | 63,723      | 0.7  |  |   |
| Commercial & industrial              | 2,190       | —    | 3,255       | —    | 3,476       | —    |  |   |
| HELOC                                | 8,838       | 0.1  | 9,202       | 0.1  | 10,139      | 0.1  |  |   |
| Consumer                             | 51          | —    | 54          | —    | 55          | —    |  |   |
| Total credit-impaired acquired loans | 69,523      | 0.7  | 74,654      | 0.8  | 79,340      | 0.8  |  |   |
| Total Loans                          |             |      |             |      |             |      |  |   |
| Single-family residential            | 5,546,403   | 61.5 | 5,619,694   | 64.0 | 5,572,244   | 64.2 |  |   |
| Construction - speculative           | 163,657     | 1.8  | 152,450     | 1.7  | 140,060     | 1.6  |  |   |
| Construction - custom                | 370,693     | 4.1  | 377,561     | 4.3  | 385,824     | 4.5  |  |   |
| Land - acquisition & development     | 107,181     | 1.2  | 86,405      | 1    | 80,359      | 0.9  |  |   |
| Land - consumer lot loans            | 104,558     | 1.2  | 106,988     | 1.2  | 111,130     | 1.3  |  |   |
| Multi-family                         | 1,012,915   | 11.2 | 980,706     | 11.2 | 920,285     | 10.6 |  |   |
| Commercial real estate               | 885,177     | 9.8  | 749,856     | 8.5  | 752,957     | 8.7  |  |   |
| Commercial & industrial              | 466,207     | 5.2  | 453,418     | 5.2  | 434,088     | 5.0  |  |   |
| HELOC                                | 136,439     | 1.5  | 134,998     | 1.5  | 134,455     | 1.6  |  |   |
| Consumer                             | 221,525     | 2.5  | 131,352     | 1.4  | 138,315     | 1.6  |  |   |
| Total Loans                          | 9,014,755   | 100  | % 8,793,428 | 100  | % 8,669,717 | 100  |  | % |
| Less:                                |             |      |             |      |             |      |  |   |
| Allowance for probable losses        | 108,323     |      | 108,700     |      | 112,347     |      |  |   |
| Loans in process                     | 426,836     |      | 370,655     |      | 346,172     |      |  |   |
| Discount on acquired loans           | 20,845      |      | 22,535      |      | 25,391      |      |  |   |
| Deferred net origination fees        | 37,763      |      | 37,621      |      | 37,485      |      |  |   |
|                                      | 593,767     |      | 539,511     |      | 521,395     |      |  |   |
|                                      | \$8,420,988 |      | \$8,253,917 |      | \$8,148,322 |      |  |   |

\* Excludes covered loans

Non-performing assets (excludes discounted acquired assets): NPAs decreased during the quarter ended March 31, 2015 to \$143,223,000 from \$147,311,000 at September 30, 2014, a 2.8% decrease. The decrease is due to improving credit conditions and credit quality. Non-performing assets as a percentage of total assets was 0.98% at March 31, 2015 compared to 1.00% at September 30, 2014. This level of NPAs is slightly higher than the 0.96% average in the Company's 29+ year history as a public company. Including the covered assets from the Horizon Bank acquisition in 2010 that will not be covered after March 31, 2015, the NPAs would amount to \$153,202,000 or 1.05% of total assets.

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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.

|   | March 31,<br>2015<br>(In thousands) |      | September 30,<br>2014 |      |   |
|---|-------------------------------------|------|-----------------------|------|---|
| Restructured loans:   |                                     |      |                       |      |   |
| Single-family residential   | \$290,950                           | 85.6 | % \$323,732           | 86.3 | % |
| Construction - speculative  | 6,408                               | 1.9  | 7,360                 | 2.0  |   |
| Land - acquisition & development  | 4,179                               | 1.2  | 4,737                 | 1.3  |   |
| Land - consumer lot loans   | 12,501                              | 3.7  | 13,002                | 3.5  |   |
| Multi - family  | 3,862                               | 1.1  | 5,243                 | 1.4  |   |
| Commercial real estate  | 20,673                              | 6.1  | 19,140                | 5.1  |   |
| HELOC   | 1,394                               | 0.4  | 1,486                 | 0.4  |   |
| Consumer  | 122                                 | —    | 43                    | —    |   |
| Total restructured loans (1)  | \$340,089                           | 100  | % \$374,743           | 100  | % |
| Non-accrual loans:  |                                     |      |                       |      |   |
| Single-family residential   | \$59,948                            | 79.0 | % \$74,067            | 84.8 | % |
| Construction - speculative  | 1,152                               | 1.5  | 1,477                 | 1.7  |   |
| Land - acquisition & development  | —                                   | —    | 811                   | 0.9  |   |
| Land - consumer lot loans   | 2,246                               | 3.0  | 2,637                 | 3.0  |   |
| Multi-family  | —                                   | —    | 1,742                 | 2.0  |   |
| Commercial real estate  | 5,735                               | 7.6  | 5,106                 | 5.8  |   |
| Commercial & industrial   | 5,018                               | 6.6  | 7                     | —    |   |
| HELOC   | 1,175                               | 1.5  | 795                   | 0.9  |   |
| Consumer  | 576                                 | 0.8  | 789                   | 0.9  |   |
| Total non-accrual loans (2)   | 75,850                              | 100  | % 87,431              | 100  | % |
| Total REO (3)   | 63,305                              |      | 55,072                |      |   |
| Total REHI (3)  | 4,068                               |      | 4,808                 |      |   |
| Total non-performing assets   | \$143,223                           |      | \$147,311             |      |   |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 3.22                                | %    | 3.37                  | %    |   |

(1) Restructured loans were as follows:

|  |           |      |             |      |   |
|--|-----------|------|-------------|------|---|
| Performing   | \$327,387 | 96.3 | % \$350,653 | 93.6 | % |
| Non-performing (included in non-accrual loans above) | 12,702    | 3.7  | 24,090      | 6.4  |   |
|  | \$340,089 | 100  | % \$374,743 | 100  | % |

(2) The Company recognized interest income on nonaccrual loans of approximately \$4,220,000 in the six months ended March 31, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$3,108,000 for the six months ended March 31, 2015. The recognized interest income may include more than six months of interest for some of the loans that were brought

current. In addition to the nonaccrual loans reflected in the above table, the Company had \$77,912,000 of loans that were less than 90 days delinquent at March 31, 2015 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 3.75% at March 31, 2015.

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(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. Includes net exposure to covered REO.

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

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Company about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 85.6% of restructured loans as of March 31, 2015. 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 the Company’s 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.

|                                     | March 31, 2015    |                             |                       | September 30, 2014 |                             |                       |   |
|-------------------------------------|-------------------|-----------------------------|-----------------------|--------------------|-----------------------------|-----------------------|---|
|                                     | Amount            | Loans to<br>Total Loans (1) | Coverage<br>Ratio (2) | Amount             | Loans to<br>Total Loans (1) | Coverage<br>Ratio (2) |   |
|                                     | (In<br>thousands) |                             |                       | (In<br>thousands)  |                             |                       |   |
| Single-family residential           | \$54,762          | 66.0                        | % 1.0                 | % \$62,763         | 65.6                        | % 1.1                 | % |
| Construction - speculative          | 5,445             | 1.3                         | 5.2                   | 6,742              | 1.7                         | 5.2                   |   |
| Construction - custom               | 968               | 2.4                         | 0.5                   | 1,695              | 4.6                         | 0.5                   |   |
| Land - acquisition &<br>development | 7,405             | 1.1                         | 8.2                   | 5,592              | 0.9                         | 7.2                   |   |
| Land - consumer lot loans           | 3,035             | 1.2                         | 3.0                   | 3,077              | 1.3                         | 2.8                   |   |
| Multi-family                        | 4,673             | 11.2                        | 0.5                   | 4,248              | 10.9                        | 0.5                   |   |
| Commercial real estate              | 6,734             | 7.5                         | 1.1                   | 7,548              | 7.0                         | 1.3                   |   |
| Commercial & industrial             | 21,146            | 5.3                         | 4.8                   | 16,527             | 5.0                         | 4.6                   |   |
| HELOC                               | 850               | 1.4                         | 0.7                   | 928                | 1.4                         | 0.9                   |   |
| Consumer                            | 3,305             | 2.6                         | 1.5                   | 3,227              | 1.6                         | 2.4                   |   |
|                                     | \$108,323         | 100                         | %                     | \$112,347          | 100                         | %                     |   |

(1)

Represents the total amount of the loan category as a % of total gross loans, excluding non-acquired and non-covered loans outstanding not subject to the allowance for loan loss.

- (2) Represents the allocated allowance of the loan category as a % of total gross loans, excluding non-acquired and non-covered loans outstanding not subject to the allowance for loan loss, for the same loan category.

Real Estate Held for Sale: Real estate held for sale increased during the six months ended March 31, 2015 by \$5,750,000 to \$60,822,000. This includes upward net market value adjustments from prior period corrections of \$8,164,000 that were made in the prior quarter which were partially offset by a net decline in balances due to current period activities.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

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

Interest Receivable: Interest receivable decreased by \$11,678,000 as compared to September 30, 2014, primarily as a result of the correction for the over-accrual of interest income of \$8,872,000 that was made in the prior quarter that had accumulated since fiscal 2011 and was detected during this fiscal year. Management believes this error and its 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%, in the quarter ended December 31, 2014 to assist in funding the growth of employee benefit costs.

Customer accounts: Customer accounts decreased \$24,303,000, or 0.2%, to \$10,692,625,000 at March 31, 2015 compared with \$10,716,928,000 at September 30, 2014.

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

|                         | March 31, 2015          |                          |                | September 30, 2014      |                          |                |
|-------------------------|-------------------------|--------------------------|----------------|-------------------------|--------------------------|----------------|
|                         | Deposit Account Balance | As a % of Total Deposits | Wtd. Avg. Rate | Deposit Account Balance | As a % of Total Deposits | Wtd. Avg. Rate |
|                         | (In thousands)          |                          |                | (In thousands)          |                          |                |
| Non-interest checking   | \$922,589               | 8.6                      | % —            | % \$883,601             | 8.2                      | % —            |
| Interest checking       | 1,574,294               | 14.8                     | 0.06           | % 1,447,569             | 13.5                     | 0.09           |
| Savings (passbook/stmt) | 663,863                 | 6.2                      | 0.10           | % 622,546               | 5.8                      | 0.10           |
| Money Market            | 2,547,051               | 23.8                     | 0.14           | % 2,536,971             | 23.7                     | 0.18           |
| CD’s                    | 4,984,828               | 46.6                     | 0.92           | % 5,226,241             | 48.8                     | 0.92           |
| Total                   | \$10,692,625            | 100                      | % 0.48         | % \$10,716,928          | 100                      | % 0.51         |

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

The Bank has a credit line with the FHLB of 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 Bank, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the agreements with the FHLB. On June 1, 2015, the FHLB of Seattle will be merged into the FHLB of Des Moines to create a larger, financially stronger, member-owned cooperative. The resulting institution will be headquartered in Des Moines with a smaller presence maintained in Seattle for members of the former Seattle Bank. This merger will benefit Washington Federal due to the return of excess FHLB stock and projected improvements in the cash dividends on the remaining activity based stock that will be required.

**RESULTS OF OPERATIONS**

Net Income: The quarter ended March 31, 2015 produced net income of \$40,361,000 compared to \$38,657,000 for the same quarter one year ago. For the six months ended March 31, 2015, net income totaled \$78,768,000 compared to \$78,893,000 for the same period one year ago. Net income for the quarter and six months ended March 31, 2015 benefited from higher net interest income and overall lower credit costs, which included the reversal of loan loss provision and net gains rather than losses on real estate acquired through foreclosure for the six month period. Some of this benefit was offset by higher other expenses during these periods. Please see related discussion below about these changes.

Net Interest Income: For the quarter and six months ended March 31, 2015, net interest income was higher by \$3,244,000 and \$7,117,000 for the same periods in the prior year, respectively. The increase was driven by an increase in average earning assets of \$107,917,000 since March 31, 2014. The net interest margin increased to 3.10% from 3.03% in the same quarter of the prior year as the decline in the yield on interest earning assets of 3 basis points has been less than the decline in the cost of funds of 12 basis points.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

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

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

## Rate / Volume Analysis:

|                                    | Comparison of Quarters Ended<br>3/31/15 and 3/31/14 |           |           | Comparison of Six months Ended<br>3/31/15 and 3/31/14 |            |           |
|------------------------------------|---|-----------|-----------|---|------------|-----------|
|                                    | Volume<br>(In thousands)                            | Rate      | Total     | Volume<br>(In thousands)                              | Rate       | Total     |
| <b>Interest income:</b>            |   |           |           |   |            |           |
| Loans and covered loans            | \$7,511   | \$(4,571) | ) \$2,940 | \$14,603  | \$(10,597) | ) \$4,006 |
| Mortgaged-backed securities        | (1,749)   | ) (1,180) | ) (2,929) | ) (1,325)   | ) (1,797)  | ) (3,122) |
| Investments (1)                    | (363)   | ) 631     | 268       | 998   | 423        | 1,421     |
| All interest-earning assets        | 5,399   | (5,120)   | ) 279     | 14,276  | (11,971)   | ) 2,305   |
| <b>Interest expense:</b>           |   |           |           |   |            |           |
| Customer accounts                  | 431   | (2,637)   | ) (2,206) | ) 2,081   | (6,342)    | ) (4,261) |
| FHLB advances and other borrowings | (759)   | ) —       | (759)     | ) (1,482)   | ) 931      | (551)     |
| All interest-bearing liabilities   | (328)   | ) (2,637) | ) (2,965) | ) 599   | (5,411)    | ) (4,812) |
| Change in net interest income      | \$5,727   | \$(2,483) | ) \$3,244 | \$13,677  | \$(6,560)  | ) \$7,117 |

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

Provision (Reversal) for Loan Losses: The provision for loan losses amounted to a reversal of \$3,949,000 and \$9,449,000 for the quarter and six months ended March 31, 2015, respectively, as compared to a provision of \$4,336,000 and \$8,936,000 for the quarter and six months ended March 31, 2014, respectively. The reversal of provision for loan losses in the recent quarter and six month period, are the result of the continued improvement of the Company's loan portfolio. The Company had net recoveries of \$3,123,000 for the quarter ended March 31, 2015, compared with \$1,523,000 of net recoveries for the same quarter one year ago. The improvement in the provision for loan losses is in response to three primary factors: first, the amount of NPAs improved year-over-year; second, non-accrual loans as a percentage of net loans decreased from 1.30% at March 31, 2014, to 0.91% at March 31, 2015; and third, the percentage of loans 30 days or more delinquent decreased from 1.57% at March 31, 2014, to 1.14% at March 31, 2015.

Non-performing assets amounted to \$143,223,000, or 0.98%, of total assets at March 31, 2015, compared to \$174,789,000, or 1.22% of total assets at March 31, 2014. Non-accrual loans decreased from \$100,198,000 at March 31, 2014, to \$75,850,000 at March 31, 2015, a 24.3% decrease. Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling \$110,221,000, or 1.22% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio. See Note E for further discussion and analysis of the allowance for loan losses for the quarter ended March 31, 2015.

Other Income: For the quarter and six months ended March 31, 2015, total other income was \$10,841,000 and \$16,221,000 compared to \$6,702,000 and \$12,490,000 for the quarter and six months ended March 31, 2014. Deposit fee income was \$5,405,000 and \$11,383,000 for the quarter and six months ended March 31, 2015 compared to \$3,381,000 and \$5,084,000 for the quarter and six months ended March 31, 2014. The increase was primarily due to

the increase in branches and customers obtained through acquisitions during fiscal 2014. Loan fee income of \$2,048,000 and \$4,112,000 for the quarter and six months ended March 31, 2015 was also higher than the same quarter and six months of the prior year.

The remaining other income was \$3,388,000 in the current quarter compared to \$1,997,000 in the same quarter of the prior year. For the six months ended March 31, 2015, it was \$726,000 compared to \$4,036,000 in the same period of the prior year. This decrease was due primarily to four unusual items in the quarter ending December 31, 2014. First, Management corrected an over-accrual of interest income on loans of \$8,872,000 that had accumulated since fiscal 2011 and was detected during the current fiscal year. Second, there was an upward net market value adjustment of REO of \$8,164,000 which was a correction from prior periods. Management believes that these errors and their corrections were not material to any reporting period.

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## WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

## PART I – Financial Information

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

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 expired on March 31, 2015.

Other Expense: The quarter ended March 31, 2015 produced total other expense of \$57,324,000 compared to \$52,059,000 for the same quarter one year ago, a 10.1% increase. This increase was driven primarily by an increase in employees as well as occupancy, product delivery and marketing expenses related to branch acquisitions from Bank of America during the 2014 fiscal year. FDIC insurance premiums are lower by \$387,000 this quarter due to improvements in credit quality.

Total other expense for the quarters ended March 31, 2015 and 2014 equaled 1.58% and 1.45%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,865 and 1,846 at March 31, 2015 and 2014, respectively. Higher staff and occupancy expense were both due to an increase in the number of branches from 231 as of March 31, 2014 to 247 as of March 31, 2015.

Gain (Loss) on Real Estate Acquired Through Foreclosure: Gains (losses) recognized on real estate acquired through foreclosure was a net gain of \$1,473,000 and \$1,788,000 for the quarter and six months ended March 31, 2015, respectively, as compared to a net gain of \$553,000 and a net loss of \$1,398,000 for the quarter and six month periods one year ago, respectively. The table below indicates some of the activity in the gain (loss) on real estate acquired through foreclosure in the periods indicated above.

|   | Quarter Ended March<br>31, |         | Six Months Ended<br>March 31, |            |
|---|----------------------------|---------|-------------------------------|------------|
|   | 2015                       | 2014    | 2015                          | 2014       |
|   | (In thousands)             |         | (In thousands)                |            |
| Net Gain on Sale  | \$2,888                    | \$2,362 | \$5,476                       | \$4,695    |
| REO Writedowns  | (720 )                     | (879 )  | (1,537 )                      | (3,098 )   |
| REO Operating Expenses  | (695 )                     | (930 )  | (2,151 )                      | (2,995 )   |
| Gain (loss) on real estate acquired through<br>foreclosure, net | \$1,473                    | \$553   | \$1,788                       | \$(1,398 ) |

Taxes: Income taxes increased to \$22,458,000 for the quarter ended March 31, 2015, as compared to \$21,511,000 for the same period one year ago. Income taxes for the six months ended March 31, 2015 were \$43,828,000 which was similar to the six months ended March 31, 2014 as income before taxes was similar. The effective tax rate for both the quarters and six months ended March 31, 2015 and March 31, 2014 was 35.75%. The Company expects an effective tax rate of 35.75% going forward.

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

Management believes that there have been no material changes in the Company’s quantitative and qualitative information about market risk since September 30, 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 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.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 4. Controls and Procedures

(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 the 2014 Form 10-K for the year ended September 30, 2014. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations and capital position, and could cause its 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 March 31, 2015.

| 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 |
|---------------------------------------|----------------------------------|------------------------------|---|--|
| January 1, 2015 to January 31, 2015   | 1,191,000                        | \$20.84                      | 1,191,000   | 2,735,287  |
| February 1, 2015 to February 28, 2015 | 311,070                          | 20.76                        | 311,070   | 2,424,217  |
| March 1, 2015 to March 31, 2015       | 997,948                          | 21.79                        | 997,948   | 1,426,269  |
| Total                                 | 2,500,018                        | \$21.21                      | 2,500,018   | 1,426,269  |

The Company's only stock repurchase program was publicly announced by its 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

Not applicable

## Item 6. Exhibits

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(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

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

101 Financial Statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2015 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

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

May 8, 2015

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

May 8, 2015

/S/ DIANE L. KELLEHER  
DIANE L. KELLEHER  
Senior Vice President and Chief Financial Officer

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