

WASHINGTON FEDERAL INC

Form 10-Q

August 08, 2013

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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 June 30, 2013

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 August 5, 2013

| | |
|--------------------------------|-------------|
| Common stock, \$1.00 par value | 103,502,520 |
|--------------------------------|-------------|

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I

Item 1. Financial Statements (Unaudited)

The Condensed 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)

| | June 30, 2013 | September 30, 2012 |
|---|-----------------------------------|--------------------|
| | (In thousands, except share data) | |
| ASSETS | | |
| Cash and cash equivalents | \$646,857 | \$751,430 |
| Available-for-sale securities, at fair value | 2,058,144 | 1,781,705 |
| Held-to-maturity securities, at amortized cost | 1,589,779 | 1,191,487 |
| Loans receivable, net | 7,390,506 | 7,451,998 |
| Covered loans, net | 310,378 | 288,376 |
| Interest receivable | 48,016 | 46,857 |
| Premises and equipment, net | 206,157 | 178,845 |
| Real estate held for sale | 84,748 | 99,478 |
| Covered real estate held for sale | 27,514 | 29,549 |
| FDIC indemnification asset | 73,665 | 87,571 |
| FHLB stock | 150,533 | 149,840 |
| Intangible assets, net | 264,718 | 256,076 |
| Federal and state income tax assets, net | 36,709 | 22,513 |
| Other assets | 124,759 | 137,219 |
| | \$13,012,483 | \$12,472,944 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Liabilities | | |
| Customer accounts | | |
| Transaction deposit accounts | \$3,448,583 | \$2,946,453 |
| Time deposit accounts | 5,614,914 | 5,630,165 |
| | 9,063,497 | 8,576,618 |
| FHLB advances | 1,930,000 | 1,880,000 |
| Advance payments by borrowers for taxes and insurance | 25,654 | 40,041 |
| Accrued expenses and other liabilities | 70,440 | 76,533 |
| | 11,089,591 | 10,573,192 |
| Stockholders' equity | | |
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 132,389,831 and 129,950,223 shares issued; 103,422,427 and 106,177,615 shares | 132,390 | 129,950 |
| outstanding | | |
| Paid-in capital | 1,621,200 | 1,586,295 |
| Accumulated other comprehensive income, net of taxes | 5,131 | 13,306 |
| Treasury stock, at cost; 28,967,404 and 23,772,608 shares | (397,616) | (310,579) |
| Retained earnings | 561,787 | 480,780 |
| | 1,922,892 | 1,899,752 |
| | \$13,012,483 | \$12,472,944 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Quarter Ended June 30, | | Nine Months Ended June 30, | |
|---|---------------------------------------|-------------|----------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands, except per share data) | | | |
| INTEREST INCOME | | | | |
| Loans | \$ 112,932 | \$ 118,115 | \$ 342,654 | \$ 369,366 |
| Mortgage-backed securities | 11,951 | 25,101 | 34,325 | 80,079 |
| Investment securities and cash equivalents | 3,293 | 2,168 | 9,010 | 6,446 |
| | 128,176 | 145,384 | 385,989 | 455,891 |
| INTEREST EXPENSE | | | | |
| Customer accounts | 16,385 | 20,903 | 51,851 | 66,868 |
| FHLB advances and other borrowings | 17,075 | 27,946 | 50,966 | 84,172 |
| | 33,460 | 48,849 | 102,817 | 151,040 |
| Net interest income | 94,716 | 96,535 | 283,172 | 304,851 |
| Provision for loan losses | — | 10,367 | 3,600 | 39,576 |
| Net interest income after provision for loan losses | 94,716 | 86,168 | 279,572 | 265,275 |
| OTHER INCOME | | | | |
| Gain on sale of investments | — | — | — | — |
| Other | 5,059 | 3,590 | 16,062 | 13,263 |
| | 5,059 | 3,590 | 16,062 | 13,263 |
| OTHER EXPENSE | | | | |
| Compensation and benefits | 24,582 | 19,281 | 68,731 | 58,141 |
| Occupancy | 4,530 | 3,952 | 13,801 | 11,977 |
| FDIC insurance premiums | 2,831 | 4,000 | 9,280 | 12,543 |
| Other | 9,667 | 8,730 | 29,261 | 24,479 |
| | 41,610 | 35,963 | 121,073 | 107,140 |
| Gain (loss) on real estate acquired through foreclosure, net | 176 | 1,146 | (7,145) | (11,005) |
| Income before income taxes | 58,341 | 54,941 | 167,416 | 160,393 |
| Income tax provision | 21,003 | 19,778 | 58,818 | 57,742 |
| NET INCOME | \$ 37,338 | \$ 35,163 | \$ 108,598 | \$ 102,651 |
| PER SHARE DATA | | | | |
| Basic earnings | \$0.36 | \$0.33 | \$1.03 | \$0.96 |
| Diluted earnings | 0.36 | 0.33 | 1.03 | 0.96 |
| Cash dividends per share | 0.09 | 0.08 | 0.26 | 0.24 |
| Basic weighted average number of shares outstanding | 104,143,915 | 106,877,112 | 105,119,097 | 107,308,948 |
| Diluted weighted average number of shares outstanding, including dilutive stock options | 104,192,444 | 106,926,755 | 105,167,959 | 107,347,668 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | | | |

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

| | Quarter Ended June 30, | | Nine Months Ended June 30, | |
|---|------------------------|----------|----------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| | (In thousands) | | | |
| Net income | \$37,338 | \$35,163 | \$108,598 | \$102,651 |
| Other comprehensive income (loss) net of tax: | | | | |
| Net unrealized gain (loss) on available-for-sale securities | (10,697) |) (3,869 |) (12,925 |) (36,447 |
| Related tax benefit (expense) | 3,931 | 1,422 | 4,750 | 13,394 |
| Reclassification adjustment of net gain (loss) from sale of available-for-sale securities included in net income | — | — | — | — |
| Related tax benefit (expense) | — | — | — | — |
| Other comprehensive income (loss) | (6,766 |) (2,447 |) (8,175 |) (23,053 |
| Comprehensive income | \$30,572 | \$32,716 | \$100,423 | \$79,598 |
| SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS | | | | |

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

| | Nine Months Ended | |
|---|-------------------|---------------|
| | June 30, 2013 | June 30, 2012 |
| | (In thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 108,598 | \$ 102,651 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization (accretion) of fees, discounts, premiums and intangible assets, net | 3,957 | 40,397 |
| Cash received from FDIC under loss share | 13,014 | 276 |
| Depreciation | 6,550 | 5,625 |
| Stock option compensation expense | 900 | 900 |
| Provision for loan losses | 3,600 | 39,576 |
| Gain on real estate held for sale, net | (18 |) (8,366 |
| Decrease (increase) in accrued interest receivable | 872 | (460 |
| Increase in FDIC loss share receivable | (1,346 |) (5,742 |
| Increase (decrease) in income taxes payable | (9,446 |) 9,345 |
| Decrease in other assets | 36,665 | 15,908 |
| Increase (decrease) in accrued expenses and other liabilities | (23,177 |) 1,229 |
| Net cash provided by operating activities | 140,169 | 201,339 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net principal collections (loan originations) | 475,354 | 372,802 |
| FHLB stock redemptions | 4,391 | 1,830 |
| Available-for-sale securities purchased | (506,966 |) (1,499,227 |
| Principal payments and maturities of available-for-sale securities | 198,555 | 1,065,254 |
| Available-for-sale securities sold | 43,198 | 3,500 |
| Held-to-maturity securities purchased | (821,215 |) — |
| Principal payments and maturities of held-to-maturity securities | 428,827 | 11,899 |
| Net cash received from acquisition | 202,308 | 50,576 |
| Proceeds from sales of real estate held for sale | 87,144 | 138,689 |
| Proceeds from sales of covered REO | 17,216 | 28,343 |
| Increase in intangible assets | — | (1,061 |
| Premises and equipment purchased and REO improvements | (22,941 |) (14,157 |
| Net cash provided by investing activities | 105,871 | 158,448 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net decrease in customer accounts | (250,364 |) (118,505 |
| Net increase (decrease) in borrowings | 27,529 | (22,595 |
| Proceeds from exercise of common stock options | 296 | 199 |
| Dividends paid on common stock | (26,650 |) (25,580 |
| Treasury stock purchased | (87,037 |) (30,307 |
| Decrease in advance payments by borrowers for taxes and insurance | (14,387 |) (15,235 |
| Net cash used by financing activities | (350,613 |) (212,023 |
| Increase (decrease) in cash and cash equivalents | (104,573 |) 147,764 |
| Cash and cash equivalents at beginning of period | 751,430 | 816,002 |
| Cash and cash equivalents at end of period | \$646,857 | \$963,766 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| | Nine Months Ended | |
|--|-------------------|---------------|
| | June 30, 2013 | June 30, 2012 |
| | (In thousands) | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Non-cash investing activities | | |
| Non-covered real estate acquired through foreclosure | \$72,762 | \$124,482 |
| Covered real estate acquired through foreclosure | 10,245 | 13,094 |
| Cash paid during the period for | | |
| Interest | 104,370 | 151,805 |
| Income taxes | 48,111 | 48,331 |
| The following summarizes the non-cash activities related to acquisitions | | |
| Fair value of assets acquired | \$819,904 | \$124,594 |
| Fair value of liabilities assumed | (776,009 |) (154,493 |
| Net fair value of assets (liabilities) | 43,895 | (29,899 |

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
(UNAUDITED)

NOTE A – Summary of Significant Accounting Policies

The consolidated unaudited interim financial statements included in this report have been prepared by Washington Federal, Inc. (“The Company”). The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual results could differ from these estimates. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation are reflected in the interim financial statements. The September 30, 2012 Consolidated Statement of Financial Condition was derived from audited financial statements.

The information included in this Form 10-Q should be read in conjunction with Company’s 2012 Annual Report on Form 10-K (“2012 Form 10-K”) as filed with the SEC. Interim results are not necessarily indicative of results for a full year.

The significant accounting policies used in preparation of our consolidated financial statements are disclosed in our 2012 Form 10-K. Other than as discussed below, there have not been any material changes in our significant accounting policies compared to those contained in our 2012 Form 10-K.

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 June 30, 2013, excluding covered loans, of \$320,522,000.

The Company estimates losses on off-balance-sheet credit exposures by including the exposures with the related principal balance outstanding and then applying its general reserve methodology.

Certain reclassifications have been made to the financial statements to conform prior periods to current classifications.

NOTE B - Acquisitions

South Valley Bank and Trust

Effective as of the close of business October 31, 2012, Washington Federal completed the acquisition of South Valley Bank and Trust, headquartered in Klamath Falls, Oregon (“South Valley”). The acquisition provided recorded book values of \$383 million of net loans, \$107 million of net covered loans, \$735 million of deposit accounts, including \$533 million in transaction deposit accounts and 24 branch locations in Central and Southern Oregon. Total consideration paid at closing was \$44 million, including \$34 million of Washington Federal, Inc. stock and \$10 million of cash resulting from the collection of certain earn-out assets. If other earn-out assets are collected over time, the Company could pay up to \$14 million, of which \$5 million has been accrued .

The acquisition was accounted for under the acquisition method of accounting. The purchased assets and assumed liabilities were recorded at their respective acquisition date estimated fair values. All fair value adjustment amounts previously recognized in the financial statements at March 31, 2013 were determined provisionally as the purchase accounting fair value analysis was incomplete as of March 31, 2013. These amounts have been retrospectively adjusted to reflect the completion of the fair value analysis during the quarter ended June 30, 2013. The adjustments recorded in the quarter ended June 30, 2013 were a decrease in real estate held for sale of \$2,394,000 offset by an increase in goodwill of \$1,517,000 and other assets of \$854,000 to reflect updated acquisition date valuations.

Loans that were classified as non-performing loans by South Valley are no longer classified as non-performing because, at acquisition, the carrying value of the loans was adjusted to reflect fair value. Management believes that the new book value reflects an amount that will ultimately be collected.

The operating results of the Company include the operating results produced by the acquired assets and assumed liabilities for the period from November 1, 2012 to June 30, 2013.

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

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

| | Adjusted Fair Value Recorded by Washington Federal (In thousands) |
|-----------------------------------|---|
| Assets: | |
| Cash and cash equivalents | \$212,711 |
| Available for sale securities | 43,198 |
| FHLB stock | 5,211 |
| Loans receivable, net | 361,200 |
| Covered loans receivable, net | 107,946 |
| FDIC indemnification asset | 16,619 |
| Property and equipment, net | 24,259 |
| Core deposit intangible | 1,433 |
| Real estate held for sale | 7,400 |
| Covered real estate held for sale | 5,224 |
| Goodwill | 8,624 |
| Other assets | 26,079 |
| Total Assets | 819,904 |
| Liabilities: | |
| Customer accounts | 737,395 |
| FHLB advances | 22,471 |
| Other liabilities | 16,143 |
| Total Liabilities | 776,009 |
| Net assets acquired | \$43,895 |
| Consideration provided: | |
| Equity Issued | \$33,492 |
| Cash paid | 10,403 |
| | \$43,895 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

NOTE C – Dividends

On July 19, 2013, the Company paid its 122nd consecutive quarterly cash dividend on common stock. Dividends per share were \$.09 and \$.08 for the quarters ended June 30, 2013 and 2012, respectively.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

NOTE D – Loans Receivable (excluding Covered Loans)

| | June 30, 2013 (In thousands) | | September 30, 2012 | | |
|--------------------------------------|---------------------------------|------|--------------------|------|---|
| Non-acquired loans | | | | | |
| Single-family residential | \$5,253,604 | 67.6 | % \$5,778,922 | 73.5 | % |
| Construction - speculative | 116,363 | 1.5 | 129,637 | 1.6 | |
| Construction - custom | 237,952 | 3.1 | 211,690 | 2.7 | |
| Land - acquisition & development | 85,248 | 1.1 | 124,677 | 1.6 | |
| Land - consumer lot loans | 128,745 | 1.7 | 141,844 | 1.8 | |
| Multi-family | 741,870 | 9.5 | 710,140 | 9.0 | |
| Commercial real estate | 398,130 | 5.1 | 319,210 | 4.1 | |
| Commercial & industrial | 239,469 | 3.1 | 162,823 | 2.1 | |
| HELOC | 111,418 | 1.4 | 112,902 | 1.4 | |
| Consumer | 51,515 | 0.7 | 63,374 | 0.8 | |
| Total non-acquired loans | 7,364,314 | 94.8 | 7,755,219 | 98.6 | |
| Acquired loans | | | | | |
| Single-family residential | 15,354 | 0.2 | — | — | |
| Construction - speculative | — | — | — | — | |
| Construction - custom | — | — | — | — | |
| Land - acquisition & development | 3,720 | — | — | — | |
| Land - consumer lot loans | 3,615 | 0.1 | — | — | |
| Multi-family | 7,383 | 0.1 | — | — | |
| Commercial real estate | 162,724 | 2.1 | — | — | |
| Commercial & industrial | 88,768 | 1.1 | — | — | |
| HELOC | 11,466 | 0.1 | — | — | |
| Consumer | 9,035 | 0.1 | — | — | |
| Total acquired loans | 302,065 | 3.8 | — | — | |
| Credit-impaired acquired loans | | | | | |
| Single-family residential | 335 | — | 342 | — | |
| Construction - speculative | — | — | 1,889 | — | |
| Land - acquisition & development | 2,484 | — | 3,702 | 0.1 | |
| Multi-family | — | — | 601 | — | |
| Commercial real estate | 78,519 | 1.1 | 87,154 | 1.1 | |
| Commercial & industrial | 8,606 | 0.1 | 3,292 | — | |
| HELOC | 12,015 | 0.2 | 14,040 | 0.2 | |
| Consumer | 79 | — | 97 | — | |
| Total credit-impaired acquired loans | 102,038 | 1.4 | 111,117 | 1.4 | |
| Total loans | | | | | |
| Single-family residential | 5,269,293 | 67.8 | 5,779,264 | 73.5 | |
| Construction - speculative | 116,363 | 1.5 | 131,526 | 1.6 | |
| Construction - custom | 237,952 | 3.1 | 211,690 | 2.7 | |
| Land - acquisition & development | 91,452 | 1.1 | 128,379 | 1.7 | |
| Land - consumer lot loans | 132,360 | 1.8 | 141,844 | 1.8 | |

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| | | | | |
|-------------------------|---------|-----|---------|-----|
| Multi-family | 749,253 | 9.6 | 710,741 | 9 |
| Commercial real estate | 639,373 | 8.3 | 406,364 | 5.2 |
| Commercial & industrial | 336,843 | 4.3 | 166,115 | 2.1 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

| | | | | | |
|-------------------------------|-------------|-----|-------------|-----|---|
| HELOC | 134,899 | 1.7 | 126,942 | 1.6 | |
| Consumer | 60,629 | 0.8 | 63,471 | 0.8 | |
| Total loans | 7,768,417 | 100 | % 7,866,336 | 100 | % |
| Less: | | | | | |
| Allowance for probable losses | 118,104 | | 133,147 | | |
| Loans in process | 189,677 | | 213,286 | | |
| Discount on acquired loans | 37,568 | | 33,484 | | |
| Deferred net origination fees | 32,562 | | 34,421 | | |
| | 377,911 | | 414,338 | | |
| | \$7,390,506 | | \$7,451,998 | | |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012
 (UNAUDITED)

Changes in the carrying amount and accretable yield for acquired impaired and non-impaired loans for the nine months ended June 30, 2013 and the fiscal year ended September 30, 2012 were as follows:

| June 30, 2013 | Credit impaired acquired loans | | Acquired Non-impaired | |
|---|--------------------------------|--------------------------------|-----------------------|--------------------------------|
| | Accretable Yield | Carrying Amount of Loans | Accretable Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance as of beginning of period | \$16,928 | \$77,613 | \$— | \$— |
| Reclassification from nonaccretable balance, net (1) | 30,026 | | | |
| Additions (2) | 614 | 9,865 | 10,804 | 351,335 |
| Accretion | (7,131) |) 7,131 | (297) |) 297 |
| Transfers to REO | — | (3,704) | — | (3,475) |
| Payments received, net | — | (19,432) | — | (53,165) |
| Balance as of end of period | \$40,437 | \$71,473 | \$10,507 | \$294,992 |

(1) reclassification due to improvements in expected cash flows of the underlying loans.

(2) includes acquired loans which were acquired as part of the South Valley acquisition.

| September 30, 2012 | Credit impaired acquired loans | | Acquired Non-impaired | |
|-----------------------------------|--------------------------------|--------------------------------|-----------------------|--------------------------------|
| | Accretable Yield | Carrying Amount of Loans | Accretable Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance as of beginning of period | \$— | \$— | \$— | \$— |
| Additions (1) | 21,384 | 93,691 | — | — |
| Accretion | (4,456) |) 4,456 | — | — |
| Transfers to REO | — | (2,616) | — | — |
| Payments received, net | — | (17,918) | — | — |
| Balance as of end of period | \$16,928 | \$77,613 | \$— | \$— |

(1) includes acquired impaired loans which were acquired as part of the WNB acquisition.

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

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

| | June 30, 2013 (In thousands) | | September 30, 2012 | | | |
|----------------------------------|---------------------------------|------|--------------------|-----------|------|---|
| Non-accrual loans: | | | | | | |
| Single-family residential | \$104,252 | 70.1 | % | \$131,193 | 75.7 | % |
| Construction - speculative | 3,776 | 2.5 | | 10,634 | 6.1 | |
| Construction - custom | — | — | | 539 | 0.3 | |
| Land - acquisition & development | 9,586 | 6.4 | | 13,477 | 7.8 | |
| Land - consumer lot loans | 3,712 | 2.5 | | 5,149 | 3.0 | |
| Multi-family | 6,653 | 4.5 | | 4,185 | 2.4 | |
| Commercial real estate | 14,348 | 9.7 | | 7,653 | 4.4 | |
| Commercial & industrial | 5,072 | 3.4 | | 16 | — | |
| HELOC | 871 | 0.6 | | 198 | 0.1 | |
| Consumer | 385 | 0.3 | | 383 | 0.2 | |
| Total non-accrual loans | \$148,655 | 100 | % | \$173,427 | 100 | % |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

The following tables provide an analysis of the age of loans in past due status as of June 30, 2013 and September 30, 2012, respectively.

| June 30, 2013 | Amount of Loans | Days Delinquent | Based on \$ | | | Amount of Loans | | % based |
|----------------------------------|------------------------|-----------------|-------------|----------|----------|-----------------|-------|---------|
| Type of Loan | Net of LIP & Chg.-Offs | Current | 30 | 60 | 90 | Total | | on \$ |
| (In thousands) | | | | | | | | |
| Non-acquired loans | | | | | | | | |
| Single-Family Residential | \$5,250,621 | \$5,127,074 | \$26,315 | \$14,354 | \$82,878 | \$123,547 | 2.35 | % |
| Construction - Speculative | 78,505 | 75,506 | 1,042 | — | 1,957 | 2,999 | 3.82 | |
| Construction - Custom | 127,978 | 127,738 | 240 | — | — | 240 | 0.19 | |
| Land - Acquisition & Development | 80,994 | 73,252 | 797 | — | 6,945 | 7,742 | 9.56 | |
| Land - Consumer Lot Loans | 128,571 | 124,284 | 588 | 195 | 3,504 | 4,287 | 3.33 | |
| Multi-Family | 716,299 | 714,161 | — | 539 | 1,599 | 2,138 | 0.30 | |
| Commercial Real Estate | 389,348 | 384,193 | 1,277 | 70 | 3,808 | 5,155 | 1.32 | |
| Commercial & Industrial | 239,456 | 239,440 | — | — | 16 | 16 | 0.01 | |
| HELOC | 111,419 | 110,324 | 820 | 69 | 206 | 1,095 | 0.98 | |
| Consumer | 51,516 | 49,268 | 938 | 959 | 351 | 2,248 | 4.36 | |
| Total non-acquired loans | 7,174,707 | 7,025,240 | 32,017 | 16,186 | 101,264 | 149,467 | 2.08 | % |
| Acquired loans | | | | | | | | |
| Single-Family Residential | 15,354 | 15,291 | \$5 | 15 | 43 | 63 | 0.41 | % |
| Construction - Speculative | — | — | — | — | — | — | — | |
| Construction - Custom | — | — | — | — | — | — | — | |
| Land - Acquisition & Development | 3,720 | 2,783 | 412 | 1 | 524 | 937 | 25.19 | |
| Land - Consumer Lot Loans | 3,614 | 3,095 | 311 | — | 208 | 519 | 14.36 | |
| Multi-Family | 7,383 | 3,569 | 509 | — | 3,305 | 3,814 | 51.66 | |
| Commercial Real Estate | 162,689 | 155,178 | 1,059 | 2,560 | 3,892 | 7,511 | 4.62 | |
| Commercial & Industrial | 88,746 | 88,028 | 453 | 265 | — | 718 | 0.81 | |
| HELOC | 11,465 | 10,619 | 140 | 131 | 575 | 846 | 7.38 | |
| Consumer | 9,035 | 8,899 | 83 | 19 | 34 | 136 | 1.51 | |
| Total acquired loans | 302,006 | 287,462 | 2,972 | 2,991 | 8,581 | 14,544 | 4.82 | % |
| Credit-impaired acquired loans | | | | | | | | |

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| | | | | | | | | |
|----------------------------------|--------|--------|-----|-----|-------|-------|-------|---|
| Single-Family Residential | 335 | 335 | — | — | — | — | — | % |
| Construction - Speculative | — | — | — | — | — | — | — | |
| Construction - Custom | — | — | — | — | — | — | — | |
| Land - Acquisition & Development | 2,483 | 2,483 | — | — | — | — | — | |
| Land - Consumer Lot Loans | — | — | — | — | — | — | — | |
| Multi-Family | — | — | — | — | — | — | — | |
| Commercial Real Estate | 78,509 | 75,920 | 639 | 173 | 1,777 | 2,589 | 3.30 | |
| Commercial & Industrial | 8,606 | 3,320 | 230 | — | 5,056 | 5,286 | 61.42 | |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

| | | | | | | | | |
|---|--|-------------------------------------|----------|----------|-----------|--------------------------|------------------|---|
| HELOC | 12,015 | 11,906 | — | 19 | 90 | 109 | 0.91 | |
| Consumer | 79 | 79 | — | — | — | — | — | |
| Total credit-impaired acquired loans | 102,027 | 94,043 | 869 | 192 | 6,923 | 7,984 | 7.83 | % |
| Total loans | \$7,578,740 | \$7,406,745 | \$35,858 | \$19,369 | \$116,768 | \$171,995 | 2.27 | % |
| September 30, 2012 Type of Loan | Amount of Loans Net of LIP & Chg.-Off (In thousands) | Days Delinquent Based on Current | 30 | 60 | 90 | Amount of Loans Total | % based on \$ | |
| Single-Family Residential | \$5,776,002 | \$5,618,261 | \$34,035 | \$16,276 | \$107,430 | \$157,741 | 2.73 | % |
| Construction - Speculative | 88,849 | 85,785 | 142 | 190 | 2,732 | 3,064 | 3.45 | |
| Construction - Custom | 107,882 | 107,215 | 128 | — | 539 | 667 | 0.62 | |
| Land - Acquisition & Development | 119,192 | 106,321 | 853 | 1,004 | 11,014 | 12,871 | 10.80 | |
| Land - Consumer Lot Loans | 141,772 | 134,560 | 1,688 | 375 | 5,149 | 7,212 | 5.09 | |
| Multi-Family | 676,917 | 672,263 | 718 | 67 | 3,869 | 4,654 | 0.69 | |
| Commercial Real Estate | 292,261 | 284,427 | 699 | 3,153 | 3,982 | 7,834 | 2.68 | |
| Commercial & Industrial | 162,802 | 162,778 | 8 | — | 16 | 24 | 0.01 | |
| HELOC | 112,902 | 112,482 | 158 | 64 | 198 | 420 | 0.37 | |
| Consumer | 63,374 | 61,405 | 1,155 | 431 | 383 | 1,969 | 3.11 | |
| Total non-acquired loans | \$7,541,953 | \$7,345,497 | \$39,584 | \$21,560 | \$135,312 | \$196,456 | 2.60 | % |
| Credit-impaired acquired loans | | | | | | | | |
| Single-Family Residential | 342 | 342 | — | — | — | — | — | % |
| Construction - Speculative | 1,889 | 1,889 | — | — | — | — | — | |
| Construction - Custom | — | — | — | — | — | — | — | |
| Land - Acquisition & Development | 3,702 | 3,219 | 365 | — | 118 | 483 | 13.05 | |
| Land - Consumer Lot Loans | — | — | — | — | — | — | — | |
| Multi-Family | 601 | — | 601 | — | — | 601 | — | |
| Commercial Real Estate | 87,134 | 78,959 | 412 | 2,549 | 5,214 | 8,175 | 9.38 | |
| Commercial & Industrial | 3,292 | 3,054 | 238 | — | — | 238 | 7.23 | |
| HELOC | 14,040 | 13,950 | — | 90 | — | 90 | 0.64 | |
| Consumer | 97 | 95 | 2 | — | — | 2 | 2.06 | |

| | | | | | | | | |
|---|-------------|-------------|----------|----------|-----------|-----------|------|---|
| Total credit-impaired acquired loans | 111,097 | 101,508 | 1,618 | 2,639 | 5,332 | 9,589 | 8.63 | % |
| Total loans | \$7,653,050 | \$7,447,005 | \$41,202 | \$24,199 | \$140,644 | \$206,045 | 2.69 | % |

Most loans restructured in troubled debt restructurings ("TDRs") are accruing and performing loans where the borrower has proactively approached the Company about modification due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. The concession for these loans is typically a payment reduction through a rate reduction of between 100 to 200 basis points for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period. Principal forgiveness is not an available option for restructured loans. As of June 30, 2013, single-family residential loans comprised 87.4% of TDRs.

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

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

| | Quarter Ended June 30, 2013 | | | 2012 | | |
|----------------------------------|--------------------------------|---|--|---------------------------|---|--|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment (In thousands) | Post-Modification Outstanding Recorded Investment (In thousands) | Number of Contracts | Pre-Modification Outstanding Recorded Investment (In thousands) | Post-Modification Outstanding Recorded Investment (In thousands) |
| Troubled Debt Restructurings: | | | | | | |
| Single-Family Residential | 111 | \$27,619 | \$ 27,619 | 199 | \$43,104 | \$ 43,104 |
| Construction - Speculative | — | — | — | — | — | — |
| Construction - Custom | — | — | — | 1 | 1,196 | 1,196 |
| Land - Acquisition & Development | — | — | — | — | — | — |
| Land - Consumer Lot | 4 | 685 | 685 | 8 | 965 | 965 |
| Loans | | | | | | |
| Multi-Family | — | — | — | 1 | 389 | 389 |
| Commercial Real Estate | 1 | 2,411 | 2,411 | 2 | 5,572 | 5,572 |
| Commercial & Industrial | — | — | — | — | — | — |
| HELOC | — | — | — | 2 | 113 | 113 |
| Consumer | 1 | 11 | 11 | — | — | — |
| | 117 | \$30,726 | \$ 30,726 | 213 | \$51,339 | \$ 51,339 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

QUARTERS AND NINE MONTHS ENDED JUNE 30, 2013 AND 2012

(UNAUDITED)

| | Nine Months Ended June 30, 2013 | | | 2012 | | |
|----------------------------------|------------------------------------|--|--|---------------------------|--|--|
| | Number of Contracts | Pre-Modification Outstanding | Post-Modification Outstanding | Number of Contracts | Pre-Modification Outstanding | Post-Modification Outstanding |
| | | Recorded Investment (In thousands) | Recorded Investment (In thousands) | | Recorded Investment (In thousands) | Recorded Investment (In thousands) |
| Troubled Debt Restructurings: | | | | | | |
| Single-Family Residential | 337 | \$88,085 | \$ 88,085 | 681 | \$159,651 | \$ 159,651 |
| Construction - Speculative | 1 | 2,481 | 2,481 | 22 | 6,253 | 6,253 |
| Construction - Custom | — | — | — | 1 | 1,196 | 1,196 |
| Land - Acquisition & Development | — | — | — | 26 | 5,565 | 5,565 |
| Land - Consumer Lot Loans | 20 | 3,027 | 3,027 | 30 | 3,906 | 3,906 |
| Multi-Family | 1 | 44 | 44 | 3 | 2,257 | 2,257 |
| Commercial Real Estate | 1 | 2,411 | 2,411 | 3 | 5,881 | 5,881 |
| Commercial & Industrial | — | — | — | 1 | 2 | 2 |
| HELOC | 1 | 199 | 199 | 2 | 113 | 113 |
| Consumer | 1 | 11 | 11 | — | — | — |
| | 362 | \$96,258 | \$ 96,258 | 769 | \$184,824 | \$ 184,824 |

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

| | Quarter Ended June 30, 2013 | | 2012 | |
|---|--------------------------------|------------------------|------------------------|------------------------|
| | Number of Contracts | Recorded Investment | Number of Contracts | Recorded Investment |
| | (In thousands) | (In thousands) | (In thousands) | (In thousands) |
| Troubled Debt Restructurings That Subsequently Defaulted: | | | | |
| Single-Family Residential | 25 | \$6,833 | 30 | \$8,225 |
| Construction - Speculative | — | — | — | — |
| Construction - Custom | — | — | — | — |
| Land - Acquisition & Development | — | — | — | — |
| Land - Consumer Lot Loans | 1 | 109 | — | — |
| Multi-Family | — | — | — | — |