WASHINGTON FEDERAL INC
Form 10-K
November 28, 2008

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008.

OR

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

For the transition period from to

Commission File Number: 0-25454

Washington Federal, Inc.

(Exact name of registrant as specified in its charter)

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

425 Pike Street, Seattle, Washington 98101

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (206) 624-7930

Securities registered pursuant to Section 12(b) of the Act:

Title of each class NA Name of each exchange on which registered NA

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $1.00 par value per share (title of class)

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

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

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

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

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

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

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

As of March 28, 2008, the aggregate market value of the 86,843,172 shares of Common Stock of the Registrant issued and outstanding on such date, which excludes 957,456 shares held by all directors and executive officers of the Registrant as a group, was $1,976,550,595. This figure is based on the closing sale price of $22.76 per share of the Registrant s Common Stock on March 28, 2008, as reported in *The Wall Street Journal* on March 28, 2008.

Number of shares of Common Stock outstanding as of November 24, 2008: 87,978,527

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of Form 10-K into which the document is incorporated:

(1) Portions of the Registrant s Annual Report to Stockholders for the fiscal year ended September 30, 2008, are incorporated into Part II, Items 5-8 and Part III, Item 12 of this Form 10-K.

(2) Portions of the Registrant s definitive proxy statement for its Annual Meeting of Stockholders to be held on January 21, 2009 are incorporated into Part III, Items 10-14 of this Form 10-K.

PART I

In addition to historical information, this Annual Report on Form 10-K includes certain forward-looking statements, as defined in the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, based on current management expectations. Actual results could differ materially from those management expects. Such forward-looking statements include statements regarding Washington Federal s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting Washington Federal s operations, markets, products services and fees. Washington Federal 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.

Item 1. Business

General

Washington Federal, Inc., formed in November 1994, is a Washington corporation headquartered in Seattle, Washington. The Company is a non-diversified unitary savings and loan holding company within the meaning of the Home Owners Loan Act (HOLA) that conducts its operations through a federally insured savings and loan association subsidiary, Washington Federal Savings. As used throughout this report, the terms Washington Federal or the Company refer to Washington Federal, Inc. and its consolidated subsidiaries.

The Company, doing business as Washington Federal Savings, is a federally-chartered savings and loan association that began operations in Washington as a state-chartered mutual company in 1917. In 1935, the Company converted to a federal charter and became a member of the Federal Home Loan Bank (FHLB) system. On November 9, 1982, Washington Federal Savings converted from a federal mutual to a federal capital stock company.

The Company s fiscal year end is September 30th. All references to 2008, 2007 and 2006 represent balances as of September 30, 2008, September 30, 2007 and September 30, 2006, or activity for the fiscal years then ended, respectively.

The business of Washington Federal consists primarily of attracting deposits from the general public and investing these funds in loans of various types, including first lien mortgages on single-family dwellings, construction loans, land acquisition and development loans, loans on multi-family and other income producing properties, home equity loans and business loans. It also invests in certain United States government and agency obligations and other investments permitted by applicable laws and regulations. Washington Federal has 148 full service branches located in Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas. Through its subsidiaries, the Company is engaged in real estate investment and insurance brokerage activities.

The principal sources of funds for the Company s activities are retained earnings, loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings. Washington Federal s principal sources of revenue are interest on loans, interest and dividends on investments. Its principal expenses are interest paid on deposits, credit costs, general and administrative expenses, interest on borrowings and income taxes.

The Company s growth has been generated both internally and as a result of 14 mergers and four assumptions of deposits completed in the Company s history. In February 2008, the Company completed its acquisition of First Mutual Bancshares, Inc. First Mutual Bancshares was the holding company for First Mutual Bank, a Washington-chartered savings bank, headquartered in Bellevue, Washington.

The Company is subject to extensive regulation, supervision and examination by the Office of Thrift Supervision (OTS), as its chartering authority and primary federal regulator, and by the Federal Deposit Insurance Corporation (FDIC), which insures its deposits up to applicable limits. Such regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the deposits and the Deposit Insurance Fund (DIF) administered by the FDIC. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities. Any change in such regulation, whether by the OTS, the FDIC or the U.S. Congress, could have a significant impact on the Company and its operations. See Regulation.

Average Statements of Financial Condition

	Year Ended September 30, 2006			2007			2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest (In thousands)	Average Rate	Average Balance	Interest	Average Rate
Assets									
Loans (1)	$ 6,516,723	$ 439,338	6.74%	$ 7,634,825	$ 526,923	6.90%	$ 9,013,671	$ 599,878	6.66%
Mortgage-backed securities	1,232,912	66,938	5.43	1,354,689	75,478	5.57	1,565,590	88,425	5.65
Investment securities (2)	496,361	23,607	4.76	264,345	15,525	5.87	214,871	11,408	5.31
FHLB stock	129,453			131,663	756	0.57	140,569	1,717	1.22
Total interest-earning assets	8,375,449	529,883	6.33	9,385,522	618,682	6.59	10,934,701	701,428	6.41
Other assets	195,679			272,300			357,570		
Total assets	$ 8,571,128			$ 9,657,822			$ 11,292,271		
Liabilities and Stockholders Equity									
Checking accounts	$ 221,317	2,498	1.13%	$ 351,558	5,572	1.58%	$ 473,999	6,813	1.44%
Passbook and statement accounts	176,047	2,187	1.24	188,853	2,902	1.54	197,448	2,724	1.38
Insured money market accounts	828,789	21,788	2.63	748,436	22,309	2.98	996,164	25,571	2.57
Certificate accounts (time deposits)	3,892,353	152,276	3.91	4,408,864	212,237	4.81	5,032,005	224,114	4.45
Repurchase agreements with customers	29,284	856	2.92	21,567	817	3.79	15,787	547	3.46
FHLB advances	1,410,169	68,119	4.83	1,623,864	78,033	4.81	2,022,596	94,048	4.65
Securities sold under agreements to repurchase	630,411	24,516	3.89	785,753	31,962	4.07	803,825	34,260	4.26
Federal funds purchased	20,863	1,121	5.37	87,939	4,669	5.31	296,529	9,564	3.23
Total interest-bearing liabilities	7,209,233	273,361	3.79	8,216,834	358,501	4.36	9,838,353	397,641	4.04
Other liabilities	145,720			150,320			97,064		
Total liabilities	7,354,953			8,367,154			9,935,417		
Stockholders equity	1,216,175			1,290,668			1,356,854		
Total liabilities and stockholders equity	$ 8,571,128			$ 9,657,822			$ 11,292,271		
Net interest income/Interest rate spread		$ 256,522	2.54%		$ 260,181	2.23%		$ 303,787	2.37%
Net interest margin (3)			3.06%			2.77%			2.78%

(1) The average balance of loans includes nonaccruing loans, interest on which is recognized on a cash basis. It also includes net accretion of deferred loan fees and costs of $20.6 million, $18.1 million and $12.7 million for years 2006, 2007 and 2008, respectively.

(2) Includes cash equivalents and repurchase agreements.

(3) Net interest income divided by average interest-earning assets.

Lending Activities

General. The Company s net portfolio of loans totaled $9.5 billion at September 30, 2008, representing approximately 81% of its total assets. The Company concentrates its lending activities on the origination of conventional mortgage loans, which are loans that are neither insured nor guaranteed by agencies of the United States government.

Washington Federal s lending activity is concentrated on the origination of loans secured by real estate, including long-term fixed-rate mortgage loans, adjustable-rate construction loans, adjustable-rate land development loans and fixed-rate multi-family loans.

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

	2004 Amount	%	2005 Amount	%	2006 Amount	%	2007 Amount	%	2008 Amount	%
					(In thousands)					
Loans secured by real estate:										
Single-family residential	$ 3,982,632	71.2%	$ 4,630,411	70.3%	$ 5,416,501	70.3%	$ 6,067,194	69.4%	$ 6,868,956	69.5%
Construction speculative (2)	489,325	8.7	629,594	9.6	716,828	9.3	707,503	8.1	439,616	4.4
Construction custom (2)	355,935	6.4	391,825	5.9	373,534	4.9	328,929	3.8	317,894	3.2
Land acquisition and development (1)	220,157	3.9	317,132	4.8	517,969	6.7	755,577	8.6	724,421	7.3
Land consumer lot loans (1)	77,193	1.4	121,489	1.8	148,842	1.9	159,001	1.8	210,816	2.1
Multi-family	467,354	8.4	501,824	7.6	527,719	6.9	558,846	6.4	683,508	6.9
Commercial Real Estate							112,659	1.3	282,138	2.8
Commercial & Industrial							23,251	.3	151,844	1.5
HELOC							13,690	.2	80,407	.8
Consumer							10,377	.1	153,072	1.5
GROSS LOANS	$ 5,592,596	100.0%	$ 6,592,275	100.0%	$ 7,701,393	100.0%	$ 8,737,027	100.0%	$ 9,912,672	100.0%
Less LIP, Allowance and net def. costs & fees	(499,153)		(583,343)		(622,950)		(548,749)		(411,052)	
NET LOANS	$ 5,093,443		$ 6,008,932		$ 7,078,443		$ 8,188,278		$ 9,501,620	

(1) Represents loans to builders / intended occupants for the purpose of financing the acquisition and development of single-family residences.
(2) Represents loans to builders / intended occupants for the purpose of financing the construction of single-family or multi-family residences.

The following table summarizes the scheduled contractual gross loan maturities for the Company s total loan portfolio due for the periods indicated as of September 30, 2008. Amounts are presented prior to deduction of discounts, premiums, loans in process, deferred net loan origination fees and allowance for loan losses. Adjustable-rate loans are shown in the period in which loan principal payments are contractually due.

Contractual Maturities:

	Total	Less than 1 Year	1 to 5 Years	After 5 Years
		(In thousands)		
Single-family residential	$ 6,868,956	$ 72,322	$ 194,724	$ 6,601,910
Construction speculative	439,616	437,804	1,812	
Construction custom	317,894	34,623	2,674	280,597
Land acquisition & development	724,421	700,070	23,301	1,050
Land consumer lot loans	210,816	3,251	15,477	192,088
Multi-family	683,508	96,360	235,540	351,608
Commercial Real Estate	282,138	47,114	80,255	154,769
Commercial & Industrial	151,844	74,457	31,352	46,035
HELOC	80,407	16,640	1,893	61,874
Consumer	153,072	46	51,266	101,760
	$ 9,912,672	$ 1,482,687	$ 638,294	$ 7,791,691
Loans maturing after one year:				
Adjustable-rate	$ 852,597			
Fixed-rate	7,577,388			
Total	$ 8,429,985			

The original contractual loan payment period for residential mortgage loans originated by the Company normally ranges from 15 to 30 years. Experience during recent years has indicated that, because of prepayments in connection with refinancing and sales of property, residential loans remain outstanding an average of less than eight and one half years.

Lending Programs and Policies. The Company s principal lending activity is the origination of real estate mortgage loans to purchase or refinance single-family residences. The Company also originates a significant number of construction and land development loans, along with multi-family residential and commercial loans. At September 30, 2008, single-family residential loans totaled $6.9 billion, or 69.5% of the Company s gross loan portfolio; construction- speculative loans totaled $440 million, or 4.4% of the Company s gross loan portfolio; construction custom loans totaled $318 million, or 3.2% of the Company s gross loan portfolio; land acquisition and development loans totaled $724 million, or 7.3% of the Company s gross loan portfolio; land consumer lot loans totaled $211 million, or 2.1% of the Company s gross loan portfolio; multi-family loans totaled $684 million, or 6.9% of the Company s gross loan portfolio; commercial real estate loans totaled $282 million, or 2.8% of the Company s gross loan portfolio; commercial and industrial loans totaled $152 million, or 1.5% of the Company s gross loan portfolio; HELOC loans totaled $80 million, or .8% of the Company s gross loan portfolio and consumer loans totaled $153 million, or 1.5% of the Company s gross loan portfolio.

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

All of the Company s mortgage lending is subject to written, nondiscriminatory underwriting standards, loan origination procedures and lending policies prescribed by the Company s Board of Directors. Property valuations are required on all real estate loans. Appraisals are prepared by independent appraisers approved by the Company s management, and reviewed by the Company s staff. Property evaluations are sometimes utilized in lieu of an appraisal on single-family real estate loans of $250,000 or less and are prepared by the Company s staff. Detailed loan applications are obtained to determine the borrower s ability to repay and the more significant items on these applications are verified through the use of credit reports, financial statements or written confirmations. Depending on the size of the loan involved, a varying number of officers of the Company must approve the application before the loan can be granted.

Federal guidelines limit the amount of a real estate loan made by a federally-chartered savings institution, such as Washington Federal Savings, to a specified percentage of the value of the property securing the loan as determined by an evaluation at the time the loan is originated, referred to as the loan-to-value ratio. The guidelines provide that at the time of origination a real estate loan may not exceed 100% of the value of the security property. Maximum loan-to-value ratios for each type of real estate loan are established by the Company s Board of Directors. When establishing general reserves for loans with loan-to-value ratios exceeding 80% that are not insured by private mortgage insurance, Washington Federal considers the additional risk inherent with these products, as well as their relative loan loss experience, and provides reserves when deemed appropriate. The total balance for loans with loan-to-value ratios exceeding 80% at September 30, 2008, was $485 million, with allocated reserves of $2.0 million.

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

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

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

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

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

Multi-family residential loans. Multi-family residential (five or more dwelling units) loans generally are secured by multi-family rental properties, such as apartment buildings. In underwriting multi-family residential loans, the Company considers a number of factors, which include the projected net cash flow to the loan s debt service requirement, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower s experience in owning or managing similar properties. Multi-family residential loans are originated in amounts up to 75% of the appraised value of the property securing the loan.

Loans secured by multi-family residential real estate generally involve a greater degree of credit risk than single-family residential loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income-producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower s ability to repay the loan may be impaired. The Company seeks to minimize these risks through its underwriting policies, which require such loans to be qualified at origination on the basis of the property s income and debt service ratio. The Company generally limits its multi-family residential loans to $5.0 million on any one loan.

It is the Company s policy to obtain title insurance ensuring that the Company has a valid first lien on the mortgaged real estate serving as collateral. Borrowers must also obtain hazard insurance prior to closing and, when required by regulation, flood insurance. Borrowers may be required to advance funds on a monthly basis, together with each payment of principal and interest, to a mortgage escrow account from which the Company makes disbursements for items such as real estate taxes, hazard insurance premiums and private mortgage insurance premiums when due.

Commercial and industrial loans. The Company generally makes various types of secured owner occupied commercial real estate and business loans to customers in its market area for the purposes of acquiring real estate, equipment or other business purposes. The terms of these loans generally range from less than one year to a maximum of ten years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to Prime or another market rate.

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

Consumer Loans. Through its two most recent acquisitions, the Company obtained its portfolio of $153 million of consumer loans. These loans are primarily home improvement loans made through third party originators that bear interest rates of 10% and higher. Due to the nature of these loans the average charge off rate has been 2 to 3% per year. After extensive review of this program, the Company decided in fiscal 2008 to cease origination of consumer loans, as the risk profile did not match with the Company s long term business plan. The Company will continue to service the portfolio until the balances are repaid.

Origination and Purchase of Loans. The Company has general authority to lend anywhere in the United States; however, the primary lending areas are within the states of Washington, Oregon, Idaho, Arizona, Utah, Nevada, New Mexico and Texas.

Loan originations come from a number of sources. Residential loan originations result from referrals from real estate brokers, walk-in customers, purchasers of property in connection with builder projects financed by the Company, mortgage brokers and refinancings for existing customers. Construction loan originations are obtained primarily by direct solicitation of builders and continued business from builders who have previously borrowed from the Company.

The Company also purchases loans and mortgage-backed securities when lending rates and mortgage volume for new loan originations in its market area do not fulfill its needs. The table below shows total loan origination, purchase and repayment activities of the Company for the years indicated.

	2004	2005	2006	2007	2008
			(In thousands)		
Loans originated (1):					
Single-family residential	$ 710,249	$ 787,455	$ 718,915	$ 827,270	$ 857,334
Construction speculative	580,882	716,569	704,314	518,024	218,145
Construction custom	397,967	422,100	385,084	337,575	303,844
Land Acquisition & Development	244,048	358,863	398,669	443,793	148,221
Land Consumer Lot Loans			59,869	42,299	25,909
Multi-family	137,838	151,839	135,496	98,453	105,805
Commercial Real Estate				16,266	66,876
Commercial & Industrial				10,320	187,748
HELOC				5,074	63,855
Consumer				2,871	96,438
Total loans originated	2,070,984	2,436,826	2,402,347	2,301,945	2,074,175
Loans purchased (2)	31,911	331,456	399,766	414,153	946, 826
Loan principal repayments	(1,693,142)	(1,769,058)	(1,694,530)	(1,718,798)	(1,845,324)
Net change in loans in process, discounts, etc.	(133,818)	(83,735)	(38,072)	112,535	137,665
Net loan activity increase (decrease)	$ 275,935	$ 915,489	$ 1,069,511	$ 1,109,835	$ 1,313,342
Beginning balance	$ 4,817,508	$ 5,093,443	$ 6,008,932	$ 7,078,443	$ 8,188,278
Ending balance	$ 5,093,443	$ 6,008,932	$ 7,078,443	$ 8,188,278	$ 9,501,620

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

Interest Rates, Loan Fees and Service Charges. Interest rates charged by the Company on mortgage loans are primarily determined by the competitive loan rates offered in its lending areas and in the secondary market. Mortgage loan rates reflect factors such as general interest rates, the supply of money available to the savings and loan industry and the demand for such loans. These factors are in turn affected by general economic conditions, the regulatory programs and policies of federal and state agencies, changes in tax laws and governmental budgetary programs.

The Company receives fees for originating loans in addition to various fees and charges related to existing loans, which may include prepayment charges, late charges and assumption fees.

In making one-to-four family home mortgage loans, the Company does not normally charge a commitment fee. As part of the loan application, the borrower pays the Company for out-of-pocket costs, such as the appraisal fee, in reviewing the application, whether or not the borrower closes the loan. The interest rate charged is normally the prevailing rate at the time the loan application is approved. In the case of construction loans, the Company normally charges an origination fee. Loan origination fees and other terms of multi-family residential loans are individually negotiated.

Nonperforming Assets. When a borrower fails to make a required payment on a loan, the Company attempts to cure the deficiency by contacting the borrower. Contact is made after a payment is 30 days past due. In most cases, deficiencies are cured promptly. If the delinquency is not cured within 90 days, the Company may institute appropriate action to foreclose on the property. If foreclosed, the property will be sold at a public sale and may be purchased by the Company. There are circumstances under which the Company may choose to foreclose a deed of trust as mortgagee, and when this procedure is followed, certain redemption rights are involved.

Loans are placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed to be insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but unpaid interest is deducted from interest income. The Company does not accrue interest on loans 90 days past due or more. See Note A to the Consolidated Financial Statements included in Item 8 hereof.

Real estate acquired by foreclosure or deed-in-lieu thereof (REO or Real Estate Owned) is classified as real estate held for sale until it is sold. When property is acquired, it is recorded at the lower of carrying cost or fair value at the date of acquisition, and any writedown resulting therefrom is charged to the allowance for loan losses. Interest accrual ceases on the date of acquisition and all costs incurred in maintaining the property from that date forward are expensed as incurred. Costs incurred for the improvement or development of such property are capitalized. See Note A to the Consolidated Financial Statements included in Item 8 hereof.

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

	2004	2005	2006 (In thousands)	2007	2008
Restructured loans (1)	$ 803	$ 573	$	$ 250	$ 6,210
Nonaccrual loans:					
Single-family residential	7,345	5,765	5,700	9,820	38,017
Construction Speculative	2,965		1,002	2,446	33,003
Construction custom					1,315
Land Acquisition & Development	252	403	126	1,809	51,562
Land consumer lot loans					
Multi-family	322	420	353	148	748
Commercial Real Estate				253	1,929
Commercial & Industrial				42	
HELOC					
Consumer					535
Total nonaccrual loans (2)	10,884	6,588	7,181	14,518	127,109
Total REO (3)	3,817	756	479	1,413	37,082
Total nonperforming assets	$ 14,701	$ 7,344	$ 7,660	$ 15,931	164,191
Total nonperforming assets and restructured loans	$ 15,504	$ 7,917	$ 7,660	$ 16,181	170,401
Total nonperforming assets and restructured loans as a percent of total assets	0.22%	0.09%	0.08%	0.16%	1.44%

(1) Performing in accordance with restructured terms.

(2) The Company recognized interest income on nonaccrual loans of approximately $27,000 in 2008. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately $4,516,000 in 2008.
In addition to the nonaccrual loans reflected in the above table, at September 30, 2008, the Company had $115.4 million of loans that were less than 90 days delinquent but which were classified as substandard for one or more reasons. If these loans were deemed nonperforming, the Company s ratio of total nonperforming assets and restructured loans as a percent of total assets would have been 2.42% at September 30, 2008. For a discussion of the Company s policy for placing loans on nonaccrual status, see Note A to the Consolidated Financial Statements included in Item 8 hereof.

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

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

	2004	2005	September 30, 2006 (In thousands)	2007	2008
Beginning balance	$ 25,806	$ 25,140	$ 24,756	$ 24,993	$ 28,520
Charge-offs:					
Single-Family Residential	338	154	226	40	2,177
Construction Speculative	146	90	20	1,024	6,858
Construction Custom					
Land Acquisition & Development	44			58	3,513
Land Consumer Lot Loans					140
Multi-Family		14	52	34	25
Commercial Real Estate					225
Commercial & Industrial Loans					14
HELOC					
Consumer					2,471
	528	258	298	1,156	15,423
Recoveries:					
Single-Family Residential	16	8		1	
Construction Speculative					34
Construction Custom					
Land Acquisition & Development	77				
Land Consumer Lot Loans					
Multi-family					
Commercial Real Estate				2	
Commercial & Industrial Loans					
HELOC					
Consumer					230
	93	8		3	264
Net charge-offs	435	250	298	1,153	15,159
Acquired through acquisition				3,130	11,181
Provision (reversal of reserve) for loan losses	(231)	(134)	535	1,550	60,516
Ending balance	$ 25,140	$ 24,756	$ 24,993	$ 28,520	$ 85,058
Ratio of net charge-offs to average loans outstanding	.01%	.01%	.01%	.02%	.17%

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

	September 30,									
	2004		**2005**		**2006**		**2007**		**2008**	
	Amount	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**	**Amount**	**%(1)**
					(In thousands)					
Allowance allocation:										
Single-family residential	$ 8,517	71.2%	$ 8,643	70.2%	$ 8,397	70.3%	$ 10,083	69.4%	$ 17,055	69.5%
Construction speculative	7,069	15.1	6,977	15.5	6,706	14.8	4,716	8.1	10,069	4.4
Construction custom							1,163	3.8	1,328	3.2
Land acquisition & development	3,470	5.3	3,360	6.7	4,829	8.0	4,506	8.6	28,679	7.3
Land consumer lot loans							1,136	1.8	2,279	2.1
Multi-family	6,084	8.4	5,776	7.6	5,061	6.9	5,299	6.4	4,514	6.9
Commercial real estate							1,297	1.3	4,536	2.8
Commercial & industrial							320	.3	3,807	1.5
HELOC								.2	1,338	0.8
Consumer								.1	11,453	1.5
Unallocated										
Total allowance for loan losses	$ 25,140		$ 24,756		$ 24,993		$ 28,520		$ 85,058	

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

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

The general loan loss allowance is established by applying a loss percentage factor to the different loan types. The allowance is based on management s continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company s control, which may result in losses or recoveries differing from those provided. A portion of the allowance is then allocated to reflect the estimated loss exposure. Residential real estate loans are not individually analyzed for impairment and loss exposure because of the significant number of loans, their relatively small balances and their historically low level of losses. In determining the adequacy of reserves, management considers the above mentioned factors.

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

Investment Activities

As a federally-chartered savings institution, Washington Federal Savings is obligated to maintain adequate liquidity and does so by investing in securities. These investments may include, among other things, certain certificates of deposit, repurchase agreements, bankers acceptances, loans to financial institutions whose deposits are federally-insured, federal funds, United States government and agency obligations and mortgage-backed securities.

The following table sets forth the composition of the Company s investment portfolio at the dates indicated.

September 30,	2006		2007		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
			(In thousands)			
U.S. government and agency obligations	$ 245,359	$ 248,426	$ 236,352	$ 232,285	$ 37,253	$ 41,231
State and political subdivisions	8,121	8,833	8,107	8,646	7,770	8,306
Agency mortgage-backed securities	1,391,933	1,375,690	1,430,208	1,409,881	1,551,674	1,549,878
	$ 1,645,413	$ 1,632,949	$ 1,674,667	$ 1,650,812	$ 1,596,697	$ 1,599,415

The investment portfolio at September 30, 2008 was categorized by maturity as follows:

	Amortized Cost (In thousands)	Wtd Avg Yield
Due in less than one year	$ 25,500	5.96%
Due after one year through five years	1,470	6.60
Due after five years through 10 years	11,753	8.21
Due after 10 years	1,557,974	5.74
	$ 1,596,697	5.76%

Sources of Funds

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

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

Certificates with a maturity of one year or less have penalties for premature withdrawal equal to 90 days of interest. When the maturity is greater than one year but less than four years, the penalty is 180 days of interest. When the maturity is greater than 4 years, the penalty is 365 days interest. Early withdrawal penalties during 2006, 2007 and 2008 amounted to approximately $991,000, $1,005,000 and $859,000, respectively.

The Company offers two checking account products; the accounts pay interest on monthly average balances over $1,000 and $10,000 respectively.

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

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

	September 30, 2006 Amount	Rate	2007 Amount	Rate	2008 Amount	Rate
	(In thousands)					
Balance by interest rate:						
Checking accounts	$ 235,714	1.87%	$ 409,098	1.90%	$ 516,972	1.14%
Passbook and statement accounts	161,098	1.25	198,876	1.70	188,546	1.22
Money market accounts	743,317	2.93	739,554	2.85	1,231,542	2.48
	1,140,129		1,347,528		1,937,060	
Fixed-rate certificates:						
Under 3.00%	37,188		4,228		892,627	
3.00% to 3.99%	833,968		150,926		2,887,138	
4.00% to 4.99%	2,132,966		1,283,837		1,346,039	
5.00% to 5.99%	1,140,957		3,190,141		81,911	
6.00% and above	500		2,389		1,270	
	4,145,579		4,631,521		5,208,985	
	$ 5,285,708		$ 5,979,049		$ 7,146,045	

The following table sets forth, by various interest rate categories, the amount of certificates of deposit of the Company at September 30, 2008, which mature during the periods indicated.

	Maturing in 1 to 3 Months	4 to 6 Months	7 to 12 Months	13 to 24 Months	25 to 36 Months	37 to 60 Months	Total
	(In thousands)						
Fixed-rate certificates:							
Under 3.00%	$ 445,130	$ 139,136	$ 280,536	$ 21,239	$ 3,980	$ 2,606	$ 892,627
3.00 to 3.99%	281,193	1,596,686	757,522	212,313	17,708	21,716	2,887,138
4.00 to 4.99%	670,316	182,039	154,417	133,345	63,343	142,579	1,346,039
5.00 to 5.99%	45,015	1,502	2,630	10,506	13,171	9,087	81,911
6.00 and above	510	542		216		2	1,270
Total	$ 1,442,164	$ 1,919,905	$ 1,195,105	$ 377,619	$ 98,202	$ 175,990	$ 5,208,985

Historically, a significant number of certificate holders roll over their balances into new certificates of the same term at the Company s then current rate. To ensure a continuity of this trend, the Company expects to continue to offer market rates of interest. Its ability to retain maturing deposits in certificate accounts is difficult to project; however, the Company is confident that by competitively pricing these certificates, levels deemed appropriate by management can be achieved on a continuing basis.

At September 30, 2008, the Company had $1.8 billion of certificates of deposit in amounts of $100,000 or more outstanding, maturing as follows: $524 million within 3 months; $650 million over 3 months through 6 months; $400 million over 6 months through 12 months; and $222 million thereafter.

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

	2006	September 30, 2007 (In thousands)	2008
Deposits	$ 2,932,389	$ 2,617,541	$ 8,846,229
Acquired Deposits		379,090	744,182
Withdrawals	(2,831,908)	(2,555,597)	(8,677,426)
Net increase (decrease) in deposits before interest credited	100,481	441,034	912,985
Interest credited	179,740	244,025	259,769
Net increase in customer accounts	$ 280,221	$ 685,059	$ 1,172,754

Borrowings. The Company obtains advances from the FHLB upon the security of the FHLB capital stock it owns and certain of its home mortgages, provided certain standards related to credit worthiness have been met. See Regulation Washington Federal Savings Federal Home Loan Bank System below. Such advances are made pursuant to several different credit programs. Each credit program has its own interest rate and range of maturities, and the FHLB prescribes acceptable uses to which the advances pursuant to each program may be put, as well as limitations on the size of such advances. Depending on the program, such limitations are based either on a fixed percentage of assets or the Company s creditworthiness. The FHLB is required to review its credit limitations and standards at least annually. FHLB advances have, from time to time, been available to meet seasonal and other withdrawals of savings accounts and to expand Washington Federal s lending program. The Company had $1.998 billion of FHLB advances outstanding at September 30, 2008.

The Company also uses reverse repurchase agreements as a form of borrowing. Under reverse repurchase agreements, the Company sells an investment security to a dealer for a period of time and agrees to buy back that security at the end of the period and pay the dealer a stated interest rate for the use of the dealer s funds. The amount of securities sold under such agreements depends on many factors, including the terms available for such transactions, the perceived ability to apply the proceeds to investments yielding a higher return, the demand for the securities and management s perception of trends in interest rates. The Company had $800 million of securities sold under such agreements at September 30, 2008. See Note I to the Consolidated Financial Statements included in Item 8 hereof for additional information.

The Company may need to borrow funds for short periods of time to meet day-to-day financing needs. In these instances, funds are borrowed from other financial institutions for periods generally ranging from 1 to 7 days at the then current borrowing rate. At September 30, 2008, the Company had $377 million of such short-term borrowings.

The Company also offers two forms of repurchase agreements to its customers. One form has an interest rate that floats like a money market deposit account. The other form has a fixed rate and is offered in a minimum denomination of $100,000. Both forms are fully collateralized by securities. These obligations are not insured by FDIC and are classified as borrowings for regulatory purposes. The Company had $23.5 million of such agreements outstanding at September 30, 2008.

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

	2006	September 30, 2007 (In thousands)	2008
Federal funds and securities sold to dealers under agreements to repurchase:			
Average balance outstanding	$ 651,274	$ 873,692	$ 1,100,354
Maximum amount outstanding at any month-end during the period	870,000	1,175,000	1,275,000
Weighted-average interest rate during the period (1)	3.94%	4.19%	3.98%
FHLB advances:			
Average balance outstanding	$ 1,410,169	$ 1,623,864	$ 2,022,596
Maximum amount outstanding at any month-end during the period	1,500,000	1,800,000	2,206,000
Weighted-average interest rate during the period (1)	4.83%	4.81%	4.65%
Securities sold to customers under agreements to repurchase:			
Average balance outstanding	$ 29,284	$ 21,567	$ 15,787
Maximum amount outstanding at any month-end during the period	31,222	24,758	23,494
Weighted-average interest rate during the period (1)	2.92%	3.79%	3.46%
Total average borrowings	$ 2,090,727	$ 2,519,123	$ 3,138,737
Weighted-average interest rate on total average borrowings (1)	4.53%	4.58%	4.41%

(1) Interest expense divided by average daily balances.

Other Ratios

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

	2006	September 30, 2007	2008
Return on assets (1)	1.67%	1.40%	.55%
Return on equity (2)	11.77	10.46	4.59
Average equity to average assets	14.19	13.36	12.02
Dividend payout ratio (3)	49.39	53.90	118.31

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

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Company for the years indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old average volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	September 30,								
	2006 vs. 2005 Increase (Decrease) Due to			2007 vs. 2006 Increase (Decrease) Due to			2008 vs. 2007 Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)			(In thousands)			(In thousands)		
Interest income:									
Loan portfolio	$ 66,399	$ 3,916	$ 70,315	$ 76,942	$ 10,643	$ 87,585	$ 91,897	$ (18,942)	$ 72,955
Mortgage-backed securities	22,052	(16,573)	5,479	6,772	1,768	8,540	11,854	1,093	12,947
Investments (1)	(15,319)	7,507	(7,812)	(9,296)	1,970	(7,326)	(1,580)	(1,576)	(3,156)
All interest-earning assets	73,132	(5,150)	67,982	74,418	14,381	88,799	102,171	(19,425)	82,746
Interest expense:									
Customer accounts	17,502	46,277	63,779	21,479	42,753	64,232	39,675	(23,743)	15,932
FHLB advances and other borrowings	18,135	(3,813)	14,322	20,073	835	20,908	27,844	(4,636)	23,208
All interest-bearing liabilities	35,637	42,464	78,101	41,552	43,588	85,140	67,519	(28,379)	39,140
Change in net interest income	$ 37,495	$ (47,614)	$ (10,119)	$ 32,866	$ (29,207)	$ 3,659	$ 34,652	$ 8,954	$ 43,606

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

Interest Rate Risk

The Company accepts a high level of interest rate volatility as a result of its policy to originate fixed-rate single-family home loans that are longer-term in nature than the short-term characteristics of its liabilities of customer accounts and borrowed money. The strong capital position and low operating costs have allowed the Company to manage interest rate risk, within guidelines established by the Board of Directors, through all interest rate cycles. A significant increase in market interest rates could adversely affect net interest income of the Company. The Company s interest rate risk approach has never resulted in the recording of a monthly operating loss.

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

	Within One Year	Repricing Period After 1 year -before 4 Years (In thousands)	Thereafter	Total
As of 9/30/08				
Earning Assets *	$ 2,989,538	$ 2,200,259	$ 6,139,679	$ 11,329,476
Paying Liabilities	(6,978,677)	(2,239,856)	(1,126,914)	(10,345,447)
Excess (Liabilities) Assets	$ (3,989,139)	$ (39,597)	$ 5,012,765	
Excess as % of Total Assets	-33.8%			
Policy limit for one year excess	-60.0%			

* Asset repricing period includes estimated prepayments based on historical activity

At September 30, 2008, the Company had approximately $4.0 billion more liabilities subject to repricing in the next year than assets, which amounted to a negative maturity gap of 34% of total assets. As of September 30, 2007, the amount of excess liabilities subject to repricing within one year was approximately $3.4 billion or 33% of total assets. The increase of approximately $596 million of liabilities in excess of assets repricing within one year was due to continued growth of the balance sheet. Despite the growth of the absolute dollar amount of the GAP, the percentage only increased 1% due to the growth of total assets for the year. By having an excess of liabilities repricing within one year over assets, the Company is subject to decreasing net interest income should interest rates rise. However, if the size and/or mix of the balance sheet changes, rising rates may not cause a decrease in net interest income.

One method used to quantify interest rate risk is the net portfolio value (NPV) analysis. This analysis calculates the difference between the present value of interest-bearing liabilities and the present value of expected cash flows from interest-earning assets and off-balance-sheet contracts. The following tables set forth an analysis of the Company s interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (measured in 100-basis-point increments).

September 30, 2008

Change in ***Interest Rates*** **(Basis Points)**	***Estimated*** ***NPV Amount*** **(In thousands)**	***Estimated Increase*** ***(Decrease) in NPV Amount*** **(In thousands)**	***NPV as*** ***% of Assets***
+300	$ 581,726	$ (716,410)	5.41%
+200	841,400	(456,736)	7.57
+100	1,095,979	(202,157)	9.55
0	1,298,136		11.00
-100	1,378,606	80,470	11.46

September 30, 2007

Change in

Interest Rates **(Basis Points)**	***Estimated NPV Amount*** **(In thousands)**	***Estimated Increase (Decrease) in NPV Amount*** **(In thousands)**	***NPV as % of Assets***
+300	$ 593,175	$ (745,189)	6.44%
+200	853,383	(484,981)	8.92
+100	1,116,095	(222,269)	11.24
0	1,338,364		13.03
-100	1,457,798	119,434	13.85

At September 30, 2008, the Company s NPV decreased $40million compared to the prior year. This decrease was primarily the result of a change in estimated fair market value of fixed rate mortgages based on current market assumptions . If in the future the Company chooses to continue to leverage its balance sheet by increasing short-term borrowings and investing in longer-term assets (30-year mortgage loans or mortgage-backed securities), the Company s NPV sensitivity will increase.

Certain assumptions were used in preparing the previous table. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under the various interest rate scenarios. Even if interest rates change in the designated amounts, there can be no assurance that the Company s assets and liabilities would perform as set forth above.

The NPV analysis presented assumes zero balance sheet growth and constant percentage composition of assets and liabilities (actual results will differ from this assumption). Prepayment rates are derived from market prepayment rates observed on or about the measurement date. As of September 30, 2008, the estimated prepayment rate for both a 30 year fixed-rate mortgage and a 30 year fixed-rate mortgage-backed security with rates from 6% to 7% was 15% in the base case, and 8% in the +200 basis point shift.

The following table sets forth Company guidelines for interest rate risk measured by NPV after shifts in interest rates:

Rate Shock (Basis Points)	**Minimum NPV Limit**
+300	-0-
+200	3.0%
+100	5.0%
-0-	6.0%
-100	7.0%

As of September 30, 2008 and 2007, the Company s estimated NPV exceeded the above guidelines.

Subsidiaries

Washington Federal, is a unitary thrift holding company that conducts its primary business through its only subsidiary, Washington Federal Savings. Washington Federal Savings has three active wholly owned subsidiaries which are discussed further below.

Washington Federal Savings is permitted by current federal regulations to invest an amount up to 2% of its assets in stock, paid-in surplus and unsecured loans in service corporations. Washington Federal Savings may invest an additional 1% of its assets when the additional funds are utilized for inner-city or community development purposes. In addition, federally-chartered savings institutions that are in compliance with regulatory capital requirements and other conditions may make loans to service corporations in an aggregate amount of up to 50% of the institution s capital as defined in federal regulations.

At September 30, 2008, Washington Federal Savings was authorized under the current regulations to have a maximum investment of $235.8 million in its service corporations, exclusive of the additional 1% of investment assets permitted for inner-city or community development purposes but inclusive of the ability to make loans to its subsidiaries. On September 30, 2008, Washington Federal Savings investment in, and unsecured loans to, its wholly owned service corporations amounted to $.3 million.

Washington Services, Inc., a wholly owned subsidiary of Washington Federal Savings, is continuing its investment in developable land zoned light industrial in the technology corridor of South Snohomish County, Washington. Based upon the sales history of this development, the Company believes the net realizable value from the sale of the remaining properties exceeds the subsidiary s basis in these properties.

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

Statewide Mortgage Services, Inc., a wholly owned subsidiary of Washington Federal Savings, is incorporated under the laws of the state of Washington for the purpose of operating a commercial warehouse site located in the state, which was sold during 2008.

First Mutual Sales Finance, Inc., a wholly owned subsidiary of Washington Federal Savings, is incorporated under the laws of the state of Delaware for the purpose of originating and servicing consumer loans.

A savings institution is required to deduct the amount of the investment in, and extensions of credit to, a subsidiary engaged in any activities not permissible for national banks. Because the acquisition and development of real estate is not a permissible activity for national banks, the investments in, and loans to, the subsidiary of the institution which is engaged in such activities are subject to exclusion from the capital calculation. See Regulation Washington Federal Savings Regulatory Capital Requirements below.

Employees

As of September 30, 2008, the Company had approximately 1,095 employees, including the full-time equivalent of 39 part-time employees and its service corporation employees. None of these employees are represented by a collective bargaining agreement, and the Company has enjoyed harmonious relations with its personnel.

Regulation

Set forth below is a brief description of certain laws and regulations that relate to the regulation of the Company and Washington Federal Savings. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations. Certain federal banking laws have been recently amended. See Regulation The Company Financial Modernization below.

The Company

General. The Company is registered as a savings and loan holding company under the HOLA and is subject to OTS regulation, examination, supervision and reporting requirements.

USA Patriot Act of 2001. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued a number of implementing regulations under the Patriot Act which apply to financial institutions such as Washington Federal Savings. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

Financial Modernization. Under the Gramm-Leach-Bliley Act, enacted into law on November 12, 1999, no company may acquire control of a savings and loan holding company after May 4, 1999, unless the company is engaged only in activities traditionally permitted to a multiple savings and loan holding company or newly permitted to a financial holding company under Section 4(k) of the Bank Holding Company Act. Existing savings and loan holding companies, and those formed pursuant to an application filed with the OTS before May 4, 1999, may engage in any activity, including non-financial or commercial activities, provided such companies control only one savings and loan association that meets the Qualified Thrift Lender (QTL) test. Corporate reorganizations are permitted, but the transfer of grandfathered unitary thrift holding company status through acquisition is not permitted.

Activities Restrictions. There are generally no restrictions on the activities of a savings and loan holding company that holds only one subsidiary savings institution; however, if the savings institution subsidiary of such a holding company fails to meet a QTL test, then such unitary holding company also shall become subject to the activities restrictions applicable to multiple savings and loan holding companies and, unless the savings institution requalifies as a QTL within one year thereafter, shall register as, and become subject to the restrictions applicable to, a bank holding company. See Washington Federal Savings Qualified Thrift Lender Test below.

If the Company were to acquire control of another savings institution, other than through a merger or other business combination with Washington Federal Savings, the Company would thereupon become a multiple savings and loan holding company. Except where such acquisition is pursuant to the authority to approve emergency thrift acquisitions, and where each subsidiary savings institution meets the QTL test, the activities of the Company and any of its subsidiaries (other than the Washington Federal Savings or other subsidiary savings institutions) would thereafter be subject to further restrictions. No multiple savings and loan holding company, or subsidiary thereof, that is not a savings institution shall commence or continue a business activity for a limited period of time after becoming a multiple savings and loan holding company or subsidiary thereof, upon prior notice to and with no objection by the OTS, other than: (i) furnishing or performing management services for a subsidiary savings institution; (ii) conducting an insurance agency or escrow business; (iii) holding, managing or liquidating assets owned by or acquired from a subsidiary savings institution; (iv) holding or managing properties used or occupied by a subsidiary savings institution; (v) acting as trustee under deeds of trust; (vi) performing activities authorized by regulation as of March 5, 1987, to be engaged in by multiple savings and loan holding companies; or (vii) unless the Director of the OTS by regulation prohibits or limits such activities for savings and loan holding companies, those activities authorized by the Federal Reserve Board as permissible for bank holding companies. Those activities described in (vii) above also must be approved by the Director of the OTS prior to being engaged in by a multiple savings and loan holding company.

Restrictions on Acquisitions. Except under limited circumstances, savings and loan holding companies are prohibited from acquiring, without prior approval of the Director of the OTS: (i) control of any other savings institution or savings and loan holding company, or substantially all the assets thereof, or (ii) more than 5% of the voting shares of a savings institution or holding company thereof that is not a subsidiary. Except with the prior approval of the Director of the OTS, no director or officer of a savings and loan holding company, or person owning or controlling by proxy or otherwise more than 25% of such company s stock, may acquire control of any savings institution, other than a subsidiary savings institution, or of any other savings and loan holding company.

Federal Securities Laws. The Company s common stock is registered with the Securities and Exchange Commission (SEC) under Section 12(g) of the Securities Exchange Act of 1934, as amended (Exchange Act). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (SOA) imposed significant new responsibilities on publicly held companies such as Washington Federal, particularly in the area of corporate governance. Washington Federal, like other public companies, has reviewed and reinforced its internal controls and financial reporting procedures in response to the various requirements of SOA and implementing regulations issued by the SEC and the Nasdaq Stock Market. Washington Federal has observed and will continue to observe full compliance with these new legal requirements.

Washington Federal Savings

General. Washington Federal Savings is a federally-chartered savings association, the deposits of which are federally insured and backed by the full faith and credit of the United States government. Accordingly, Washington Federal Savings is subject to broad federal regulation and oversight by the OTS and the FDIC extending to all aspects of its operations. Washington Federal Savings is a member of the FHLB of Seattle and is subject to certain limited regulations by the Federal Reserve Board. Washington Federal Savings is a member of the DIF and its deposits are insured by the DIF fund administered by the FDIC. As a result, the FDIC has certain regulatory and examination authority over Washington Federal Savings.

Federal Savings Institution Regulations. The OTS has extensive authority over the operations of savings institutions. As part of this authority, savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. Such regulation and supervision is primarily intended for the protection of depositors.

The investment and lending authority of Washington Federal Savings is prescribed by federal laws and regulations, and it is prohibited from engaging in any activities not permitted by such laws and regulations. In particular, many types of lending authority for federal savings associations are limited to a specified percentage of the institution s capital or assets.

Insurance of Deposit Accounts. The Emergency Economic Stabilization Act of 2008, among other things, has temporarily increased the amount of federal deposit insurance coverage from $100,000 to $250,000 per depositor. The basic deposit insurance limit will return to $100,000 after December 31, 2009.

The FDIC has recently increased coverage on non-interest bearing deposits to be unlimited until December 31, 2009.

The Federal Deposit Insurance Reform Act of 2005 (Reform Act), among other things, provided for the merger of the Bank Insurance Fund with the Savings Association Insurance Fund to form the Deposit Insurance Fund and increased the coverage limit for retirement accounts to $250,000. In addition, the Reform Act allows the FDIC to adjust the ratio of FDIC reserves to the total amount of insured deposits, within the range of 1.15% to 1.50%, depending on projected losses, economic changes and assessment ratios at the end of a calendar year. The Reform Act also required the FDIC to provide eligible insured depository institutions that were in existence on and paid deposit insurance assessments prior to December 31, 1996 with a one-time assessment credit against future premiums based on their share of the aggregate 1996 assessment base. The Bank received notification from the FDIC that its one-time assessment credit was $1.9 million. The one-time assessment credit will expire in 2009. With the recent bank failures in 2008 and the expiration of the one-time assessment credit, management anticipates that FDIC expense will increase for fiscal 2009 and thereafter.

Effective January 1, 2008, the FDIC adopted final regulations designating the reserve ratio for the deposit insurance fund during 2008 at 1.25% of estimated insured deposits. At the same time, the FDIC adopted final regulations that assess insurance premiums based on risk. As a result, the new regulation will enable the FDIC to more closely tie each financial institution s deposit insurance premiums to the risk it poses to the deposit insurance fund. Under the new risk-based assessment system, the FDIC will evaluate the risk of each financial institution based on its supervisory rating, its financial ratios, and its long-term debt issuer rating for larger institutions. The new rates for nearly all of the financial institutions industry vary between twelve and twenty cents for every $100 of domestic deposits.

In addition, all insured institutions are required to pay assessments to the FDIC at an annual Financing Corporation rate (currently, 0.0122% of insured deposits) to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

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

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

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

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

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

For information regarding Washington Federal Savings compliance with each of these three capital requirements at September 30, 2008, see Note M to the Consolidated Financial Statements included in Item 8 hereof.

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

Prompt Corrective Action. Under federal law, each federal banking agency has implemented a system of prompt corrective action for institutions that it regulates. Under OTS regulations, an institution shall be deemed to be: (i) well capitalized if it has total risk-based capital of 10.0% or more, a Tier 1 risk-based capital ratio of 6.0% or more, a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any written agreement, order or capital directive to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized; (iii) undercapitalized if it has total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances); (iv) significantly undercapitalized if it has total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%; and (v) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Federal law authorizes the OTS to reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category. (The FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized). As of September 30, 2008, Washington Federal Savings exceeded the requirements of a well capitalized institution.

Qualified Thrift Lender Test. A savings institution that does not meet a QTL test set forth in the HOLA and implementing regulations must either convert to a bank charter or comply with the following restrictions on its operations: (i) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the institution shall be restricted to those of a national bank; (iii) the institution shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the institution ceases to be a QTL, it must cease any activity, not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Under current legislation and applicable regulations, any savings institution is a QTL if: (i) it qualifies as a domestic building and loan association under Section 7701(a)(19) of the Internal Revenue Code (which generally requires that at least 60% of the institution s assets constitute housing-related and other qualifying assets) or (ii) at least 65% of the institution s portfolio assets (as defined) consist of certain housing and consumer-related assets on a monthly average basis in at least nine out of every 12 months. At September 30, 2008, Washington Federal Savings was in compliance with the QTL test set forth in the HOLA.

Transactions with Affiliates. Under federal law, all transactions between and among a savings institution and its affiliates, which include holding companies, are subject to Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder as interpreted by the OTS. Generally, these requirements limit these transactions to a percentage of the institution s capital and require all of them to be on terms at least as favorable to the institution as transactions with non-affiliates. In addition, a savings institution may not lend to any affiliate engaged in non-banking activities not permissible for a bank holding company or acquire shares of any affiliate that is not a subsidiary. The OTS is authorized to impose additional restrictions on transactions with affiliates if necessary to protect the safety and soundness of a savings institution. The OTS regulations also set forth various reporting requirements relating to transactions with affiliates.

Extensions of credit by a savings institution to executive officers, directors and principal shareholders are subject to Section 22(h) of the Federal Reserve Act, which, among other things, generally prohibits loans to any such individual where the aggregate amount exceeds an amount equal to 15% of an institution s unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral. Section 22(h) permits loans to directors, executive officers and principal stockholders made pursuant to a benefit or compensation program that is widely available to employees of a subject savings institution provided that no preference is given to any officer, director or principal stockholder, or related interest thereto, over any other employee. In addition, the aggregate amount of extensions of credit by a savings institution to all insiders cannot exceed the institution s unimpaired capital and surplus. Furthermore, Section 22(g) places additional restrictions on loans to executive officers.

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

- the total capital distributions for the applicable calendar year exceed the sum of the savings association s net income for that year to date plus the savings association s retained net income for the preceding two years;

- the savings association would not be at least adequately capitalized following the distribution;

- the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition; or

- the savings association is not eligible for expedited treatment of its filings.

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

The OTS may disapprove a notice or application if:

- the savings association would be undercapitalized following the distribution;

the proposed capital distribution raises safety and soundness concerns; or

the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution, if after making such distribution the institution would be undercapitalized. Furthermore, under the Treasury s Capital Purchase Program, the Company must obtain the Treasury s consent for any increase in dividends declared on its common stock. This restriction applies until November 14, 2011, unless prior to that time the Company redeems the Preferred Stock that it issued to the Treasury or the Treasury transfers the Preferred Stock to a third party. For more information on the Company s participation in the Treasury s Capital Purchase Program and the corresponding restrictions, please see Note Q, Subsequent Event, of the Notes to Consolidated Financial Statements. Washington Federal Savings does not believe that these regulations will adversely affect its ability to make capital distributions.

Federal Home Loan Bank System. Washington Federal Savings is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. At September 30, 2008, the Company s advances from the FHLB amounted to $1.998 billion.

As a member, the Company is required to purchase and maintain stock in the FHLB of Seattle in an amount equal to 3.50% of FHLB advances outstanding and .75% of mortgage loans and pass-through securities. At September 30, 2008, the Company had $144.9 million in FHLB Seattle stock, which was in compliance with this requirement.

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

Community Reinvestment Act and Fair Lending Laws. Savings institutions have a responsibility under the Community Reinvestment Act (CRA) and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In addition, the Equal Credit Opportunity Act and the Fair Housing Act (together, the Fair Lending Laws) prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution s failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities. Failure to comply with the Fair Lending Laws could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the U.S. Department of Justice.

Taxation

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

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

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

The state of Idaho has a corporate income tax with a statutory rate of 7.6% of apportionable income.

The state of Oregon has a corporate excise tax with a statutory rate of 6.6% of apportionable income.

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

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

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

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

Availability of Financial Data

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

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

Current Risk Factors

Item 1A. Risk Factors

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

The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

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

- Economic conditions that negatively affect housing prices and the job market have resulted, and may continue to result, in a deterioration in credit quality of the Company s loan portfolios, and such deterioration in credit quality has had, and could continue to have, a negative impact on the Company s business.

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.

- The processes we use to estimate allowance for loan losses and reserves may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.

- We expect to face increased regulation of our industry, and compliance with such regulation may increase our costs, limit our ability to pursue business opportunities and increase compliance challenges.

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

The Company s business is subject to interest rate risk and variations in market interest rates may negatively affect its financial performance. Management is unable to predict fluctuations of market interest rates, which are affected by many factors, including:

Inflation;

Recession;

A rise in unemployment;

Changes in the money supply; and

Domestic and international disorder and instability in domestic and foreign financial markets.

Changes in the interest rate environment may reduce or increase the Company s profits. The Company expects that it will continue to realize income from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and the interest paid on deposits and borrowings. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. Accordingly, changes in market interest rates could materially and adversely affect the Company s net interest spread, asset quality, levels of prepayments and cash flows as well as the market value of its securities portfolio and overall profitability.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank s interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time frame if it will mature or reprice within that period of time. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets estimated to mature or reprice within a specific time frame and the amount of interest-bearing liabilities estimated to mature or reprice within that same period of time. In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in the cost of its interest-bearing liabilities than it would in the yield on its interest-earning assets, thus producing a decline in its net interest income. Conversely, in a declining rate environment, an institution with a negative gap would generally be expected to experience a lesser reduction in the yield on its interest-earning assets than it would in the cost of its interest-bearing liabilities, thus producing an increase in its net interest income. At September 30, 2008, the Company had a negative one-year gap of 33.8%, as compared to a negative one-year gap of 33.0% at September 30, 2007.

The Company relies, in part, on external financing to fund its operations and the unavailability of such funds in the future could adversely impact its growth and prospects. The Company relies on deposits (primarily certificates of deposit), advances from the Federal Home Loan Bank of Seattle and other borrowings to fund its operations. Management has historically been able to replace maturing deposits if desired; however the Company may not be able to replace such funds at any given point in time if its financial condition or market conditions were to change.

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

The Company s ability to pay dividends is subject to regulatory and other limitations which may affect its ability to pay dividends to its shareholders. Washington Federal is a separate legal entity from its subsidiary, Washington Federal Savings, and does not have significant operations of its own. The availability of dividends from Washington Federal Savings is limited by various statutes and regulations. It is possible, depending upon the financial condition of Washington Federal Savings and other factors, that the OTS, Washington Federal Savings primary regulator, could assert that payment of dividends or other payments may result in an unsafe or unsound practice. In the event Washington Federal Savings is unable to pay dividends to the Company, the Company may not be able to pay dividends on its common stock. Consequently, the inability to receive dividends from Washington Federal Savings could adversely affect the Company s financial condition, results of operations and prospects. In addition, under the U.S Department of the Treasury (Treasury) Capital Purchase Program (CPP), the Company needs the Treasury s consent for any increase in dividends declared on its common stock. This restriction applies until the third anniversary of the issuance of the Company s Series A Preferred Stock, on November 14, 2008, to the Treasury, unless prior to that time the Company redeems the Series A Preferred Stock or the Treasury transfers it to a third party.

The Company s allowance for loan losses may not be adequate to cover actual losses. Like all financial institutions, the Company maintains an allowance for loan losses to provide for loan defaults and non-performance. The Company s allowance for loan losses may not be adequate to cover actual loan losses, and future provisions for loan losses could materially and adversely affect its operating results. The Company s allowance for loan losses is based on its historical loss experience as well as an evaluation of the risks associated with its loan portfolio, including but not limited to, the size and composition of the loan portfolio, current economic conditions and geographic concentrations within the portfolio.

The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, that may be beyond the Company s control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review the Company s loans and allowance for loan losses. While the Company believes that its allowance for loan losses is adequate to cover current losses, the Company cannot provide assurances that it will not need to increase its allowance for loan losses or that regulators will not require an increase in the allowance. Either of these occurrences could materially and adversely affect the Company s earnings and profitability.

The Company s business is subject to various lending and other economic risks that could adversely impact its operating results and financial condition. Further deterioration in economic conditions, particularly in the Pacific Northwest, could hurt our business. The Company s business is directly affected by political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in governmental monetary and fiscal policies and inflation, all of which are beyond its control. Investments in U.S. government sponsored entities, such as Fannie Mae and Freddie Mac, declined significantly in value, after the U.S Government placed both companies into conservatorship in September 2008, and may decline further based on economic, legislative or regulatory changes. A deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on the Company s business:

- Loan delinquencies may increase;
- Problem assets and foreclosures may increase;
- Demand for its products and services may decline;
- Collateral for loans made by us, especially real estate, may decline in value, in turn reducing a customer s borrowing power, and reducing the value of assets and collateral associated with its loans; and
- Investments in mortgage-backed securities may decline in value as a result of the diminution of the value of the underlying real estate collateral.

A downturn in the real estate market could hurt the Company s business. The Company s business activities and credit exposure are concentrated in real estate lending. During fiscal 2008, the market for residential housing has experienced dramatic declines, with falling home prices and increasing foreclosures. In recognition of the continued deterioration in the housing market and an expected increase in non-performing assets, the Company significantly increased its provision for loan losses in fiscal 2008. A downturn in the real estate market could hurt the Company s business because the vast majority of its loans are secured by real estate. If the significant decline in market values continues, the collateral for the Company s loans will provide less security. As a result, the Company s ability to recover the principal amount due on defaulted loans by selling the underlying real estate will be diminished, and the Company will be more likely to suffer losses on defaulted loans.

The Company may suffer losses in its loan portfolio despite its underwriting practices. The Company seeks to mitigate the risks inherent in its loan portfolio by adhering to specific underwriting practices. These practices often include analysis of a borrower s prior credit history, financial statements, tax returns and cash flow projections; valuation of collateral; and verification of liquid assets. Although the Company believes that its underwriting criteria are appropriate for the various kinds of loans it makes, it may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves in the allowance for loan losses.

The Company is subject to extensive regulation that could adversely affect its performance. The Company s operations are subject to extensive regulation by federal, state and local government authorities and are subject to various laws and judicial and administrative requirements and restrictions. The Company s business is highly regulated and the laws, rules and regulations applicable to it are subject to regular modification and change. There can be no assurance that there will be no laws,

rules or regulations adopted in the future which could make compliance more difficult or expensive, or otherwise adversely affect the Company s business, financial condition or prospects.

The Company faces strong competition from other financial institutions, offering services similar to those offered by it, which could hurt business. Many competitors offer the types of loans and deposit services that the Company offers. These competitors include other savings associations, community banks, credit unions and other financial intermediaries. In particular, the Company s competitors include national banks and major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Increased competition within the Company s market area may result in reduced loan originations and deposits. Ultimately, the Company may not be able to compete as successfully against current and future competitors.

Difficulties in combining the operations of acquired companies with Washington Federal s own operations may prevent it from achieving the expected benefits from its acquisitions. Washington Federal may not be able to fully realize the strategic and operating efficiencies in an acquisition. Inherent uncertainties exist in the operations of an acquired entity. Although the Company seeks merger or acquisition partners that are culturally similar and have experienced management, it is possible that Washington Federal may lose customers or key personnel of acquired entities as a result of an acquisition. In addition, the market conditions where Washington Federal and its potential acquisition targets operate are highly competitive. These factors could contribute to Washington Federal not achieving the expected benefits from its acquisitions within desired time frames, if at all.

Failure to successfully implement a new core operating system may adversely effect Washington Federal s business operations. Our future success will depend, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience, as well as to create additional efficiencies and provide improved security in our operations. In order to meet these needs, Washington Federal has begun implementing substantial changes to its core operating system. We may not be able to successfully implement the new core operating system or integrate the system with the operations of recently acquired institutions. In addition, we may incur significant increases in costs and encounter extensive delays in the implementation and rollout of our new operating system. Failure to effectively implement our new operating system may adversely affect Washington Federal s operations as well as customer perceptions.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

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

Location	Number of Offices	Building Owned	Building Leased (1)	Net Book Value at September 30, 2008 (2) (In thousands)
Washington	54	41	13	$ 83,735
Idaho	16	16		6,136
Oregon	28	17	11	8,627
Utah	10	6	4	2,707
Arizona	20	14	6	15,114
Texas	6	3	3	3,154
New Mexico	11	9	2	12,729
Nevada	3	0	3	1,155
Total	148	106	42	$ 133,357

(1) The leases have varying terms expiring from 2009 through 2070, including renewal options.

(2) Amount represents the net book value of all land, property and equipment owned by the Company and the book value of leasehold improvements, where applicable.

Washington Federal evaluates on a continuing basis the suitability and adequacy of its offices, both branches and administrative centers, and has opened, relocated, remodeled or closed them as necessary to maintain efficient and attractive premises.

Washington Federal s net investment in premises, equipment and leaseholds was $133.4 million at September 30, 2008.

Item 3. Legal Proceedings

The Company is involved in legal proceedings occurring in the ordinary course of business that in the aggregate are believed by management to be immaterial to the financial statements of the Company. The effects of legal proceedings did not have a material impact on the statements of operations for any of the three years ended September 30, 2008.

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

Not applicable.

PART II

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

The information required herein is incorporated by reference from page 41 of the Company s Annual Report to Stockholders for 2008 (Annual Report), which is included herein as Exhibit 13.

The Company s stock repurchase program was publicly announced by the board of directors on February 3, 1995 and has no expiration date. Under this program, a total of 21,956,264 shares of the Company s common stock have been authorized for repurchase. There were no repurchases of the Company s common stock made by or on behalf of the Company during the three months ended September 30, 2008.

Item 6. Selected Financial Data

The information required herein is incorporated by reference from page 12 of the Annual Report.

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

The information required herein is incorporated by reference on pages 5 through 11 of the Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required herein is incorporated by reference to Interest Rate Risk commencing on page 17 of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data required herein are incorporated by reference from pages 13 through 40 of the Annual Report.

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

Not applicable.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s President and Chief Executive Officer along with the Company s Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to the Securities Exchange Act of 1934 (Exchange Act) Rule 13a-15. Based upon that evaluation, the Company s President and Chief Executive Officer, along with the Company s Executive Vice President and Chief Financial Officer, concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

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

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

The annual Management s Report on Internal Control over Financial Reporting and the Attestation reports of the Company s Registered Public Accounting Firm required herein is incorporated by reference on pages 38 and 39 of the Annual Report.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required herein is incorporated by reference to pages 5 through 14 of the Proxy Statement dated December 12, 2008, for the Company s annual meeting of stockholders to be held on January 21, 2009 (Proxy Statement).

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

Item 11. Executive Compensation

The information required herein is incorporated by reference to pages 15 through 29 of the Proxy Statement.

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

The information required herein is incorporated by reference to pages 3 through 9 of the Proxy Statement.

The information required in this item 12 regarding equity compensation plans is incorporated by reference to Note L on pages 30 through 31 of the Annual Report.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required herein is incorporated by reference to page 30 of the Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required herein is incorporated by reference to page 31 of the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) The following financial statements are incorporated herein by reference from pages 13 through 39 of the Annual Report.

Reports of Independent Registered Public Accounting Firm

Consolidated Statements of Financial Condition as of September 30, 2008 and 2007

Consolidated Statements of Operations for each of the years in the three-year period ended September 30, 2008

Consolidated Statements of Stockholders Equity for each of the years in the three-year period ended September 30, 2008

Consolidated Statements of Cash Flows for each of the years in the three-year period ended September 30, 2008

Notes to Consolidated Financial Statements

(a)(2) There are no financial statement schedules filed herewith.

(a)(3) The following exhibits are filed as part of this report, and this list includes the Exhibit Index:

No.	Exhibit	Page/ Footnote
3.1	Restated Articles of Incorporation of the Company	(1)
3.1.1	Amended Article 3 of the Restated Articles of Incorporation of the Company	(2)
3.2	Bylaws of the Company	(1)
4	Specimen Common Stock Certificate	(1)
	The Company has certain debt obligations outstanding. None of the instruments evidencing such debt authorizes an amount of securities in excess of 10% of the total assets of the Company and its subsidiaries on a consolidated basis; therefore, copies of such instruments are not included as exhibits to this Annual Report on Form 10-K. The Company agrees to furnish copies to the SEC upon request.	
10.1	1982 Employee Stock Compensation Program*	(1)
10.2	1987 Stock Option and Stock Appreciation Rights Plan*	(1)
10.3	1994 Stock Option and Stock Appreciation Rights Plan*	(1)
10.4	2001 Long-Term Incentive Plan*	(3)
10.5	Form of award agreement for restricted stock for 2001 Long Term Incentive Plan *	(4)
10.6	Form of award agreement for stock options for all plans*	(4)
13	Annual Report to Stockholders	
21	Subsidiaries of the Company - Reference is made to Item 1, Business - Subsidiaries for the required information	
23	Consent of Independent Registered Public Accounting Firm	
31.1	Section 302 Certification by the Chief Executive Officer	
31.2	Section 302 Certification by the Chief Financial Officer	
32	Section 906 Certification pursuant to the Sarbanes-Oxley Act of 2002	

* Management contract or compensation plan

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

(2) Incorporated by reference from Registrant s 2007 Annual Report on Form 10-K filed on November 22, 2007

(3) Incorporated by reference from the Registrant s Registration Statement on Form S-8 filed with the SEC on January 23, 2002.

(4) Incorporated by reference from Registrant s 2006 Annual Report on Form 10-K filed on November 8, 2006.

(c) See (a)(3) above for all exhibits filed herewith and the Exhibit Index.

(d)

All schedules are omitted as the required information is not applicable or the information is presented in the Consolidated Financial Statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		WASHINGTON FEDERAL, INC.
November 26, 2008	By:	/s/ Roy M. Whitehead Roy M. Whitehead, Chairman, President and Chief Executive Officer

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

/s/ Roy M. Whitehead	November 26, 2008
Roy M. Whitehead, Director, Chairman,	
President and Chief Executive Officer	
(Principal Executive Officer)	
/s/ Brent J. Beardall	November 26, 2008
Brent J. Beardall, CPA	
Executive Vice President and Chief Financial Officer	
(Principal Financial and Accounting Officer)	
/s/ John F. Clearman	November 26, 2008
John F. Clearman, Director	
/s/ Derek L. Chinn	November 26, 2008
Derek L. Chinn, Director	
/s/ James J. Doud, Jr.	November 26, 2008
James J. Doud, Jr., Director	
/s/ H. Dennis Halvorson	November 26, 2008
H. Dennis Halvorson, Director	
/s/ Anna C. Johnson	November 26, 2008
Anna C. Johnson, Director	
/s/ Thomas J. Kelley	November 26, 2008

Thomas J. Kelley, Director

/s/ Thomas F. Kenney	November 26, 2008

Thomas F. Kenney, Director

/s/ Charles R. Richmond	November 26, 2008

Charles R. Richmond, Director

/s/ Barbara L. Smith	November 26, 2008

Barbara L. Smith, Director