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A SHORT HISTORY

Washington Federal, Inc. (Company) is a savings and loan holding company headquartered in Seattle, Washington. Its principal subsidiary is Washington Federal Savings (Association) which operates 111 branches in seven western states.

The Association had its origin on April 24, 1917 as Ballard Savings and Loan Association. In 1935, the statechartered Association converted to a federal charter, became a member of the Federal Home Loan Bank System and obtained federal insurance. In 1958, Ballard Federal Savings and Loan Association merged with Washington Federal Savings and Loan Association of Bothell, and the latter name was retained for its wider geographic acceptance. In 1971, Seattle Federal Savings and Loan Association, then with three offices, was merged into the Association, and at the end of 1978, was joined by the 10 offices of First Federal Savings and Loan Association of Mount Vernon.

On November 17, 1982, the Association converted from a federal mutual to a federal stock association. In 1987 and 1988, acquisitions of United First Federal, Provident Federal Savings and Loan, and Northwest Federal Savings and Loan, all headquartered in Boise, Idaho, added 28 Idaho offices to the Association. In 1988, the acquisition of Freedom Federal Savings and Loan Association in Corvallis, Oregon, added 13 Oregon offices, followed in 1990 by the eight Oregon offices of Family Federal Savings Association.

In 1991, the acquisition of First Federal Savings and Loan Association of Idaho Falls, Idaho, added three branches to our system. That same year, we acquired the deposits of First Western Savings Association of Las Vegas, Nevada, doing business in Portland and Eugene, Oregon, as Metropolitan Savings Association. In 1992, we changed the name of all our Oregon division branches from Freedom Federal Savings to Washington Federal Savings and shortened our original corporate name to Washington Federal Savings. In 1993, the Association completed its purchase of First Federal Savings Bank of Salt Lake City, Utah, which provided 10 branches in the state. Then, during 1994, we expanded into Arizona and began operating five branch offices in Tucson. In 1995, the stockholders voted to approve a reorganization whereby Washington Federal Savings became a whollyowned subsidiary of a newly formed holding company, Washington Federal, Inc. The Company purchased West Coast Mutual Savings Bank which included its one branch office in Centralia, Washington. Also during the year, we sold our Burley, Idaho branch office and opened three new offices in Washington, two more in Tucson, Arizona, and one each in Oregon and Utah. In 1996, we opened one new

office in Oregon, one in Washington, and three in Phoenix, Arizona. In November 1996, we purchased Metropolitan Bancorp of Seattle, Washington, which added eight branches in the Puget Sound region. In 1997, we opened three new offices, one each in: Portland, Oregon; Tucson, Arizona; and Phoenix, Arizona. We also closed one of our offices in Idaho Falls. Idaho, consolidating the deposits into our main Idaho Falls office. In 1998, we opened two new branches in Phoenix, Arizona, and one in Portland, Oregon. We also consolidated two Tucson, Arizona offices into one. In 1999, we consolidated two offices into one in Salt Lake City, Utah, and opened a new office in Riverton, Utah. We also opened one new office in Phoenix, Arizona. In 2000, we consolidated two offices into one in Boise, Idaho, sold our Mountain Home branch, and opened one new branch each in Phoenix and Tucson, Arizona. We also opened our first branch in Las Vegas, Nevada.

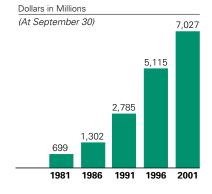
In 2001, we opened two new branches in Mesa and Gilbert, Arizona. We also opened our first branch in the Park Cities area of Dallas, Texas.

The Association obtains its funds primarily through savings deposits from the general public, from repayments of loans and from borrowings and retained earnings. These funds are used largely to make first lien loans to borrowers for the purchase of new and existing homes, the acquisition and development of land for residential lots, the construction of homes, the financing of other real estate, and for investment in obligations of the U.S. government, its agencies and municipalities. The Association also has a wholly-owned subsidiary, First Insurance Agency, Inc., which provides general insurance to the public.

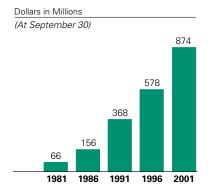
FINANCIAL HIGHLIGHTS

September 30,	2001	2000	% Change	
	(In thousands, except per share da			
Assets	\$7,026,743	\$6,719,841	+ 5%	
Investment securities	145,724	142,992	+ 2	
Loans receivable and securitized assets subject to repurchase	5,388,105	4,949,235	+ 9	
Mortgage-backed securities	1,182,204	1,328,105	- 11	
Customer accounts	4,316,692	3,465,270	+ 25	
Federal Home Loan Bank advances and other borrowings	1,667,500	2,363,509	- 29	
Stockholders' equity	874,009	759,165	+ 15	
Net income	113,614	105,679	+ 8	
Diluted earnings per share	1.95	1.82	+ 7	
Dividends per share	0.94	0.89	+ 6	
Stockholders' equity per share	15.11	13.24	+ 14	
Shares outstanding	57,862	57,333	+ 1	
Return on average stockholders' equity	14.59%	14.27%	+ 2	
Return on average assets	1.65	1.65	_	

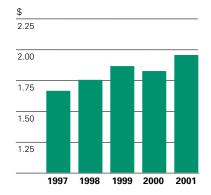
TOTAL ASSETS



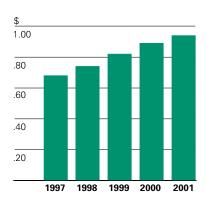
STOCKHOLDERS' EQUITY



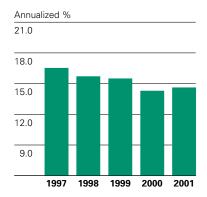
NET INCOME PER DILUTED SHARE



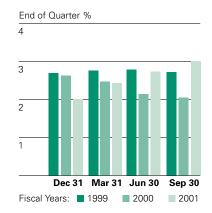
CASH DIVIDENDS PER SHARE



RETURN ON AVERAGE EQUITY



INTEREST RATE SPREADS



TO OUR STOCKHOLDERS

It is a privilege to report to you that your Company was once again able to achieve outstanding results during the past fiscal year. After beginning the year with the narrowest net interest spread in our history as a public company, we were able to take full advantage of the lower short-term rates that the Federal Reserve began targeting in January. Thereafter, our net interest spread improved continually to a six-year high of 3.09% at year-end, enabling the Company to achieve earnings growth in each successive quarter. Net income for the year measured \$113,614,000, an increase of 8% over the \$105,679,000 reported last year. Earnings per share increased for the 17th time in 19 years to a record \$1.95, up from \$1.82 in the prior year, a 7% improvement. The fiscal year produced a return on average assets of 1.65% and a return on equity of 14.59%.

While we rarely measure success at Washington Federal by anything other than profitability, it is interesting to note that for the first time in our history, total assets exceeded \$7 billion at year-end. Most of this growth can be attributed to an 8.9% increase in loans, the result of excellent new loan production totaling \$1.74 billion. Permanent single-family mortgage loans, the safest loans that we or any other financial institution place on the balance sheet, represent the majority of new loan originations. Three out of four of these loans were extended for the purpose of purchasing or constructing a home, with refinances totaling only one-fourth of new mortgage loan production, a much lower percentage than the industry as a whole. Due to the slowing economy, land and construction loans outstanding actually declined during the fiscal year. This is a testament not only to the disciplined credit culture we maintain, but also to the experience and conservatism of the homebuilders and developers to which we lend. Finally, we continued to expand our multi-family lending program. That portfolio increased by 36% to \$392 million during the year and is the fastest growing part of our business. Asset quality overall remained high. Loan delinquencies, non-performing assets and charge-offs continue to rank among the best in the industry and we believe that the Company is well positioned to absorb any losses inherent in the portfolio.

In your review of the accompanying financial statements, you will notice that during the year, we completed the securitization of over 13,000 single-family mortgage loans, which were reclassified on the balance sheet as Securitized Assets Subject to Repurchase. This transaction resulted in no additional credit risk to the Company, as repayment still relies upon the underlying mortgage loans; however, it does create important financial benefits that will improve profitability in future periods.

A particularly encouraging event in 2001 was the dramatic increase in customer deposit accounts. Seeking safety and predictable returns, consumers in our market territory responded to an aggressive marketing program, which resulted in \$851 million in additional deposits, nearly a 25% increase over the prior year-end. The growth in deposits allowed us to reduce borrowed funds and provides the Company a great deal of flexibility in managing interest rate risk and funding future asset growth.

As always, expense control and capital management continued to be important areas of management attention. The Company's industry-leading efficiency ratio improved to 18.9% for the year and our operating expense ratio improved to .71% of assets. Higher profitability and an increase in the value of our mark-to-market assets enabled the Company's capital to assets ratio to increase to a very strong 12.44%, which is approximately double the industry average. This increase came after the payout of \$54 million in cash dividends. In January, a 10% stock dividend was also declared, marking the 16th time that a stock split or stock dividend has been declared in the past 19 years.

Geographic expansion also continued during the year. In Phoenix, we added two new offices and the Company entered the Texas market with its first branch, located in the Park Cities area of Dallas. Two additional offices are under construction in the Phoenix market and one in the Lake Oswego area of Portland. In Las Vegas, the Summerlin branch finished its first year as the fastest growing office in our history. A second Nevada office located in the Henderson area will open this fall and we believe that it will be equally successful. We will, of course, continue to review expansion opportunities in each of our current markets.

We also commenced conversion to a new branch platform system in order to maintain the high quality of customer service for which we are known. We were actually quite happy with the old system, which had been in place for 20 years; however, it had become nearly impossible to find parts for the old hardware! I am also pleased to report that the Company's emergency planning and preparedness allowed business to continue uninterrupted during the major earthquake in the Puget Sound area of Washington and in the wake of the September 11th terrorist attacks on the East Coast.

Importantly, the Company continued to implement the designed transition of its senior management team during the year. As planned and after 33 years in the job, Executive Vice President Chuck Richmond transferred many of his day-to-day responsibilities and the Chief Lending Officer role to Jack Jacobson in January 2001. Jack's promotion came after a number of years managing corporate real estate, multi-family lending and special assets at Washington Federal. We are very fortunate to have someone of his talent and dedication to step forward in this critical role and I look forward to working with him on the Management Committee for many years to come. We are equally delighted that Chuck, like

Chairman and former CEO Guy Pinkerton, continues to devote as much time as we ask of him to the Company.

In July 2001 Bill Cassells, Executive Vice President and another long-standing member of the Management Committee, retired after 24 years with Washington Federal. Bill's professional oversight of our information technology platform was a primary driver of the Company's efficiency over the years. Bill brought a calming presence, ready wisdom and frugal practicality to the Management Committee that will be difficult to replace. We wish him all the best in a well-earned retirement.

Finally, I wish to advise you that Richard (Dick) Reed will retire from the Board effective January 1, 2002 and assume Emeritus status after many years of dedicated service. Dick's intellect always served to enliv-



(Standing - left to right) Ronald L. Saper, Executive Vice President and Chief Financial Officer, Jack B. Jacobson, Executive Vice President and Chief Lending Officer, Edwin C. Hedlund, Executive Vice President and Secretary. (Seated) Roy M. Whitehead, President and Chief Executive Officer.

en board discussions and we will miss his articulate presence and broad knowledge of the Company and its history. The directors and management of Washington Federal wish to express their sincere appreciation for his valuable counsel as a director over the past 35 years.

Each year seems to present its challenges, and this new fiscal year is no exception. Near-term, the impact of a weakening economy on the housing industry and consumer saving habits is of primary concern. I wish to remind you that our conservative operating model has historically allowed us to prosper even in periods of uncertainty and we believe that will be the case during this downturn as well. Longer term, perhaps the biggest challenge facing Washington Federal as a local market, portfolio housing lender is the continued encroachment on our traditional markets by U.S. government-sponsored enterprises such as Fannie Mae and Freddie Mac. Even the Federal Home Loan Banks have entered the market through their direct purchase program and Ginnie Mae is seeking broadened powers as well. These entities enjoy the advantages of a government funding subsidy, lower capital requirements and few regulatory constraints. It seems likely that at some point the sheer magnitude of their debt obligations will require Congress to reconsider the soundness of this model. Regardless, we believe that our strong capital position, hallmark efficiency, dedication to asset quality and local market presence will allow us to continue our long history of high performance.

In closing, I wish to thank the stockholders for their support during the past year. I am also grateful to the Board and to my predecessor, Chairman Guy Pinkerton, for his patient mentoring. Finally, I wish to thank the Management Committee and all my fellow employees for the dedicated effort that led to the excellent results posted this past year.

I hope to see you at the Annual Stockholder's Meeting on January 23, 2002, at 2:00 p.m. at the Sheraton Hotel in Seattle.

Sincerely,

Roy M. Whitehead

President and Chief Executive Officer

m. Whitehead

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

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

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 which are longer-term than the short-term characteristics of its liabilities of customer accounts and borrowed money. At September 30, 2001, the Company had approximately \$2,500,000,000 more liabilities subject to repricing in the next year than assets subject to repricing, which amounted to a negative maturity gap of 36% of total assets. The Company's interest rate risk approach has never resulted in the recording of a monthly operating loss.

The Company experienced a significant increase in interest rate spreads in fiscal 2001. Spreads increased during the year as the Federal Reserve lowered short-term interest rates from 6.50% in January 2001 to 3.00% in September 2001. The year closed with a 3.09% interest rate spread, up from 2.04% at the beginning of the year. During this phase of the interest rate cycle, the Company chose to increase its assets. To fund the increase in assets the Company grew customer deposits by 24.6% in the year to an equivalent of 61.4% of total assets at September 30, 2001 compared to 51.6% of total assets at September 30, 2000. This growth in deposits allowed the Company to decrease its Federal Home Loan Bank (FHLB) advances and other borrowed money to an equivalent of 23.7% of total assets at September 30, 2001 compared to 35.2% at September 30, 2000.

ASSET QUALITY

The Company maintains an allowance 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. In analyzing the existing loan portfolio, the Company applies specific loss percentage factors to the different loan types. The loss percentages are 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 and current economic conditions.

Income property loans, builder construction loans and certain other loans are reviewed on an individual basis. They are reviewed to assess the ability of the borrowers to continue to service all of their principal and interest obligations. If the loans show signs of weakness, they will be downgraded, and if warranted, placed on non-accrual status. The Company has an Asset Quality Review Committee that reports the results of its internal reviews to the Board of Directors on a quarterly basis.

Non-performing assets increased slightly to \$33,800,000 or .48% of total assets at September 30, 2001 compared to \$31,400,000 or .47% of total assets at September 30, 2000. Total delinquencies over 30 days were \$49,400,000 or .70% of total assets at September 30, 2001 compared to \$36,100,000 or .54% of total assets at September 30, 2000. The aforementioned asset quality indicators, when compared to others in the industry, demonstrate the continued quality of the loan portfolio and reflect the Company's high underwriting standards.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net worth at September 30, 2001 was \$874,009,000 or 12.4% of total assets. This is an increase of \$114,844,000 from September 30, 2000 when net worth was \$759,165,000 or 11.3% of total assets. This increase is attributable to higher profitability and an increase in the fair value of the available for sale securities. The ratio of net worth to total assets remains at a high level despite the distribution of 47.5% of earnings in the form of cash dividends.

The Company's net worth increased due in part to net income of \$113,614,000, proceeds received from the exercise of common stock options and purchases by the Employee Stock Ownership Plan of \$6,122,000 and appreciation in the valuation reserve for available-for-sale securities of \$48,000,000. Net worth was reduced by \$54,011,000 as a result of cash dividends paid.

Washington Federal's percentage of net worth to total assets is among the highest in the nation and is approximately three times the minimum required under Office of Thrift Supervision (OTS) regulations (see Note O). Management believes this strong net worth position will help protect the Company against interest rate risk and will enable it to compete more effectively.

Customer accounts increased \$851,422,000 or 24.6% from a year ago, largely due to our strategy of building deposits in a decreasing interest rate environment through competitive pricing.

The Company's cash and investment securities amounted to \$176,055,000 at September 30, 2001, a slight increase from \$171,278,000 a year ago. Few investment securities matured during the year and the Company continued to emphasize origination of higher yielding loans.

CHANGES IN FINANCIAL POSITION

Available-for-sale and held-to-maturity securities. The Company purchased \$89,882,000 of mortgage-backed and investment securities, all of which have been categorized as available-for-sale.

The Company had \$50,282,000 in sales of securities resulting in net realized gains of \$3,235,000. All sales were mortgage-backed securities which were categorized as available-for-sale. As of September 30, 2001, the Company had unrealized gains in its available-for-sale portfolio of \$51,000,000, net of tax, which are recorded as part of stockholders' equity.

In March, the Company completed the securitization of over 13,000 residential mortgage loans into a real estate mortgage investment conduit (REMIC). The Company is currently the holder of all of the securities issued by the REMIC. The result of this transaction was a transfer of securitized loans and related capitalized costs, deferred loan fees and allowance for loan losses into a new line item on the balance sheet-securitized assets subject to repurchase, which continues to be accounted for in a manner similar to residential mortgage loans.

Loans receivable and securitized assets subject to repurchase. Loans receivable and securitized assets subject to repurchase increased 8.9% during fiscal 2001 to \$5,388,105,000 at September 30, 2001 from \$4,949,235,000 a year earlier. The loans receivable balance increased substantially due to a near-record level of loan originations

totaling \$1,744,216,000, a 14.6% increase from a year ago. This level of loan origination reflects the favorable interest rate environment available during the year.

Real estate held for sale. The balance at September 30, 2001 was \$16,778,000, a slight decrease from \$17,416,000 reported one year ago.

FHLB stock. FHLB stock amounted to \$124,361,000 at September 30, 2001 compared with \$116,314,000 one year ago as the Company received \$8,047,000 in stock dividends during the year.

Costs in excess of net assets acquired. As of September 30, 2001, costs in excess of net assets acquired totaled \$35,703,000. The Company periodically monitors these assets for potential impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." As of September 30, 2001, there was no impairment of costs in excess of net assets acquired. The Company will provide for any diminution in value of these assets should an impairment be identified. As discussed in Note Q, effective October 1, 2001, new accounting rules will no longer require the periodic amortization of the Company's intangible assets. During fiscal 2001, \$5,614,000 of costs in excess of net assets acquired were amortized.

Customer accounts. Customer accounts at September 30, 2001 totaled \$4,316,692,000 compared with \$3,465,270,000 at September 30, 2000, a 24.6% increase. See "Liquidity and Capital Resources" above. **FHLB advances and other borrowings.** Total borrowings decreased 29.4% to \$1,667,500,000. See "Interest Rate Risk" above.

RESULTS OF OPERATIONS

GENERAL

Fiscal 2001 net income increased 8% from fiscal 2000. See Note S, "Selected Quarterly Financial Data (Unaudited)" which highlights the quarter-by-quarter results for the years ended September 30, 2001 and 2000.

	Dec 31 1999	Mar 31 2000	Jun 30 2000	Sep 30 2000	Dec 31 2000	Mar 31 2001	Jun 30 2001	Sep 30 2001
Interest rate on loans and mortgage-backed securities*	7.70%	7.76%	7.86%	7.90%	7.91%	7.80%	7.67%	7.61%
Interest rate on investment securities**	8.11	7.83	7.83	7.82	7.81	7.79	8.01	7.79
Combined	7.72	7.76	7.86	7.90	7.91	7.80	7.68	7.62
Interest rate on customer accounts	4.84	4.95	5.32	5.57	5.67	5.47	5.08	4.31
Interest rate on borrowings	5.56	5.85	6.30	6.29	6.26	5.21	4.71	5.09
Combined	5.10	5.29	5.72	5.86	5.91	5.37	4.95	4.53
Interest rate spread	2.62%	2.47%	2.14%	2.04%	2.00%	2.43%	2.73%	3.09%

^{*}Includes securitized assets subject to repurchase.

The interest rate spread increased during fiscal 2001 from 2.04% at September 30, 2000 to 3.09% at September 30, 2001.

COMPARISON OF FISCAL 2001 RESULTS WITH FISCAL 2000

Net interest income increased \$17,774,000 (8.9%) in fiscal 2001 over fiscal 2000 largely due to the Federal Reserve's 350 basis point decrease of short-term interest rates between January and September 2001. Interest on loans and mortgage-backed securities increased \$37,895,000 (7.9%) in fiscal 2001 from 2000. The increase is largely a result of the increase in earning asset volumes as the Company originated \$1,744,216,000 in loans; offsetting loan repayments and payoffs of \$1,320,634,000. Average interest rates on loans and mortgage-backed securities decreased to 7.61% from 7.90% one year ago.

Interest and dividends on investment securities increased \$488,000 (2.8%) in fiscal 2001 from fiscal 2000. The weighted average yield declined to 7.79% at September 30, 2001 compared with 7.82% at September 30, 2000. The combined investment securities and FHLB stock portfolio increased 4.2% to \$270,085,000 at September 30, 2001 versus \$259,306,000 one year ago.

Interest on customer accounts increased 12.7% to \$194,710,000 for fiscal 2001 from \$172,735,000 for fiscal 2000. The increase related to an increase in customer accounts to \$4,316,692,000 from \$3,465,270,000 the prior year, offset by decrease in the average cost of customer accounts to 4.31% at year end compared to 5.57% one year ago.

Interest on FHLB advances and other borrowings decreased slightly to \$125,410,000 in fiscal 2001, from \$126,776,000 in fiscal 2000. This slight decrease was partially due to a decrease in the average rates paid to 5.09% for the year ended September 30, 2001 compared to 6.29% for the year ended September 30, 2000. This decrease in average rates was offset by an increase in average borrowings to \$2,264,001,000 in fiscal 2001 from \$2,115,423,000 in fiscal 2000.

^{**}Includes municipal bonds at tax-equivalent rates.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The provision for loan losses was \$1,850,000 for fiscal 2001 compared to none in fiscal 2000. This increase reflects the amount required to maintain the allowance for losses at an appropriate level based upon management's evaluation of the adequacy of the allowance and an increase in actual charge-offs experienced. However, non-performing assets remained low at \$33,758,000 or .48% of total assets at September 30, 2001 compared with \$31,393,000 or .47% of total assets at September 30, 2000. Management continued to maintain the allowance for loan losses at current levels which, at \$19,683,000 or 58% of non-performing assets, is within an acceptable range of estimated losses inherent in the portfolio.

Total other income decreased \$641,000 (6.2%) in fiscal 2001 from fiscal 2000. Net gains on the sale of available-for-sale securities totaled \$3,235,000 in fiscal 2001 compared to \$4,058,000 in fiscal 2000. Other income increased \$182,000 over fiscal 2000 due to increased transactional revenue.

Other expense increased \$2,467,000 (5.3%) in fiscal 2001 over fiscal 2000. This increase is primarily attributed to increased compensation expense resulting from a bonus paid to all employees based on improved operating results. Personnel, including part-time employees considered on a full-time equivalent basis, increased to 714 at September 30, 2001 compared to 676 staff at September 30, 2000. The branch network increased to 111 offices at September 30, 2001 versus 108 offices one year ago. Other expense for fiscal 2001 equaled .71% of average assets compared with .73% in fiscal 2000.

Income taxes increased \$4,350,000 (7.6%) in fiscal 2001. The effective tax rate was 35.25% for both fiscal 2001 and 2000.

COMPARISON OF FISCAL 2000 RESULTS WITH FISCAL 1999

Net interest income decreased \$12,571,000 (6%) in fiscal 2000 over fiscal 1999 largely due to increases in short- term interest rates which the Federal Reserve raised 175 basis points between June 1999 and May 2000. Interest on loans and mortgage-backed securities increased \$44,328,000 (10%) in fiscal 2000 from 1999. The increase is largely a result of the increase in earning asset volumes as the Company originated \$1,522,290,000 in loans with refinance activity slowing dramatically from the prior year when the Company originated a record \$1,769,612,000 in loans. Average interest rates on loans and mortgage-backed securities increased to 7.90% from 7.66% in the prior year.

Interest and dividends on investment securities decreased \$1,878,000 (10%) in fiscal 2000 from fiscal 1999. The weighted average yield declined to 7.82% at September 30, 2000 compared with 8.03% at September 30, 1999. The combined investment securities and FHLB stock portfolio increased slightly to \$259,306,000 at September 30, 2000 versus \$250,597,000 one year before.

Interest on customer accounts increased 8% to \$172,735,000 for fiscal 2000 from \$159,942,000 for fiscal 1999. The increase related to an increase in customer accounts to \$3,465,270,000 from \$3,379,502,000 the prior year, as well as the average cost of customer accounts which increased to 5.57% at year end compared to 4.71% one year ago.

Interest on FHLB advances and other borrowings increased \$42,228,000 (50%) in fiscal 2000 over fiscal 1999. This increase was partially due to an increase in average borrowings from \$1,578,352,000 to \$2,115,423,000. The average rates paid increased to 6.29% at September 30, 2000 versus 5.40% at September 30, 1999.

The provision for loan losses was not necessary during fiscal 2000 compared to \$684,000 in fiscal 1999 reflecting management's historical conservative lending philosophy. Non-performing assets remained low at \$31,393,000 or .47% of total assets at September 30, 2000 compared with \$21,300,000 or .35% of total assets at September 30, 1999. Management continued to maintain the allowance for loan losses at levels which, at \$20,831,000 or 66% of non-performing assets, was within an acceptable range of estimated losses, yet conservative compared with others in the industry. The lack of provision is reflective of the excellent economic conditions within the Company's marketplace during fiscal 2000.

Other income decreased \$2,288,000 (18%) in fiscal 2000 from fiscal 1999. Net gains on the sale of available-for-sale securities totaled \$4,058,000 in fiscal 2000 compared to \$2,747,000 in fiscal 1999. Other income included several non-recurring transactions in fiscal 1999, the largest of which provided the Company \$2,223,000 of pre-tax income during the year.

Other expense increased \$545,000 (1%) in fiscal 2000 over fiscal 1999. This minimal increase resulted from general inflationary increases offset by lower deposit insurance premiums which declined \$823,000, as well as a reduction in staff through attrition. Personnel, including part-time employees considered on a full-time equivalent basis, declined to 676 at September 30, 2000 compared to 700 staff at September 30, 1999. The branch network increased to 108 offices at September 30, 2000 versus 107 offices one year before. Other expense for fiscal 2000 equaled .73% of average assets compared with .80% in fiscal 1999.

Income taxes decreased \$5,295,000 (8%) in fiscal 2000. The effective tax rate was 35.25% for fiscal 2000 compared with 35.50% for fiscal 1999.

IMPACT OF INFLATION AND CHANGING PRICES The Consolidated Financial Statements and related Notes presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require, to a large extent, the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Unlike many industrial companies, substantially all of the assets and virtually all of the liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

SELECTED FINANCIAL DATA

Year ended September 30,	2001	2000	1999	1998	1997			
		(In thousands, except per share data)						
Interest income	\$536,410	\$498,027	\$455,577	\$460,604	\$459,007			
Interest expense	320,120	299,511	244,490	252,233	257,447			
Net interest income	216,290	198,516	211,087	208,371	201,560			
Provision for loan losses	1,850	_	684	740	813			
Other income	9,736	10,377	12,665	11,032	5,077			
Other expense	48,712	45,714	45,987	44,878	42,486			
Income before income taxes	175,464	163,179	177,081	173,785	163,338			
Income taxes	61,850	57,500	62,795	61,949	58,288			
Net income	\$113,614	\$105,679	\$114,286	\$111,836	\$105,050			
Per share data								
Basic earnings per share	\$ 1.97	\$ 1.83	\$ 1.87	\$ 1.76	\$ 1.68			
Diluted earnings per share	1.95	1.82	1.86	1.75	1.66			
Cash dividends	0.94	0.89	0.82	0.75	0.67			
September 30,	2001	2000	1999	1998	1997			
· · · · · · · · · · · · · · · · · · ·			(In thousands)				
Total assets	\$7,026,743	\$6,719,841	\$6,163,503	\$5,637,011	\$5,719,589			
Loans and mortgage-backed securities*	6,570,309	6,277,340	5,731,644	5,119,571	5,137,905			
Investment securities	145,724	142,992	141,753	234,013	289,750			
Customer accounts	4,316,692	3,465,270	3,379,502	3,156,202	2,978,031			
FHLB advances	1,637,500	1,209,000	1,454,000	1,356,500	1,601,000			
Other borrowings	30,000	1,154,509	454,257	221,819	303,544			
Stockholders' equity	874,009	759,165	750,023	767,172	717,745			
Number of								
Customer accounts	211,570	191,343	189,419	184,832	180,957			
Mortgage loans	42,032	41,741	40,104	40,615	41,820			
Offices	111	108	107	106	104			

^{*}Includes securitized assets subject to repurchase

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 30,	2001	2000
	(In thousands, except	per share data)
ASSETS		
Cash	\$ 30,331	\$ 28,286
Available-for-sale securities, amortized cost \$1,002,496 and \$1,173,463	1,079,896	1,178,464
Held-to-maturity securities, fair value \$259,937 and \$292,264	248,032	292,633
Securitized assets subject to repurchase, net	1,180,336	
Loans receivable, net	4,207,769	4,949,235
Interest receivable	48,280	40,700
Premises and equipment, net	54,242	50,487
Real estate held for sale	16,778	17,416
FHLB stock	124,361	116,314
Costs in excess of net assets acquired	35,703 1,015	41,577 4,729
Other assets		
	<u>\$7,026,743</u>	\$6,719,841
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Savings and demand accounts	\$4,251,113	\$3,375,036
Repurchase agreements with customers	65,579	90,234
	4,316,692	3,465,270
FHLB advances	1,637,500	1,209,000
Other borrowings, primarily securities sold under agreements to repurchase	30,000	1,154,509
Advance payments by borrowers for taxes and insurance	23,196	29,093
Federal and state income taxes, including net deferred liabilities of \$79,208 and \$49,999	94,118	53,012
Accrued expenses and other liabilities	51,228	49,792
	6,152,734	5,960,676
Stockholders' equity		
Common stock, \$1.00 par value, 100,000,000 shares authorized, 69,006,173 and 68,525,260		
shares issued; 57,861,561 and 57,333,025 shares outstanding	69,006	62,296
Paid-in capital	893,633	785,745
Accumulated other comprehensive income, net of tax	51,000	3,000
Treasury stock, at cost; 11,144,612 and 11,192,235 shares	(189,212)	(190,018)
Retained earnings	49,582	98,142
	874,009	759,165
	\$7,026,743	\$6,719,841

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended September 30,	2001	2000	1999
	(In thous	sands, except per s	hare data)
INTEREST INCOME			
Loans and securitized assets subject to repurchase	\$428,532	\$384,851	\$353,930
Mortgage-backed securities	89,952	95,738	82,331
Investment securities	17,926	17,438	19,316
INTEREST EXPENSE	536,410	498,027	455,577
_			4.50.04.5
Customer accounts	194,710	172,735	159,942
FHLB advances and other borrowings	125,410	126,776	84,548
	320,120	299,511	244,490
Net interest income	216,290	198,516	211,087
Provision for loan losses	1,850		684
Net interest income after provision for loan losses	214,440	198,516	210,403
OTHER INCOME			
Gain on sale of mortgage-backed securities, net	3,235	4,058	2,747
Other	6,501	6,319	9,918
	9,736	10,377	12,665
OTHER EXPENSE	•	,	,
Compensation and fringe benefits	28,283	26,739	26,485
Amortization of intangibles	5,875	6,006	6,056
Occupancy expense	4,497	4,096	4,001
Other	10,458	9,805	9,559
	49,113	46,646	46,101
Gain on real estate acquired through foreclosure, net	401	932	114
Income before income taxes	175,464	163,179	177,081
Current	58,641	59,045	75,507
Deferred	3,209	(1,545)	(12,712)
	61,850	57,500	62,795
NET INCOME	\$113,614	\$105,679	\$114,286
PER SHARE DATA			
Basic earnings per share	\$ 1.97	\$ 1.83	\$ 1.87
Diluted earnings per share	1.95	1.82	1.86
Cash dividends	0.94	0.89	0.82
Weighted average number of shares outstanding, including dilutive stock options	58,232,659	58,206,825	61,387,456
morading and the ottor options	30,232,037	50,200,025	01,001,100

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

				Accumulate Other	ed	
	Common Stock	Paid-in Capital	Retained Earnings		ive Treasury Stock	Total
Balance at October 1, 1998	\$56,424	\$714,700	(In the \$ 53,269	susands) \$ 35,000	\$ (92,221)	\$767,172
distributed February 26, 1999	5,643	68,617	(74,360)			(100)
Net income Other comprehensive income, net of tax:			114,286			114,286
Unrealized losses on securities Reclassification adjustment for				(28,228)		(28,228)
gains on securities sold				(1,772)		(1,772)
Total comprehensive income Dividends			(49,209)			84,286 (49,209)
Proceeds from exercise of			(, , ,			
common stock options	125	1,427				1,552
Stock Ownership Plan		287			973	1,260
Treasury stock					(54,938)	(54,938)
Balance at September 30, 1999	62,192	785,031	43,986	5,000	(146,186)	750,023
Comprehensive income: Net income Other comprehensive income, net of tax:			105,679			105,679
Unrealized gains on securities Reclassification adjustment for				628		628
gains on securities sold				(2,628)		(2,628)
Total comprehensive income Dividends			(51,310)			103,679 (51,310)
common stock options	92	1,117				1,209
Stock Ownership Plan	12	(604)	(212)		4,653	4,049
Restricted stock issuance	12	201	(213)		(48,485)	(48,485)
Balance at September 30, 2000	62,296	785,745	98,142	3,000	(190,018)	759,165
Eleven-for-ten stock split						
distributed February 23, 2001	6,247	101,767	(108,105)			(91)
Comprehensive income: Net income			113,614			113,614
Other comprehensive income, net of tax:				FO 00F		50.005
Unrealized gains on securities Reclassification adjustment for				50,095		50,095
gains on securities sold				(2,095)		$\frac{(2,095)}{161,614}$
Dividends			(54,011)			(54,011)
Proceeds from exercise of common stock options	459	5,663				6,122
Proceeds from Employee Stock Ownership Plan		346			806	1,152
Restricted stock issuance	4	112	(58)			58
Balance at September 30, 2001	\$69,006	\$893,633	\$ 49,582	\$51,000	\$(189,212)	\$874,009

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended September 30,	2001			2000		1999
CASH FLOWS FROM OPERATING ACTIVITIES			(In t	housands)		
Net income	\$ 113,61	14	\$	105,679	\$	114,286
Amortization of fees, discounts, and premiums, net	(14 5,87			(4,933) 6,006		(8,855) 6,056
Depreciation	2,99			2,337		2,263
Gain on investment securities and real estate held for sale	(3,63	36)		(4,990)		(2,861)
Increase in accrued interest receivable	(7,58			(4,179)		(1,346)
Increase in income taxes payable	15,10			1,508		142
Decrease in other assets	(8,04 3,71			(7,470) 603		(7,794) 5,334
Increase in accrued expenses and other liabilities	1,43			2,682		993
Net cash provided by operating activities	123,33	34		97,243		108,218
CASH FLOWS FROM INVESTING ACTIVITIES						
Loans and contracts originated						
Loans on existing property	(1,157,27)			(923,290)	(1,058,403)
Construction loans	(369,80			(451,582)		(425,190)
Land loans	(130,16 (86,96			(118,947) (28,471)		(121,853) (164,166)
	(1,744,2)	16)	(1	,522,290)	(1,769,612)
Savings account loans originated	(3,34			(3,004)		(4,420)
Loan principal repayments	1,320,63			961,634		1,481,097
Increase (decrease) in undisbursed loans in process	(29,50			(17,087) (1,630)		48,862
Loans purchased	(2,8 ² (89,88			(1,030)		(1,138) (765,963)
Principal payments and maturities of available-for-sale securities	216,99			132,608		297,809
Available-for-sale securities sold	50,28			12,442		22,726
Held-to-maturity securities purchased		_		(4,010)		
Principal payments and maturities of held-to-maturity securities	45,32 19,26			36,540 14,335		122,621 13,435
Premises and equipment purchased, net	(6,75			(2,714)		(3,491)
Net cash used by investing activities	(224,03			(543,463)		(558,074)
CASH FLOWS FROM FINANCING ACTIVITIES		, ,		(3 10,100)		(330,011)
Net increase in customer accounts	851,42	22		85,768		223,300
Net increase (decrease) in short-term borrowings	(1,646,00)9)		455,252		329,938
Proceeds from long-term borrowings	950,00					
Proceeds from exercise of common stock options	6,12			1,209 (51,310)		1,552 (49,209)
Dividends paid	(54,04 1,15			4,049		1,260
Treasury stock purchased, net	1,1	_		(48,485)		(54,938)
Increase (decrease) in advance payments by borrowers for taxes and insurance	(5,89	97)		2,986		775
Net cash provided by financing activities	102,74	46		449,469		452,678
Increase in cash	2,0 ² 28,28			3,249 25,037		2,822 22,215
Cash at end of year	\$ 30,33	31	\$	28,286	\$	25,037
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	NT					
Non-cash investing activities	. 4					
Real estate acquired through foreclosure	\$ 18,22	29	\$	14,140	\$	13,807
Non-cash operating activities				, .		,
Assets securitized, subject to repurchase, net	1,388,19	97		_		_
Interest	322,93			295,129		245,987
Income taxes	45,74	1 6		54,744		60,412

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2001, 2000 AND 1999

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. The consolidated financial statements include the accounts of Washington Federal, Inc. (Company) and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Description of business. Washington Federal, Inc. is a savings and loan holding company. The Company's principal operating subsidiary is Washington Federal Savings (Association). The Company is principally engaged in the business of attracting savings deposits from the general public and investing these funds, together with borrowings and other funds, in one-to-four family residential real estate loans and, in limited circumstances, income-producing property real estate loans. The Company conducts its activities through a network of 111 full-service branch offices located in Washington, Oregon, Idaho, Utah, Arizona, Nevada and Texas.

Investment and mortgage-backed securities. The Company accounts for investment and mortgage-backed securities in two categories: held-to-maturity and available-for-sale.

Held-to-Maturity Securities – Securities classified as held-to-maturity are accounted for at amortized cost, but the Company must have both the positive intent and the ability to hold those securities to maturity. There are very limited circumstances under which securities in the held-to-maturity category can be sold without jeopardizing the cost basis of accounting for the remainder of the securities in this category. Recognition for unrealized losses is provided for if any market valuation differences are deemed to be other than temporary.

Available-for-Sale Securities – Securities not classified as held-to-maturity are considered to be available-for-sale. Gains and losses realized on the sale of these securities are based on the specific identification method. Unrealized gains and losses for available-for-sale securities are excluded from earnings and reported as a net amount in a separate component of stockholders' equity until realized.

Premiums and discounts on investments. Premiums and discounts on investments are deferred and recognized over the life of the asset using the interest method based on actual balances.

Forward contracts to purchase mortgage-backed securities are recorded at fair value on the balance sheet as available-for-sale securities. These contracts are designated by the Company as cash flow hedges of the price risk of the anticipated purchase of securities. Under cash flow hedge accounting, if specific criteria are met, the unrealized gains or losses are recognized as a component of stockholders' equity through comprehensive income until the related forecasted purchase of securities occurs whereupon the remaining unrealized gains or losses are included in the basis of the purchased securities. To the extent that forward contracts to purchase securities fail to meet hedging criteria, including purchasing the mortgage-backed securities within a specific time frame, the fair value of the contracts will be included in earnings.

The Company may enter into certain forward contracts to sell mortgage-backed securities to hedge the price risk in certain mortgage-backed securities accounted for as available-for-sale securities. To the extent forward sales contracts meet specific hedging criteria, the market value change associated with the contract is recorded through comprehensive income. To the extent that forward sales contracts fail to meet hedging criteria, the fair value of the contracts will be recorded in earnings.

Securitized assets subject to repurchase – In March 2001, the Company transferred some of its permanent single-family residential loans into a Real Estate Mortgage Investment Conduit (REMIC). The REMIC then issued securities backed by such loans, all of which were retained by the Company. The terms of the transfer of the loans to the REMIC contain a call provision whereby the Company can repurchase the loans when the outstanding balance of the pool declines to 15% or less of the original amount, therefore, the transfer did not qualify as a sale under generally accepted accounting principles. Accordingly, the retained interests continue to be accounted for in a manner similar to loans and are included in the accompanying balance sheet as Securitized Assets Subject to Repurchase.

Loans receivable. Loans receivable more than 90 days past due are placed on non-accrual status and an allowance for accrued interest is established. Any interest ultimately collected is credited to income in the period of recovery.

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 several key elements, which include the formula allowance, specific allowances and the unallocated allowance.

The formula portion of the general loan loss allowance is established by applying a loss percentage factor to the different loan types. The allowances are provided 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 and current economic conditions. 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.

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

The unallocated allowance comprises two components. The first component recognizes the estimation risk associated with the formula and specific allowances. The second component is based upon management's evaluation of various conditions that are not directly measured in the determination of the formula and specific allowances. The conditions evaluated in connection with the unallocated allowance may include loan volumes and concentrations, seasoning of the loan portfolio, specific industry conditions, recent loss experience within certain parts of the portfolio and the duration of the current business cycle.

Impaired loans consist of loans receivable that will not be repaid in accordance with their contractual terms and are measured using a discounted cash flow methodology or the fair value of the collateral for certain loans. Smaller balance loans are excluded from this analysis with limited exceptions.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the respective assets. Expenditures are capitalized for betterments and major renewals, and charges for ordinary maintenance and repairs are expensed to operations as incurred.

Real estate held for sale. Properties acquired in settlement of loans, purchased in acquisitions or acquired for development are recorded at the lower of cost or fair value.

Costs in excess of net assets acquired. Costs in excess of fair value of net assets acquired in business combinations are amortized to expense over a period not to exceed 15 years using the straight-line method. From time to time, the Company reviews the status of costs in excess of net assets acquired to determine that no impairment of the assets has occurred.

Deferred fees and discounts on loans. Loan discounts and loan fees are deferred and recognized over the life of the loans using the interest method based on actual loan payments.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates reported in the financial statements include the allowance for loan losses, intangible assets, deferred taxes and contingent liabilities. Actual results could differ from these estimates.

In the second quarter of fiscal 2001 and 1999, the Company declared an eleven-for-ten stock split in the form of a 10% stock dividend. All share and per share amounts have been adjusted to reflect these stock splits.

Business segments. The Company has determined that its current business and operations consist of a single business segment.

Reclassifications. Certain reclassifications have been made to the financial statements for years prior to September 30, 2001 to conform to the classifications used in 2001.

NOTE B INVESTMENT SECURITIES

September 30,	2001					
			n thousands)			
	Amortized	Gross U		Fair		
	Cost	Gains	Losses	Value	Yield	
Available-for-sale securities						
U.S. government and agency securities due	h =0.001	.	4	A 02 -0		
Within 1 year	\$ 79,881	\$ 847	\$ —	\$ 80,728	6.23%	
1 to 5 years	15,073	1,460	(145)	16,533	7.25	
5 to 10 years	10,000 9,280	3,838	(145)	9,855 13,118	9.88 10.38	
Over 10 years			(145)		7.08	
	114,234	6,145	(145)	120,234	7.08	
Held-to-maturity securities						
Tax-exempt municipal bonds due	7.650	166		7.016	6.67	
1 to 5 years	7,650 4,010	166 347	_	7,816 4,357	6.67 5.65	
Over 10 years	13,830	1,331	<u>(4)</u>	15,157	6.23	
Over 10 years	25,490	1,844	(4)	27,330	6.27	
	 	\$7,989	\$(149)		6.93%	
	\$139,724	\$1,989	\$(149)	\$147,564	0.93 %	
September 30,			2000			
		,	n thousands)			
	Amortized		Jnrealized_	Fair		
	Cost	Gains	Losses	Value	Yield	
Available-for-sale securities						
U.S. government and agency securities due Within 1 year	\$ 81,123	\$ —	\$(1,617)	\$ 79,506	6.11%	
1 to 5 years	15,102	υ — 538	Φ(1,017)	15,640	6.98	
5 to 10 years	10,000			10,000	9.88	
Over 10 years	9,279	3,080	_	12,359	10.48	
C ver re years vvvvvvvvvvvvvvvv	115,504	3,618	(1,617)	117,505	6.90	
Uald to materialist as a militian	113,301	3,010	(1,011)	111,505	0.50	
Held-to-maturity securities Tax-exempt municipal bonds due						
1 to 5 years	7,650	241		7,891	6.67	
Over 10 years	17,837	932	_	18,769	6.12	
,	25,487	1,173	_	26,660	6.29	
	\$140,991	\$4,791	\$(1,617)	\$144,165	6.79%	
		· · · · · · · · · · · · · · · · · · ·		•		

There were no sales of investment securities during 2001 or 2000. Investment securities with a book value of \$9.3 million and a fair value of \$13.1 million at September 30, 2001 were pledged to secure public deposits.

NOTE C MORTGAGE-BACKED SECURITIES

September 30,		(1)	2001		
	Amortized	,	In thousands) Inrealized	Fair	
	Cost	Gains	Losses	Value	Yield
Available-for-sale securities GNMA pass-through certificates	\$ 5,596	\$ 17	\$ (63)	\$ 5,550	7.42%
FNMA pass-through certificates	14,562	830	Ψ (65) —	15,392	7.75
FHLMC pass-through certificates FHLMC	843,206 6,662	36,928 60	$\frac{-}{(11)}$	880,134 6,711	6.88 8.21
FNMA	6,019	133	(23)	6,129	7.08
Private issues	12,217	128 33,402	(1) —	12,344 33,402	7.17
	888,262	71,498	(98)	959,662	6.91
Held-to-maturity securities					
GNMA pass-through certificates	74	6	_	80	9.50
FNMA pass-through certificates	5,073	299		5,372	8.07
FHLMC pass-through certificates	217,395	9,762	(2)	227,155	7.15
	222,542	10,067	(2)	232,607	7.17
	\$1,110,804	\$81,565	\$(100)	\$1,192,269	6.96%

September 30,			2000		
		(In thousands)		
	Amortized	Gross U	Jnrealized	Fair	
	Cost	Gains	Losses	Value	Yield
Available-for-sale securities					
GNMA pass-through certificates	\$ 7,758	\$ 23	\$ (91)	\$ 7,690	7.11%
FNMA pass-through certificates	18,992	563	(226)	19,329	7.86
FHLMC pass-through certificates	994,188	6,317	(20,707)	979,798	7.01
FHLMC	13,153	924	(243)	13,834	7.33
FNMA	8,720	617	(182)	9,155	7.00
Private issues	15,148	1,057	(268)	15,937	6.80
Forward contracts	· —	15,216		15,216	_
	1,057,959	24,717	(21,717)	1,060,959	7.02
Held-to-maturity securities					
GNMA pass-through certificates	114	6	_	120	9.64
FNMA pass-through certificates	6,558	137	(61)	6,634	8.13
FHLMC pass-through certificates	260,474	2,222	(3,846)	258,850	7.23
	267,146	2,365	(3,907)	265,604	7.25
	\$1,325,105	\$27,082	\$(25,624)	\$1,326,563	7.07%

Proceeds from sales of mortgage-backed securities in the available-for-sale portfolio during 2001, 2000 and 1999 were \$50.3 million, \$12.4 million and \$22.7 million, respectively. The Company realized gains of \$3.2 million, \$4.1 million and \$2.7 million during 2001, 2000 and 1999, respectively. The Company had no losses on sales during 2001, 2000 or 1999.

Available-for-sale mortgage-backed securities with a book value of \$60.0 million and a fair value of \$60.4 million at September 30, 2001 were pledged as collateral for secured repurchase agreements with customers (see Note I). Substantially all mortgage-backed securities have contractual due dates which exceed ten years.

The Company accepts a high level of interest rate risk as a result of its policy to originate fixed-rate single family home loans which are longer-term than the short-term characteristics of its liabilities of customer accounts and borrowed money. The Company enters into forward contracts to purchase mortgage-backed securities as part of its interest rate risk management program. These forward contracts are derivative instruments as defined by SFAS 133 "Accounting for Derivative Instrument and Hedging Activities." The forward contracts allow the Company to hedge the risk of varying mortgage-backed securities prices in the future resulting from changes in interest rates. The Company has determined anticipated purchase dates for each forward commitment ranging from November 2001 through August 2004. The fair value of these contracts is included with the available for sale securities. The related mortgage-backed securities are designated as available-for-sale securities upon exercise of the commitments to purchase.

Cost and fair value of the mortgage-backed securities underlying the forward contracts were as follows:

September 30,	2001 2000			
	(<u>I</u> n thousands)			
		Fair		Fair
	Cost	Value	Cost	Value
Commitments to purchase	\$357,291	\$390,693	\$453,316	\$468,532

NOTE D LOANS RECEIVABLE AND SECURITIZED ASSETS SUBJECT TO REPURCHASE

September 30,	2001	2000
	(In thousands)	
Conventional real estate Permanent single-family residential Income property Land Construction	\$4,511,964 392,272 193,424 591,245	\$4,162,175 288,299 180,745 646,823
Other	1,478 5,690,383	1,956 5,279,998
Less Allowance for possible losses Discount on loans Loans in process Deferred loan origination fees	19,683 3,574 249,056 29,965 302,278 \$5,388,105	20,831 4,498 278,561 26,873 330,763 \$4,949,235

The Company originates adjustable and fixed interest rate loans, which at September 30, 2001 consisted of the following:

Fixed-Rate		Adjustable-Rate	
(In thousands)		(In thousands)	
Term to Maturity	Book Value	Term to Rate Adjustment	Book Value
Within 1 year	\$ 31,019	Less than 1 year	\$573,525
1 to 3 years	39,790	1 to 3 years	39,529
3 to 5 years	67,185	3 to 5 years	14,818
5 to 10 years	477,151	5 to 10 years	_
10 to 20 years	472,592	10 to 20 years	_
Over 20 years	3,974,774	Over 20 years	
	<u>\$5,062,511</u>		<u>\$627,872</u>

At September 30, 2001 and 2000, approximately \$60,641,391 and \$55,490,991 of fixed-rate loan origination commitments were outstanding, respectively. Loans serviced for others at September 30, 2001 and 2000 were approximately \$26,068,000 and \$37,912,000, respectively.

Permanent single-family residential loans receivable included adjustable-rate loans of \$24,254,920 and \$48,824,221 at September 30, 2001 and 2000, respectively. These loans have interest rate adjustment limitations and are generally indexed to the 1-year Treasury Bill rate.

Loans by geographic concentration were as follows:

September 30, 2001	Washington	Idaho	Oregon	Utah	Arizona	Other	Total
			(In	thousands)		
Conventional real estate Permanent single-family							
residential	\$2,154,046	\$585,126 \$ 20,292	815,954 85,513	\$600,305 29,200		\$22,598 12,685	\$4,511,964 392,272
Land	103,991	26,323	15,291	22,704	,	665	193,424
Construction	287,321	71,660	93,378	64,213	72,454	,	, -
Other		97		9		1,372	1,478
	\$2,700,065	\$703,498 \$	1,010,136	\$716,431	\$520,714	\$39,539	\$5,690,383

At September 30, 2001 the Company's recorded investment in impaired loans was \$7.9 million with allocated reserves of \$.1 million. At September 30, 2000 the Company's recorded investment in impaired loans was \$7.1 million with allocated reserves of \$.6 million. The average balance of impaired loans during 2001 and 2000 was \$13.1 million and \$10.2 million and interest income from impaired loans was \$12,000 and \$207,000, respectively.

NOTE E ALLOWANCE FOR LOSSES ON LOANS AND SECURITIZED ASSETS SUBJECT TO REPURCHASE

Year ended September 30,	2001	2000	1999
		(In thousands)	
Balance at beginning of year	\$20,831	\$21,900	\$23,854
Provision for loan losses	1,850	_	684
Charge-offs	(3,845)	(1,377)	(3,131)
Recoveries	847	308	493
Balance at end of year	\$19,683	\$20,831	\$21,900

NOTE F INTEREST RECEIVABLE

September 30,	2001	2000
	(In tho	usands)
Loans receivable and securitized assets subject to repurchase	\$40,584	\$30,769
Allowance for uncollected interest on loans receivable	(1,323)	(720)
Mortgage-backed securities	5,940	7,612
Investment securities	3,079	3,039
	\$48,280	\$40,700

NOTE G PREMISES AND EQUIPMENT

September 30,		2001	2000
		(In tho	usands)
	Estimated		
	Useful Life		
Land	_	\$ 13,400	\$ 12,100
Buildings	25 - 40	49,965	48,966
Leasehold improvements	7 - 15	5,043	4,765
Furniture, fixtures and equipment	4 - 10	15,022	12,691
		83,430	78,522
Less accumulated depreciation and amortization		(29,188)	(28,035)
		\$ 54,242	\$ 50,487

The Company has non-cancelable operating leases for branch offices. Rental expense, including amounts paid under month-to-month cancelable leases, amounted to \$1,606,000, \$1,510,000 and \$1,438,000 in 2001, 2000 and 1999, respectively. Future minimum net rental commitments for all non-cancelable leases, including maintenance and associated costs, are immaterial.

NOTE H REAL ESTATE HELD FOR SALE

September 30,	2001	2000
	(In tho	usands)
Acquired for development	\$ 8,114	\$ 7,953
Acquired in settlement of loans	8,664	9,463
	\$16,778	\$17,416

NOTE I CUSTOMER ACCOUNTS

September 30,	2001	2000
	(In t	housands)
Checking accounts, 2.13% and under	\$ 152,143	\$ 99,888
Passbook and statement accounts, 2.50%	135,522	139,409
Insured money market accounts, 1.50% to 3.50%	805,759	542,148
Certificate accounts		
Less than 3.00%	4,109	_
3.00% to 3.99%	236,834	112
4.00% to 4.99%	1,981,925	88,838
5.00% to 5.99%	799,242	1,022,699
6.00% to 6.99%	134,301	1,478,897
7.00% and over	1,278	3,045
Total certificates	3,157,689	2,593,591
Repurchase agreements with customers	65,579	90,234
	\$4,316,692	\$3,465,270
	-	

Certificate maturities were as follows:

September 30,	2001	2000
	(In th	nousands)
Within 1 year	\$2,814,662	\$2,337,283
1 to 2 years	211,362	150,566
2 to 3 years	32,163	61,637
Over 3 years	99,502	44,105
	\$3,157,689	\$2,593,591

Customer accounts over \$100,000 totaled \$1,026,000,000 as of September 30, 2001 and \$732,000,000 as of September 30, 2000.

Interest expense on customer accounts consisted of the following:

Year ended September 30,	2001	2000	1999
•		(In thousands)	
Checking accounts	\$ 2,426	\$ 2,372	\$ 2,266
Passbook and statement accounts	4,066	4,468	5,225
Insured money market accounts	24,514	22,793	20,057
Certificate accounts	160,018	138,614	127,867
	191,024	168,247	155,415
Repurchase agreements with customers	4,138	5,052	4,930
	195,162	173,299	160,345
Less early withdrawal penalties	(452)	(564)	(403)
	\$194,710	\$172,735	\$159,942
Weighted average interest rate at end of year	4.31%	5.57%	4.71%
Weighted daily average interest rate during the year	5.28	5.07	4.84

NOTE I FHLB ADVANCES

Maturity dates of Federal Home Loan Bank (FHLB) advances were as follows:

September 30,	2001	2000
	(In th	ousands)
FHLB advances due	ф. 205 522	¢ (20,222
Within 1 year 2 to 3 years	\$ 287,500 650,000	\$ 609,000
3 to 4 years	700,000	200,000
More than 5 years		400,000
	\$1,637,500	\$1,209,000

FHLB advances totaling \$200,000,000 with an interest rate of 5.49% are callable in 2002. FHLB advances totaling \$400,000,000 with an average interest rate of 5.58% are callable in 2003. FHLB advances totaling \$400,000,000 with an average interest rate of 4.98% are callable in 2005. FHLB advances totaling \$200,000,000 with an average interest rate of 5.04% are callable in 2006.

Financial data pertaining to the weighted average cost and the amount of FHLB advances were as follows:

September 30,	2001	2000	1999
		(In thousands)	
Weighted average interest rate at end of year	5.12%	6.06%	5.42%
Weighted daily average interest rate during the year	5.44	5.82	5.51
Daily average of FHLB advances	\$1,336,025	\$ 802,818	\$1,076,263
Maximum amount of FHLB advances at any month end	2,107,000	1,209,000	1,454,000
Interest expense during the year	72,654	46,738	59,275

FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreements by all FHLB stock owned by the Association, deposits with the FHLB and certain mortgages or deeds of trust securing such properties as provided in the Agreements. As a member of the FHLB of Seattle, the Association currently has a credit line of 35% of the total assets of the Association, subject to collateralization requirements.

NOTE K OTHER BORROWINGS

September 30,	2001	2000
	(In th	ousands)
Securities sold under agreements to repurchase Due within 60 days	s —	\$1,074,509
Other borrowings	φ —	Ψ1,077,509
Federal funds purchased, weighted average rate of 3.25%		
in 2001, due on demand	30,000	80,000
	\$30,000	\$1,154,509

The Company enters into sales of securities under agreements to repurchase (reverse repurchase agreements). Fixed-coupon reverse repurchase agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated statements of financial condition. During the two years ended September 30, 2001 all of the Company's transactions were fixed-coupon reverse repurchase agreements. The dollar amount of securities underlying the agreements remain in the asset accounts. The securities pledged are registered in the Company's name and principal and interest payments are received by the Company; however, the securities are held by the designated trustee of the broker. Upon maturity of the agreements the identical securities pledged as collateral will be returned to the Company.

Financial data pertaining to the weighted average cost and the amount of securities sold under agreements to repurchase were as follows:

September 30,	2001	2000	1999
Weighted average interest rate at end of year Weighted daily average interest rate during the year	% 5.75	(In thousands) 6.52% 6.12	5.30% 5.05
Daily average of securities sold under agreements to repurchase	\$ 785,563	\$ 960,963	\$396,098
at any month end	1,074,509 45,149	1,089,127 58,815	620,580 19,994

NOTE L INCOME TAXES

The consolidated statements of financial condition at September 30, 2001 and 2000 include deferred taxes of \$79,208,000 and \$49,999,000, respectively, that have been provided for the temporary differences between the tax basis and the financial statement carrying amounts of assets and liabilities. The major sources of these temporary differences and their deferred tax effects were as follows:

September 30,	2001	2000
	(In tho	usands)
Deferred tax assets		
Real estate valuation reserves	\$ 440	\$ —
Deferred compensation	250	265
Discounts	17	28
Total deferred tax assets	707	293
Deferred tax liabilities		
Federal Home Loan Bank stock dividends	27,473	24,375
Loan loss reserves	6,700	8,968
Valuation adjustment on available-for-sale securities	28,000	2,000
Depreciation	2,600	2,800
Loan origination costs	11,559	10,902
Other, net	3,583	1,247
Total deferred tax liabilities	79,915	50,292
Net deferred tax liability	\$79,208	\$49,999

A reconciliation of the statutory federal income tax rate to the effective income tax rate follows:

Year ended September 30,	2001	2000	1999
Statutory income tax rate Dividend received deduction Tax-exempt interest State income tax Other, net	35% (1) — 1	35% (1) - 1	35% (2) (1) 3
Effective income tax rate	35%	35%	36%

The Small Business Job Protection Act of 1996 (the Act) required qualified thrift institutions, such as the Association, to recapture the portion of their tax bad debt reserves that exceeded the September 30, 1988 balance. Such recaptured amounts are to be taken into taxable income ratably over a six-year period beginning in 1999. Accordingly, the Association is required to pay approximately \$23,469,000 in additional federal income taxes, all of which has been previously provided for, beginning in fiscal 1999 and continuing through fiscal 2004.

A deferred tax liability has not been required to be recognized for the tax bad debt base year reserves of the Association. The base year reserves are the balance of reserves as of September 30, 1988 reduced proportionately for reductions in the Association's loan portfolio since that date. At September 30, 2001 the amount of those reserves was approximately \$4,835,000. The amount of the unrecognized deferred tax liability at September 30, 2001 was approximately \$1,862,000.

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 taxable income, as originally reported, as a result of this examination.

NOTE M PROFIT SHARING RETIREMENT AND EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains a Profit Sharing Retirement and Employee Stock Ownership Plan (the Plan) for the benefit of its employees. Contributions are made semi-annually as approved by the Board of Directors. Such amounts are not in excess of amounts permitted by the Employee Retirement Income Security Act of 1974.

Employees may contribute up to 7% of their base salaries to the Plan or 13% of their base salaries on a tax-deferred basis through the 401(k) provisions of the Plan with a combined maximum of 13%. Under provisions of the Plan, employees are eligible to participate on the date of hire and become vested in the Company's contributions following seven years of service. During August 1995 the Company received a favorable determination from the Internal Revenue Service to include an Employee Stock Ownership feature as part of the Plan. This feature allows the employee to direct a portion of their vested account balance toward the purchase of Company stock. Contributions to the Plan amounted to \$1,781,000, \$1,724,000 and \$1,745,000 for the years ended September 30, 2001, 2000 and 1999, respectively.

NOTE N STOCK OPTION PLANS

The Company has three employee stock option plans which provide a combination of stock options and stock grants. Stockholders authorized 5,886,669 shares, 1,856,881 shares and 3,059,969 shares of common stock to be reserved pursuant to the 1982 Employee Stock Compensation Program (the 1982 Plan), the 1987 Stock Option and Stock Appreciation Rights Plan (the 1987 Plan) and the 1994 Stock Option and Stock Appreciation Rights Plan (the 1994 Plan), respectively. The 1987 Plan and 1994 Plan are substantially similar to the 1982 Plan, but incorporate changes in the Internal Revenue Code affecting incentive stock options and do not provide for the grant of performance share awards.

Options granted under each plan vest at varying percentages commencing as early as one year after the date of grant with expiration dates ten years after the date of grant.

	Average Price(1)	Number ⁽¹⁾	Weighted Average Fair Value of Option Shares Granted
Outstanding, October 1, 1998	\$ 15.08 19.87 11.25 16.15	1,867,677 61,567 (157,343) (70,293)	\$3.75
Outstanding, September 30, 1999	15.56 17.13 11.84 17.46	1,701,608 796,468 (103,825) (192,973)	4.22
Outstanding, September 30, 2000	16.14 18.55 12.78 16.77	2,201,278 83,650 (478,242) (114,338)	4.45
Outstanding, September 30, 2001	<u>\$17.16</u>	1,692,348	

⁽¹⁾ Average price and number of stock options granted, exercised and forfeited have been adjusted for 10% stock dividends in the second quarter of both 2001 and 1999 which had the effect of an eleven-for-ten stock split.

Financial data pertaining to outstanding stock options were as follows:

September 30, 2001						
Ranges of Exercise Prices	Number of Option Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Option Shares	Number of Exercisable Option Shares	Weighted Average Exercisable Price of Exercisable Option Shares	
\$10.78 - 13.82 14.11 - 17.16 18.18 - 24.44	408,245 761,303 522,800 1,692,348	3.4 years 7.6 6.7 6.3 years	\$12.61 16.84 21.19 \$17.16	288,403 123,376 112,711 524,490	\$12.20 15.74 22.12 \$15.16	

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation." SFAS No. 123 requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) application of the fair value recognition provisions in the statement.

Companies may continue following those rules to recognize and measure compensation as outlined in Accounting Principles Board (APB) Opinion No. 25, but they will now be required to disclose the proforma amounts of net income and earnings per share that would have been reported had the Company elected to follow the fair value recognition provisions of SFAS No. 123. The Company adopted the disclosure requirements of SFAS No. 123, but continues to measure its employee stock-based compensation arrangements under the provisions of APB No. 25. Had compensation costs for the Company's compensation plans been determined consistent with SFAS No. 123, the Company's net income attributable to common stock would have been reduced by \$372,000, \$3,058,000 and \$210,000 for 2001, 2000 and 1999, respectively. Net income per share would have decreased by \$.04 per share in 2000 and would have remained the same in both 2001 and 1999.

The fair value of options granted under the Company's stock option plan is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: annual dividend yield of 4.00% for 2001, 5.00% for 2000 and 4.00% for 1999; expected volatility of 34% for 2001, 29% for 2000 and 18% for 1999; risk-free interest rate of 3.80% for 2001, 5.80% for 2000 and 5.75% for 1999; an expected life of five years for all three years.

NOTE O STOCKHOLDERS' EQUITY

In the second quarter of fiscal 2001 and 1999, the Company declared an eleven-for-ten stock split in the form of a 10% stock dividend in addition to the regular quarterly cash dividends on its shares of common stock.

The Association is subject to various regulatory capital requirements administered by the Office of Thrift Supervision (OTS). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Association must meet specific capital guidelines that involve quantitative measures of the Association's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Association's capital amounts and classification are also subject to qualitative judgments by the regulators about capital components, risk-weightings and other factors.

As of September 30, 2001 and 2000 the OTS categorized the Association as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Association must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Association's categorization.

To be Cotegorized as

			to be Cate	gorizea as
			Well Capital	ized Under
	For Ca	pital	Prompt Co	orrective
ual	Adequacy	Purposes	Action Pr	ovisions
Ratio	Amount	Ratio	Amount	Ratio
(D	ollars in thou	ısands)		
20.12%	\$314,772	8.00%	\$393,465	10.00%
19.87	NA	NA	236,079	6.00
11.32	NA	NA	345,324	5.00
11.32	207,194	3.00	NA	NA
11.32	103,597	1.50	NA	NA
19.45%	\$294,646	8.00%	\$368,308	10.00%
19.20	NA	NA	220,985	6.00
10.61	NA	NA	333,155	5.00
10.61	199,893	3.00	NA	NA
10.61	99,947	1.50	NA	NA
	19.45% 19.61 10.61	ual Adequacy Ratio Amount (Dollars in thou 20.12% \$314,772 19.87 NA 11.32 NA 11.32 207,194 11.32 103,597 19.45% \$294,646 19.20 NA 10.61 NA 10.61 199,893	Ratio Amount Ratio (Dollars in thousands) 20.12% \$314,772 8.00% 19.87 NA NA 11.32 NA NA 11.32 103,597 1.50 19.45% \$294,646 8.00% 19.20 NA NA 10.61 NA NA 10.61 199,893 3.00	For Capital Prompt Condition Adequacy Purposes Action Prompt Condition Amount Ratio Amount

At periodic intervals, the OTS and the Federal Deposit Insurance Corporation (FDIC) routinely examine the Company's financial statements as part of their oversight of the savings and loan industry. Based on their examinations, these regulators can direct that the Company's financial statements be adjusted in accordance with their findings. The extent to which forthcoming regulatory examinations may result in adjustments to the financial statements cannot be determined; however, no adjustments were proposed as a result of the most recent OTS examination which concluded in June 2001.

Information used to calculate earnings per share is as follows:

September 30,	2001		2001			2000		1999
	(Dollars in thousands, except p			t per share data)				
Net income	\$	113,614	\$	105,679	\$	114,286		
Weighted average shares								
Basic weighted average number of								
common shares outstanding	57	,615,702	57	7,911,542	60	0,880,283		
Dilutive effect of outstanding common stock equivalents		616,957		295,283		507,173		
Diluted weighted average number of								
common shares outstanding	_58	,232,659	58	3,206,825	61	1,387,456		
Net income per share								
Basic	\$	1.97	\$	1.83	\$	1.87		
Diluted		1.95		1.82		1.86		

NOTE P FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized on the balance sheet, for which it is practicable to estimate those values. SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value estimates presented do not reflect the underlying fair value of the Company. Although management is not aware of any factors that would materially affect the estimated fair value amounts presented, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, estimates of fair value subsequent to that date may differ significantly from the amounts presented below.

September 30,	20	001	20	2000		
	(In thousands)					
	Carrying	Estimated	Carrying	Estimated		
	Amount	Fair Value	Amount	Fair Value		
Financial assets				_		
Cash	\$ 30,331	\$ 30,331	\$ 28,286	\$ 28,286		
Available-for-sale securities	1,079,896	1,079,896	1,178,464	1,178,317		
Held-to-maturity securities	248,032	259,939	292,633	292,264		
Loans receivable and securitized assets .	5,388,105	5,636,267	4,949,235	4,924,782		
FHLB stock	124,361	124,361	116,314	116,314		
Financial liabilities						
Customer accounts	4,316,692	4,329,833	3,465,270	3,437,663		
FHLB advances	1,637,500	1,660,039	1,209,000	1,200,180		
Other borrowings	30,000	30,000	1,154,509	1,154,509		

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

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

Investment securities – The fair value is based on quoted market prices or dealer estimates.

Loans receivable and securitized assets subject to repurchase – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated using quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. The fair value of other loan types is estimated by discounting the future cash flows and estimated prepayments using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term. Some loan types were valued at carrying value because of their floating rate or expected maturity characteristics.

Mortgage-backed securities – Estimated fair value for mortgage-backed securities issued by quasi-governmental agencies is based on quoted market prices. The fair value of all other mortgage-backed securities is based on dealer estimates.

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

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

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

NOTE Q ACCOUNTING CHANGES

Effective October 1, 2000, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." As a result of the adoption of this new accounting standard, the Company's forward contracts to purchase mortgage-backed securities were designated as cash flow hedges of specific forecasted purchases of securities. Previously, the Company had accounted for the fair value of these contracts to purchase as available-for-sale securities and unrealized gains or losses were recognized as a component of stockholders' equity through comprehensive income. Under the new accounting standard the unrealized gains or losses on forward contracts, being designated as cash flow hedges, are also recognized as a component of stockholders' equity though comprehensive income until the related forecasted purchase of securities occurs whereupon the remaining unrealized gains or losses are included in the basis of the purchased securities. Therefore, there was no material impact upon the adoption of the new standard and no explicit transition adjustment.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No.142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be

accounted for using the purchase method. SFAS No. 142 eliminates the amortization of goodwill relating to past and future acquisitions and instead subjects goodwill to an impairment assessment at least annually. The Company early adopted the provisions of SFAS No. 142 to existing goodwill and other intangible assets for fiscal years beginning October 1, 2001. The adoption of SFAS No. 142 will cease further amortization of goodwill and will have an impact of approximately \$5.6 million (pretax) on an annual basis.

NOTE R FINANCIAL INFORMATION – WASHINGTON FEDERAL, INC.

The following Washington Federal, Inc. (parent company only) financial information should be read in conjunction with the other notes to the Consolidated Financial Statements.

Statements of Financial Condition

September 30,	20	001	2000	
Assets		(In thousands)		
Cash Investment in subsidiary Dividend receivable		1,714 74,050 12,125	\$ 1,080 757,207 14,000	
Total assets	\$ 88	87,889	\$ 772,287	
Liabilities Borrowed money Dividend payable Other liabilities	\$ 1	13,880	\$ — 13,100 22	
Total liabilities	1	13,880	13,122	
Stockholders' equity Common stock, \$1.00 par value: 100,000,000 shares authorized; 69,006,173 and 68,525,260 shares issued; 57,861,561 and 57,333,025 shares outstanding Paid-in capital Accumulated other comprehensive income, net of tax Treasury stock, at cost; 11,144,612 and 11,192,235 shares Retained earnings Total stockholders' equity	89 5 (18	59,006 93,633 51,000 89,212) 19,582 74,009	62,296 785,745 3,000 (190,018) 98,142 759,165	
Total liabilities and stockholders' equity		87,889	\$ 772,287	
Statements of Operations	<u> </u>			
Year ended September 30,	2001	2000	1999	
Income	(In thousands)	
	\$ 45,000 	\$ 97,000 80	\$101,500 —	
Total Income	45,000	97,080	101,500	
Expense Borrowings Other	5 348	47 388	47 273	
Total expense	353	435	320	
Net income before equity in undistributed net income of subsidiaries Equity in undistributed net income of subsidiaries Income before income taxes Income tax benefit	44,647 68,842 113,489 125	96,645 8,909 105,554 125	101,180 12,992 114,172 114	
Net income	\$113,614	\$105,679	\$114,286	

Statements of Cash Flows

Year ended September 30,	2001	2000	1999
	(I ₁	n thousands)	
Cash Flows From Operating Activities			
Net income	\$113,614	\$105,679	\$ 114,286
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of subsidiaries	(68,843)	(8,909)	(12,992)
Decrease (increase) in other assets	1,875	(2,000)	(2,099)
Increase in other liabilities	758	568	633
Net cash provided by operating activities	47,404	95,338	99,828
Cash Flows From Financing Activities			
Increase (decrease) in short-term borrowings	_	(1,000)	1,000
Issuance of common stock through stock option plan	6,224	1,209	1,552
Proceeds from Employee Stock Ownership Plan	1,108	4,049	1,260
Treasury stock purchased	_	(48,485)	(54,938)
Dividends	(54,102)	(51,310)	(49,209)
Net cash used by financing activities	(46,770)	(95,537)	(100,335)
Increase (decrease) in cash	634	(199)	(507)
Cash at beginning of year	1,080	1,279	1,786
Cash at end of year	\$ 1,714	\$ 1,080	\$ 1,279

NOTE S SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the unaudited interim results of operations by quarter:

The following is a summary of the unaddited interin	results of open	ations by quart	.CI.	
	First	Second	Third	Fourth
Year ended September 30, 2001	Quarter	Quarter	Quarter	Quarter
			except per shar	
Interest income	\$133,421	\$134,106	\$134,601	\$134,282
Interest expense	87,419	83,362	77,388	71,951
Net interest income	46,002	50,744	57,213	62,331
Provision for loan losses	_	150	500	1,200
Other operating income	3,138	2,923	2,272	1,804
Other operating expense	11,108	11,739	12,609	13,657
Income before income taxes	38,032	41,778	46,376	49,278
Income taxes	13,478	14,455	16,526	17,391
Net income	\$ 24,554	\$ 27,323	\$ 29,850	\$ 31,887
Basic earnings per share	\$.43	\$.47	\$.52	\$.55
Diluted earnings per share	\$.42	\$.47	\$.51	\$.55
Return of average assets	1.45%	1.59%	1.71%	1.83%
	First	Second	Third	Fourth
Year ended September 30, 2000	Ouarter	Ouarter	Ouarter	Ouarter
rear criaca ocptember 50, 2000			except per sha	
Interest income	\$120,289	\$121,574	\$125,311	\$130,853
Interest expense	68,153	70,342	76,490	84,526
Net interest income	52,136	51,232	48,821	46,327
Provision for loan losses			_	_
Other operating income	1,929	2,584	2,695	3,169
Other operating expense	11,552	12,016	11,169	10,977
Income before income taxes	42,513	41,800	40,347	38,519
Income taxes	15,092	14,792	14,059	13,557
Net income	\$ 27,421	\$ 27,008	\$ 26,288	\$ 24,962
Basic earnings per share	\$.46	\$.46	\$.46	\$.44
Diluted earnings per share	\$.46	\$.46	\$.45	\$.44

1.77%

1.71%

1.63%

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors Washington Federal, Inc. Seattle, Washington

We have audited the accompanying consolidated statements of financial condition of Washington Federal, Inc. and subsidiaries (the Company) as of September 30, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Washington Federal, Inc. and subsidiaries as of September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

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DELOITTE & TOUCHE LLP Seattle, Washington October 19, 2001

GENERAL CORPORATE AND STOCKHOLDERS' INFORMATION

425 Pike Street Corporate Headquarters

Seattle, Washington 98101

(206) 624-7930

Independent Deloitte & Touche LLP Seattle, Washington Accountants

Transfer Agent, Registrar and Dividend Disbursing Agent

Stockholder inquiries regarding transfer requirements, cash or stock dividends, lost certificates, consolidating records, correcting a name or changing an address should be

directed to the transfer agent: Mellon Investor Services LLC 85 Challenger Road Ridgefield Park, NJ 07606 Telephone: 1-800-522-6645 www.melloninvestor.com

Annual Meeting The annual meeting of stockholders will be

held on January 23, 2002, at 2 p.m. at the Sheraton Hotel, 1400 Sixth Avenue,

Seattle, Washington.

Form 10-K This report is available to stockholders of

record upon written request to:

Cathy Cooper Vice President

Washington Federal, Inc.

425 Pike Street

Seattle, Washington 98101

Stock Information Washington Federal, Inc. is traded on the NASDAQ Stock Market. The common stock symbol is WFSL. At September 30, 2001, there were approximately 2,617 stockholders of record.

> Stock Prices Quarter Ended Low Dividends High December 31, 1999 \$21.36 \$16.08 \$.21 March 31, 2000 17.33 13.58 .22 June 30, 2000 19.20 14.94 .23 20.85 September 30, 2000 16.59 .23 December 31, 2000 26.19 18.01 .23 March 31, 2001 27.00 22.50 .23 June 30, 2001 27.25 23.81 .24 September 30, 2001 27.64 23.07 .24

All prices shown have been adjusted for stock splits.

Largest Market Makers: McAdams Wright Ragen, Inc. Spear, Leeds & Kellogg

Merrill Lynch, Pierce, Fenner & Smith Inc.

Salomon Smith Barney Instinet Corporation Lehman Brothers

Keefe, Bruvette & Woods, Inc.

Knight Securities L.P. Herzog, Heine, Geduld, Inc. Schwab Capital Markets Sherwood Securities Corp. Redibook ECN LLC Sandler O'Neill & Partners

Archipelago, L.L.C.

Friedman Billings Ramsey & Co. Inc.

THE BRUT ECN, LLC Cantor, Fitzgerald & Co. Island System Corporation Banc of America Securities LLC B-Trade Services LLC Ragen McKenzie

Fox-Pitt, Kelton Inc. Weeden and Co. Inc. Jefferies & Company, Inc.

Fleet Securities Ryan Beck & Co. Inc.

DIRECTORS, OFFICERS AND OFFICES

CORPORATE HEADQUARTERS

425 Pike Street Seattle, WA 98101 (206) 624-7930

BOARD OF DIRECTORS

GUY C. PINKERTON Chairman

JOHN F. CLEARMAN Retired, Former Chief Financial Officer, Milliman USA, Inc.

H. DENNIS HALVORSON Retired, Former Chief Executive Officer, United Bank

KERMIT O. HANSON Dean Emeritus University of Washington Graduate School of Business Administration

W. ALDEN HARRIS Former Executive Vice President

ANNA C. JOHNSON Senior Partner Scan East West Travel

RICHARD C. REED Management Consultant Altman Weil, Inc.

CHARLES R. RICHMOND Former Executive Vice President

ROY M.WHITEHEAD President and Chief Executive Officer

DIRECTORS EMERITI

HAROLD C. KEAN E.W. MERSEREAU, JR.

EXECUTIVE MANAGEMENT COMMITTEE

ROY M. WHITEHEAD President and Chief Executive Officer EDWIN C. HEDLUND Executive Vice President and Secretary

JACK B. JACOBSON Executive Vice President and Chief Lending Officer

RONALD L. SAPER Executive Vice President and Chief Financial Officer

CORPORATE DEPARTMENT MANAGERS

Accounting & Finance
BRENT J. BEARDALL

Controller

Appraisal

HEATHER LULL

Credit Administration-Construction and

JAMES E. CADY Vice President DALE SULLIVAN Vice President

Corporate Real Estate and Taxes

KEITH D. TAYLOR Senior Vice President and Treasurer

Data Processing

TERRY O.
PERMENTER
Senior Vice President

Deposit Operations
BEN A. WHITMARSH
Senior Vice President

Facilities
MICHAEL D.

MERTINS
Human Resources

ARLINE FONDA Vice President

Internal Audit

BARBARA A. MURPHY Vice President

Loan Operations MICHAEL BUSH Vice President

Loan Servicing LARRY PLUMB Vice President Legal/Special Credits

PAUL TYLER Vice President and Counsel

Manuals/Training
LINDA NICHOLL

LINDA NICHOLL Assistant Vice President Marketing and

Investor Relations CATHY COOPER Vice President

Multi-Family LoansJ. TIMOTHY GRANT Vice President

Permanent Loan Production

JOHN WUNDERLICH Vice President

Savings Administration

CYNTHIA L. ARNOLD Vice President Underwriting-

Permanent Loans
JANE A. NOGLE
Senior Vice President

SUBSIDIARIES

First Insurance Agency, Inc. 317 S. 2nd Street Mount Vernon, WA 98273 1-800-562-2555 (360) 336-9630

ANN BRITTAIN
Vice President
Washington Services,

Inc. 6125 South Morgan Road Freeland, WA 98249

DIVISION/REGIONS

SOUTHERN WASHINGTON

LAKE WASHINGTON

9 Office Locations Region Manager

SEBASTIAN PORTUESI Vice President 4800 Rainier Ave So. Seattle, WA 98118

SOUTH SOUND

10 Office Locations Region Manager

RONDA TOMLINSON Vice President 9919 Bridgeport Way S.W. Lakewood, WA 98499

MIDSOUND

10 Office Locations Region Manager E. CRAIG WILSON

E. CRAIG WILSON Vice President 5809 196th S.W. Lynnwood, WA 98036

NORTHERN WASHINGTON

10 Office Locations Division Manager

DOUGLAS A. ROWELL Senior Vice President 317 S. 2nd Street Mount Vernon, WA 98273

WESTERN IDAHO

13 Office Locations Division Manager

ROBERT P. LINK Senior Vice President 1001 W. Idaho St. Boise, ID 83702

EASTERN IDAHO

4 Office Locations Region Manager LARRY WADSWORTH

WADSWORTH Vice President 500 North Capital Idaho Falls, ID 83402

SOUTHERN OREGON

15 Office Locations Division Manager

PEGGY HOBIN Senior Vice President 300 Ellsworth St. SW Albany, OR 97321

NORTHERN OREGON

10 Office Locations Division Manager

THOMAS A. FRANKLIN Senior Vice President 14990 S.W. Bangy Road Lake Oswego, OR 97035

UTAH

10 Office Locations Division Manager

RICHARD FISHER Senior Vice President 505 East 200 South Salt Lake City, UT 84102

PHOENIX, ARIZONA

10 Office Locations

Division Manager RON SHERIDAN

RON SHERIDAN Senior Vice President 2196 E. Camelback Road, Suite 100 Phoenix, AZ 85016

TUCSON, ARIZONA

8 Office Locations Division Manager

GEORGIA VELARDE Vice President 5151 E. Broadway Blvd., Suite 105 Tucson, AZ 85711

NEVADA

1 Office Location Division Manager

PAMELA K. CALLAHAN Vice President 9340 Sun City Blvd. #103 Las Vegas, NV 89134

TEXAS

1 Office Location Division Manager

NORA MONTGOMERY Vice President 7001 Preston Road, Suite 110 Dallas, TX 75205



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