WASHINGTON FEDERAL, INC.

ANNUAL REPORT 2004

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A SHORT HISTORY

Washington Federal, Inc. (Company or Washington Federal) is a savings and loan holding company headquartered in Seattle, Washington. Its principal subsidiary is Washington Federal Savings, which operates 120 offices in eight western states.

The Company had its origin on April 24, 1917 as Ballard Savings and Loan Association. In 1935, the state-chartered Company converted to a federal charter, became a member of the Federal Home Loan Bank (FHLB) 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 wider geographical acceptance. In 1971, Seattle Federal Savings and Loan Association, with three offices, merged into the Company, and at the end of 1978, was joined by the 10 offices of First Federal Savings and Loan Association of Mount Vernon.

On November 9, 1982, the Company 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 Company. 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.

In 1991, the Company added three branches with the acquisition of First Federal Savings and Loan Association of Idaho Falls, Idaho, and acquired the deposits of First Western Savings Association of Las Vegas, Nevada, in Portland and Eugene, Oregon, where they were doing business as Metropolitan Savings Association. In 1993, 10 branches were added with the acquisition of First Federal Savings Bank of Salt Lake City, Utah. In 1994, the Company expanded into Arizona.

In 1995, the stockholders approved a reorganization whereby Washington Federal Savings became a wholly owned subsidiary of a newly formed holding company, Washington Federal, Inc. That same year, the Company purchased West Coast Mutual Savings Bank with its one branch in Centralia, Washington, and opened six additional branches. In 1996, the Company acquired Metropolitan Bancorp of Seattle, adding eight offices in Washington in addition to opening four branches in existing markets. Between 1997 and 1999, Washington Federal Savings continued to develop its branch network, opening a total of seven branches and consolidating three offices into existing locations.

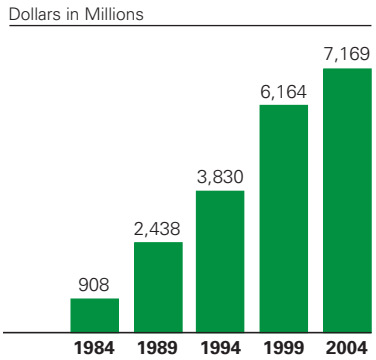
In 2000, the Company expanded into Las Vegas, opening its first branch in Nevada along with two branches in Arizona. In 2001, the Company opened two additional branches in Arizona and its first branch in Texas with an office in the Park Cities area of Dallas. In 2002, Washington Federal Savings opened five full-service branches in existing markets and entered Colorado with a loan production office. In 2003, the Company purchased United Savings and Loan Bank with its four branches in the Seattle metropolitan area, added one new branch in Puyallup, Washington and consolidated one branch in Nampa, Idaho. In 2004, the Company consolidated two branches in Mount Vernon, Washington into one, and opened branches in Plano, Texas and West Bend, Oregon.

The Company obtains its funds primarily through savings deposits from the general public, from repayments of loans, 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 small multifamily housing units, and for investment in obligations of the U.S. government, its agencies and municipalities.

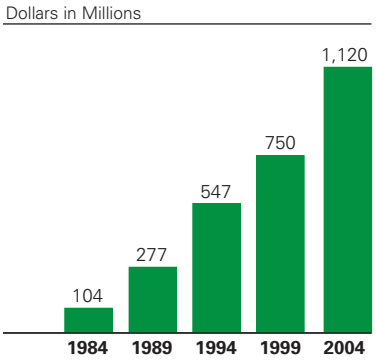
FINANCIAL HIGHLIGHTS

September 30,	2004	2003	% Change
	(In thousands, except per share data)		
Assets	$7,169,205	$7,535,975	− 5%
Cash and cash equivalents	508,361	1,437,208	−65
Investment securities	414,683	310,218	+ 34
Loans receivable and securitized assets subject to repurchase, net	5,093,443	4,817,508	+ 6
Mortgage-backed securities	641,215	625,758	+ 2
Customer accounts	4,610,358	4,577,598	+ 1
FHLB advances and other borrowings	1,300,000	1,750,000	−26
Stockholders' equity	1,120,188	1,055,596	+ 6
Net income	131,868	144,999	− 9
Diluted earnings per share	1.66	1.88	−12
Dividends per share	0.82	0.78	+ 5
Stockholders' equity per share	14.24	13.48	+ 6
Shares outstanding	78,680	78,291	—
Return on average stockholders' equity	12.12%	14.61%	—
Return on average assets	1.78	1.98	—
Efficiency ratio	18.57	16.87	—

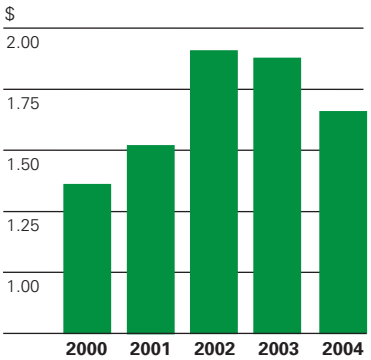
TOTAL ASSETS



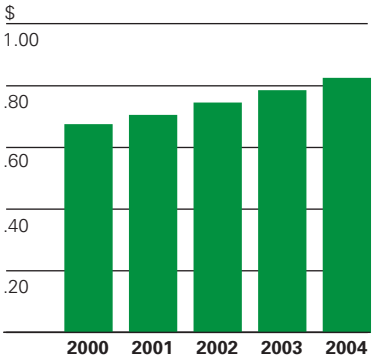
STOCKHOLDERS' EQUITY



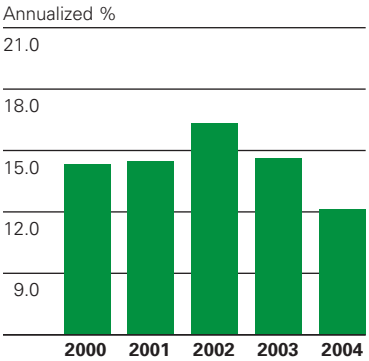
NET INCOME PER DILUTED SHARE



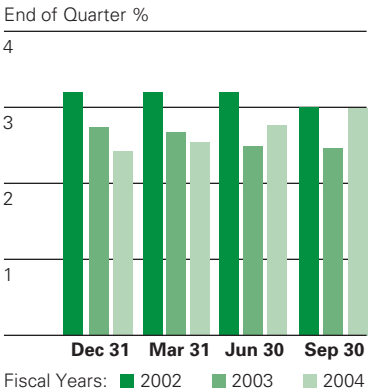
CASH DIVIDENDS PER SHARE



RETURN ON AVERAGE EQUITY



INTEREST RATE SPREAD



TO OUR STOCKHOLDERS

Dear Stockholder:

It is a privilege to report that your company made solid financial progress during the year just completed. Net income amounted to $131,868,000 and although this represented a decline of 9% from $144,999,000 reported in the prior year, it was still our third best year since going public in 1982. As always, in hindsight there are a few things that we would have done differently, but generally we are satisfied with the results achieved last year. Operating performance again compared favorably with others in the industry and your company's balance sheet grew stronger than ever. Continued confidence in our future prospects enabled your Board of Directors to increase the annual cash dividend from $.80 to $.84 per share, a 5% increase. This is the 39th time in our 22 years as a public company that a cash dividend increase has been delivered to stockholders, making Washington Federal one of only 1.4% of listed U.S. companies that have increased its cash dividend in each of the past 20 years.

During fiscal 2004, management chose not to stretch for earnings because we viewed the attendant credit and interest rate risks to be unacceptably high. Washington Federal is primarily a fixed rate mortgage lender and with rates hovering near a 40-year low point, it seemed prudent again this year to be patient with our investments. In granting credit, we also believe that we took a conservative approach. Time will tell if we succeeded in that regard; however, all asset quality indicators currently reflect a healthy loan portfolio. For example, delinquent loans declined from .68% last year to .40% of total loans at fiscal year end, the lowest in nine years. Non-performing assets also fell by 46% to only $14.9 million, while actual loan losses amounted to only $435,000. We continue to maintain significant reserves against loan losses inherent in the portfolio.

The company's capital position improved again during the past year. Total stockholders' equity increased by $65 million to $1.12 billion, or 15.62% of total assets. Ours is among the highest ratios in the industry and represents the proverbial double-edged sword. A strong capital position offers the best protection against losses due to unforeseen changes in interest rates or the housing market. Excess capital also provides management with the flexibility to take advantage of various business opportunities that may arise, such as asset purchases, acquisitions, and stock buybacks. A strong capital position is, in fact, the most important ingredient of our recipe for conservative financial management. On the other hand, absent growth of the business, at some point the return we deliver on investment will cease to properly compensate for equity risk and we should return excess capital to stockholders where it can be used more efficiently. Our biggest challenge in the near-term may be to profitably grow the business at the same rate, or a slightly faster rate, than growth of our capital base.

Other balance sheet actions taken by management last year create reasons for optimism about earnings in the new fiscal year. For example, the mix of earning assets has improved. Loans outstanding increased by $276 million, due to record originations of $2.1 billion and slower prepayment speeds. Investments also increased by $120 million as management reduced cash by $728 million during the year, while still maintaining a higher liquidity cushion than normal as a hedge against rising rates. It's also important to point out that management chose to repay $450 million in high cost debt obligations during the year. The reduction of debt resulted in a one-time charge of $5.2 million in fiscal 2004, but will result in reduced interest expense in the future. On a combined basis these actions helped the company to improve net interest spread, the primary driver of earnings in our company, to 3.00% at year-end, a material improvement from 2.47% at the same time one year ago.

Expense control continued to be a top priority. The efficiency ratio, a measure expressing the number of pennies spent to produce one dollar of net revenue, was 18.57% last year—still the best in the industry. Thrift has always been one of the most important values at Washington Federal and it would be difficult to overstate the importance of "pinching pennies" to the success we have experienced over the years.

We continued our de novo branch expansion, albeit at a slower pace than last year, with two new branches. The first, in Plano, Texas serves as our Texas Division headquarters. We also opened our second office, known as the West Bend Branch, in the fast-growing Bend, Oregon market. At this time, we are completing plans for five new branches: three in Nevada, one in southern Oregon and another in Texas. During the past year, we also added wholesale loan

representatives in most of the major markets and we expect that they will add significant volume from that important channel in the upcoming year.

As always, I wish to conclude by expressing appreciation to all who continued their support of Washington Federal during the year. Special thanks go to our remarkable employees, our valued customers, and our steadfast Board of Directors. Finally, I wish to thank you as a stockholder, and remind you to send your friends, neighbors and relatives to Washington Federal for their home loans and savings needs. You honor us with your confidence and we will work every day to earn your continued trust.

(Standing - left to right) Edwin C. Hedlund, Executive Vice President and Secretary, Roy M. Whitehead, Vice Chairman, President and Chief Executive Officer, Linda S. Brower, Executive Vice President, (Seated - left to right) Jack B. Jacobson, Executive Vice President and Chief Lending Officer, Brent J. Beardall, Senior Vice President and Chief Financial Officer.

I hope to see you at the Annual Stockholders' Meeting on January 19, 2005, at 2:00 p.m. at the Westin Hotel in downtown Seattle.

Sincerely,

Roy M. Whitehead

Roy M. Whitehead
Vice Chairman, President and Chief Executive Officer

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

GENERAL

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

CRITICAL ACCOUNTING POLICIES

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues and expenses in the Company's consolidated financial statements. Accordingly, estimated amounts may fluctuate from one reporting period to another due to changes in assumptions underlying estimated values.

The Company has determined that the only accounting policy deemed critical to an understanding of the consolidated financial statements of Washington Federal, Inc. relates to the methodology for determining the valuation of the allowance for loan losses, as described below.

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, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company's control, which may result in losses or recoveries differing from those provided.

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 allows for the estimation risk associated with the formula and specific allowances.

INTEREST RATE RISK

The Company accepts a high level of interest rate volatility as a result of its policy to originate fixed-rate single family home loans that are longer-term than the short-term characteristics of its liabilities of customer accounts and borrowed money. The following table shows the estimated repricing periods for earning assets and paying liabilities.

	Repricing Period			
	Within One Year	After 1 year - before 4 Years	Thereafter	Total
	(In thousands)			
As of 9/30/04				
Earning Assets*	$ 2,551,680	$ 1,981,453	$2,461,843	$ 6,994,976
Paying Liabilities	(4,312,783)	(1,224,896)	(376,061)	(5,913,740)
Excess (Liabilities) Assets	$(1,761,103)	$ 756,557	$2,085,782	
Excess as % of Total Assets	−24.56%			
Policy limit for one year excess	−60.00%			

* Asset repricing period includes estimated prepayments based on historical activity

At September 30, 2004, the Company had approximately $1,761,103,000 more liabilities subject to repricing in the next year than assets, which amounted to a negative maturity gap of 25% of total assets, compared to a negative maturity gap of 16% in the prior year. The increase in the one-year maturity gap is due to the reduction of short-term assets due to the increase in loans and investments and the decrease in borrowings. By having an excess of liabilities repricing within one year over assets, the Company is subject to decreasing net interest income should rates rise. However, if the size and or mix of the balance sheet changes, rising rates may not cause a decrease net interest income. The Company's interest rate risk approach has never resulted in the recording of a monthly operating loss.

The Company's net interest spread increased from 2.47% at September 30, 2003 to 3.00% at September 30, 2004. Net interest spread represents the difference between the contractual rates of earning assets less the contractual rates of paying liabilities as of a specific date. The spread increased primarily due to the repayment of $450,000,000 in borrowings, combined with a shift in the asset mix toward long-term assets due primarily to the $275,935,000 growth in net loans.

During 2004 the Company chose to redeploy a portion of its short-term investments (a net decrease of $729 million), increase the net amount of loans and investments (a net increase of $396 million), and reduce the amount of borrowings (a decrease of $450 million). As of September 30, 2004, the Company had $708 million in cash, cash equivalents and repurchase agreements, which can be invested long-term in the future to generate additional revenues.

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.

Multi-family loans, builder construction loans and certain other loans are reviewed on an individual basis 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 are 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 were $14,945,000, or .21% of total assets at September 30, 2004 compared to $27,434,000, or .36% of total assets at September 30, 2003. Total delinquencies over 30 days were $21,419,000, or .30% of total assets at September 30, 2004 compared to $34,736,000, or .46% of total assets at September 30, 2003. The aforementioned asset quality indicators, when compared to others in the industry, demonstrate the continued excellent quality of the loan portfolio.

LIQUIDITY AND CAPITAL RESOURCES

The Company's net worth at September 30, 2004 was $1,120,188,000, or 15.6% of total assets. This is an increase of $64,592,000 from September 30, 2003 when net worth was $1,055,596,000, or 14.0% of total assets. The Company's net worth increased due in part to net income of $131,868,000, proceeds received from the exercise of common stock options of $3,517,000 and purchases by the Employee Stock Ownership Plan of $4,695,000. Net worth was reduced by $64,696,000 as a result of cash dividends paid, a decrease in accumulated other comprehensive income of $9,783,000 and $1,939,000 of stock repurchases. The ratio of net worth to total assets remains at a high level despite the distribution of 49.1% of earnings in the form of cash dividends.

Washington Federal's percentage of net worth to total assets is among the highest in the nation and is over 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 $32,760,000, or 0.7% from one year ago. Management's strategy during this phase of the interest rate cycle (low rate environment for assets) has been to keep deposit growth to a minimum until excess cash is deployed into higher yielding assets.

The Company's cash and cash equivalents amounted to $508,361,000 at September 30, 2004, a significant decrease from $1,437,208,000 one year ago. The decrease resulted primarily from the repayment of $455,191,000 in debt, the purchase of a $200,000,000 repurchase agreement maturing in March 2005 and an increase of $275,935,000 in net loans outstanding. See "Interest Rate Risk" above.

CHANGES IN FINANCIAL POSITION

Available-for-sale and held-to-maturity securities. The Company purchased $723,890,000 of securities during fiscal 2004, $666,990,000 of which have been categorized as available-for-sale and $56,900,000 of which have been classified as held-to-maturity.

The Company had $303,171,000 in sales of available-for-sale securities, resulting in a net realized loss of $890,000. As of September 30, 2004, the Company had net unrealized gains in its available-for-sale portfolio of $22,012,000.

Loans receivable and securitized assets subject to repurchase. Loans receivable and securitized assets subject to repurchase increased 5.7% to $5,093,443,000 at September 30, 2004 from $4,817,508,000 one year earlier. The increase resulted primarily from record loan production combined with reduced loan prepayments. The allowance for losses on loans and securitized assets subject to repurchase decreased $666,000 during the year primarily due to a $231,000 reversal of the reserve combined with net charge-offs due to a reduction in the Company's nonperforming loan balances as well as an improvement in the number of delinquent loans and net growth in the loan portfolio. The percentage of loans outside of Washington, Idaho, Oregon, Utah and Arizona decreased to 7.3% at September 30, 2004 from 10.5% one year earlier. Construction and land loans increased to 20.4% of the portfolio at September 30, 2004 from 16.5% at September 30, 2003. The amount of reserves allocated to impaired loans decreased to $700,000 at September 30, 2004 from an allocation of $1,000,000 in the prior year based on the estimated value of the underlying collateral of the impaired loans.

Real estate held for sale. The balance at September 30, 2004 was $8,630,000, a decrease from $16,204,000 reported one year ago, due to strong demand for housing in the Company's primary markets.

FHLB stock. FHLB stock amounted to $137,274,000 at September 30, 2004 compared with $143,851,000 one year ago. The Company chose to redeem $6,577,000 in FHLB stock. No gain or loss was recognized on the sale.

Intangible assets. On August 31, 2003, the Company acquired United Savings and Loan Bank. The acquisition produced goodwill of $19,263,000, a core deposit intangible of $4,921,000 and a non-compete agreement intangible of $575,000. The unamortized balance of the core deposit intangible and the non-compete agreement intangible were $3,523,000 and $450,000, respectively, at September 30, 2004.

Other assets. Other assets decreased $20,682,000 to $13,779,000 at September 30, 2004 due to a decrease of $12,129,000 in the amount and fair value of the Company's forward commitments as well as a change in accounting related to the Company's investment in a low income housing partnership. As of September 30, 2003, this $10 million investment was recorded at the full amount of the commitment. However, as of January 1, 2004, the accounting rules changed due to the issuance of Financial Interpretation (FIN) No. 46(R), which required investments in variable interest entities to be consolidated. As a result this investment's carrying value as of September 30, 2004 was reduced to $3,096,000.

Customer accounts. Customer accounts at September 30, 2004 totaled $4,610,358,000 compared with $4,577,598,000 at September 30, 2003, a 0.7% increase. See "Liquidity and Capital Resources" above.

FHLB advances and other borrowings. Total borrowings decreased $450,000,000, or 25.7%, to $1,300,000,000 at September 30, 2004 as the Company repaid higher interest rate borrowings. See "Interest Rate Risk" above.

Contractual obligations. The following table presents, as of September 30, 2004, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date or contractual maturity. These contractual obligations, except for the operating lease and purchase obligations, are included in the Consolidated Statements of Financial Condition. The payment amounts represent those amounts contractually due.

Contractual Obligations	Total	Less than 1 Year	1 to 5 Years	Over 5 Years
		(In thousands)		
Debt obligations	$1,300,000	$500,000	$400,000	$400,000
Operating lease obligations	7,071	1,786	3,290	1,995
Purchase commitments(1)	315,000	315,000	—	—
	$1,622,071	$816,786	$403,290	$401,995

(1) Represents commitments to purchase mortgage-backed securities. See a description in Note C.

RESULTS OF OPERATIONS

GENERAL

Fiscal 2004 net income decreased 9% from fiscal 2003. See Note S, "Selected Quarterly Financial Data (Unaudited)," which highlights the quarter-by-quarter results for the years ended September 30, 2004 and 2003.

PERIOD END SPREAD — AS OF THE DATE SHOWN

	Dec 31 2002	Mar 31 2003	Jun 30 2003	Sep 30 2003	**Dec 31 2003**	**Mar 31 2004**	**Jun 30 2004**	**Sep 30 2004**
	(In thousands)							
Interest rate on loans and mortgage-backed securities*	7.10%	6.94%	6.68%	6.40%	**6.31%**	**6.23%**	**6.16%**	**6.17%**
Interest rate on investment securities**	2.29	2.28	2.00	1.98	**1.75**	**2.26**	**2.61**	**3.01**
Combined	6.06	5.84	5.49	5.28	**5.21**	**5.30**	**5.44**	**5.62**
Interest rate on customer accounts	2.65	2.42	2.19	1.96	**1.92**	**1.87**	**1.90**	**1.96**
Interest rate on borrowings	5.03	5.03	5.03	5.03	**5.03**	**5.03**	**5.03**	**4.96**
Combined	3.32	3.16	3.00	2.81	**2.78**	**2.75**	**2.67**	**2.62**
Interest rate spread	2.74%	2.68%	2.49%	2.47%	**2.43%**	**2.55%**	**2.77%**	**3.00%**

* Includes securitized assets subject to repurchase

** Includes municipal bonds at tax-equivalent rates and cash equivalents

The interest rate spread increased during fiscal 2004 from 2.47% at September 30, 2003 to 3.00% at September 30, 2004. See "Interest Rate Risk" above.

COMPARISON OF FISCAL 2004 RESULTS WITH FISCAL 2003

Interest income on loans, securitized assets subject to repurchase and mortgage-backed securities decreased $35,786,000 (8.6%) in fiscal 2004 from 2003 as interest rates declined to 6.17% from 6.40% one year ago. The Company originated $2,070,984,000 in loans, which was offset by loan repayments and payoffs of $1,693,142,000 in fiscal 2004.

Interest and dividend income on investment securities and cash equivalents increased $263,000 (0.8%) in fiscal 2004 from fiscal 2003. Rates increased to 3.01% at September 30, 2004 compared with 1.98% at September 30, 2003, primarily as a result of the increase in short-term interest rates during 2004. The combined investment securities, cash equivalents and FHLB stock portfolio decreased 34.1% to $1,211,957,000 at September 30, 2004 versus $1,839,847,000 one year ago.

Interest expense on customer accounts decreased 18.7% to $86,099,000 for fiscal 2004 from $105,919,000 for fiscal 2003. The decrease related to a small increase in customer accounts to $4,610,358,000 from $4,577,598,000 the prior year, coupled with a significant decrease in the average cost of customer accounts to 1.89% at year end compared to 2.38% one year ago. This decrease was primarily the result of higher rate CD's repricing throughout the year to lower market rates.

Interest expense on FHLB advances and other borrowings decreased to $83,654,000 in fiscal 2004 from $88,965,000 in fiscal 2003 primarily due to the repayment of $450,000,000 in FHLB advances during the year. The average cost of borrowings as of September 30, 2004 decreased to 4.96% from 5.03% from one year ago.

The Company recorded a $231,000 reversal of the provision for loan losses in fiscal 2004 compared to a $1,500,000 increase in the provision in fiscal 2003. This decrease reflects a reduction in the Company's nonperforming loan balances as well as an improvement in the number of delinquent loans. Non-performing assets decreased to $14,945,000, or .21% of total assets at September 30, 2004 compared with $27,434,000, or .36% of total assets at September 30, 2003. Management believes the allowance for loan losses, totaling $25,140,000, or 168% of non-performing assets, is sufficient to absorb estimated losses inherent in the portfolio.

Total other income decreased $11,622,000 (69.3%) in fiscal 2004 from fiscal 2003. This decrease is primarily the result of a one-time pre-tax charge of $5,191,000 related to the extinguishment of debt in fiscal 2004 compared to a $3,382,000 gain on the sale of real estate in fiscal 2003. Net losses on the sale of securities totaled $890,000 in fiscal 2004 compared to net gains of $1,040,000 in fiscal 2003.

Total other expense increased $505,000 (1.1%) in fiscal 2004 over fiscal 2003. Compensation expense remained relatively constant by increasing $565,000 in fiscal 2004. Personnel, including part-time employees considered on a full-time equivalent basis, remained the same at 754 at September 30, 2004 compared to one year ago. Routine operating expenses, including data processing, decreased $2,346,000 in fiscal 2004 due to an increase of deferred loan origination costs associated with record production (per SFAS No. 91) and general cost containment measures. The branch network increased to 120 offices at September 30, 2004 versus 119 offices one year ago. Other expense for both fiscal 2004 and 2003 equaled .62% of average assets.

Income tax expense decreased $2,836,000 (3.5%) in fiscal 2004. The effective tax rate was 35.27% for fiscal 2004 versus 35.19% for fiscal 2003.

COMPARISON OF FISCAL 2003 RESULTS WITH FISCAL 2002

Interest income on loans, securitized assets subject to repurchase and mortgage-backed securities decreased $73,935,000 (15.1%) in fiscal 2003 from 2002 as interest rates declined to 6.40% from 7.26% one year ago. The Company originated $1,867,112,000 in loans, which was more than offset by loan repayments and payoffs of $2,604,297,000 in fiscal 2003.

Interest and dividend income on investment securities and cash equivalents increased $11,428,000 (50.7%) in fiscal 2003 from fiscal 2002. Rates declined to 1.98% at September 30, 2003 compared with 2.82% at September 30, 2002. The combined investment securities, cash equivalents and FHLB stock portfolio increased 56.4% to $1,839,847,000 at September 30, 2003 versus $1,176,737,000 one year ago.

Interest expense on customer accounts decreased 30.4% to $105,919,000 for fiscal 2003 from $152,288,000 for fiscal 2002. The decrease related to a small increase in customer accounts to $4,577,598,000 from $4,521,922,000 the prior year, coupled with a significant decrease in the cost of customer accounts to 1.96% at year end compared to 2.94% one year ago.

Interest expense on FHLB advances and other borrowings increased to $88,965,000 in fiscal 2003 from $82,653,000 in fiscal 2002 primarily due to an increase in average borrowings to $1,750,648,000 for the year ended September 30, 2003 from $1,568,220,000 for the prior year. The average cost of borrowings as of September 30, 2003 remained constant at 5.03% from one year ago.

The provision for loan losses was $1,500,000 for fiscal 2003 compared to $7,000,000 in fiscal 2002. This decrease reflects the continued decline in the amount of the loan portfolio combined with strong asset quality indicators. Non-performing assets remained low at $27,434,000, or .36% of total assets at September 30, 2003 compared with $33,876,000, or .46% of total assets at September 30, 2002. Management believes the allowance for loan losses, totaling $25,806,000, or 94% of non-performing assets, is adequate to absorb estimated losses inherent in the portfolio.

Total other income increased $6,720,000 (66.9%) in fiscal 2003 from fiscal 2002. This increase is primarily the result of fee income related to prepayments and the refinancing of mortgage loans and a $3,382,000 gain on the sale of real estate. Net gains on the sale of securities totaled $1,040,000 in fiscal 2003 compared to $765,000 in fiscal 2002.

Total other expense decreased $5,069,000 (10.0%) in fiscal 2003 over fiscal 2002. Compensation expense decreased $3,213,000 in fiscal 2003, primarily attributable to a larger bonus being paid to all employees in fiscal 2002 versus fiscal 2003. Routine operating expenses, including data processing, decreased $2,044,000 in fiscal 2003 due to reduced depreciation expense of $422,000 and general cost containment measures. Personnel, including part-time employees considered on a full-time equivalent basis, increased to 754 at September 30, 2003 compared to 726 at September 30, 2002. The branch network increased to 119 offices at September 30, 2003 versus 115 offices one year ago. The United acquisition added 36 full-time equivalent employees and four branches. Other expense for fiscal 2003 equaled .61% of average assets compared with .70% in fiscal 2002.

Income tax expense decreased $2,088,000 (2.6%) in fiscal 2003. The effective tax rate was 35.19% for fiscal 2003 versus 35.26% for fiscal 2002.

SELECTED FINANCIAL DATA

Year ended September 30,	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
Interest income	**$ 413,772**	$ 449,295	$ 511,802	$ 540,064	$ 495,949
Interest expense	**169,753**	194,884	234,941	320,120	299,511
Net interest income	**244,019**	254,411	276,861	219,944	196,438
Provision for (reversal of) loan losses	**(231)**	1,500	7,000	1,850	—
Other income	**5,726**	16,571	10,163	12,013	11,309
Other expense	**46,264**	45,759	50,828	48,697	44,568
Income before income taxes	**203,712**	223,723	229,196	181,410	163,179
Income taxes	**71,844**	78,724	80,812	63,946	57,500
Net income	**$ 131,868**	$ 144,999	$ 148,384	$ 117,464	$ 105,679
Per share data					
Basic earnings	**$ 1.68**	$ 1.89	$ 1.93	$ 1.53	$ 1.37
Diluted earnings	**1.66**	1.88	1.91	1.52	1.36
Cash dividends	**0.82**	0.78	0.74	0.70	0.67

September 30,	2004	2003	2002	2001	2000
	(In thousands)				
Total assets	**$7,169,205**	$7,535,975	$7,392,441	$7,026,743	$6,719,841
Loans and mortgage-backed securities*	**5,734,658**	5,443,266	5,990,223	6,537,010	6,277,340
Investment securities**	**1,074,683**	1,696,169	1,044,417	145,724	142,992
Customer accounts	**4,610,358**	4,577,598	4,521,922	4,316,692	3,465,270
FHLB advances	**1,200,000**	1,650,000	1,650,000	1,637,500	1,209,000
Other borrowings	**100,000**	100,000	100,000	30,000	1,154,509
Stockholders' equity	**1,120,188**	1,055,596	960,718	874,009	759,165
Number of					
Customer accounts	**216,405**	217,785	213,404	211,570	191,343
Mortgage loans	**34,873**	33,975	38,096	42,032	41,741
Offices	**120**	119	115	111	108

* Includes securitized assets subject to repurchase

** Includes cash equivalents and repurchase agreements

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

September 30,	2004	2003
	(In thousands)	
ASSETS		
Cash and cash equivalents, including repurchase agreements of $460,000 and $1,350,000	**$ 508,361**	$1,437,208
Repurchase agreements	**200,000**	—
Available-for-sale securities, including encumbered securities of $64,587 and $76,921, at fair value	**899,525**	781,798
Held-to-maturity securities, including encumbered securities of $54,811 and $75,690, at amortized cost	**156,373**	154,178
Securitized assets subject to repurchase, net	**110,607**	210,782
Loans receivable, net	**4,982,836**	4,606,726
Interest receivable	**29,832**	29,489
Premises and equipment, net	**63,049**	60,942
Real estate held for sale	**8,630**	16,204
FHLB stock	**137,274**	143,851
Intangible assets	**58,939**	60,336
Other assets	**13,779**	34,461
	$7,169,205	$7,535,975
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Customer accounts		
Savings accounts	**$4,569,245**	$4,520,051
Repurchase agreements with customers	**41,113**	57,547
	4,610,358	4,577,598
FHLB advances	**1,200,000**	1,650,000
Other borrowings, primarily securities sold under agreements to repurchase	**100,000**	100,000
Advance payments by borrowers for taxes and insurance	**25,226**	23,281
Federal and state income taxes, including net deferred liabilities of $55,522 and $70,485	**62,081**	70,011
Accrued expenses and other liabilities	**51,352**	59,489
	6,049,017	6,480,379
Stockholders' equity		
Common stock, $1.00 par value, 100,000,000 shares authorized, 94,383,496 and 94,109,168 shares issued; 78,679,597 and 78,290,836 shares outstanding	**94,383**	85,554
Paid-in capital	**1,161,627**	1,085,650
Accumulated other comprehensive income, net of tax	**17,107**	26,890
Treasury stock, at cost; 15,703,899 and 15,818,332 shares	**(206,666)**	(207,337)
Retained earnings	**53,737**	64,839
	1,120,188	1,055,596
	$7,169,205	$7,535,975

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended September 30,	2004	2003	2002
	(In thousands, except per share data)		
INTEREST INCOME			
Loans and securitized assets subject to repurchase	$ 330,967	$ 353,286	$ 406,262
Mortgage-backed securities	48,554	62,021	82,980
Investment securities	34,251	33,988	22,560
	413,772	449,295	511,802
INTEREST EXPENSE			
Customer accounts	86,099	105,919	152,288
FHLB advances and other borrowings	83,654	88,965	82,653
	169,753	194,884	234,941
Net interest income	244,019	254,411	276,861
Provision for (reversal of) loan losses	(231)	1,500	7,000
Net interest income after provision for loan losses	244,250	252,911	269,861
OTHER INCOME			
Gain (loss) on sale of securities, net	(890)	1,040	765
Gain on sale of real estate	—	3,382	—
Loss on extinguishment of debt	(5,191)	—	—
Other	11,224	12,343	9,280
	5,143	16,765	10,045
OTHER EXPENSE			
Compensation and fringe benefits	31,411	30,846	34,059
Amortization of intangibles	1,397	126	—
Occupancy expense	7,813	6,798	6,735
Other	5,643	7,989	10,034
	46,264	45,759	50,828
Gain (loss) on real estate acquired through foreclosure, net	583	(194)	118
Income before income taxes	203,712	223,723	229,196
Income taxes			
Current	77,270	80,106	81,835
Deferred	(5,426)	(1,382)	(1,023)
	71,844	78,724	80,812
NET INCOME	$ 131,868	$ 144,999	$ 148,384
PER SHARE DATA			
Basic earnings	$ 1.68	$ 1.89	$ 1.93
Diluted earnings	1.66	1.88	1.91
Cash dividends	0.82	0.78	0.74
Weighted average number of shares outstanding, including dilutive stock options	79,209,806	77,255,964	77,575,477

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
Balance at October 1, 2001	$ 69,006	$ 893,633	$ 53,432	$ 47,150	$ (189,212)	$ 874,009
Eleven-for-ten stock split distributed February 22, 2002	6,905	70,824	(77,792)			(63)
Comprehensive income:						
Net income			148,384			148,384
Other comprehensive income, net of tax of $310:						
Unrealized gains on securities and derivatives				1,065		1,065
Reclassification adjustment for losses on securities sold				(495)		(495)
Total comprehensive income						148,954
Dividends			(57,383)			(57,383)
Proceeds from exercise of common stock options	282	3,462				3,744
Proceeds from Employee Stock Ownership Plan		461			1,157	1,618
Restricted stock	19	478	(434)			63
Treasury stock purchases					(10,224)	(10,224)
Balance at September 30, 2002	76,212	968,858	66,207	47,720	(198,279)	960,718
Eleven-for-ten stock split distributed February 21, 2003	7,622	79,612	(87,369)			(135)
Comprehensive income:						
Net income			144,999			144,999
Other comprehensive income, net of tax of $11,340:						
Unrealized losses on securities and derivatives				(20,157)		(20,157)
Reclassification adjustment for losses on securities sold				(673)		(673)
Total comprehensive income						124,169
Dividends			(60,004)			(60,004)
Proceeds from exercise of common stock options	357	4,369				4,726
Tax benefit related to exercise of stock options			1,218			1,218
Proceeds from Employee Stock Ownership Plan		546			976	1,522
Restricted stock	14	332	(212)			134
Acquisition-related stock issuance	1,349	31,933				33,282
Treasury stock purchases					(10,034)	(10,034)
Balance at September 30, 2003	85,554	1,085,650	64,839	26,890	(207,337)	1,055,596
Eleven-for-ten stock split distributed February 20, 2004	**8,558**	**70,066**	**(78,624)**			**—**
Comprehensive income:						
Net income			**131,868**			**131,868**
Other comprehensive income, net of tax of $5,326:						
Unrealized losses on securities and derivatives				**(10,359)**		**(10,359)**
Reclassification adjustment for gains on securities sold				**576**		**576**
Total comprehensive income						**122,085**
Dividends			**(64,696)**			**(64,696)**
Proceeds from exercise of common stock options	**250**	**3,267**				**3,517**
Tax benefit related to exercise of stock options			**748**			**748**
Proceeds from Employee Stock Ownership Plan		**2,085**			**2,610**	**4,695**
Restricted stock	**21**	**559**	**(398)**			**182**
Treasury stock purchases					**(1,939)**	**(1,939)**
Balance at September 30, 2004	**$94,383**	**$1,161,627**	**$ 53,737**	**$ 17,107**	**$(206,666)**	**$1,120,188**

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended September 30,	2004	2003	2002
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 131,868	$ 144,999	$ 148,384
Adjustments to reconcile net income to net cash provided by operating activities			
Amortization of fees, discounts and premiums, net	(12,792)	(12,206)	(14,719)
Amortization of intangible assets	1,397	126	—
Depreciation	2,624	3,099	3,521
Provision for (reversal of) loan losses	(231)	1,500	7,000
Loss (gain) on investment securities and real estate held for sale, net	306	(4,228)	(883)
Loss on extinguishment of debt	5,191	—	—
Decrease (increase) in accrued interest receivable	(343)	9,126	8,777
Increase (decrease) in income taxes payable	1,607	(5,308)	(11,883)
FHLB stock redemption (dividends)	6,577	(8,155)	(7,959)
Decrease (increase) in other assets	10,195	(11,202)	3,810
Increase (decrease) in accrued expenses and other liabilities	(8,137)	3,226	1,634
Net cash provided by operating activities	138,262	120,977	137,682
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans originated			
Single-family residential loans	(1,108,216)	(1,059,450)	(851,279)
Construction loans	(580,882)	(487,692)	(363,420)
Land loans	(244,048)	(163,533)	(87,212)
Multi-family loans	(137,838)	(156,437)	(128,923)
	(2,070,984)	(1,867,112)	(1,430,834)
Savings account loans originated	(1,779)	(1,866)	(5,765)
Loan principal repayments	1,693,142	2,604,297	1,823,281
Increase (decrease) in undisbursed loans in process	127,591	71,804	(13,323)
Loans purchased	(31,911)	(417,669)	(60,874)
Repurchase agreements purchased	(200,000)	—	—
Available-for-sale securities purchased	(666,990)	(459,895)	(180,683)
Principal payments and maturities of available-for-sale securities	250,431	487,438	344,986
Available-for-sale securities sold	303,171	80,000	10,000
Held-to-maturity securities purchased	(56,900)	(100,100)	—
Principal payments and maturities of held-to-maturity securities	55,196	115,812	80,154
Cash provided by acquisition	—	94,314	—
Proceeds from sales of real estate held for sale	14,816	16,342	19,603
Premises and equipment purchased, net	(4,731)	(4,730)	(4,398)
Net cash provided (used) by investing activities	(588,948)	618,635	582,147
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in customer accounts	32,760	(214,248)	205,230
Net decrease in short-term borrowings	(255,191)	—	(117,500)
Proceeds from (repayments of) long-term borrowings	(200,000)	—	200,000
Proceeds from exercise of common stock options	4,265	5,944	3,744
Dividends paid	(64,696)	(60,004)	(57,383)
Proceeds from Employee Stock Ownership Plan	4,695	1,522	1,618
Treasury stock purchased, net	(1,939)	(10,034)	(10,224)
Increase (decrease) in advance payments by borrowers for taxes and insurance	1,945	(737)	(492)
Net cash provided (used) by financing activities	(478,161)	(277,557)	224,993
Increase (decrease) in cash and cash equivalents	(928,847)	462,055	944,822
Cash and cash equivalents at beginning of year	1,437,208	975,153	30,331
Cash and cash equivalents at end of year	$ 508,361	$ 1,437,208	$ 975,153

CONSOLIDATED STATEMENTS OF CASH FLOWS *(CONTINUED)*

Year ended September 30,	**2004**	2003	2002
		(In thousands)	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Non-cash investing activities			
Real estate acquired through foreclosure	**$ 6,659**	$ 11,771	$ 20,294
Cash paid during the year for			
Interest	**172,195**	195,360	237,480
Income taxes	**75,004**	83,878	90,743
The following summarizes the non-cash activities relating to the acquisition			
Fair value of assets and intangibles acquired, including goodwill	**$ —**	$ (343,626)	$ —
Fair value of liabilities assumed	**—**	276,872	—
Fair value of stock issued	**—**	33,282	—
Cash paid out in acquisition	**—**	(33,472)	—
Plus cash acquired	**—**	127,786	—
Net cash provided by the acquisition	**$ —**	$ 94,314	$ —

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation. The consolidated financial statements include the accounts of Washington Federal, Inc. (Company or Washington Federal) 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. 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 multi-family real estate loans. The Company conducts its activities from a network of 120 offices located in Washington, Oregon, Idaho, Utah, Arizona, Nevada, Texas and Colorado.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, amounts due from banks, overnight investments and repurchase agreements with an initial maturity of three months or less.

Repurchase Agreements. Repurchase agreements are fully collateralized investments with an initial maturity exceeding three months.

Investments and mortgage-backed securities. The Company accounts for investments 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 through earnings is provided if 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 the accumulated other comprehensive income component of stockholders' equity.

Management evaluates debt and equity securities for other than temporary impairment on a quarterly basis based on the securities' current credit quality, interest rates, term to maturity and management's intent and ability to hold the securities until the net book value is recovered. Any other than temporary declines in fair value are recognized in the statement of operations as loss from securities.

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

Forward contracts to purchase mortgage-backed securities are recorded at fair value on the statement of financial condition as a part of other assets. These contracts are designated by the Company as cash flow hedges of the price risk of the anticipated purchase of securities. On the date the Company enters into a derivative contract, the derivative instrument is designated as a hedge of the variability in expected future cash flows associated with a probable future transaction. The Company uses a series of short-term commitments that are modified (rolled) to match the term of the anticipated transaction. Under cash flow hedge accounting, if specific criteria are met, the effective portion of the derivative instrument is recognized as a component of stockholders' equity through comprehensive income until the related forecasted transaction affects earnings, either through the recognition of interest income or through the sale of the security. To the extent that forward contracts to purchase securities are not designated as cash flow hedges or 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 effective portion of the change in market value associated with the contract is recorded through comprehensive income. To the extent that forward sales contracts are not designated as cash flow hedges or fail to meet hedging criteria, the fair value of the contracts will be recorded in earnings. The Company records forward purchases and forward sales contracts net, where it has the legal right of offset, in other assets.

The Company is hedging the spot price at inception of the hedge. Changes to the contractual price of the forward contract over the length of time the contract is rolled forward are excluded from the effectiveness test and included in earnings. There is no ineffectiveness associated with the changes in the spot price from inception to delivery of the contract because the underlying security of the derivative instrument is the same as that of the forecasted transaction.

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 statement of financial condition 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, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions, and the duration of the current business cycle. The recovery of the carrying value of loans is susceptible to future market conditions beyond the Company's control, which may result in losses or recoveries differing from those provided.

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 allows for the estimation risk associated with the formula and specific allowances.

Impaired loans consist of loans receivable that will not be repaid in accordance with their contractual terms and are measured using the fair value of the collateral. Smaller balance loans are excluded from this analysis.

Premises and equipment. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Expenditures are capitalized for betterments and major renewals. 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.

Intangible assets. Goodwill represents the excess of the cost of businesses acquired over the fair value of the net assets acquired. The core deposit intangible and non-compete agreement intangible are acquired assets that lack physical substance but can be distinguished from goodwill. Goodwill is no longer amortized, but rather is evaluated for impairment on an annual basis. Other intangible assets are amortized over their estimated lives and are subject to impairment testing when events or circumstances change. If circumstances indicate that the carrying value of the assets may not be recoverable, an impairment charge could be recorded. No impairment of intangible assets has ever been identified. The Company amortizes the core deposit intangible on an accelerated basis over its estimated life of seven years; the non-compete agreement intangible is amortized on a straight-line basis over its life of five years.

Deferred fees and discounts on loans. Loan discounts and loan fees are deferred and recognized over the life of the loans using the effective interest method based on actual loan payments. Deferred loan origination costs are deducted from other expenses.

Accounting for stock-based compensation. 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 application of the fair value recognition provisions in the statement. Companies may continue following rules to recognize and measure compensation as outlined in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", but are now required to disclose the pro forma 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 stock-based employee compensation arrangements under the provisions of APB Opinion No. 25 and related Interpretations. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" which provides guidance on the transition from the intrinsic value method of accounting for stock-based employee compensation under APB Opinion No. 25 to the fair value method described in SFAS No. 123, if a company elects to do so. The Company has elected to continue to follow the intrinsic value method in accounting for stock options as provided in APB Opinion No. 25.

The Company has three stock option employee compensation plans, which are described more fully in Note N. The fair value of options granted under the Company's stock option plans is estimated on the date of grant using the Black-Scholes option-pricing model which utilizes the weighted-average assumptions in the following table:

Year ended September 30,	**2004**	2003	2002
Annual dividend yield	**3.42%**	4.19%	4.00%
Expected volatility	**27%**	28%	27%
Risk-free interest rate	**3.14%**	2.63%	3.52%
Expected life	**5 years**	5 years	5 years

No stock option employee compensation cost is reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant, and the number of shares of each grant is fixed at the grant date. The following table illustrates

the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123:

Year ended September 30,	2004	2003	2002
	(In thousands, except per share data)		
Net income, as reported	**$131,868**	$144,999	$148,384
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(1,824)**	(1,111)	(1,149)
Pro forma net income	**$130,044**	$143,888	$147,235
Earnings per share:			
Basic – as reported	**$ 1.68**	$ 1.89	$ 1.93
Basic – pro forma	**1.66**	1.88	1.92
Diluted – as reported	**1.66**	1.88	1.91
Diluted – pro forma	**1.64**	1.86	1.90

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 quarters of fiscal 2004, 2003 and 2002, 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 dividends.

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

Accounting changes. In December 2003, the FASB revised FIN No. 46, "Consolidation of Variable Interest Entities". This revision provides modified accounting guidance on how to identify and account for a variable interest entity ("VIE") and determine when the assets, liabilities, non-controlling interest and results of operation of a VIE need to be included in a corporation's consolidated financial statements. The revision of FIN 46 required the Company to consolidate its $3,096,000 investment in a low-income housing partnership.

In March of 2004, the Emerging Issues Task Force ("EITF") reached consensus on the guidance provided in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". Among other investments, this guidance is applicable to debt and equity securities that are within the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Paragraph 10 of EITF 03-1 specifies that an impairment would be considered other-than-temporary unless (a) the investor has the ability and intent to hold an investment for a reasonable period of time sufficient for the recovery of the fair value up to (or beyond) the cost of the investment and (b) evidence indicating that the cost of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. A company's liquidity and capital requirements should be considered when assessing its intent and ability to hold an investment for a reasonable period of time that would allow the fair value of the investment to recover up to or beyond its cost. Although not presumptive, a pattern of selling investments prior to the forecasted fair value recovery may call into question a company's intent. In addition, the severity and duration of the impairment should also be considered when determining whether the impairment is other-than-temporary. This guidance was effective for reporting periods beginning after June 15, 2004 with the exception of paragraphs 10 - 20 of EITF 03-1, which will be deliberated further. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. After the FASB

completes their deliberations with respect to paragraphs 10 - 20, the Company will evaluate the potential impact of those paragraphs on its process for determining whether other-than-temporary declines exist within its debt and equity investment securities portfolio. The outcome of this deliberation may accelerate the recognition of losses from declines in value on debt securities due to interest rates; however, it is not anticipated to have a significant impact on stockholders' equity as changes in market value of available-for-sale securities are already included in Accumulated Other Comprehensive Income.

Reclassifications. Certain reclassifications have been made to the financial statements for years prior to September 30, 2004 to conform to current year classifications.

NOTE B INVESTMENT SECURITIES

September 30,	2004				
	(In thousands)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Available-for-sale securities					
U.S. government and agency securities due					
Within 1 year	$ 328,503	$ 379	$(4,546)	$ 324,336	4.47%
5 to 10 years	38,628	970	(671)	38,927	5.96
Over 10 years	9,281	5,078	—	14,359	10.41
Mortgage-backed securities					
Agency pass-through certificates	501,102	21,222	(421)	521,903	6.16
	877,514	27,649	(5,638)	899,525	5.56
Held-to-maturity securities					
Tax-exempt municipal bonds due					
5 to 10 years	1,804	309	—	2,113	9.06
Over 10 years	8,357	1,052	—	9,409	8.61
U.S. government and agency securities due					
1 to 5 years	26,900	—	—	26,900	2.95
Mortgage-backed securities					
Agency pass-through certificates	119,312	2,705	(1,647)	120,370	5.76
	156,373	4,066	(1,647)	158,792	5.47
	$1,033,887	$31,715	$(7,285)	$1,058,317	5.55%

September 30,	2003				
	(In thousands)				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Available-for-sale securities					
Mutual fund investments	$170,000	$ —	$ (960)	$169,040	2.37%
U.S. government and agency securities due					
Within 1 year	96,461	442	(27)	96,876	7.08
5 to 10 years	10,509	—	(9)	10,500	5.36
Over 10 years	13,941	5,732	—	19,673	9.29
Mortgage-backed securities					
Agency pass-through certificates	462,948	22,922	(161)	485,709	6.14
	753,859	29,096	(1,157)	781,798	5.46
Held-to-maturity securities					
Tax-exempt municipal bonds due					
5 to 10 years	3,989	371	—	4,360	8.92
Over 10 years	10,140	1,216	—	11,356	8.67
U.S. government and agency securities due					
1 to 5 years	—	—	—	—	—
Mortgage-backed securities					
Agency pass-through certificates	140,049	4,506	(1,185)	143,370	6.27
	154,178	6,093	(1,185)	159,086	6.50
	$908,037	$35,189	$(2,342)	$940,884	5.63%

Yields shown in the tables above represent tax-equivalent yields, calculated as 1.49 times the tax-free municipal yield.

$303.2 million in available-for-sale investment securities and a $1.8 million held-to-maturity (HTM) security were sold in fiscal 2004, resulting in a net loss of $890,000. The $1.8 million HTM security sale did not taint the remaining HTM securities in the Company's portfolio because over 87% of the related principal had been collected. $80.0 million in available-for-sale securities were sold in fiscal 2003, resulting in a net gain of $1,040,000. A $10.0 million available-for-sale security was sold in fiscal 2002, resulting in a gain of $765,000.

Substantially all mortgage-backed securities have contractual due dates that exceed 10 years.

The following table shows the unrealized gross losses and fair value of securities in the available-for-sale portfolio at September 30, 2004, by length of time that individual securities in each category have been in a continuous loss position. The Company had a limited number of securities in a continuous loss position for 12 or more months at September 30, 2004, which consisted of mortgage-backed securities and bonds. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows, no other-than-temporary impairment was recorded at September 30, 2004.

As of September 30,	**2004**					
	(In thousands)					
	Less than 12 months		12 months or more		Total	
	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value	Unrealized Gross Losses	Fair Value
U.S. agency securities	**$(5,214)**	**$ 85,413**	**$ (3)**	**$ 500**	**$(5,217)**	**$ 85,913**
Agency pass-through certificates	**(207)**	**39,707**	**(214)**	**10,558**	**(421)**	**50,265**
	$(5,421)	**$125,120**	**$(217)**	**$11,058**	**$(5,638)**	**$136,178**

NOTE C DERIVATIVE INSTRUMENTS

The Company accepts a high level of interest rate risk as a result of its policy to originate fixed-rate single family home loans that 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 and sell mortgage-backed securities as part of its interest rate risk management program. These forward contracts are derivative instruments as defined by SFAS No. 133, as amended. The forward contracts allow the Company to hedge the risk of varying mortgage-backed securities prices in the future as the result of changes in interest rates. The estimated amount of net unrealized gains that may be recorded through earnings in the next twelve months is $0.5 million (after tax), assuming a 20% prepayment of principal of the underlying security. The net after tax impact of excluding the changes in the contractual price of the forward commitments from the effectiveness test was $4,086,000, $2,321,000 and $8,702,000 for fiscal years 2004, 2003 and 2002, respectively. These amounts were recorded through the statement of operations as additions to interest income on mortgage-backed securities. The Company has determined anticipated purchase dates for each forward commitment to purchase ranging from October 2004 through February 2007. The net fair value of these contracts is included as a part of other assets. The related mortgage-backed securities are designated as available-for-sale securities upon exercise of the commitments to purchase.

The notional amounts, fair value and unrealized gains (losses) on the forward contracts were as follows:

September 30,	2004			2003		
	(In thousands)					
	Notional Amount	Fair Value	Unrealized Gain (Loss)	Notional Amount	Fair Value	Unrealized Gain (loss)
Commitments to purchase	**$315,000**	**$10,259**	**$4,167**	$320,000	$28,909	$18,281
Commitments to sell	—	—	—	160,000	(6,521)	(4,456)

NOTE D LOANS RECEIVABLE AND SECURITIZED ASSETS SUBJECT TO REPURCHASE

September 30,	**2004**	2003
	(In thousands)	
Conventional real estate		
Single-family residential	**$3,982,632**	$3,851,720
Multi-family	**467,354**	479,129
Land	**297,350**	217,214
Construction	**845,260**	639,058
	5,592,596	5,187,121
Less		
Allowance for loan losses	**25,140**	25,806
Loans in process	**435,128**	307,537
Deferred loan origination fees	**38,885**	36,270
	499,153	369,613
	$5,093,443	$4,817,508

The Company originates adjustable and fixed interest rate loans, which at September 30, 2004 consisted of the following:

Fixed-Rate		Adjustable-Rate	
Term to Maturity	Book Value	Term to Rate Adjustment	Book Value
	(In thousands)		(In thousands)
Within 1 year	$ 24,834	Less than 1 year	$ 732,014
1 to 3 years	108,545	1 to 3 years	160,060
3 to 5 years	67,434	3 to 5 years	135,591
5 to 10 years	265,432	5 to 10 years	13,142
10 to 20 years	462,975	10 to 20 years	—
Over 20 years	3,622,569	Over 20 years	—
	$4,551,789		$1,040,807

At September 30, 2004 and 2003, approximately $36,214,000 and $52,287,000 of fixed-rate loan origination commitments were outstanding, respectively. Loans serviced for others at September 30, 2004 and 2003 were approximately $22,368,000 and $35,415,000, respectively.

Permanent single-family residential loans receivable included adjustable-rate loans of $66,431,000 and $101,719,000 at September 30, 2004 and 2003, respectively. These loans have interest rate adjustment limitations and are generally indexed to the 1-year Treasury Bill rate or the monthly weighted-average cost of funds for Eleventh District savings institutions as published by the FHLB.

Loans by geographic concentration were as follows:

September 30, 2004	Washington	Idaho	Oregon	Utah	Arizona	Other	Total
			(In thousands)				
Conventional real estate							
Single-family residential	$1,675,836	$460,490	$ 682,603	$413,322	$401,105	$349,276	$3,982,632
Multi-family	90,948	37,533	192,526	31,778	89,713	24,856	467,354
Land	159,774	40,794	25,845	25,794	34,693	10,450	297,350
Construction	391,697	113,604	155,035	90,195	68,517	26,212	845,260
	$2,318,255	$652,421	$1,056,009	$561,089	$594,028	$410,794	$5,592,596

At September 30, 2004, the Company's recorded investment in impaired loans was $2.2 million with allocated reserves of $0.7 million. At September 30, 2003 the Company's recorded investment in impaired loans was $9.6 million with allocated reserves of $1.0 million. The average balance of impaired loans during 2004, 2003 and 2002 was $4.6 million, $13.3 million and $12.7 million and interest income from impaired loans was $283,000, $851,000 and $922,000, respectively.

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

Year ended September 30,	2004	2003	2002
		(In thousands)	
Balance at beginning of year	$25,806	$23,912	$19,683
Provision for (reversal of) loan losses	(231)	1,500	7,000
Charge-offs	(528)	(1,310)	(3,401)
Recoveries	93	107	630
Acquired reserves	—	1,597	—
Balance at end of year	$25,140	$25,806	$23,912

NOTE F INTEREST RECEIVABLE

September 30,	2004	2003
	(In thousands)	
Loans receivable and securitized assets subject to repurchase	**$24,094**	$24,929
Allowance for uncollected interest on loans receivable	**(464)**	(807)
Mortgage-backed securities	**3,159**	3,043
Investment securities	**3,043**	2,324
	$29,832	$29,489

NOTE G PREMISES AND EQUIPMENT

September 30,	Estimated Useful Life	2004	2003
		(In thousands)	
Land	—	**$ 21,109**	$ 18,982
Buildings	25 - 40	**57,476**	55,509
Leasehold improvements	7 - 15	**5,564**	5,409
Furniture, fixtures and equipment	2 - 10	**14,484**	15,446
		98,633	95,346
Less accumulated depreciation		**(35,584)**	(34,404)
		$ 63,049	$ 60,942

The Company has non-cancelable operating leases for branch offices. Future minimum net rental commitments for all non-cancelable leases, including maintenance and associated costs, are immaterial. Rental expense, including amounts paid under month-to-month cancelable leases, amounted to $1,949,000, $1,862,000 and $1,895,000 in 2004, 2003 and 2002, respectively.

NOTE H REAL ESTATE HELD FOR SALE

September 30,	2004	2003
	(In thousands)	
Acquired for development	**$4,813**	$ 4,708
Acquired in settlement of loans	**3,817**	11,496
	$8,630	$16,204

NOTE I CUSTOMER ACCOUNTS

September 30,	2004	2003
	(In thousands)	
Checking accounts, .75% and under	$ 196,155	$ 190,352
Passbook and statement accounts, .75%	224,989	234,023
Insured money market accounts, .50% to 1.75%	929,952	1,037,641
Certificate accounts		
Less than 3.00%	2,590,304	2,401,924
3.00% to 3.99%	229,606	257,646
4.00% to 4.99%	280,166	258,875
5.00% to 5.99%	101,973	120,960
6.00% to 6.99%	16,000	18,139
7.00% and over	100	491
Total certificates	3,218,149	3,058,035
Repurchase agreements with customers, .75% to 2.20%	41,113	57,547
	$4,610,358	$4,577,598

Certificate maturities were as follows:

September 30,	2004	2003
	(In thousands)	
Within 1 year	$2,355,240	$2,313,645
1 to 2 years	445,037	236,988
3 to 4 years	282,248	183,379
Over 4 years	135,624	324,023
	$3,218,149	$3,058,035

Customer accounts over $100,000 totaled $1,199,000,000 as of September 30, 2004 and $1,133,000,000 as of September 30, 2003.

Interest expense on customer accounts consisted of the following:

Year ended September 30,	2004	2003	2002
		(In thousands)	
Checking accounts	$ 1,199	$ 1,655	$ 2,310
Passbook and statement accounts	1,703	2,114	3,201
Insured money market accounts	8,185	14,947	22,231
Certificate accounts	74,559	85,931	122,705
	85,646	104,647	150,447
Repurchase agreements with customers	858	1,651	2,259
	86,504	106,298	152,706
Less early withdrawal penalties	(405)	(379)	(418)
	$86,099	$105,919	$152,288
Weighted-average interest rate at end of year	2.00%	1.94%	2.96%
Weighted daily average interest rate during the year	1.89	2.38	3.41

NOTE J FHLB ADVANCES

Maturity dates of FHLB advances were as follows:

September 30,	**2004**	2003
	(In thousands)	
FHLB advances due		
Within 1 year	**$ —**	$ 250,000
1 to 3 years	**100,000**	300,000
4 to 5 years	**400,000**	400,000
More than 5 years	**700,000**	700,000
	$1,200,000	$1,650,000

Included in the table above are $1,100,000,000 of FHLB advances that are callable by the FHLB. If these callable advances were called at the earliest call dates, the maturities of all FHLB advances would be as follows:

September 30,	**2004**	2003
	(In thousands)	
FHLB advances due		
Within 1 year	**$ 800,000**	$ 850,000
1 to 3 years	**400,000**	700,000
4 to 5 years	**—**	100,000
More than 5 years	**—**	—
	$1,200,000	$1,650,000

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

September 30,	**2004**	2003	2002
		(In thousands)	
Weighted-average interest rate at end of year	**5.09%**	5.13%	5.13%
Weighted daily average interest rate during the year	**5.21**	5.19	5.28
Daily average of FHLB advances	**$1,539,594**	$1,650,023	$1,558,384
Maximum amount of FHLB advances at any month end	**1,651,000**	1,654,000	1,654,000
Interest expense during the year	**80,257**	85,564	82,357

FHLB advances are collateralized as provided for in the Advances, Pledge and Security Agreement by all FHLB stock owned by the Company, deposits with the FHLB and certain mortgage loans as provided in the agreements with the FHLB. As a member of the FHLB of Seattle, the Company currently has a credit line of 35% of the total assets of the Company, subject to collateralization requirements.

NOTE K OTHER BORROWINGS

September 30,	**2004**	2003
	(In thousands)	
Securities sold under agreements to repurchase		
Callable once in 2007, matures in 2012	**$100,000**	$100,000

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 three years ended September 30, 2004 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,	**2004**	2003	2002
		(In thousands)	
Weighted-average interest rate at end of year	**3.44%**	3.44%	3.36%
Weighted daily average interest rate during the year	**3.40**	3.39	3.36
Daily average of securities sold under agreements to repurchase	**$100,000**	$100,000	$ 4,110
Maximum securities sold under agreements to repurchase at any month end	**100,000**	100,000	100,000
Interest expense during the year	**3,397**	3,338	140

NOTE L INCOME TAXES

The consolidated statements of financial condition at September 30, 2004 and 2003 include deferred tax liabilities of $55,522,000 and $70,485,000, 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,	**2004**	2003
	(In thousands)	
Deferred tax assets		
Deferred compensation	**$ 176**	$ 198
Loan loss reserves	**9,176**	3,437
Total deferred tax assets	**9,352**	3,635
Deferred tax liabilities		
FHLB stock dividends	**32,838**	31,919
Core deposit intangible	**1,300**	1,748
Discounts	**—**	413
Deferred gain on forward commitments	**4,360**	—
Valuation adjustment on securities and derivatives	**9,313**	18,850
Depreciation	**6,139**	3,528
Loan origination costs	**9,926**	13,640
Securitized asset subject to repurchase valuation adjustment	**365**	673
Other, net	**633**	3,349
Total deferred tax liabilities	**64,874**	74,120
Net deferred tax liability	**$55,522**	$70,485

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

Year ended September 30,	**2004**	2003	2002
Statutory income tax rate	**35%**	35%	35%
Dividend received deduction	**(1)**	(1)	(1)
Other	**(1)**	(1)	—
State income tax	**2**	2	1
Effective income tax rate	**35%**	35%	35%

The Small Business Job Protection Act of 1996 (the Act) required qualified thrift institutions, such as the Company, 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 Company is required to pay approximately $25,406,000 in additional federal income taxes, all of which has been previously provided, through fiscal 2004.

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 PLAN AND EMPLOYEE STOCK OWNERSHIP PLAN

The Company maintains a Profit Sharing Retirement Plan and Employee Stock Ownership Plan (Plan) for the benefit of its employees. Company 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.

Plan participants may make voluntary after-tax contributions of their considered earnings as defined by the Plan. In addition, participants may make pre-tax contributions up to the statutory limits through the 401(k) provisions of the Plan. The annual addition from contributions to an individual participant's account in this Plan cannot exceed the lesser of 100% of base salary or $40,000. Under provisions of the Plan, employees are eligible to participate on the date of hire and become fully vested in the Company's contributions following seven years of service. In 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 employees to direct a portion of their vested account balance toward the purchase of Company stock. Company contributions to the Plan amounted to $2,101,000, $2,001,000 and $2,039,000 for the years ended September 30, 2004, 2003 and 2002, 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 2,471,509 shares, 4,072,819 shares and 3,726,800 shares of common stock, as adjusted for stock splits and stock dividends, to be reserved pursuant to the 1987 Stock Option and Stock Appreciation Rights Plan (the 1987 Plan), the 1994 Stock Option and Stock Appreciation Rights Plan (the 1994 Plan) and the 2001 Long-Term Incentive Plan (the 2001 Plan), respectively. The three plans are substantially similar. Of the 10,271,128 total shares authorized by stockholders under the three plans, 3,726,800 shares remain available for issuance. All equity compensation plans have been approved by stockholders.

Options granted under each plan vest at varying percentages commencing as early as one year after the date of grant with expiration dates 10 years after the date of grant.

	Average Price[1]	Number[1]	Weighted-Average Fair Value of Option Shares Granted
Outstanding, October 1, 2001	$ 12.89	2,252,515	
Granted in 2002	16.64	926,921	$ 3.42
Exercised in 2002	10.71	(349,729)	
Forfeited in 2002	14.56	(181,731)	
Outstanding, September 30, 2002	14.38	2,647,976	
Granted in 2003	18.48	90,387	3.22
Exercised in 2003	11.91	(430,294)	
Forfeited in 2003	15.12	(174,838)	
Outstanding, September 30, 2003	14.99	2,133,231	
Granted in 2004	**23.35**	**1,141,610**	**4.56**
Exercised in 2004	**13.38**	**(241,481)**	
Forfeited in 2004	**17.80**	**(231,135)**	
Outstanding, September 30, 2004	**$18.31**	**2,802,225**	

[1]Average price and number of stock options granted, exercised and forfeited have been adjusted for the 10% stock dividends.

Financial data pertaining to outstanding stock options was as follows:

September 30, 2004					
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
$8.10 - 14.11	**637,491**	**4.8 years**	**$12.69**	**255,463**	**$12.25**
14.32 - 18.23	**1,066,116**	**6.0**	**16.56**	**261,959**	**16.35**
18.36 - 23.41	**1,098,618**	**9.1**	**23.26**	**7,844**	**20.63**
	2,802,225	**6.9 years**	**$18.31**	**525,266**	**$14.42**

The Company also grants shares of restricted stock pursuant to its equity compensation plans. These shares of restricted stock vest over a period of five to seven years. The Company has issued a total of 70,000 shares of restricted stock, with a fair market value at the date of grant of $1.7 million. As of September 30, 2004, 51,036 shares remained restricted. The Company accounts for restricted stock grants by recording the fair value of the grant to compensation expense over the vesting period. At September 30, 2004, $1.3 million of unearned compensation was recorded as a reduction to retained earnings.

NOTE O STOCKHOLDERS' EQUITY

In the second quarter of fiscal 2004, 2003 and 2002, 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.

Washington Federal Savings 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, Washington Federal Savings must meet specific capital guidelines that involve quantitative measures of Washington Federal Savings' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. Washington Federal Savings' 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, 2004 and 2003, the OTS categorized Washington Federal Savings as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, Washington Federal Savings 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 Washington Federal Savings' categorization.

	Actual		Capital Adequacy Guidelines		Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Capital	Ratio	Capital	Ratio	Capital	Ratio
September 30, 2004						
Total capital to risk-weighted assets	**$1,054,160**	**27.30%**	**$308,886**	**8.00%**	**$386,107**	**10.00%**
Tier I capital to risk-weighted assets	**1,036,851**	**26.85**	**NA**	**NA**	**231,664**	**6.00**
Core capital to adjusted tangible assets	**1,036,851**	**14.65**	**NA**	**NA**	**353,814**	**5.00**
Core capital to total assets	**1,036,851**	**14.65**	**212,289**	**3.00**	**NA**	**NA**
Tangible capital to tangible assets	**1,036,851**	**14.65**	**106,144**	**1.50**	**NA**	**NA**
September 30, 2003						
Total capital to risk-weighted assets	$ 974,775	24.56%	$ 317,465	8.00%	$ 396,831	10.00%
Tier I capital to risk-weighted assets	956,470	24.10	NA	NA	238,099	6.00
Core capital to adjusted tangible assets	956,470	12.91	NA	NA	370,373	5.00
Core capital to total assets	956,470	12.91	222,224	3.00	NA	NA
Tangible capital to tangible assets	956,470	12.91	111,112	1.50	NA	NA

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 September 2004.

The Company has an ongoing stock repurchase program. During fiscal 2004, the Company repurchased 85,000 shares at a weighted-average price of $22.81. In fiscal 2003, the Company repurchased 561,077 shares at a weighted-average price of $17.88. As of September 30, 2004, Management had authorization from the Board of Directors to repurchase up to 3.0 million additional shares.

Information used to calculate earnings per share follows:

Year ended September 30,	**2004**	2003	2002
	(In thousands, except per share data)		
Net income	**$ 131,868**	$ 144,999	$ 148,384
Weighted-average shares			
Basic weighted-average number of common shares outstanding	**78,457,222**	76,627,181	76,840,738
Dilutive effect of outstanding common stock equivalents	**752,584**	628,783	734,739
Diluted weighted-average number of common shares outstanding	**79,209,806**	77,255,964	77,575,477
Net income per share			
Basic	**$ 1.68**	$ 1.89	$ 1.93
Diluted	**1.66**	1.88	1.91

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.

	2004		2003	
September 30,	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
	(In thousands)			
Financial assets				
Cash and cash equivalents	**$ 508,361**	**$ 508,361**	$1,437,208	$1,437,208
Repurchase agreements	**200,000**	**200,000**	—	—
Available-for-sale securities	**899,525**	**899,525**	781,798	781,798
Held-to-maturity securities	**156,373**	**158,792**	154,178	159,086
Loans receivable and securitized assets	**5,093,443**	**5,164,765**	4,817,508	4,899,274
FHLB stock	**137,274**	**137,274**	143,851	143,851
Forward contracts – Derivatives	**10,259**	**10,259**	22,388	22,388
Financial liabilities				
Customer accounts	**4,610,358**	**4,615,616**	4,577,598	4,590,160
FHLB advances and other borrowings	**1,300,000**	**1,357,405**	1,750,000	1,825,532

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

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

Repurchase agreements—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.

Available for sale securities, held to maturity securities and derivatives—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 Company for debt with similar remaining maturities.

NOTE Q ACQUISITION AND INTANGIBLE ASSETS

On August 31, 2003, the Company acquired United Savings and Loan Bank. The acquisition was accounted for as a purchase transaction with the total cash consideration funded through internal sources. The purchase price was $65,604,000, of which $32,322,000 was paid in cash and $33,282,000 was paid in stock. In addition, the Company paid $1,150,000 in three non-compete and severance agreements, of which $575,000 was allocated to both goodwill and the non-compete agreement intangible. The purchase price has been allocated to the underlying assets and liabilities based on estimated fair values at the date of acquisition. Results of operations are included from the date of acquisition. The Company acquired assets with an estimated fair value of $343,626,000 and assumed liabilities with an estimated fair value of $276,872,000. The acquisition produced goodwill of $19,263,000, a core deposit intangible of $4,921,000 and a non-compete agreement intangible of $575,000.

The balance of the Company's intangible assets was as follows:

	Goodwill	Core Deposit Intangible	Non-Compete Agreement	Total
		(In thousands)		
Balance at September 30, 2002	$ 35,703	$ —	$ —	$ 35,703
United acquisition	19,263	4,921	575	24,759
Accumulated amortization	—	(116)	(10)	(126)
Balance at September 30, 2003	54,966	4,805	565	60,336
Accumulated amortization	—	(1,282)	(115)	(1,397)
Balance at September 30, 2004	**$54,966**	**$3,523**	**$450**	**$58,939**

The table below presents the estimated intangible asset amortization expense for the next five years:

Year ended September 30,	Amortization expense
	(In thousands)
2005	$1,198
2006	1,000
2007	801
2008	593
2009	289

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,	**2004**	2003
	(In thousands)	
Assets		
Cash	**$ 4,895**	$ 4,527
Investment in subsidiary	**1,117,827**	1,053,451
Dividend receivable	**12,000**	12,000
Total assets	**$1,134,722**	$1,069,978
Liabilities		
Dividend payable and other liabilities	**$ 14,534**	$ 14,382
Stockholders' equity		
Common stock, $1.00 par value: 100,000,000 shares authorized; 94,383,496 and 94,109,168 shares issued; 78,679,597 and 78,290,836 shares outstanding	**$ 94,383**	$ 85,554
Paid-in capital	**1,161,627**	1,085,650
Accumulated other comprehensive income, net of tax	**17,107**	26,890
Treasury stock, at cost; 15,703,899 and 15,818,332 shares	**(206,666)**	(207,337)
Retained earnings	**53,737**	64,839
Total stockholders' equity	**1,120,188**	1,055,596
Total liabilities and stockholders' equity	**$1,134,722**	$1,069,978

Statements of Operations

Year ended September 30,	2004	2003	2002
		(In thousands)	
Income			
Dividends from subsidiary	**$ 58,000**	$ 63,500	$ 64,000
Expense			
Miscellaneous	**447**	389	380
Net income before equity in undistributed net income of subsidiary	**57,553**	63,111	63,620
Equity in undistributed net income of subsidiary	**74,158**	81,751	84,630
Income before income taxes	**131,711**	144,862	148,250
Income tax benefit	**157**	137	134
Net income	**$131,868**	$144,999	$148,384

Statements of Cash Flows

Year ended September 30,	**2004**	2003	2002
		(In thousands)	
Cash Flows From Operating Activities			
Net income	**$131,868**	$144,999	$148,384
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of subsidiary	**(74,158)**	(81,751)	(84,630)
Decrease (increase) in dividend receivable	**—**	2,000	(1,875)
Increase (decrease) in other liabilities	**333**	(417)	920
Net cash provided by operating activities	**58,043**	64,831	62,799
Cash Flows From Financing Activities			
Issuance of common stock through stock option plan	**4,265**	5,944	3,744
Proceeds from Employee Stock Ownership Plan	**4,695**	1,522	1,618
Treasury stock purchased	**(1,939)**	(10,034)	(10,224)
Dividends	**(64,696)**	(60,004)	(57,383)
Net cash used by financing activities	**(57,675)**	(62,572)	(62,245)
Increase in cash	**368**	2,259	554
Cash at beginning of year	**4,527**	2,268	1,714
Cash at end of year	**$ 4,895**	$ 4,527	$ 2,268

NOTE S SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

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

Year ended September 30, 2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Interest income	$102,682	$102,682	$103,210	$105,198
Interest expense	44,056	43,406	41,040	41,251
Net interest income	58,626	59,276	62,170	63,947
Provision for loan losses	—	—	(231)	—
Other operating income	3,230	2,449	2,728	(2,681)
Other operating expense	11,160	11,482	11,027	12,595
Income before income taxes	50,696	50,243	54,102	48,671
Income taxes	17,873	17,723	19,070	17,178
Net income	$ 32,823	$ 32,520	$ 35,032	$ 31,493
Basic earnings per share	$ .42	$ .41	$ .45	$ .40
Diluted earnings per share	.41	.41	.44	.40
Cash dividends per share	.20	.20	.21	.21
Return on average assets	1.74%	1.73%	1.91%	1.73%

Year ended September 30, 2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands, except per share data)			
Interest income	$122,034	$114,145	$110,594	$104,262
Interest expense	53,703	49,565	46,917	44,699
Net interest income	68,331	64,580	63,677	59,563
Provision for loan losses	1,250	150	100	—
Other operating income	2,267	5,888	3,671	4,744
Other operating expense	12,612	12,823	11,418	10,646
Income before income taxes	56,736	57,495	55,830	53,661
Income taxes	20,001	20,269	19,539	18,914
Net income	$ 36,735	$ 37,226	$ 36,291	$ 34,747
Basic earnings per share	$ .48	$ .48	$ .47	$ .45
Diluted earnings per share	.48	.48	.47	.45
Cash dividends per share	.19	.19	.20	.20
Return on average assets	1.99%	2.03%	2.00%	1.90%

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
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, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Seattle, Washington
November 18, 2004

GENERAL CORPORATE AND STOCKHOLDERS' INFORMATION

Corporate Headquarters
425 Pike Street
Seattle, Washington 98101
(206) 624-7930

Independent Auditors
Deloitte & Touche LLP
Seattle, Washington

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:

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Telephone: 1-800-937-5449
www.amstock.com

Annual Meeting
The annual meeting of stockholders will be held on January 19, 2005, at 2 p.m. at the Westin Hotel, 1900 Fifth Avenue, Seattle, Washington

Form 10-K
This report and all SEC filings are available through the Company's web site:
www.washingtonfederal.com

Stock Information
Washington Federal, Inc. is traded on the NASDAQ Stock Market. The common stock symbol is WFSL. At September 30, 2004, there were approximately 2,522 stockholders of record.

	Stock Prices		
Quarter Ended	**High**	**Low**	**Dividends**
December 31, 2002	$ 20.93	$ 17.07	$ 0.19
March 31, 2003	21.37	19.01	0.19
June 30, 2003	21.75	19.15	0.20
September 30, 2003	24.01	21.08	0.20
December 31, 2003	**26.29**	**23.25**	**0.20**
March 31, 2004	**26.36**	**24.24**	**0.20**
June 30, 2004	**25.45**	**22.26**	**0.21**
September 30, 2004	**25.99**	**23.41**	**0.21**

All prices shown have been adjusted for stock splits.

Largest Market Makers:
McAdams Wright Ragen, Inc.
National Stock Exchange
Archipelago Exchange
Goldman, Sachs & Co.
Boston Stock Exchange
Keefe, Bruyette & Woods, Inc.
Citigroup Global Markets, Inc.
Knight Equity Markets, L.P.
Lehman Brothers, Inc.
Schwab Capital Markets
B-Trade Services, L.L.C.
The Brut ECN, L.L.C.
Merrill Lynch, Pierce, Fenner & Smith, Inc.
Morgan Stanley & Co., Inc.
Alternate Display Facility

DIRECTORS, OFFICERS AND OFFICES

CORPORATE HEADQUARTERS

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

BOARD OF DIRECTORS

GUY C. PINKERTON
Chairman

ROY M. WHITEHEAD
Vice Chairman, President and Chief Executive Officer

DEREK L. CHINN
Former President and Chief Executive Officer, United Savings and Loan Bank

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

H. DENNIS HALVORSON
Former Chief Executive Officer, United Bank

W. ALDEN HARRIS
Former Executive Vice President

ANNA C. JOHNSON
Senior Partner
Scan East West Travel

THOMAS F. KENNEY
Vice President Finance
Haggen, Inc.

CHARLES R. RICHMOND
Former Executive Vice President

DIRECTORS EMERITI

E.W. MERSEREAU, JR.

RICHARD C. REED

KERMIT O. HANSON

EXECUTIVE MANAGEMENT COMMITTEE

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Senior Vice President and Chief Financial Officer

LINDA S. BROWER
Executive Vice President

EDWIN C. HEDLUND
Executive Vice President and Secretary

JACK B. JACOBSON
Executive Vice President and Chief Lending Officer

ROY M. WHITEHEAD
Vice Chairman, President and Chief Executive Officer

DEPARTMENT MANAGERS

Accounting
CHAD J. LEONARD
Controller

Appraisal
HEATHER J. ST. CLAIR

Retail Underwriting
MICHAEL R. BUSH
Vice President

Credit Administration
JAMES E. CADY
Senior Vice President

DALE R. 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

Internal Audit
BARBARA A. MURPHY
Vice President

Legal/Special Credits
PAUL I. TYLER
Vice President and Counsel

Loan Operations
LEANN H. BURKE
Assistant Vice President

Loan Servicing
LARRY L. PLUMB
Senior Vice President

Marketing and Investor Relations
CATHY E. COOPER
Vice President

Multi-Family Lending
J. TIMOTHY GRANT
Senior Vice President

Permanent Loan Production
JOHN L. WUNDERLICH
Vice President

Wholesale Underwriting
COLLEEN E. WELLS
Vice President

SUBSIDIARIES

First Insurance Agency, Inc.
1501 Riverside Drive
Mount Vernon, WA 98273
1-800-562-2555

DUANE E. HENSON

DIVISIONS

SOUTH SOUND WASHINGTON

18 Office Locations

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Senior Vice President
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Lakewood, WA 98499

MIDSOUND WASHINGTON

16 Office Locations

Division Manager
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Senior Vice President
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Lynnwood, WA 98036

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Senior Vice President
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Mount Vernon, WA 98273

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Senior Vice President
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Division Manager
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Senior Vice President
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Senior Vice President
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UTAH

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Vice President
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TEXAS

2 Office Locations

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COLORADO

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