



Washington Federal Savings

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FOR IMMEDIATE RELEASE

Washington Federal Reports Fiscal Year 2007 Earnings of \$135 Million

SEATTLE – Washington Federal, Inc. (Nasdaq: WFSL), parent company of Washington Federal Savings, today announced earnings of \$135,017,000 or \$1.54 per diluted share for the year ended September 30, 2007, compared to \$143,102,000 or \$1.64 per diluted share for the same period one year ago, a 6% per share decrease. Earnings for the fourth fiscal quarter amounted to \$33,885,000 or \$.39 per diluted share compared to \$35,279,000 or \$.40 per diluted share for the same period one year ago, a 3% per share decrease.

Roy M. Whitehead, Chairman, President & CEO, commented, “We are very pleased with the financial performance of the company last year in light of the national housing slowdown and a difficult interest rate environment. Our portfolio lending model and conservative underwriting have enabled us to avoid the recent problems suffered by many in the mortgage industry. Last month’s reduction in the overnight rate by the Federal Reserve also causes us to be hopeful that lower deposit costs and an improved net interest spread will be experienced in the near-term. At the same time, while overall asset quality continues to be good, non-performing assets and loan losses will undoubtedly increase before the cycle is ended, as we have expected for several quarters.”

On July 2, 2007, the Company announced the signing of a definitive merger agreement to acquire First Mutual Bancshares (“First Mutual”). The merger agreement calls for the merger of First Mutual with and into the Company, followed by the merger of First Mutual Bank into the Company’s wholly owned subsidiary, Washington Federal Savings, in a stock and cash

transaction valued at approximately \$189.8 million. First Mutual, headquartered in Bellevue, Washington with 12 branches in the greater Seattle / Bellevue area, had total assets of \$1.03 billion, total deposits of \$759.8 million and total stockholders' equity of \$73.7 million as of June 30, 2007. On October 11, 2007 First Mutual's shareholders voted to approve the transaction. The transaction is expected to close in the fourth calendar quarter of 2007, pending the receipt of all requisite regulatory approvals.

Our period end net interest spread decreased during the quarter from 2.12% at June 30, 2007 to 2.05% at September 30, 2007. The decrease resulted primarily from the refinancing of \$200 million of long-term debt called during the quarter that carried an average rate of 3.40%. Currently our ratio of non-performing assets as a percentage of total assets is .15%, compared to .12% at June 30, 2007 and .08% at September 30, 2006. The company's average ratio of non-performing assets to total assets over the last ten years is .35%.

The year produced a return on assets of 1.40%, while return on equity amounted to 10.46%. The company's efficiency ratio (operating expenses as a percentage of net revenue) of 23.56% for the year remains among the best in the industry, although it increased from 19.66% last year. Higher operating expenses are attributed to costs associated with the purchase of First Federal Bank of the Southwest, the pending acquisition of First Mutual Bank, higher personnel expenses, including benefits, and additional management and systems installed to support an increase in regulatory burden and the growth of the Company. Although expenses as a percentage of assets and revenues are likely to increase further in the short-term due primarily to the pending acquisition of First Mutual Bank, management believes that efficiency will improve over time as the acquired institutions are fully integrated and recent investments in people and systems are leveraged through growth of the balance sheet.

Total assets of \$10.285 billion at September 30, 2007, represents an increase of \$1.216 billion or 13% above last year. Total net loans outstanding increased \$1.110 billion to \$8.188 billion as of September 30, 2007, a 16% increase over last year. Stockholders' equity increased \$55 million or 4% to \$1.318 billion as of September 30, 2007.

On October 19, 2007, Washington Federal will pay a cash dividend of \$.21 per share to common stockholders of record on October 5, 2007. This will be the company's 99th consecutive quarterly cash dividend.

Washington Federal Savings, with headquarters in Seattle, Washington, has 135 offices in eight western states.

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

September 30, 2007 September 30, 2006

(In thousands, except per share data)

ASSETS

| | | |
|---|----------------------|---------------------|
| Cash and cash equivalents..... | \$ 61,378 | \$ 45,722 |
| Available-for-sale securities, including mortgage-backed securities of \$1,283,403..... | 1,515,688 | 1,451,038 |
| Held-to-maturity securities, including mortgage-backed securities of \$130,266..... | 138,373 | 184,928 |
| Loans receivable, net..... | 8,188,278 | 7,078,443 |
| Interest receivable..... | 49,611 | 42,304 |
| Premises and equipment, net..... | 74,807 | 62,159 |
| Real estate held for sale..... | 4,873 | 3,903 |
| FHLB stock..... | 132,397 | 129,453 |
| Intangible assets, net..... | 107,245 | 56,259 |
| Other assets..... | 12,767 | 14,811 |
| | <u>\$ 10,285,417</u> | <u>\$ 9,069,020</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

| | | |
|--|------------------|------------------|
| Customer accounts | | |
| Savings and demand accounts..... | \$ 5,979,049 | \$ 5,285,708 |
| Repurchase agreements with customers..... | 17,736 | 26,018 |
| | <u>5,996,785</u> | <u>5,311,726</u> |
| FHLB advances..... | 1,760,979 | 1,500,000 |
| Other borrowings..... | 1,075,116 | 870,000 |
| Advance payments by borrowers for taxes and insurance..... | 31,824 | 29,505 |
| Federal and state income taxes..... | 38,032 | 39,667 |
| Accrued expenses and other liabilities..... | 64,554 | 55,402 |
| | <u>8,967,290</u> | <u>7,806,300</u> |

Stockholders' equity

| | | |
|---|----------------------|---------------------|
| Common stock, \$1.00 par value, 300,000,000 shares authorized; 104,921,450 and 104,467,245 shares issued; 87,441,750 and 87,338,824 shares outstanding..... | 104,921 | 104,467 |
| Paid-in capital..... | 1,254,490 | 1,246,025 |
| Accumulated other comprehensive loss, net of taxes..... | (13,033) | (5,975) |
| Treasury stock, at cost; 17,479,700 and 17,128,421 shares..... | (213,934) | (204,930) |
| Retained earnings..... | 185,683 | 123,133 |
| | <u>1,318,127</u> | <u>1,262,720</u> |
| | <u>\$ 10,285,417</u> | <u>\$ 9,069,020</u> |

CONSOLIDATED FINANCIAL HIGHLIGHTS

| | | |
|---|----------|----------|
| Stockholders' equity per share..... | \$ 15.07 | \$ 14.46 |
| Stockholders' equity to total assets..... | 12.82% | 13.92% |
| Weighted average rates at period end | | |
| Loans and mortgage-backed securities..... | 6.57% | 6.48% |
| Investment securities*..... | 4.61 | 4.10 |
| Combined loans, mortgage-backed securities and investment securities..... | 6.50 | 6.38 |
| Customer accounts..... | 4.36 | 4.05 |
| Borrowings..... | 4.64 | 4.55 |
| Combined cost of customer accounts and borrowings..... | 4.45 | 4.20 |
| Interest rate spread..... | 2.05 | 2.18 |

* Includes municipal bonds at tax equivalent yields and cash equivalents

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

| | <u>Quarter Ended September 30,</u> | | <u>Year Ended September 30,</u> | |
|---|---------------------------------------|------------------|---------------------------------|-------------------|
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| | (In thousands, except per share data) | | | |
| INTEREST INCOME | | | | |
| Loans..... | \$ 138,994 | \$ 118,334 | \$ 526,923 | \$ 439,338 |
| Mortgage-backed securities..... | 19,262 | 19,533 | 75,478 | 66,938 |
| Investment securities and cash equivalents..... | <u>4,328</u> | <u>3,913</u> | <u>16,281</u> | <u>23,607</u> |
| | 162,584 | 141,780 | 618,682 | 529,883 |
| INTEREST EXPENSE | | | | |
| Customer accounts..... | 65,139 | 52,060 | 243,837 | 179,605 |
| FHLB advances and other borrowings..... | <u>31,266</u> | <u>26,342</u> | <u>114,664</u> | <u>93,756</u> |
| | 96,405 | 78,402 | 358,501 | 273,361 |
| Net interest income..... | 66,179 | 63,378 | 260,181 | 256,522 |
| Provision for loan losses..... | <u>350</u> | <u>350</u> | <u>1,550</u> | <u>535</u> |
| Net interest income after provision for loan losses..... | 65,829 | 63,028 | 258,631 | 255,987 |
| OTHER INCOME | | | | |
| Gain (loss) on securities, net..... | - | - | 11 | - |
| Other..... | <u>3,586</u> | <u>5,268</u> | <u>15,230</u> | <u>16,064</u> |
| | 3,586 | 5,268 | 15,241 | 16,064 |
| OTHER EXPENSE | | | | |
| Compensation and fringe benefits..... | 11,576 | 9,459 | 43,566 | 36,574 |
| Occupancy | 2,266 | 1,934 | 8,720 | 7,893 |
| Other..... | <u>3,820</u> | <u>2,206</u> | <u>12,602</u> | <u>9,112</u> |
| | 17,662 | 13,599 | 64,888 | 53,579 |
| Gain (loss) on real estate acquired through foreclosure, net..... | <u>188</u> | <u>4</u> | <u>328</u> | <u>188</u> |
| Income before income taxes..... | 51,941 | 54,701 | 209,312 | 218,660 |
| Income taxes..... | <u>18,056</u> | <u>19,422</u> | <u>74,295</u> | <u>75,558</u> |
| NET INCOME..... | \$ 33,885 | \$ 35,279 | \$ 135,017 | \$ 143,102 |
| PER SHARE DATA | | | | |
| Basic earnings..... | \$.39 | \$.40 | \$ 1.55 | \$ 1.64 |
| Diluted earnings..... | .39 | .40 | 1.54 | 1.64 |
| Cash dividends..... | .210 | .205 | .830 | .810 |
| Weighted average number of shares outstanding, including dilutive stock options..... | 87,559,533 | 87,467,156 | 87,630,688 | 87,471,474 |
| PERFORMANCE RATIOS | | | | |
| Return on average assets..... | 1.34% | 1.58% | 1.40% | 1.67% |
| Return on average stockholders' equity..... | 10.39% | 11.43% | 10.46% | 11.77% |
| Net interest margin..... | 2.70% | 2.91% | 2.77% | 3.06% |