



Washington Federal Savings

Washington Federal, Inc.
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FOR IMMEDIATE RELEASE

Washington Federal Reports Fiscal Year Earnings of \$143 Million

SEATTLE – Washington Federal, Inc. (Nasdaq: WFSL), parent company of Washington Federal Savings, today announced earnings of \$143,102,000 or \$1.64 per diluted share for the year ended September 30, 2006, compared to \$145,889,000 or \$1.67 per diluted share for the same period one year ago, a 2% decrease. Earnings for the fourth fiscal quarter amounted to \$35,279,000 or \$.40 per diluted share compared to \$34,389,000 or \$.39 per diluted share for the same period one year ago, a 3% increase.

Roy M. Whitehead, Chairman, President & CEO, commented, “We are proud to report another year of solid financial performance. Earnings during the year were maintained by reinvesting cash into longer-term assets and by modestly leveraging the company’s substantial capital position. These moves were undertaken to offset a significant increase in interest expense on customer deposits over the prior year. Investors will be pleased to know that asset quality continues to be quite strong, despite a clear softening in most of the housing markets served by Washington Federal. A larger concern at the moment is the negative spread between short and long-term interest rates. This so-called “inverted yield curve”, along with weaker housing, will likely make earnings growth difficult during the next few quarters.”

The year produced a return on assets of 1.67%, while return on equity amounted to 11.77%. The company’s efficiency ratio (operating expenses as a percentage of net revenue) of 19.66% for the year remains among the best in the industry.

Total assets of \$9.069 billion at September 30, 2006, represents an increase of \$835 million or 10% above last year. Total net loans outstanding increased \$1.070 billion to \$7.078 billion as of September 30, 2006, an 18% increase over last year. Stockholders' equity increased \$75 million or 6% to \$1.263 billion as of September 30, 2006.

Net interest income declined by \$10 million or 4% for the year to \$257 million due primarily to a 55% or \$64 million increase in interest expense on customer accounts. \$46 million of this increase was attributable to higher interest rates, the remaining \$18 million was due to higher volumes. The weighted average rate on customer accounts increased from 2.94% at September 30, 2005 to 4.05% as of September 30, 2006. This increase is the result of rising short-term interest rates. Our period end net interest spread decreased to 2.18% as of September 30, 2006 from 2.54% one year earlier. Due to a change in accounting rules, fiscal 2006 also included a \$1.1 million expense for stock options granted to employees; 2005 did not include any stock option expense.

On October 10, 2006, Washington Federal announced the signing of a definitive merger agreement to acquire First Federal Banc of the Southwest, Inc. ("First Federal"). First Federal is headquartered in Roswell, New Mexico with 13 branches in New Mexico and 2 branches in El Paso, Texas. First Federal reported total assets of \$562 million, total deposits of \$392 million and total stockholders' equity of \$53 million as of June 30, 2006. The transaction is expected to close in the first calendar quarter of 2007.

On October 20, 2006, Washington Federal will pay a cash dividend of \$.205 per share to common stockholders of record on October 6, 2006. This will be the company's 95th consecutive quarterly cash dividend.

During the quarter the Company also opened a new branch location in Medford, Oregon.

Washington Federal Savings, with headquarters in Seattle, Washington, has 123 offices in seven western states.

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

September 30, 2006 September 30, 2005
(In thousands, except per share data)

ASSETS

Cash and cash equivalents.....	\$ 45,722	\$ 637,791
Available-for-sale securities, including mortgage-backed securities of \$1,229,409.....	1,451,038	1,077,856
Held-to-maturity securities, including mortgage-backed securities of \$149,907.....	184,928	212,479
Loans receivable, net.....	7,078,443	6,008,932
Interest receivable.....	42,304	34,048
Premises and equipment, net.....	62,159	63,287
Real estate held for sale.....	3,903	5,631
FHLB stock.....	129,453	129,453
Intangible assets, net.....	56,259	57,259
Other assets.....	14,811	7,714
	<u>\$ 9,069,020</u>	<u>\$ 8,234,450</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Customer accounts		
Savings and demand accounts.....	\$ 5,285,708	\$ 5,002,172
Repurchase agreements with customers.....	26,018	29,333
	<u>5,311,726</u>	<u>5,031,505</u>
FHLB advances.....	1,500,000	1,230,000
Other borrowings.....	870,000	655,000
Advance payments by borrowers for taxes and insurance.....	29,505	27,533
Federal and state income taxes.....	39,667	44,617
Accrued expenses and other liabilities.....	55,402	58,487
	<u>7,806,300</u>	<u>7,047,142</u>

Stockholders' equity

Common stock, \$1.00 par value, 300,000,000 shares authorized; 104,467,245 and 104,140,966 shares issued; 87,338,824 and 86,933,294 shares outstanding.....	104,467	104,141
Paid-in capital.....	1,246,025	1,240,310
Accumulated other comprehensive loss, net of taxes.....	(5,975)	(704)
Treasury stock, at cost; 17,128,421 and 17,207,672 shares.....	(204,930)	(205,874)
Retained earnings.....	123,133	49,435
	<u>1,262,720</u>	<u>1,187,308</u>
	<u>\$ 9,069,020</u>	<u>\$ 8,234,450</u>

CONSOLIDATED FINANCIAL HIGHLIGHTS

Stockholders' equity per share.....	\$ 14.46	\$ 13.66
Stockholders' equity to total assets.....	13.92%	14.42%
Weighted average rates at period end		
Loans and mortgage-backed securities*.....	6.48%	6.19%
Investment securities**.....	4.10	3.74
Combined loans, mortgage-backed securities and investment securities.....	6.38	5.91
Customer accounts.....	4.05	2.94
Borrowings.....	4.55	4.51
Combined cost of customer accounts and borrowings.....	4.20	3.37
Interest rate spread.....	2.18	2.54

* Includes securitized assets subject to repurchase

** 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands, except per share data)			
INTEREST INCOME				
Loans.....	\$ 118,334	\$ 97,611	\$ 439,338	\$ 369,023
Mortgage-backed securities.....	19,533	12,813	66,938	61,459
Investment securities and cash equivalents.....	3,913	7,752	23,607	31,419
	<u>141,780</u>	<u>118,176</u>	<u>529,883</u>	<u>461,901</u>
INTEREST EXPENSE				
Customer accounts.....	52,061	34,719	179,605	115,826
FHLB advances and other borrowings.....	26,342	21,584	93,756	79,434
	<u>78,403</u>	<u>56,303</u>	<u>273,361</u>	<u>195,260</u>
Net interest income.....	63,377	61,873	256,522	266,641
Provision for (reversal of) loan losses.....	350	-	535	(134)
Net interest income after provision for loan losses.....	63,027	61,873	255,987	266,775
OTHER INCOME				
Loss on securities, net.....	-	-	-	(3,534)
Loss on extinguishment of debt.....	-	(2,194)	-	(2,194)
Other.....	5,266	3,189	16,064	12,137
	<u>5,266</u>	<u>995</u>	<u>16,064</u>	<u>6,409</u>
OTHER EXPENSE				
Compensation and fringe benefits.....	9,459	8,436	36,574	34,197
Occupancy	1,934	1,915	7,893	8,788
Other.....	2,203	3,258	9,112	9,334
	<u>13,596</u>	<u>13,609</u>	<u>53,579</u>	<u>52,319</u>
Gain on real estate acquired through foreclosure, net.....	4	180	188	1,443
Income before income taxes.....	54,701	49,439	218,660	222,308
Income taxes.....	19,422	15,050	75,558	76,419
NET INCOME.....	\$ 35,279	\$ 34,389	\$ 143,102	\$ 145,889
PER SHARE DATA				
Basic earnings.....	\$.40	\$.40	\$ 1.64	\$ 1.68
Diluted earnings.....	.40	.39	1.64	1.67
Cash dividends.....	.205	.20	.81	.78
Weighted average number of shares outstanding, including dilutive stock options.....	87,467,156	87,544,855	87,471,474	87,478,708
PERFORMANCE RATIOS				
Return on average assets.....	1.58%	1.71%	1.67%	1.90%
Return on average stockholders' equity.....	11.43%	11.63%	11.77%	12.63%
Net interest margin.....	2.91%	3.18%	3.06%	3.57%