

STAAR SURGICAL CO
Form DEF 14A
April 29, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

STAAR Surgical Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

STAAR SURGICAL COMPANY

25651 Atlantic Ocean Drive

Lake Forest, California 92630

April 29, 2019

Dear Fellow Shareholders:

You are cordially invited to attend the annual meeting of the shareholders (the “Annual Meeting”) of STAAR Surgical Company (“STAAR” or the “Company”). The Annual Meeting will be held on Thursday, June 20, 2019 at 8:30 a.m. (Pacific time), at STAAR’s headquarters at 25651 Atlantic Ocean Drive, Lake Forest, California, 92630.

By all measures, STAAR achieved an outstanding year in 2018. We successfully executed our growth strategy to become a primary and premium option for people seeking visual freedom, and to become the best partner for our surgeon customers. And we extended our track record of delivering strong financial performance quarter after quarter throughout 2018.

Without the commitment of our team of “All STAARs,” none of these accomplishments would be possible. I am deeply grateful for their dedication to STAAR’s growth and success.

2018 was a breakout year for STAAR and our investors:

- We achieved record revenue of \$124 million, growing revenue by 37% compared to 2017, and growing “implantable Collamer® lenses” (“ICL”) sales by 48%;
- GAAP diluted earnings per share (“EPS”) improved by \$0.16 from (\$0.05) to \$0.11 for the first profitable year since 2011;
- Cash, cash equivalents and restricted cash rose to \$104.0 million, compared to \$18.6 million at the end of the fourth quarter of 2017. We generated \$12.8 million in cash from operations and raised \$72.2 million in net proceeds from the sale of approximately 2 million shares of common stock; and
- Our stock price rose approximately 100% during the year (from \$15.90 on January 2, 2018 to \$31.91 on December 31, 2018).

In addition to this fantastic financial performance, 2018 was a transformative year for us in other ways as well. During the year, the Food and Drug Administration (“FDA”) lifted a Warning Letter regarding STAAR and approved our Visian Toric ICL for marketing and sale in the U.S. We submitted our EVO Visian ICL premarket approval (“PMA”) supplement to the FDA for review, and that review is on-going. The patient enrollment for our pivotal European trial for the EVO with EDOF lens for presbyopia is complete and we are conducting the required six-month patient follow-up for this study. Once we complete this follow up, our plan is to submit our CE Mark application to our regulated body by mid-year 2019.

More broadly, our strategy of building the refractive market for visual freedom through surgeon training and certification, practice development, consumer outreach, patient education, digital marketing and strategic agreements with our customers has positioned the ICL in more and more clinics and doctors’ offices as a premium and primary solution for vision correction around the globe. Ever more data supporting the safety and effectiveness of the ICL is being published. For example, in December 2018, Dr. Mark Packer published a literature review of 67 papers from 10 countries on the EVO lens in the journal Clinical Ophthalmology. The analysis covered 6,000 eyes with up to 5 years of follow up concluding “Improved safety and effectiveness across a broad range of refractive errors make EVO an

attractive option for surgeons and patients.”

Throughout 2018, we executed our plan to make targeted investments designed to foster continued future growth, including the launch of future ICL products. We are planning for and making initial investments in 2019 in manufacturing and facilities expansion to expand our capacity to meet increasing demand.

We'll focus on several imperatives in 2019 to extend our track record of success from 2018 into the future. To do so, we are planning to:

- Make initial investments in manufacturing and facilities expansion that include, among other things: (i) increasing manufacturing capacity at our Monrovia, California facility for our Myopia ICLs; (ii) reopening and expanding our manufacturing and distribution facilities in Nidau, Switzerland; (iii) preparing for the validation of our Lake Forest, California facility for the manufacturing of our ICL with EDOF for presbyopia lenses expected to be approved for sale initially in CE Mark countries; (iv) moving into our newly renovated Lake Forest, California facility, which also includes executive and corporate offices;
- Continue market share gains in all global markets, including China. We will continue to focus on increasing consideration and usage of low and mid-diopter ICLs;
- Increase investment in Direct-to-Consumer marketing and patient education in targeted markets; and
- Strengthen existing and finalize new Strategic Agreements and Alliances with global partners.

We believe that if we accomplish our plans, we will achieve the following target results for 2019:

- ICL unit growth percentage target increase of 30% or above compared with 2018 ICL unit growth;
- Overall revenue growth percentage target increase of 20% over 2018 (despite an overall sales decline in our Other Products segment of approximately \$3.6 million, including an approximately \$2.6 million reduction in sales of low margin injector parts);
- GAAP Net Income is anticipated to increase over 2018; and
- Positive full year cash flow and cash balance increase.

For 2019, we intend to continue achieving and strengthening our 2018 strategic priorities, which are as follows:

- Retain Compliance with All Regulatory Bodies;
- Successfully Build the Visual Freedom Market for Implantable Lenses;
- Execute Go-to-Market Strategy to Significantly Expand Market Share Globally;
- Innovate, Develop and Introduce Premium Collamer Lenses and Delivery Systems;
- Enhance Clinical & Medical Affairs Excellence: Clinical Validation, Surgeon Training;
- Implement Foundations 2020: Operations & Systems Updates & Improvements; and
- Deliver Shareholder Value.

Overall, we are enthusiastic about 2019 and look forward to delivering another strong year for our shareholders.

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Your vote is important. We encourage you to read the Proxy Statement and vote your shares as soon as possible. Please vote today either by telephone or Internet, or by signing, dating and mailing your proxy card, broker's or other nominee's voting instruction form in the envelop provided. Telephone or Internet voting permits you to vote at your convenience, 24 hours a day, seven days a week. Detailed voting instructions are included on the back of your proxy card, broker's or other nominee's voting instruction form.

I thank you for your continued investment and for the trust you've placed in us. We appreciate your support.

Sincerely,

Caren Mason
President and Chief Executive Officer

STAAR SURGICAL COMPANY

25651 Atlantic Ocean Drive

Lake Forest, California 92630

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of the stockholders of STAAR Surgical Company (the “Annual Meeting”) will take place on Thursday, June 20, 2019, at 8:30 a.m. (Pacific time), at STAAR’s headquarters at 25651 Atlantic Ocean Drive, Lake Forest, California, 92630. The purpose of the meeting is to do the following:

1. elect the following five director nominees for a term of office expiring at the 2020 annual meeting of stockholders or until their successors are duly elected and qualified: Stephen C. Farrell, Caren Mason, John C. Moore, Louis E. Silverman, and William P. Wall;
2. ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending January 3, 2020;
3. hold an advisory vote to approve annual compensation program for non-employee directors;
4. hold an advisory vote to approve STAAR’s compensation of its named executive officers; and
5. transact such other business as may properly come before the meeting or any adjournment or postponement of the meeting.

The Board of Directors recommends a vote “FOR” items 1, 2, 3, and 4.

Only stockholders of record at the close of business on April 23, 2019 (“stockholders”) are entitled to vote.

As stated in the enclosed Proxy Statement, we are soliciting proxies on behalf of the Board of Directors of STAAR. All proposals presented above are proposals of the Board of Directors.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
STOCKHOLDER MEETING TO BE HELD ON JUNE 20, 2019

We want to ensure your shares are represented as we conduct a vote on the matters outlined in the proxy statement. If you are unable to attend the meeting, please cast your vote as soon as possible via:

- The Internet at www.proxyvote.com (and following instructions on the proxy card);
- By calling 1-800-690-6903; or
- By mail if you request a paper copy of the materials, which will include a proxy card (please see the instructions on the Notice of Availability of Proxy Materials).

You can find our 2019 Proxy Statement, the proxy card and 2018 Annual Report on Form 10-K at www.proxyvote.com. To view materials via the Internet, please follow the instructions set forth on the Notice Regarding Internet Availability mailed on or about April 29, 2019 to all stockholders of record as of the close of business on April 23, 2019.

By Order of the Board of Directors,

Samuel Gesten
Chief Legal Officer and Secretary
Lake Forest, California
April 29, 2019

STAAR SURGICAL COMPANY

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STAAR SURGICAL COMPANY

25651 Atlantic Ocean Drive

Lake Forest, California 92630

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS

To Be Held June 20, 2019 at 8:30 a.m. (Pacific Time)

The Board of Directors of STAAR Surgical Company is soliciting your proxy for use at the 2019 Annual Meeting of Stockholders to be held on Thursday, June 20, 2019 at 8:30 a.m. (Pacific time). The Board of Directors is making proxy materials available on the Internet to stockholders on or about April 29, 2019.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: Why are you providing this proxy statement?

A: The Board of Directors is soliciting your proxy to vote at the Annual Meeting because you were a stockholder at the close of business on April 23, 2019—the “Record Date” for the Annual Meeting—and as such you are entitled to vote at the meeting. STAAR has made the proxy statement and related materials available to you on the Internet, in connection with this solicitation.

Q: What is included in the proxy materials that I should read?

A: The proxy materials include the following:

- this Proxy Statement; and
- our Annual Report on Form 10-K for fiscal year 2018.

Q: What is the voting requirement to elect the directors and to approve each of the proposals?

A: In Proposal No. 1, the election of directors, the five persons receiving the highest number of affirmative votes will be elected, subject to STAAR’s Director Resignation Policy. Abstentions and broker non-votes have no effect on the vote.

In Proposal No. 2, the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending January 3, 2020, requires the affirmative vote of the holders of a majority of the voting power of the issued and outstanding shares of common stock present in person or by proxy and entitled to vote on the proposal. Abstentions have the same effect as a vote “AGAINST” this proposal. Brokers may vote on this proposal if not instructed by their clients.

Proposal No. 3 is a non-binding advisory vote to approve the annual compensation program for non-executive directors and requires the affirmative vote of the holders of a majority of the voting power of the issued and outstanding shares of common stock present in person or by proxy and entitled to vote on the proposal. Abstentions have the same effect as a vote “AGAINST” the proposal. Broker non-votes have no effect.

Proposal No. 4 is a non-binding advisory vote to approve the compensation of our named executive officers and requires the affirmative vote of the holders of a majority of the voting power of the issued and outstanding shares of

common stock present in person or by proxy and entitled to vote on the proposal. Abstentions have the same effect as a vote “AGAINST” the proposal. Broker non-votes have no effect.

Voting Standards and Board Recommendations

| Voting Item | Board Recommendation | Voting Standard | Treatment of Abstentions & Broker Non-Votes |
|---|----------------------|---|--|
| Election of directors | For each nominee | Plurality | Abstentions and broker non-votes have no effect |
| Auditor ratification | For | Majority of votes represented at the meeting and entitled to vote thereon | Abstentions have the effect of a vote against; brokers may vote in their discretion |
| Say on pay for non-executive directors | For | Majority of votes represented at the meeting and entitled to vote thereon | Abstentions have the effect of a vote against; broker non-votes have no effect |
| Say on pay for named executive officers | For | Majority of votes represented at the meeting and entitled to vote thereon | Abstentions have the effect of a vote against; broker non-votes have no effect |

Q: What are “broker non-votes”?

A: If a beneficial owner who holds shares in “street name” through a broker, bank or other nominee fails to give voting instructions to such broker, bank or other nominee for any matters submitted to stockholders at the 2019 Annual Meeting, such broker, bank or other nominee will be able to vote the beneficial owner’s shares on routine proposals such as the proposal to ratify the selection of our independent registered public accountant, but may not vote the shares on non-routine proposals. When a broker, bank or other nominee votes a client’s shares on routine proposals, those shares are counted for purposes of establishing a quorum for the meeting and for purposes of determining whether a routine proposal is approved, but they will not be counted toward the approval of non-routine proposals as to which brokers, banks and other nominees are not entitled to vote. These missing votes with respect to such non-routine proposals are called “broker non-votes.” Broker non-votes have a variable effect on the approval or disapproval of proposals depending upon the voting standard applicable to the proposal, as described above under the answers to the question, “What is the voting requirement to elect the directors and to approve each of the proposals?”

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: If your shares of STAAR common stock are registered directly in your name with STAAR’s transfer agent, American Stock Transfer & Trust Company, you are a stockholder of record with respect to those shares.

If you hold shares in a stock brokerage account or through a bank, broker or other nominee, you are considered the “beneficial owner” of shares held in street name. As the beneficial owner, you have the right to instruct your broker, bank or nominee how to vote your shares by the various methods described below.

Q: How do I vote before the Annual Meeting?

A: There are three ways to vote before the meeting:

• By Internet. If you have Internet access, we encourage you to submit a proxy to vote on www.proxyvote.com by following instructions on the proxy card.

• By telephone. You may vote by making a toll-free telephone call from the U.S. or Canada to 1-800-690-6903.

•

By mail. You can vote by mail by requesting a paper copy of the materials, which will include a proxy card. Please see the instructions for making such a request on the Notice of Availability of Proxy Materials.

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Q: How can I vote at the Annual Meeting?

A: If you are a stockholder of record, you may vote in person at the Annual Meeting, or vote through a representative at the meeting by executing a proper proxy designating that person. The Board of Directors recommends that you grant a proxy via the Internet, telephone or by mail in case you are later unable to attend the Annual Meeting to ensure that your shares will be represented and voted. All properly executed and valid proxies will be voted at the annual meeting in accordance with the instructions provided by the stockholder granting the proxy. If you are a stockholder of record and submit a properly executed proxy but do not indicate your voting instructions, your shares will be voted as recommended by the Board of Directors in this Proxy Statement. If any matters not described in this Proxy Statement are properly presented at the Annual Meeting, the proxy holders will determine how to vote your shares. If the Annual Meeting is postponed or adjourned, the proxy holders can vote your shares on the new meeting date, unless you properly revoke your proxy prior to such time as described below.

If you are a beneficial owner and wish to vote in person, you must obtain a legal proxy from your broker, bank or nominee and present it to the inspectors of election with your ballot at the Annual Meeting.

Q: How many votes do I have?

A: You are entitled to one vote for each share of common stock that you hold.

Q: Can I cumulate votes for the election of directors?

A: No, STAAR's Certificate of Incorporation does not provide for cumulative voting for the election of directors. This means you have one vote for each share entitled to vote at the Annual Meeting for each of the five seats subject to election.

Q: What can I do if I change my mind after I submit a proxy to vote my shares?

A: If you change your mind after you submit your proxy to vote your shares, you can revoke your proxy before the Annual Meeting by any of the following methods:

By submitting a later-dated proxy with revised voting instructions over the Internet, by telephone or by mail before the shares are voted at the meeting (provided that proxies submitted over the Internet or by telephone will only be accepted until 11:59 p.m. on June 19, 2019)—only your last valid proxy will be counted.

If you are a record holder, by attending the Annual Meeting and voting in person; attending the Annual Meeting in person will not automatically revoke your proxy unless you vote again at the Annual Meeting.

By delivering a written notice to STAAR's Secretary at any time before your proxy is voted at the Annual Meeting revoking your proxy. Such notices should be mailed to the following address: Office of the Secretary, STAAR Surgical Company, 25651 Atlantic Ocean Drive, Lake Forest, California, 92630.

If you are a beneficial holder, you may submit new voting instructions by contacting your broker, bank or nominee. You may also vote in person at the Annual Meeting if you obtain a valid proxy from your broker, bank or nominee and present it to the inspectors of election with your ballot at the Annual Meeting.

Q: Who will count the vote?

A: An automated system independently maintained by Broadridge Financial Solutions, Inc. will tabulate the vote and submit the results to officers of STAAR who will be designated as the inspectors of election.

Q: What constitutes a quorum?

A: As of the Record Date, 44,472,846 shares of common stock of STAAR were issued and outstanding. A majority of the outstanding shares, or 22,236,424 shares, present in person or represented by proxy, constitutes a quorum for the purpose of electing directors and adopting proposals at the Annual Meeting. Stockholders of record that submit a properly executed and valid proxy will have their shares counted towards the quorum. Abstentions and broker non-votes are also included in establishing a quorum.

Q: Who can attend the Annual Meeting?

A: Any stockholder as of the Record Date may attend the Annual Meeting. Stockholders of record will be required to show valid identification. Beneficial owners may request admission in advance of the meeting by writing to the Office of the Secretary, STAAR Surgical Company, 25651 Atlantic Ocean Drive, Lake Forest, California, 92630, or faxing the request to (626) 358-3049. You must provide evidence of your ownership of shares with your request, which you can obtain from your broker, bank or nominee. We encourage you or your broker to fax your request and proof of ownership in order to avoid any mail delays.

Q: What authority does my broker have to vote my shares?

A: If you are a beneficial owner holding your shares through a broker, bank or other nominee, and you do not submit voting instructions to your broker, bank or nominee, the broker, bank or other nominee has the ability to vote your shares at the Annual Meeting on matters that are defined as “routine” under applicable rules. The ratification of the selection of BDO USA, LLP to serve as our independent registered public accountants is generally considered a routine matter. None of the other proposals at the Annual Meeting are considered routine and your broker, bank or other nominee has no authority to vote on such proposals without your instruction.

Q: What happens if a nominee for director is unable to serve?

A: If a nominee becomes unavailable for election—a circumstance we do not expect—the Proxy holders may vote for a substitute nominee designated by the Board of Directors.

Q: When are stockholder proposals due for the 2020 Annual Meeting?

A: If a stockholder seeks to include a proposal in the proxy statement for STAAR’s 2020 Annual Meeting, our corporate Secretary must receive the proposal at our offices at 25651 Atlantic Ocean Drive, Lake Forest, California, 92630 no later than December 31, 2019 in a form that complies with the regulations of the Securities and Exchange Commission (the “SEC”). If we advance or delay the date of the 2020 Annual Meeting more than 30 days from the anniversary date of the 2019 Annual meeting, stockholder proposals intended to be included in the proxy statement for the 2020 Annual Meeting must be received by us within a reasonable time before STAAR begins to print and mail the proxy statement for the 2020 Annual Meeting. If we determine that the date of the 2020 annual meeting will be advanced or delayed by more than 30 days from the anniversary date of the 2019 Annual Meeting, we will disclose the change in the earliest practicable Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

Q: Can stockholders propose individuals to be considered as nominees for the 2020 Annual Meeting?

A: Our Bylaws provide that, subject to certain defined exceptions, stockholders may nominate candidates for the Board of Directors or present other business at our annual meeting if they have given timely notice to the Secretary of STAAR, at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year’s annual meeting. To be timely, a stockholder’s notice nominating a candidate for the 2020 Annual Meeting must be received by the Secretary of STAAR at the Company’s principal executive offices no earlier than February 21, 2020 and no later than March 22, 2020. Stockholders are advised to review the Bylaws, which contain additional requirements with respect to advance notice of nominations and stockholder proposals.

Q: Who bears the costs of soliciting proxies?

A: STAAR will bear the costs of this solicitation, including the expense of preparing, printing, assembling and mailing this Proxy Statement and any other material used in this solicitation of Proxies. We expect officers and regular employees of STAAR to communicate with stockholders, banks, brokerage houses, custodians, nominees and others by telephone, facsimile, email or in person to request that Proxies be furnished. No additional compensation will be paid for these services. We will reimburse banks, brokerage firms and other persons representing beneficial owners of Common Stock for their reasonable out-of-pocket expenses in forwarding solicitation materials to the beneficial owners.

Q: Will other business be presented at the Annual Meeting?

A: As of the date of this Proxy Statement, the Board of Directors knows of no business to be presented for consideration at the Annual Meeting other than those matters described in the Notice of Annual Meeting. If, however, other matters are properly brought before the Annual Meeting, including a motion to adjourn the Annual Meeting to another time or place in order to solicit additional proxies in favor of the recommendations of the Board of Directors, the Proxy holders intend to vote the shares represented by the Proxies on such matters in accordance with the recommendation of the Board of Directors, and the authority to do so is included in the Proxy.

Q: Can I obtain additional information on STAAR's website?

A: STAAR's home page is <http://staar.com>. In the Investor Information—Corporate Governance area of the website you can find the following information:

- Audit Committee Charter;
- Compensation Committee Charter;
- Nominating and Governance Committee Charter;
- Code of Business Conduct and Ethics; and
- Guidelines on Significant Corporate Governance Issues.

To reduce the expense of delivering duplicate proxy materials to stockholders who may have more than one account holding STAAR common stock but who share the same address, we have adopted a procedure approved by the SEC called "householding." Under this procedure, certain stockholders of record who have the same address and last name will receive only one copy of our Annual Report on Form 10-K and proxy statement that are delivered until such time as one or more of these stockholders notify us that they want to receive separate copies. This procedure reduces duplicate mailings and saves printing costs and postage fees, as well as natural resources. Stockholders who participate in householding will continue to have access to and utilize separate proxy voting instructions.

If you receive a single set of proxy materials as a result of householding, and you would like to have separate copies of our Annual Report on Form 10-K and/or proxy statement mailed to you, please submit a request, either in writing or by phone, by contacting us in writing at Office of the Secretary, STAAR Surgical Company, 25651 Atlantic Ocean Drive, Lake Forest, California 92630, or calling us at (626) 303-7902, and we will promptly send you what you have requested. You can also contact our Secretary at the address or telephone number noted previously if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future, or if you would like to opt out of householding for future mailings.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table shows, as of the Record Date, information concerning the shares of common stock beneficially owned by each person known by STAAR to be the beneficial owner of more than 5% of our Common Stock (other than directors and executive officers). This information is based on publicly available information filed with the SEC as of the Record Date.

| Name and Address | Shares | | |
|---|--------------------|---------------------------------|---|
| | Beneficially Owned | Percent of Class ⁽¹⁾ | |
| Broadwood Partners, L.P. ⁽²⁾ | 10,881,079 | 24.5 | % |
| C/O Broadwood Capital Inc. | | | |
| 724 Fifth Avenue, 9th Floor | | | |
| New York, NY 10019 | | | |
| Palo Alto Investors ⁽³⁾ | 4,147,988 | 9.3 | % |
| 470 University Avenue | | | |
| Palo Alto, CA 94301 | | | |
| The Vanguard Group ⁽⁴⁾ | 3,599,905 | 8.1 | % |
| 100 Vanguard Boulevard | | | |
| Malvern, PA 19355 | | | |
| BlackRock, Inc. ⁽⁵⁾ | 3,111,085 | 7.0 | % |
| 55 East 52 nd Street | | | |
| New York, NY 10055 | | | |

(1) Based on 44,472,846 shares of common stock outstanding on the Record Date. Under Rule 13d-3 of the Securities Exchange Act of 1934, certain shares may be deemed to be beneficially owned by more than one person (if, for example, a person shares the power to vote or the power to dispose of the shares). As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of Common Stock actually outstanding on the Record Date.

(2) In its Schedule 13D/A filed August 10, 2018, with respect to its ownership of STAAR securities as of August 1, 2018, Broadwood Partners, L.P. and Broadwood Capital, Inc. state they have sole voting power as to no shares, shared voting power as to 10,855,179 shares, sole dispositive power as to no shares, and shared dispositive power as to 10,855,179 shares. Neal C Bradsher states he has sole voting power as to 25,900 shares, shared voting power as to 10,855,179 shares, sole dispositive power as to 25,900 shares, and shared dispositive power as to 10,855,179 shares.

(3) In its Schedule 13G filed February 14, 2019, with respect to its ownership of STAAR securities as of December 31, 2017, Patrick Lee, MD, Anthony Joonkyoo Yun, MD, Palo Alto Investors, LLC and PAI LLC state they have sole

voting power as to no shares, shared voting power as to 4,147,988 shares, sole dispositive power as to no shares, and shared dispositive power as to 4,147,988 shares. Palo Alto Healthcare Master Fund II, L.P. states it has sole voting power as to no shares, shared voting power as to 2,362,278 shares, sole dispositive power as to no shares, and shared dispositive power as to 2,362,278 shares.

- (4) In its Schedule 13G filed February 12, 2019, with respect to its ownership of STAAR securities as of December 31, 2018, The Vanguard Group states it has sole voting power as to 87,413 shares, shared voting power as to 4,811 shares, sole dispositive power as to 3,511,647 shares, and shared dispositive power as to 88,258 shares.
- (5) In its Schedule 13G/A filed February 6, 2019 with respect to its ownership of STAAR securities as of December 31, 2018, BlackRock, Inc. states that it has sole voting power as to 3,022,961 shares, shared voting power as to no shares, sole dispositive power as to 3,111,085 shares, and shared dispositive power as to no shares.

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The following table shows, as of the Record Date, information with respect to the shares of Common Stock beneficially owned by (1) each director and director nominee, (2) each person who is named in the Summary Compensation Table below, and (3) all current executive officers and directors as a group. This information is based on publicly available information filed with the SEC as of the Record Date.

| Name ⁽¹⁾ | Shares Beneficially Owned Shares Subject to | | | Total | Percent of | Class ⁽⁴⁾ |
|---|---|--|---|-----------|---------------|----------------------|
| | Shares of Common Stock Owned ⁽²⁾ | Options Exercisable on or Before June 20, 2019 ⁽³⁾ | RSUs Vesting on or Before June 20, 2019 ⁽³⁾ | | | |
| Stephen C. Farrell** | — | 61,375 | 3,691 | 65,066 | * | |
| John C. Moore** | 126,140 | 46,206 | 3,691 | 176,037 | * | |
| Louis E. Silverman** | 23,369 | 58,282 | — | 81,651 | * | |
| William P. Wall** | 12,544 | 33,994 | 3,691 | 50,229 | * | |
| Caren Mason | 44,013 | 699,179 | — | 743,192 | 1.7 | % |
| Deborah Andrews | 27,100 | 98,258 | — | 125,358 | * | |
| Hans Blickensdoerfer | 124,200 | 201,160 | — | 325,360 | * | |
| Keith Holliday | 30,864 | 91,993 | — | 122,857 | * | |
| Samuel Gesten | 31,378 | 170,677 | — | 202,055 | * | |
| All current directors and executive officers as a group (9 individuals) | 419,608 | 1,461,124 | 11,073 | 1,891,805 | 4.3 | % |

*Less than 1%.

**Director or Nominee.

(1) The business address of each person named is c/o STAAR Surgical Company, 25651 Atlantic Ocean Drive, Lake Forest, California, 92630.

(2) Pursuant to Rule 13d-3(a), includes all shares of Common Stock over which the listed person has, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise, voting power, which includes the power to vote, or to direct the voting of, the shares, or investment power, which includes the power to dispose, or to direct the disposition of, the shares. STAAR believes that each individual or entity named has sole investment and voting power with respect to shares of Common Stock indicated as beneficially owned by him or her, subject to community property laws, where applicable, except where otherwise noted. Restricted shares are listed even when unvested and subject to forfeiture because the holder has the power to vote the shares.

(3) In accordance with Rule 13d-3(d)(1) under the Securities Exchange Act of 1934, each listed person is deemed the beneficial owner of shares that the person has a right to acquire by exercise of a vested option or other right on or before June 22, 2019 (60 days after the Record Date).

(4) Based on 44,472,846 shares of Common Stock outstanding on the stock records as of the Record Date. The percentages are calculated in accordance with Rule 13d-3(d)(1), which provides that shares not outstanding that are

subject to options, warrants, rights or conversion privileges exercisable on or before June 22, 2019 (60 days after the Record Date) are deemed outstanding for the purpose of calculating the number and percentage that each person owns, but not deemed outstanding for the purpose of calculating the percentage which any other listed person owns.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Proposal No. 1 is for the election of Stephen C. Farrell, Caren Mason, John C. Moore, Louis E. Silverman, and William P. Wall as directors, each to serve until STAAR's 2020 Annual Meeting of Stockholders and until his or her successor has been duly elected and qualified, or until his or her earlier death, removal or retirement. The authorized number of directors is currently set at five members.

The Board of Directors has nominated Stephen C. Farrell, Caren Mason, John C. Moore, Louis E. Silverman, and William P. Wall for re-election to the Board. Each of these nominees has indicated his or her willingness to serve and, unless otherwise instructed, the Proxy holders will vote the Proxies received by them for those five nominees. If a nominee is unable or unwilling to serve as a director at the time of the Annual Meeting or any continuation, postponement or adjournment of the meeting, the Proxy holders will vote the Proxies for another nominee, if the current Board of Directors designates a nominee to fill the vacancy.

The qualifications of the individual directors upon which the Board of Directors based its nominations are described along with the biography of each nominee below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF THE BOARD
OF DIRECTORS' NOMINEES.

INFORMATION REGARDING DIRECTOR NOMINEES AND EXECUTIVE OFFICERS

Director Nominees

Caren Mason

Director since June 2014

President and Chief Executive Officer since March 2015

Age 65

Background. Ms. Mason was elected to STAAR's Board of Directors at its 2014 Annual Meeting, and she has served as STAAR's Chief Executive Officer since March 1, 2015. From 2010 to 2012, Ms. Mason served as Chief Executive Officer of Verinata Health, Inc. (f/k/a Artemis Health, Inc.), a provider of non-invasive prenatal genetic sequencing tests for the early identification of fetal chromosomal abnormalities. In February 2013, Verinata was acquired by Illumina. Ms. Mason served as the President, Chief Executive Officer and a Director of Quidel Corporation from 2004 to 2009, a publicly traded company engaged in the development, manufacturing and marketing of rapid diagnostic solutions at the professional point of care in infectious diseases and reproductive health. Prior to joining Quidel, Ms. Mason provided consultative services from 2003 to 2004 for Eastman Kodak Health Imaging as a result of the sale of MiraMedica, Inc., to Eastman Kodak. She served as President and Chief Executive Officer for MiraMedica, Inc., an early phase start-up developing computer aided detection software for breast cancer, from 2002 through 2003. Prior to her tenure with MiraMedica, Inc., Ms. Mason served as Chief Executive Officer of eMed Technologies of Lexington, Massachusetts, a teleradiology and picture archiving and communications systems business. Ms. Mason served as General Manager of the Women's Healthcare business and as a General Manager in various capacities for the Services business of General Electric Healthcare from 1996 to 2000. Ms. Mason's additional healthcare experience includes her tenure with Bayer AG/AGFA from 1989 to 1996 where she last held the positions of Senior Vice President for Bayer Corporate Health Care and Senior Vice President for the AGFA Technical Imaging Business

Group. Ms. Mason began her career in healthcare with American Hospital Supply/Baxter Healthcare in sales, marketing and managerial roles from 1977 through 1988. Ms. Mason received her B.A. from Indiana University. Ms. Mason's prior corporate governance experience includes both private and public boards with Verinata Health, eMed Technologies, MiraMedica and Quidel Corporation. She currently serves as a director on the Board of AdvaMed, a medical device trade association headquartered in Washington, D.C., and on the Advisory Board for InDevR, Inc., a biotechnology company in Boulder, Colorado developing diagnostic and vaccine technologies.

Qualifications. The Board of Directors concluded that in addition to her broad healthcare background and medical device company expertise, Ms. Mason, STAAR's Chief Executive Officer, should serve on its Board of Directors to provide a critical link between management and our Board. Before Ms. Mason became Chief Executive Officer, in 2014 the Board nominated her to serve as an independent director. Ms. Mason has nearly 35 years of senior executive experience at innovative healthcare, life sciences, diagnostic technology, and medical device companies.

Stephen C. Farrell

Director since January 2016

Age 54

Background. Mr. Farrell has served since 2011 as the Chief Executive Officer and a member of the Board of Directors of Convey Health Solutions, a private equity sponsored technology-enabled healthcare business process outsourcer. Also, since 2012 he has served as a member of the Board of Directors of BioTime, Inc., a clinical stage biotechnology company focused in the field of regenerative medicine. From 2008 to 2009, Mr. Farrell served as the Executive Vice President and Chief Financial Officer for Stream Global Services, a business process outsourcer. From 1999 to 2007, Mr. Farrell served as President of PolyMedica Corporation, a publicly traded provider of diabetes supplies that was acquired by Medco Health Solutions in 2007. From 2007 to 2014, he served as a member of the Board of Directors of Questcor Pharmaceuticals, a biopharmaceutical company that was acquired by Mallinckrodt PLC in 2014. Mr. Farrell spent five years as a Senior Manager at PricewaterhouseCoopers auditing leading public companies from 1994 to 1999. He received his B.A. from Harvard University and earned a M.B.A. at the University of Virginia, Darden School of Business.

Qualifications. The Board of Directors concluded that Mr. Farrell should serve on the Board of Directors because he brings significant operating, financial and board experience to STAAR. He has a strong knowledge of healthcare, having led PolyMedica and Convey Health Solutions, and having served as Chairperson of the Audit and Corporate Citizenship Committees for Questcor Pharmaceuticals and BioTime, Inc., and also would qualify as a financial expert. His expertise in healthcare distribution, accounting and financial stewardship will add a valuable skill set and strategic perspective to our Board.

John C. Moore

Director since January 2008

Age 75

Background. From December 2012 through December 2016, Mr. Moore served as a director and Chairperson of the Board of Directors of Optovue, Inc., an ophthalmic medical device company. Since May 2014 Mr. Moore has served as Chief Technical Officer of TearSolutions, L.L.C., an ophthalmic pharmaceutical company. Between April 2005 and January 2007, Mr. Moore served as Chief Executive Officer of Notal Vision, an Israel-based ophthalmic company that develops diagnostic solutions for the early detection and monitoring of age-related macular degeneration (AMD). Mr. Moore served as the President and Chief Executive Officer of Laser Diagnostic Technologies, a manufacturer of ophthalmic diagnostic laser devices used for the early detection of glaucoma, from 2000 until 2004 when it was acquired by Carl Zeiss Meditec, Inc. Before this, Mr. Moore was a vice president at Alcon Laboratories, one of the largest companies in the ophthalmic surgical sector, where he was responsible for pursuing and executing strategic acquisitions and partnerships to broaden that company's product portfolio. Mr. Moore also spent more than 10 years in various leadership roles at Carl Zeiss, Inc., a multinational ophthalmic company with primary businesses in optics, medical, scientific and semiconductor products. Mr. Moore received his B.S. in General Science from University of Rochester.

Qualifications. Mr. Moore's extensive experience in the ophthalmic and medical device industries encompasses both large, well established companies and innovative start-ups. The Board of Directors concluded that Mr. Moore should serve on the Board of Directors because of his familiarity with relevant technical aspects of the ophthalmic industry and the challenges faced by emerging companies in the ophthalmic sector.

Throughout his tenure as a STAAR director, Mr. Moore has been an important resource for the Board of Directors, contributing valuable insights in numerous areas, including research and development and international operations in the medical device industry.

Louis E. Silverman

Director since September 2014

Age 60

Background. Since February 2014, Mr. Silverman has served as the Chairperson and Chief Executive Officer of privately held Advanced ICU Care, Inc., a health care services company providing tele-ICU monitoring services to hospitals. From June 2012 through February 2014, Mr. Silverman served as a consultant and Board advisor for private equity investors and others regarding health care technology and health care technology service companies, and health care services portfolio investments. From September 2009 through June 2012, Mr. Silverman was Chief Executive Officer of Marina Medical Billing Services, Inc., a revenue cycle management company serving ER physicians nationally. Previously, from September 2008 through August 2009, Mr. Silverman served as President and Chief Executive Officer of Qualcomm-backed health care start-up LifeComm. From August 2000 through August 2008, Mr. Silverman served as the President and Chief Executive officer of Quality Systems, Inc., a publicly traded developer of medical and dental practice management and patient records software. From 1993 through 2000, he served as Chief Operating Officer of CorVel Corporation, a publicly traded national managed care services/technology company. Mr. Silverman earned a B.A. from Amherst College and an M.B.A. from Harvard Business School.

Qualifications. The Board of Directors concluded that Mr. Silverman should serve on the Board of Directors because he brings to the Board of Directors senior executive experience in leadership and corporate strategy from various healthcare technology and services companies.

William P. Wall

Director since September 2015

Age 56

Background. William P. Wall is the managing member of OQ Partners, LLC, a private investment firm based in Lexington, MA. Mr. Wall has served as a Director of Haynes International, Inc. since 2004 and is the Chairperson of the Corporate Governance and Nominating Committee and a member of the Audit Committee and Compensation Committee. Mr. Wall also served as a director of Front Yard Residential Corporation from March 2016 to March 2018. From February 2006 until June 2015, Mr. Wall served as general counsel of Abrams Capital Management, LLC, a value-oriented investment firm headquartered in Boston. Prior to joining Abrams Capital, Mr. Wall was a partner at a hedge fund for two years and was employed with Fidelity Investments for seven years, concluding as a Managing Director in its private investment group. Mr. Wall began his career as an Associate at the law firm of Ropes & Gray. Previously, Mr. Wall served as a director of various Abrams Capital and Fidelity portfolio companies, including Prime Motor Group, Nations Equipment Finance, Arena Brands, The Strober Organization and Eightfold Capital Management. Mr. Wall received his B.A. from the University of Massachusetts at Amherst, and an M.P.A. and J.D. from Harvard University.

Qualifications. The Board of Directors concluded that Mr. Wall should serve on the Board of Directors because his legal, investment and regulatory experience has and is expected to continue to support STAAR's on-going growth and development.

Committee Composition:

Below is a summary of our committee structure and membership information as of the date of this Proxy Statement.

| Chairperson | Member | Financial Expert |
|--------------------------|----------------|------------------|
| Chairperson of the Board | President, CEO | |

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| | Nominating, | | |
|--------------------|-------------|------------|--------------|
| | Audit | Governance | Compensation |
| | Committee | Committee | Committee |
| Louis E. Silverman | | | |
| Stephen C. Farrell | | | |
| Caren Mason | | | |
| John C. Moore | | | |
| William P. Wall | | | |

All of the directors listed in the chart are independent directors under the rules of the Securities and Exchange Commission and the Nasdaq Marketplace Rules, with the exception of Caren Mason, who serves as STAAR's President and Chief Executive Officer.

Executive Officers

Deborah Andrews

Chief Financial Officer

Age 61

Ms. Andrews has served as Chief Financial Officer since September 2017. From April 2017 to September 2017 she served as STAAR's interim Chief Financial Officer. Prior to that, from September 2013 to April 2017, she served as Chief Accounting Officer. From August 2005 to September 2013 she served as STAAR's Vice President, Chief Financial Officer. She has been employed by STAAR since 1995, serving as Principal Financial Officer from April 2005 to August 2005, Global Controller from 2001 to 2005, Vice President, Finance, of STAAR Surgical AG (Switzerland) from 1999 to 2001, and Assistant Controller from 1995 to 1999. She previously served as an internal auditor for Bourns, Inc., a maker of electronic components, from 1994 to 1995, and an auditor for KPMG Peat Marwick from 1991 to 1994. Since April 2014 she has served on the Board of Directors and Audit and Compensation Committees of BioTime, Inc. Ms. Andrews earned her B.S. in Accounting from California State University, San Bernardino.

Hans-Martin Blickensdoerfer

Senior Vice President, Commercial Operations, Direct Markets Europe and China

Age 54

Mr. Blickensdoerfer, who joined STAAR in January 2005, has over 20 years' experience in the ophthalmic device industry. Initially, he served as STAAR's Vice President, International Marketing from 2005 to 2010, then from 2011 through 2015 he served as President, Europe, Middle East, Africa and Latin America. In 2016, he became Senior Vice President, Commercial Operations for Europe, Middle East, Africa, Latin America and China. In 2017, he became Senior Vice President, Commercial Operations for Direct Markets, Europe, and China. Prior to joining STAAR, Mr. Blickensdoerfer served from January 2003 through December 2004 as Vice President of Sales and Marketing for Milvella Ltd., an Australia-based medical device maker, where his duties included both regional and worldwide business planning, product launches and management of European clinical studies. He worked from 2000 through

2002 for Novartis-CIBA Vision, an ophthalmic surgical company, as the Commercial Director for Europe, the Middle East and Africa. Between 1997 and early 2000 he worked for the Ophthalmic Surgical Division of Bausch & Lomb, Inc. as its Area Sales Manager for Central and Eastern Europe. Prior to that time, he worked in sales and product management positions in the Ophthalmic Surgical Division of Chiron Vision and at Chiron Adatomed GmbH. Mr. Blickensdoerfer received his diploma in Marketing and International Management from the University of Mannheim in Germany. He is based in our Nidau, Switzerland facility.

Samuel Gesten

Chief Legal Officer and Secretary

Age 57

Mr. Gesten joined STAAR in April 2012 as Vice President, General Counsel and Secretary. In May 2014, he assumed the role Vice President of Business Development and Chief Legal Officer. In addition to his roles as Chief Legal Officer and Secretary, Mr. Gesten serves as Chief Compliance Officer. From 2009 through 2011, he served as Executive Vice President, General Counsel and as a member of the Executive Committee of Allergan, Inc. Prior to that, he spent 11 years at Thermo Fisher Scientific Inc. in a variety of positions, including General Counsel and Assistant Secretary of the Laboratory Products Group and Vice President, Deputy General Counsel. Prior to his work at Thermo Fisher, Mr. Gesten spent 11 years practicing law. He holds a B.A. in Economics from Brandeis University and a J.D. from Boston University.

Dr. Keith Holliday

Chief Technology Officer

Age 56

Dr. Keith Holliday joined STAAR in August 2015 as Vice President of Research and Development. In March 2017, he assumed the role of the Chief Technology Officer. From 2007 to his arrival at STAAR, he served as Vice President, Research and Development at ReVision Optics where he oversaw the development of their corneal inlay technology that includes a hydrogel inlay for presbyopia correction, delivery devices and clinical methodologies as well as managing first-in-man clinical studies. Previously, he was Director of Laser Technology at Advanced Medical Optics (AMO) and Staff Laser Scientist at VISX. Prior to joining VISX, Dr. Holliday worked primarily in academia. He obtained his first degree in Physics and Electronics from the University of Saint Andrews in Scotland and a Ph.D. from the Laser Physics Centre at the Australian National University. He spent three years at the Swiss Federal Institute of Technology, where he was primarily involved with the utilization of optically active polymers and crystals, to develop materials and techniques for very high density, holographic optical storage and computational systems. Dr. Holliday holds patents in excimer laser beam detection, control and profiling, and methods to correct presbyopia that synergistically take into account the epithelium's response to corneal inlays, and he has also authored 37 peer reviewed publications in the scientific literature plus two book chapters and one single-authored book. He is considered an expert on presbyopia and served as a committee member for the International Society of Presbyopia.

COMPENSATION OF DIRECTORS

Non-employee directors were compensated for 2018 service as follows:

| | |
|---|---------|
| Annual Retainers | (\$) |
| Annual Equity Grant | 110,000 |
| Board Member Cash Retainer | 50,000 |
| Board of Directors Chair Additional Retainer | 25,000 |
| Audit Committee Chair Additional Retainer | 15,000 |
| Compensation Committee Chair Additional Retainer | 15,000 |
| Nominating and Governance Chair Additional Retainer | 15,000 |

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| | |
|---|--------|
| Special Committee Chair Additional Retainer (as applicable) | 10,000 |
| Members of the Audit Committee, Compensation Committee, or Nominating and Governance Committee Additional Retainer | 5,000 |

In March 2018, following a review of benchmark data concerning non-employee director compensation of our peer group, our Board approved the following changes to the compensation program for non-employee directors: (i) an increase in the base annual cash retainer for non-employee directors from \$40,000 to \$50,000, effective April 6, 2018; and (ii) an increase in the annual non-employee director equity grant from a fair market value of \$100,000 to a fair market value of \$110,000, as of the date of grant. In accordance with these changes, each non-employee director was granted one or more equity awards with a fair market value of approximately \$10,000 on March 15, 2018. Our shareholders approved these changes to our director compensation program at our 2018 Annual meeting with nearly 98% of the votes cast.

Each non-employee director annually chooses the form of equity he or she receives based on a Black Scholes value of stock options or the fair value of restricted stock on the date of grant. The \$110,000 annual option and restricted stock awards were made on June 14 2018, and are scheduled to vest in full on the earlier of the first anniversary of the grant date or the date of our next annual meeting of stockholders to elect directors. Equity grants are awarded pursuant to the Company's Amended and Restated Omnibus Equity Incentive Plan (referred to herein as the Plan). Under the Plan, the total grant date fair value of equity-based awards granted to a non-employee director during any calendar year may not exceed \$500,000.

The Board of Directors can change the compensation of directors at any time. As part of this Annual Meeting, the Board of Directors is seeking approval by stockholders on a non-binding advisory basis to its proposal to (i) increase the annual equity grant to non-employee directors from a fair market value of \$110,000 to \$125,000, on the date of grant, and (ii) increase the annual retainer for the Chair of the Board from \$25,000 to \$40,000 (See, Proposal No. 3).

2018 Director Compensation

The table below summarizes the fiscal 2018 compensation of each non-employee director, including fees earned or paid in cash, restricted stock awards and stock options.

| | Fees | | | | | |
|--------------------|-------------------------|---------|---------------------|---------|---------------------|---------|
| | Earned or Paid in | | Option Awards | | Stock Awards | |
| Name | Cash (\$) | | (\$) ⁽¹⁾ | | (\$) ⁽¹⁾ | Total |
| Stephen C. Farrell | 67,335 | 9,982 | (2) | 109,992 | (2) | 187,309 |
| John C. Moore | 57,335 | 9,982 | (3) | 109,992 | (3) | 177,309 |
| Louis E. Silverman | 92,335 | 119,847 | (4) | — | (4) | 212,182 |
| William P. Wall | 79,835 | 4,991 | (5) | 114,998 | (5) | 199,824 |

(1) Dollar amounts in the Stock Awards and Option Awards columns reflect the grant date fair value of equity awards granted during fiscal year 2018, calculated in accordance with Financial Accounting Standards Board Codification Topic 718 ("FASB ASC Topic 718"). Assumptions used in the calculation of these amounts are included in Note 11 to STAAR's audited consolidated financial statements for the fiscal year ended December 28, 2018, included in STAAR's Annual Report on Form 10-K.

(2) Includes compensation related to the following: an option to purchase up to 1,206 shares of common stock, granted on March 15, 2018, which had a grant date fair value of \$9,982 and an award of 3,691 shares of restricted stock

granted on June 14, 2018, which had a grant date fair value of \$109,992. As of the end of fiscal year 2018, the aggregate number of stock and option awards outstanding for Mr. Farrell were 3,691 and 61,375, respectively.

- (3) Includes compensation related to the following: an option to purchase up to 1,206 shares of common stock, granted on March 15, 2018, which had a grant date fair value of \$9,982 and an award of 3,691 shares of restricted stock granted on June 14, 2018, which had a grant date fair value of \$109,992. As of the end of fiscal year 2018, the aggregate number of stock and option awards outstanding for Mr. Moore were 3,691 and 53,706, respectively.
- (4) Includes compensation related to the following: an option to purchase up to 1,206 shares of common stock, granted on March 15, 2018, which had a grant date fair value of \$9,982 and an option to purchase up to 7,155 shares of common stock, granted on June 14, 2018, which had a grant date fair value of \$109,865. As of the end of fiscal year 2018, the aggregate number of option awards outstanding for Mr. Silverman was 58,282. No stock awards were outstanding.

(5) Includes compensation related to the following: an option to purchase up to 603 shares of common stock, granted on March 15, 2018, which had a grant date fair value of \$4,991, an award of 310 shares of restricted stock, granted on March 15, 2018, which had a grant date fair value of \$5,007 and an award of 3,691 shares of restricted stock, granted on June 14, 2018, which had a grant date fair value of \$109,992. As of the end of fiscal year 2018, the aggregate number of stock and option awards outstanding for Mr. Wall were 3,691 and 33,994, respectively.

CORPORATE GOVERNANCE

Since our 2018 Annual Meeting of Stockholders, we have had ongoing dialog with a number of our investors, representing approximately 50% of shares outstanding, on a variety of topics including a variety of governance and operational enhancements.

Director Resignation Policy for Uncontested Election of Directors

In an uncontested election of directors (i.e., an election where the only nominees are those recommended by the Board of Directors), any director nominee who receives a greater number of votes “withheld” from his or her election than votes “for” such election shall promptly tender his or her resignation to the Board of Directors following certification of the election results. Within 60 days following the certification of the election results, the Board of Directors, excluding the nominee or director in question, will decide, through a process managed by the Nominating and Governance Committee, whether to accept the resignation. Absent a compelling reason for the director to remain on the Board of Directors, the Board of Directors shall accept the resignation. The Board of Directors will promptly disclose its decision to accept or reject the tendered resignation, which disclosure shall include, if the tendered resignation is rejected, a summary of the reasons underlying its decision to reject the tendered resignation. The Board of Directors believes that this process enhances accountability to stockholders and responsiveness to stockholders’ votes, while allowing the Board appropriate discretion in considering whether a particular director’s resignation would be in the best interests of the Company and our stockholders in limited circumstances.

Special Meeting of Stockholders

Our Bylaws provide that a special meeting of stockholders (i) may be called, for any purpose or purposes, by the Board of Directors, the Chairperson of the Board, or the President, and (ii) shall be called by the Secretary if appropriately requested by a person (or group of persons) beneficially owning in the aggregate at least 35% of the Company’s outstanding shares of common stock.

Stock Ownership Guidelines

To further align the interests of our non-employee directors and our executive officers, in April 2019 the Board of Directors adopted revised and expanded guidelines relating to stock ownership. The Guidelines provide that non-employee directors are required, within four years of a non-employee director first joining the Board of Directors, to own a number of shares of our common stock equal in value to three times (3x) their base annual cash retainers, not including amounts received for service on committees. Our Chief Executive Officer is required to own a number of shares of our common stock equal in value to three times (3x) his or her annual base salary, and our other executive officers are required to own a number of shares of our common stock equal in value to their annual base salaries, within four years from date of hire or promotion. For purposes of these stock ownership guidelines, ownership of our common stock includes (i) shares owned outright, (ii) shares owned by immediate family members residing in the same household, (iii) shares held in trust for the benefit of the non-employee director or executive officer or their immediate family members residing in the same household, and (iv) vested and unexercised “in-the-money” stock options held by the non-employee director or executive officer. From time to time the Board of Directors will consider and may reset the level of stock ownership that it considers appropriate for these Guidelines.

Code of Business Conduct and Ethics

STAAR has adopted a Code of Business Conduct and Ethics applicable to the principal executive officer and senior financial executives, including the Chief Financial Officer and the controller of STAAR, as well as all employees and directors of STAAR. The Code of Business Conduct and Ethics is published on our website, at www.staar.com, under “Investor Information—Corporate Governance.” We intend to disclose future amendments to, or waivers from, certain provisions of the Code of Business Conduct and Ethics applicable to senior executives on our website.

Prohibition on Hedging Shares

STAAR's global Anti-Hedging Policy prohibits any director, officer or employee subject to its terms from entering into short sales or derivative transactions to hedge their economic exposure to STAAR shares.

Board Evaluations

The Board, under the direction of the Nominating and Governance Committee, conducts a self-evaluation of performance at least annually. The Board uses the results of this process to determine the appropriate size and composition for the Board and each committee, including skills, background and experience. The self-evaluation also assists in determining the areas of focus for the Board at future meetings.

Board of Directors Leadership Structure

Since 2005 the Board of Directors has kept the positions of Chief Executive Officer and Chairperson of the Board separate and followed a policy that the Chairperson of the Board shall be an independent director. The Board of Directors believes that this separation of roles serves the interests of our stockholders at this time.

Board of Directors' Role in Risk Oversight

The Board of Directors is charged with general oversight of the management of STAAR's risks. Our management team is responsible for enterprise risk management on a day-to-day basis. The role of our Board of Directors and its committees is to oversee the risk management activities of management. When reviewing STAAR's strategy, business plan, budgets and major transactions the Board of Directors continuously examines the elements of risk in each proposed activity. For example, the Board of Directors periodically reviews with management the Company's activities to address cyber-risk. Each of the Board of Directors' standing committees assists the Board of Directors in overseeing the management of risk in the area overseen by the committee. In particular, the Audit Committee assists the Board of Directors by reviewing periodic reports from management on the risks related to such matters as financial reporting, internal controls, revenue recognition, treasury management, information technology, insurable risks, and compliance with legal and regulatory requirements. The Compensation Committee oversees risks related to our compensation programs and policies. The Nominating and Corporate Governance Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, and succession planning for our directors.

Recoupment Policy

This policy includes standards for seeking the return, or "claw-back," of bonus compensation paid to the Chief Executive Officer or Chief Financial Officer in certain circumstances following a restatement of STAAR's financial statements. The policy provides that if the relevant officer is adjudicated to have engaged in intentional misconduct or fraud, and the Board of Directors determines that the wrongful conduct directly or indirectly made the restatement necessary, we will seek reimbursement of any excess incentive award or bonus paid on the basis of financial performance. The excess incentive award that may be recovered is the difference, if any, between the amount actually paid to the relevant officer and the amount that would have been paid to the officer had the incentive award been calculated based on the financial statements as restated. The claw-back cannot be sought if more than five years have elapsed since the payment of the affected award or bonus or following a change in control.

Compensation Policies and Practices Related to Risk Management

STAAR's Compensation Committee and Board of Directors have analyzed and continue to monitor whether STAAR's compensation practices with respect to executive officers or any of its employees create incentives for risk-taking that could harm STAAR or its business. The Compensation Committee and the Board of Directors have determined that STAAR's compensation practices and policies do not create any risk that is reasonably likely to have a material adverse effect on STAAR.

Meetings of the Board of Directors

The Board of Directors held seven meetings during 2018. During 2018, each director attended more than 75% of the total number of Board of Directors meetings and meetings of the committees on which they then served. In addition to Board of Directors meetings, directors are kept informed of our business through personal meetings and other communications, including telephone and electronic contacts with our Chief Executive Officer and others regarding matters of interest and concern to us and our stockholders. Independent directors meet when they deem necessary in an executive session without management and at such other times as may be requested by any independent director.

It is the policy of STAAR to require members of the Board of Directors to attend the Annual Meeting of stockholders, if practicable. All incumbent directors attended the 2018 Annual Meeting of stockholders.

Committees

The Board of Directors has three standing committees: an Audit Committee, a Nominating and Governance Committee, and a Compensation Committee. The Board of Directors has adopted a written charter for each committee to provide for its organization and procedures and to delegate requisite authority for the committee to carry out its purposes.

Nominating and Governance Committee

The principal purposes of the Nominating and Governance Committee (the “Nominating and Governance Committee” or the “Committee”) are to help ensure that the Board of Directors is appropriately constituted to meet its fiduciary obligations to stockholders and STAAR, and that STAAR has and follows appropriate governance standards. To carry out these purposes, in accordance with its written charter, the Committee periodically does the following:

- identifies individuals qualified to become directors, consistent with criteria approved by the Board of Directors;
- recommends the director nominees to be selected by the Board of Directors for the next annual meeting of stockholders;
- reviews best practices in corporate governance, and recommends to the Board of Directors stockholder-oriented improvements in corporate governance that may be applicable to STAAR; and
- oversees the evaluation of the Board of Directors and management.

In addition to the candidates proposed by the Board of Directors or identified by the Committee, the Committee considers candidates for director suggested by our stockholders in accordance with the procedures described in the Questions and Answers section in response to the question: “Can stockholders propose individuals to be considered as nominees for the 2020 Annual Meeting?” Stockholder nominations that comply with those procedures and that meet the criteria outlined below will receive the same consideration that the Committee’s nominees receive. In the future, the Committee may also engage a recruiting firm to identify director candidates.

The process for evaluating prospective nominees for director, including candidates recommended by stockholders, includes meetings from time to time to evaluate biographical information and background material relating to prospective nominees, interviews of selected candidates by members of the Nominating and Governance Committee and other members of the Board, and application of our general criteria for director nominees set forth in our Guidelines on Significant Corporate Governance Issues. These criteria include, among other things, the prospective nominee’s integrity, business or other experience and expertise, and independence.

In selecting nominees for the Board of Directors, the Committee evaluates the general and specialized criteria set forth above, identifying the relevant specialized criteria prior to commencement of the recruitment process, considers previous performance if the candidate is a candidate for re-election, and generally considers the candidate’s ability to contribute to the success of STAAR. The Nominating and Governance Committee believes that differences in background, professional experiences, education, skills and viewpoints will enhance the performance of the Board of

Directors. The Company has not implemented a formal policy with respect to the consideration of diversity for the composition of the Board of Directors. However, the Nominating and Governance Committee and the Board of Directors believe that a diverse board leads to improved performance by encouraging new ideas, expanding the knowledge base available to management and other directors and fostering a culture that promotes innovation and

vigorous deliberation. In considering nominees for service on the Board of Directors, the Nominating and Governance Committee takes into consideration the diversity of professional experience, background, viewpoints and skills of the current and prospective members of the Board of Directors. Examples of this include management experience, financial expertise, medical device industry experience, international experience, and educational background. The Nominating and Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Committee believes that the backgrounds and qualifications of the directors considered as a group should provide a significant breadth of experience, knowledge and abilities to assist the Board in fulfilling its responsibilities, and assesses the effectiveness of this goal during the Board's annual evaluation. The Nominating and Governance Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board of Directors, and applicable regulations (such as recently enacted legislation in California which requires exchange listed-companies headquartered in California to have a minimum of two women on boards with five members, and three women on boards with six or more members, by the end of July 2021).

The Board of Directors' nominees for the Annual Meeting have been recommended by the Committee and have been nominated by the Board of Directors. The Committee received no formal stockholder recommendations of candidates for election at the 2019 Annual Meeting.

The current members of the Nominating and Governance Committee are William P. Wall, who serves as chair, Stephen C. Farrell and Louis E. Silverman. Each member of the Nominating and Governance Committee is "independent" as that term is defined under the Listing Rules of the NASDAQ Stock Market. During 2018, the Nominating and Governance Committee held four meetings.

Compensation Committee

Under its written charter, the principal duties of the Compensation Committee are to help ensure that STAAR's compensation of its senior executives satisfies the following principal requirements:

- alignment with the compensation strategy of STAAR determined by the Board of Directors; and
- enabling STAAR to compete in recruiting and retaining qualified executive officers.

The Compensation Committee makes recommendations to the Board of Directors on all decisions for the total direct compensation of the named executive officers of STAAR, including base salary, annual bonus, long-term equity compensation and perquisites. The Compensation Committee also generally approves company-wide pay increases and discretionary compensation that may be allocated to non-executive employees by management. The Committee also administers STAAR's equity plan. The Committee may delegate authority to subcommittees or Committee members.

The current members of the Compensation Committee are Louis E. Silverman, who serves as chair, John C. Moore and William P. Wall. Each member of the Compensation Committee is "independent" as that term is defined under the Listing Rules of the NASDAQ Stock Market. During 2018, the Compensation Committee held three meetings.

Role of Compensation Consultant

The Compensation Committee has sole authority to retain and terminate a compensation consultant to assist in the evaluation of director, Chief Executive Officer or senior executive compensation. The Compensation Committee periodically consults with Radford, an Aon Hewitt business unit, regarding a variety of topics including but not limited to the amount and form of executive and non-employee director compensation. The Compensation Committee has assessed the independence of Radford considering the factors set forth in applicable SEC rules and the Listing Rules of the NASDAQ Stock Market and has concluded no conflicts of interest were raised by the work performed by Radford. In 2018, the Committee engaged Radford to conduct a comprehensive review of the Corporation's compensation program concerning non-employee directors, officers and other members of management in relation to

various peer groups.

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Audit Committee

The principal duties of the Audit Committee are to oversee (i) the quality and integrity of STAAR's financial statements, (ii) the qualifications and independence of STAAR's independent registered public accounting firm, and (iii) the performance of STAAR's independent registered public accounting firm. The Committee communicates with management throughout the year to help it assess the performance of STAAR's independent registered public accounting firm for consideration of re-engagement in future years.

The current members of the Audit Committee are Stephen C. Farrell who serves as chair, John C. Moore, and William P. Wall. Each member of the Audit Committee is "independent" as that term is defined under the Audit Committee rules of the SEC and the Listing Rules of the NASDAQ Stock Market. STAAR has determined that Messrs. Farrell and Wall each qualify as an "audit committee financial expert" under the rules of the SEC. In 2018, the Audit Committee met five times.

Special Offering Committee

In 2018, the Board of Directors created a special committee to review and oversee a secondary offering of STAAR equity. The Board of Directors appointed Mr. Wall and Ms. Mason to serve on the committee. The Board of Directors agreed to compensate Mr. Wall for his services as chair of the special committee. Upon completion of the offering in August the Board of Directors dissolved the special committee.

Stockholder Communications with Directors

Stockholders may communicate with the chairperson of the Board of Directors, the chairperson of our Audit Committee or the chairperson of our Nominating and Governance Committee, or with the Board of Directors as a group, by writing to such persons c/o Office of the Secretary, STAAR Surgical Company, 25651 Atlantic Ocean Drive, Lake Forest, California, 92630.

The corporate Secretary distributes communications directed to the Board of Directors or to any individual director or directors, as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Board of Directors has requested that certain items that are unrelated to the duties and responsibilities of the Board of Directors should be excluded, such as the following:

- junk mail and mass mailings;
- new product suggestions; and
- resumes and other forms of job inquiries.

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is excluded must be made available to any outside director upon request.

EXECUTIVE COMPENSATION

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the following Compensation Discussion and Analysis. Based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in STAAR's Proxy Statement for 2019.

The Compensation Committee

Louis E. Silverman (Chairperson)

John C. Moore

William P. Wall

April 29, 2019

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COMPENSATION DISCUSSION AND ANALYSIS

General

The following Compensation Discussion and Analysis describes the material elements of compensation for the named executive officers identified in the compensation tables and related disclosures below.

The Compensation Committee of the Board of Directors, to which we refer in this discussion as the “Committee,” makes recommendations to the Board of Directors for the total direct compensation including the base salary, annual bonus, long-term equity compensation and perquisites of our named executive officers. Both the Board of Directors and the Committee exercise independent review in making judgments regarding executive compensation.

In 2018, our named executive officers were:

- Caren Mason, President and Chief Executive Officer;
- Deborah Andrews, Chief Financial Officer;
- Keith Holliday, Chief Technology Officer;
- Samuel Gesten, Chief Legal Officer and Secretary; and
- Hans Blickensdoerfer, Senior Vice President, Commercial Operations, Europe and China.

Our 2018 key accomplishments included:

- Achievement of record revenue of \$124 million, growing revenue by 37% compared to 2017, and growing ICL sales by 48%.
- GAAP diluted EPS improved by \$0.16 from (\$0.05) to \$0.11 for the first profitable year since 2011.
- Cash, cash equivalents and restricted cash rose to \$104.0 million, compared to \$18.6 million at the end of the fourth quarter of 2017. We generated \$12.8 million in cash from operations and raised \$72.2 million in net proceeds from the sale of approximately 2 million shares of common stock.
- Successfully closing an offering of our common stock. As part of this transaction, we issued 1,999,850 shares of common stock at a price of \$36.309 per share. Net proceeds, after deducting expenses, received from this offering were \$72,150,000.
- The FDA lifted a Warning Letter regarding STAAR that was issued in 2014.
- The FDA approved our Visian toric ICL for marketing and sale in the U.S.
- We submitted our EVO Visian ICL PMA supplement to the FDA for review, and that review is on-going.
- We completed the patient enrollment for our pivotal European trial for the EVO with EDOF lens for presbyopia and we are conducting the required six-month patient follow-up for this study.

Compensation Program Objectives and Rewards

Compensation Philosophy and Process. The Company is dedicated to pursuing a mix of near, medium, and longer-term business objectives designed to build and increase stockholder value. Our Board and Compensation Committee have sought to establish a compensation program that incentivizes and rewards our management team for achieving or exceeding corporate financial and non-financial goals and also individual objectives. In the Committee’s deliberations on the Company’s compensation programs, management, other than the Chief Executive Officer, is involved only to the extent of providing Company performance and market information. Our Chief Executive Officer does not participate in the determination of her own compensation, but she joins with the full Board of Directors in the determination of compensation of other named executive officers.

The Committee and management periodically review the Radford Global Life Sciences Surveys as well as benchmark data regarding our peer group. This data is used to assess the general competitiveness of our recruiting and compensation programs, and to assist the Committee and the Board of Directors in making compensation decisions. From late 2018 through early 2019, the Committee engaged the services of Radford, a third-party consulting firm, to conduct a comprehensive benchmark study regarding our non-employee director and executive officer compensation program. Over the past several years our peer group, established in 2013, has diminished as several of those peer group companies were acquired or merged with other companies. During this time of industry consolidation, STAAR has also grown significantly. Thus, we also engaged Radford to review and make recommendations for updating our peer group. We will commence using an updated peer group, with a larger set of companies, for compensation purposes in 2019.

The 2018 peer group which was originally recommended by Radford in 2013 was chosen on the basis of industry (medical devices), revenue (between .25x and 4.0x our revenue in 2013), and market capitalization (between .25x and 4.0x our market cap in 2013). These companies were subsequently reviewed and recommended by the Committee and approved by the Board of Directors. Several companies in the original peer group are no longer included due to certain merger and acquisition activities in the industry. The members of our peer group for 2018 were:

| | |
|------------------------|-----------------------|
| AngioDynamics | CryoLife |
| Anika Therapeutics | Cutera |
| AtriCure | Merit Medical Systems |
| Cardiovascular Systems | Endologix |

The 2019 peer group recommended by Radford was selected from U.S. based medical device companies with market capitalizations between \$550M and \$5.5B and revenue generally between \$75M and \$450M. The Committee accepted Radford's recommended revised peer group and the Board of Directors approved the Committee's recommendation. Our peer group used for setting 2019 compensation consisted of the following companies:

| | |
|------------------------|----------------------------|
| AngioDynamics | Inogen |
| Anika Therapeutics | LeMaitre Vascular |
| AtriCure | Merit Medical Systems |
| Atrion | Nevro |
| AxoGen | Penumbra |
| Cardiovascular Systems | Surmodics |
| CryoLife | Tactile Systems Technology |
| Glaukos | Tandem Diabetes Care |

We use our peer group as one element of reviewing the appropriateness and competitiveness of our executive compensation program.

The Committee's objective is to structure compensation policies and decisions based on (a) overall Company performance, (b) a target base salary at or near the 50th percentile of our peer companies and other industry benchmark data, and (c) a target for total compensation, consisting of base salary, cash bonus potential and long-term equity

incentives, at or near the 50th percentile of our peer companies and other industry benchmark data, with the potential to reach higher levels based on the Company's financial performance and achievement of Board-approved pre-established metrics, if applicable.

2018 Results of Advisory Vote to Approve Compensation of Named Executive Officers. At our Annual Meeting held on June 13, 2018 stockholders representing approximately 98% of the votes cast on the proposal approved the compensation of our named executive officers. Given the strong support shown, we did not make any changes to our executive compensation program as a result of this vote.

Elements of Compensation

The elements of compensation that may be earned by our named executive officers include base salary, annual cash bonus, and equity compensation. All components of each named executive officer's compensation are annually reviewed in the context of company performance and individual performance.

Base Salaries. The Committee, with input from the Chief Executive Officer, reviews, considers and approves base salaries at a level expected to attract and retain the executives the Company needs to achieve its plans. The Board of Directors generally reviews base salaries in the first quarter of each year and approves any changes based upon company performance, market data, executive performance, scope of responsibility, and past and potential contribution to our business. For 2018, named executive officer salaries increased 2-4% over 2017 levels, consistent with base salary increases company-wide and industry-wide.

Annual Cash Bonuses. A material element of each named executive officer's compensation is the opportunity to earn annual performance-based cash bonuses, which are earned based upon achievement of specific corporate financial and non-financial objectives. The Board of Directors has exclusive authority, acting on the recommendation of the Committee, to approve bonuses for our named executive officers based on performance against these criteria.

For 2018, the Committee and the Board of Directors approved an Incentive Bonus Plan that was designed to be funded in whole or in part based on STAAR meeting or exceeding specific revenue, earnings per share ("EPS"), and quarterly as well as year-end cash-on-hand metrics and also meeting specific non-financial objectives. To allow for an accurate year-over-year comparison, and in recognition that over 90% of our revenue is generated outside the U.S., the Board of Directors in 2018 continued its practice of evaluating the Company's revenue performance on a constant currency basis.

Each of the Company's current named executive officers has an annual bonus target, as do other key contributors. The Committee reviews, considers and approves bonus targets for named executive officers based on market data and also considers changes in the scope of responsibility and overall performance of individual named executive officers when establishing these targets.

Each named executive officer's base salary and target bonus opportunity for 2018 is provided in the table below. The target bonuses, as a percentage of base salary, remained at the same level as in 2017 for each named executive officer.

| | | Target | Target | |
|-------------------------|---------|---------|---------------------------|---|
| | Base | Bonus | Bonus | |
| Named Executive Officer | Salary | Payment | Percentage ⁽¹⁾ | |
| Caren Mason | 590,554 | 442,915 | 75 | % |
| Deborah Andrews | 343,375 | 154,519 | 45 | % |
| Hans Blickensdoerfer | 351,591 | 158,216 | 45 | % |
| Keith Holliday | 366,029 | 164,713 | 45 | % |
| Samuel Gesten | 360,010 | 162,004 | 45 | % |

(1) Target Bonus Percentage represents the potential bonus earned as a percentage of base salary in the event the Corporation fully achieves pre-established target financial and non-financial metrics and thereby funds the bonus plan at 100%. Performance that exceeds targeted levels may result in funding the bonus pool in excess of 100% of target. The amount actually awarded to an officer, which can range from 0 to over 100% of target, varies primarily based on performance of the Corporation as a whole with respect to these metrics, and is also subject to adjustment based on the Committee's subjective evaluation of an officer's contributions to those results based on facts and circumstances.

The Board of Directors, after consultation with management, approves the revenue, EPS and year-end cash-on-hand targets and the non-financial strategic objectives annually. The attainment of these financial and non-financial objectives is evaluated by the Committee. The Board of Directors must review and approve all bonus

recommendations for named executive officers presented by the Committee. The determination of annual bonuses for 2018 performance are described further below under the section entitled “2018 Bonus and Equity Determinations.”

Long-Term Equity Compensation. The Committee believes that long-term equity incentive awards serve to align the interests of the executive officers with the interests of our stockholders. Long-term equity incentive awards may be granted in the form of either stock options, restricted shares, restricted stock units or other types of equity or equity-linked compensation. In determining the size of equity grants to our named executive officers, the Committee considers recommendations of the Chief Executive Officer based on peer group data, individual performance and level of responsibility in the company, for those named executive officers reporting to her. For the Chief Executive Officer's equity grant, the Committee considers company and individual performance as well as peer group data. The Committee recommends to the Board of Directors the allocation among the different forms of equity compensation. For 2018, the Committee recommended that all equity for our named executive officers be granted in the form of stock options to align executive incentives with long-term stockholder interests. The equity grants made in 2018 are described further below under the section entitled "2018 Bonus and Equity Determinations."

Stock options. Stock options, once granted, become valuable if the price of STAAR's common stock rises above the exercise price at the time of grant. The exercise price of a stock is the closing price of the Company's common stock on the NASDAQ Stock Market on the date of grant. Under the Company's Omnibus Equity Incentive Plan ("Plan") STAAR may not grant stock options having an exercise price below the fair market value of its common stock on the date of grant. STAAR does not grant stock options with a so-called "reload" feature. To encourage retention by providing a long-term incentive, the options typically vest ratably over a three-year period, and have a ten-year life.

Restricted shares/Restricted stock units. Restricted shares and restricted stock units are shares of common stock that STAAR grants subject to forfeiture over a specified period of time. The value of these incentive awards rises and falls with STAAR's stock price. For time-vesting awards, restricted shares and restricted stock units are forfeited back to STAAR if the grantee's service to STAAR terminates before the end of the vesting period. Vesting of restricted shares and restricted stock units occurs when the restricted period ends and the grantee obtains full rights of ownership over the shares. Time-vesting restricted shares and restricted stock units provides a long-term incentive by aligning the grantee's interests with those of the stockholders and encouraging retention through the risk of forfeiture if the grantee ceases working for us during the vesting period.

2018 Bonus and Equity Determinations

2018 Bonus Determinations. As described above, the 2018 bonus plan was funded based upon how the Company performed against financial and non-financial goals pre-approved by the Board of Directors. The 2018 bonus plan funding included the following components:

- (a) As a threshold to begin funding the bonus pool, the Company needed to achieve the following minimum annual financial milestones: a minimum revenue target of \$90.6M (on a constant currency basis), which represented the total annual revenue in fiscal year 2017, and a minimum EPS target of (\$0.05) (adjusted for pre-determined foreign exchange rate considerations), which represented the EPS/net loss in fiscal year 2017 (collectively referred to as "Minimum Financial Threshold"). If either of these financial targets were not met, then the bonus pool would not fund at all.
- (b) In the event the Minimum Financial Threshold was achieved, up to 27% of the bonus pool would fund based upon Company performance tied to pre-established non-financial objectives. This element of the bonus pool would fund based on the percentage achievement of specific non-financial objectives.

The Board-approved non-financial objectives related to three categories: (i) achieving and retaining compliance with all regulatory bodies; (ii) enhancing Clinical and Medical Affairs excellence, particularly through clinical validation; and (iii) executing go-to-market strategies to significantly expand market share globally. In the event the Minimum Financial Threshold was achieved, up to 10% of the bonus pool would fund only upon the Company maintaining a specific quarterly and year end cash-on-hand target, excluding cash raised through equity or debt offerings.

- (c) In the event the Company achieved \$90.6M or greater in total revenue (the revenue element of the Minimum Financial Threshold), thereafter, a portion of the bonus pool would fund at specific, pre-determined rates based

upon the percentage of revenue growth in fiscal year 2018 above the \$90.6M.

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(d) In the event the Company achieved EPS/net loss of (\$0.05) EPS or better (the earnings element of the Minimum Financial Threshold), thereafter a portion of the bonus pool would fund at specific, pre-determined rates based upon the improvement in EPS/net loss (in increments of \$0.01 improvement) in fiscal year above the (\$0.05). If the Company were to reach profitability for 2018 an additional 20% of the target pool would be funded. The Board of Directors believes that the targets established for 2018 appropriately balanced attention to near term financial performance with required investments in and progress on infrastructure, clinical and regulatory related plans.

The Company does not disclose the specific details of the regulatory, quality, clinical, commercial, and R&D-related performance objectives as it believes their disclosure would provide our competitors, customers and other third parties with significant insights regarding our confidential business strategies that could cause us substantial competitive harm. These goals were approved by the Board of Directors at a level they determined would require substantial and significant effort to achieve.

In 2018, the Company exceeded the Minimum Financial Thresholds, thus enabling funding of the bonus pool. The Company surpassed its 2018 revenue and EPS projections potentially funding the bonus pool in excess of 100% of target on these two metrics. In addition, the Company achieved 20% of potential pool funding related to non-financial objectives and also achieved 10% of further funding by reaching and exceeding its quarterly and year end cash-on-hand target. The Board of Directors capped the pool funding at 150% of the target amount to better align management's compensation with stockholder interests.

2018 represents the first year in six years that a named executive officer has received a bonus in excess of 100% of their target.

| | Individual | | | |
|-------------------------|------------|---------|-----------------------|---------------------|
| | Base | Bonus | Incentive | Bonus |
| Named Executive Officer | Salary | Payment | Target ⁽¹⁾ | Paid ⁽¹⁾ |
| Caren Mason | 590,554 | 664,373 | 75 % | 112.5 % |
| Deborah Andrews | 343,375 | 231,778 | 45 % | 67.5 % |
| Hans Blickensdoerfer | 351,591 | 237,324 | 45 % | 67.5 % |
| Keith Holliday | 366,029 | 247,070 | 45 % | 67.5 % |
| Samuel Gesten | 360,010 | 243,007 | 45 % | 67.5 % |

(1) "Individual Incentive Target" and "Bonus Paid" are shown as a percentage of salary. The 2018 bonus paid was 150% of each individual's incentive target for all named executive officers in 2018.

2018 Long-term Equity Awards. In 2018, the Committee recommended to the Board of Directors that it grant long-term equity compensation to the named executive officers, consistent with the Company's Compensation Philosophy and based upon the individual's performance and benchmark data, in the form of stock option grants, which the Board of Directors approved. The Board of Directors bifurcated the grants, with the second grant conditioned upon stockholders approving an increase in the equity available for issuance under the Plan at the 2018 Annual Meeting. The stockholders approved the equity increase in the Plan and the Board of Directors approved the second grant. The 2018 stock option grants to named executive officers was as follows:

| Name and Title | Grant Date | Stock |
|--|----------------|-------------------------------|
| | | Options (LTIP) ⁽¹⁾ |
| Caren Mason | March 15, 2018 | 75,000 |
| President and Chief Executive Officer | June 14, 2018 | 40,452 |
| Deborah Andrews | March 15, 2018 | 12,500 |
| Vice President, Chief Financial Officer | June 14, 2018 | 6,742 |
| Hans Blickensdoerfer | March 15, 2018 | 25,000 |
| Senior Vice President, Commercial | June 14, 2018 | 13,484 |
| Operations Europe and China | | |
| Keith Holliday | March 15, 2018 | 25,000 |
| Vice President, Chief Technology Officer | June 14, 2018 | 13,484 |
| Samuel Gesten | March 15, 2018 | 20,000 |
| Vice President, Chief Legal Officer | June 14, 2018 | 10,787 |
| and Secretary | | |

(1) The options granted have a 10-year term and become exercisable as follows: one-third on the 1-year anniversary of the grant date and the remaining two-thirds over the following 24 months in equal amounts on a monthly basis. In the event the options do not evenly divide into 24 months, the remaining balance of options become exercisable on the final month of vesting. The exercise price is \$16.15 for those options granted on March 15, 2018 and \$29.80 for those options granted on June 14, 2018, which was the closing price on the NASDAQ Stock Market on the respective dates of grant.

Change-in-Control Arrangements

Our named executive officers will receive certain cash severance and other benefits from STAAR or a successor company if they are terminated following a change in control of STAAR. Payments and benefits of this nature are often termed "double trigger" change-in-control benefits. In addition, the Plan provides that, if STAAR has a change in control, options vest immediately unless the surviving company assumes or replaces the options.

STAAR provides these benefits to help it compete with larger, better-capitalized ophthalmic companies in attracting employees. STAAR also recognizes the retention value of equity instruments. Change-in-control benefits are intended to do the following:

- Reinforce the alignment of employee interest with stockholder interest by providing that, if a major transaction occurs, vesting and exercisability of stock options will accelerate or continue, so the potential equity value of unvested or unexercised options will not be lost; and

Encourage employees to remain with STAAR despite uncertainties while a transaction is under consideration or pending by assuring them that, if they are terminated as a result of a change in control, they will receive continued pay and benefits to cover the disruption in employment.

The specific change-in-control benefits to which each named executive officer is entitled are discussed below under “Employment Agreements.”

Severance Arrangements

Each of our named executive officers is entitled to limited continuation of salary and benefits if the officer is terminated under specified circumstances. These arrangements are provided to maintain STAAR's competitive position in attracting and retaining executive talent and are described further in the section "Employment Agreements" below.

Perquisites

In 2018, the named executive officers received an opportunity to undergo an executive health screening and were eligible to receive an executive life insurance policy with premiums and costs paid by STAAR. The cost of these limited executive benefits, which are intended to promote the long-term health and financial stability of our executive officers, are shown in the Summary Compensation Table below.

Benefits

The named executive officers participate in a variety of retirement, health and welfare, and paid time-off benefits designed to enable STAAR to attract and retain its workforce in a competitive marketplace. Health and welfare and paid time-off benefits help ensure that STAAR has a productive and focused workforce through reliable and competitive health and other benefits. Pension (for our Switzerland based team members, including Mr. Blickensdoerfer) and retirement savings plans help employees, especially long-serving employees, save and prepare financially for retirement.

STAAR's qualified 401(k) plan allows all U.S.-based employees to contribute up to the limits imposed by the Internal Revenue Code—\$18,500 per employee for 2018 (with an additional \$6,000 annual catch-up contribution permitted for those over 50 years of age)—on a pre- or after-tax basis. During 2018 STAAR provided an 80% percent match up to the first 6% of the employee's compensation. Officers serving outside the U.S. receive pension benefits based on local regulations and standards. These benefits are generally provided to all of our full-time salaried employees and enhanced retirement benefits are not provided to our named executive officers.

COMPENSATION TABLES

Summary Compensation Table

The following table summarizes the compensation of the named executive officers for each of the three fiscal years ending December 28, 2018, December 29, 2017 and December 30, 2016, respectively. By providing the grant date fair value of stock and option awards in the following tables STAAR does not imply any assurance that such values will ever be realized.

| Name and Title | Year | Change in Pension Value and Non- | | | | | | Total |
|-------------------------------------|------|--|----------------------|---------------------|---------------------|----------------------------------|--|-----------|
| | | Salary | Bonus ⁽¹⁾ | Option Awards | Stock Awards | Qualified Deferred Earnings (\$) | All Other Compensation (\$) ⁽³⁾ | |
| | | (\$) | (\$) | (\$) ⁽²⁾ | (\$) ⁽²⁾ | | | |
| Caren Mason | 2018 | 585,312 | 784,488 | 1,241,915 | — | — | 15,486 | 2,627,201 |
| President and Chief | 2017 | 562,800 | 308,763 | 980,300 | — | — | 14,148 | 1,866,011 |
| Executive Officer | 2016 | 541,154 | 204,750 | 387,920 | 376,000 | — | 15,987 | 1,525,811 |
| Deborah Andrews ⁽⁴⁾ | 2018 | 341,443 | 251,797 | 206,986 | — | — | 23,254 | 823,480 |
| Vice President and | 2017 | 305,315 | 96,778 | 226,073 | 213,875 | — | 23,014 | 865,056 |
| Chief Financial Officer | | | | | | | | |
| Hans Blickensdoerfer ⁽⁵⁾ | 2018 | 349,030 | 277,362 | 413,972 | — | 62,217 | — | 1,102,581 |
| Senior Vice President | 2017 | 339,327 | 112,256 | 110,284 | 104,625 | 32,933 | — | 699,424 |
| Commercial Operations | 2016 | 330,973 | 76,948 | 155,168 | 150,400 | 56,993 | — | 770,482 |
| Europe and China | | | | | | | | |
| Keith Holliday | 2018 | 363,569 | 287,108 | 413,972 | — | — | 27,574 | 1,092,223 |
| Vice President | 2017 | 352,214 | 115,939 | 183,806 | 174,375 | — | 26,974 | 853,308 |
| Chief Technology | | 340,154 | 76,883 | 96,980 | 94,000 | — | 27,035 | 635,051 |
| Officer | 2016 | | | | | | | |
| Samuel Gesten | 2018 | 357,590 | 275,038 | 331,174 | — | — | 25,626 | 989,428 |
| Vice President, | 2017 | 347,175 | 114,032 | 110,284 | 104,625 | — | 25,386 | 701,502 |
| Chief Legal Officer and | 2016 | 337,808 | 76,352 | 77,584 | 75,200 | — | 25,081 | 592,026 |
| Secretary | | | | | | | | |

(1) As a result of the FDA lifting the Warning Letter, additional bonuses were paid outside of the Bonus Plan to the following: Ms. Mason \$120,115; Ms. Andrews \$20,019; Mr. Blickensdoerfer \$40,038; Mr. Holliday \$40,038 and Mr. Gesten \$32,031.

(2) Dollar amounts in the Stock Awards and Option Awards columns reflect the aggregate grant date fair value with respect to stock awards and options granted during fiscal years 2018, 2017 and 2016 calculated in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts for fiscal years 2018 are included in Note 11 to STAAR's audited consolidated financial statements for the fiscal year ended December 28, 2018,

included in STAAR's Annual Report on Form 10-K.

(3) Each element of All Other Compensation is quantified in the subsequent table below.

(4) Appointed Chief Financial Officer since September 2017.

(5) Salary and bonus paid in Swiss francs and converted to U.S. dollars using 0.9839 Swiss francs to 1 U.S. dollars.

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The following table summarizes the elements of “All Other Compensation” listed in the table above for 2018.

| Name | Company Contributions | | |
|----------------------|-----------------------|--------|--------|
| | Insurance to 401(k) | | |
| | Premiums | Plans | Total |
| | (\$) | (\$) | (\$) |
| Caren Mason | 2,286 | 13,200 | 15,486 |
| Deborah Andrews | 10,054 | 13,200 | 23,254 |
| Hans Blickensdoerfer | — | — | — |
| Keith Holliday | 14,374 | 13,200 | 27,574 |
| Samuel Gesten | 12,426 | 13,200 | 25,626 |

Grants of Plan-Based Awards

for Fiscal Year Ended

December 28, 2018

The following table provides information on stock and option awards granted in 2018 to each of STAAR’s named executive officers and potential payouts for non-equity incentive plan awards under STAAR’s executive cash bonus plan. Actual cash bonus payments made for 2018 are shown in the Nonequity Incentive Plan Compensation column of the Summary Compensation Table above.

| Name and Principal Position | Grant Date | All Other Compensation | | | Grant | |
|-----------------------------|------------|--|---------|---------|-----------------------------------|------------------------------|
| | | Option Awards: | | | Date | |
| | | Number of Securities | | | Fair | |
| | | Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾ | | | Value of Stock and | |
| Name and Principal Position | Grant Date | Threshold | Target | Maximum | Underlying Options ⁽²⁾ | Option Awards ⁽³⁾ |
| | | (\$) | (\$) | (\$) | (#) | (\$/Share) |
| Caren Mason | 3/15/2018 | — | 442,915 | 442,915 | — | — |
| President and Chief | 3/15/2018 | — | — | — | 75,000 | 16.15 |
| | | | | | | 620,775 |

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| | | | | | | |
|--------------------------|-----------|---|---------|---------|-------|---------|
| Executive Officer | 6/14/2018 | — | — | 40,452 | 29.80 | 621,140 |
| Deborah Andrews | | — | 154,519 | 154,519 | — | — |
| Vice President, Chief | 3/15/2018 | — | — | 12,500 | 16.15 | 103,463 |
| Financial Officer | 6/14/2018 | — | — | 6,742 | 29.80 | 103,523 |
| Hans Blickensdoerfer | | — | 158,216 | 158,216 | — | — |
| Senior Vice President, | 3/15/2018 | — | — | 25,000 | 16.15 | 206,925 |
| Commercial Operations | 6/14/2018 | — | — | 13,484 | 29.80 | 207,047 |
| Europe and China | | | | | | |
| Keith Holliday | | — | 164,713 | 164,713 | — | — |
| Vice President, | 3/15/2018 | — | — | 25,000 | 16.15 | 206,925 |
| Chief Technology Officer | 6/14/2018 | — | — | 13,484 | 29.80 | 207,047 |
| Samuel Gesten | | — | 162,004 | 162,004 | — | — |
| Vice President, | 3/15/2018 | — | — | 20,000 | 16.15 | 165,540 |
| Chief Legal Officer | 6/14/2018 | — | — | 10,787 | 29.80 | 165,634 |
| and Secretary | | | | | | |

- (1) Reflects targeted and maximum cash bonuses for 2018 performance paid in 2019 under STAAR's cash bonus plan for executive officers.
- (2) All of the stock options granted to executive officers in 2018 had a ten-year term and a three-year vesting schedule, with one third vesting on the first anniversary of the date of grant and the remaining vesting monthly over 24 months, subject to continued employment.
- (3) Reflects the aggregate grant date fair value with respect to stock awards and options granted during fiscal year 2018, calculated in accordance with FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 11 to STAAR's audited consolidated financial statements for the fiscal year ended December 28, 2018, included in STAAR's Annual Report on Form 10-K.

Outstanding Equity Awards

at Fiscal Year-End

December 28, 2018

The following table shows the number of shares covered by exercisable and unexercisable options and unvested shares of restricted stock and restricted stock units held by STAAR's named executive officers on December 28, 2018.

| Name | Option Awards | | | | Stock Awards | |
|----------------------------------|---|--|----------------------------|---------------------------------------|--|---|
| | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Un-exercisable | Option Exercise Price (\$) | Option Expiration Date ⁽¹⁾ | Number of Shares or Units of Stock That Have Not Vested (#) ⁽²⁾ | Value of Shares or Units of Stock That Have Not Vested (\$) |
| Caren Mason | 10,000 | — | 15.73 | 6/8/2024 (3) | — | — |
| | 400,000 | — | 7.76 | 3/2/2025 (5) | — | — |
| | 91,666 | 8,334 | 7.52 | 3/17/2026 (6) | 16,667 | 521,010 |
| | 116,667 | 83,333 | 9.30 | 3/20/2027 (6) | — | — |
| | — | 75,000 | 16.15 | 3/14/2028 (6) | — | — |
| | — | 40,452 | 29.80 | 6/13/2028 (6) | — | — |
| Deborah Andrews | 20,000 | — | 11.00 | 3/1/2022 (4) | — | — |
| | 20,000 | — | 5.34 | 3/3/2023 (5) | — | — |
| | 10,000 | — | 15.54 | 3/6/2024 3,305 | (853) | 1,045 (408 3,089 |
| Three Months Ended June 30, 2014 | \$108,323 | Beginning Allowance (In thousands) \$ (6,551) | Charge-offs \$ 6,238 | Recoveries \$ (2,399) | Provision & Transfers \$105,611 | Ending Allowance |
| Single-family residential | | \$63,348 | \$ (2,530) | \$4,717 | \$ (3,175) | \$62,360 |
| Construction - speculative | | 6,773 | — | \$2 | (388) | 6,387 |
| Construction - custom | | 1,599 | — | — | 79 | 1,678 |
| Land - acquisition & development | | 6,027 | — | 85 | 843 | 6,955 |
| Land - consumer lot loans | | 2,974 | (86) | — | (26) | 2,862 |

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| | | | | | |
|-------------------------|-----------|----------|-----------|----------|-------------|
| Multi-family | 4,187 | — | — | (46 |) 4,141 |
| Commercial real estate | 5,924 | (32 |) 24 | 773 | 6,689 |
| Commercial & industrial | 20,403 | (38 |) 4 | (1,673 |) 18,696 |
| HELOC | 975 | (18 |) — | 58 | 1,015 |
| Consumer | 2,721 | (696 |) 787 | 555 | 3,367 |
| | \$114,931 | \$(3,400 |) \$5,619 | \$(3,000 |) \$114,150 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
(UNAUDITED)

| Nine Months Ended June 30, 2015 | Beginning Allowance (In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
|----------------------------------|--|-------------|------------|--------------------------|---------------------|
| Single-family residential | \$62,763 | \$(4,801) |) \$10,553 | \$(16,511) |) \$52,004 |
| Construction - speculative | 6,742 | (388) |) \$75 | (496) |) 5,933 |
| Construction - custom | 1,695 | — | — | (710) |) 985 |
| Land - acquisition & development | 5,592 | (38) |) 206 | 12 | 5,772 |
| Land - consumer lot loans | 3,077 | (363) |) 221 | 64 | 2,999 |
| Multi-family | 4,248 | — | 220 | 567 | 5,035 |
| Commercial real estate | 7,548 | (1,619) |) 711 | 628 | 7,268 |
| Commercial & industrial | 16,527 | (2,461) |) 948 | 6,648 | 21,662 |
| HELOC | 928 | (26) |) 1 | (39) |) 864 |
| Consumer | 3,227 | (1,981) |) 2,394 | (551) |) 3,089 |
| | \$112,347 | \$(11,677) |) \$15,329 | \$(10,388) |) \$105,611 |
| Nine Months Ended June 30, 2014 | Beginning Allowance (In thousands) | Charge-offs | Recoveries | Provision & Transfers | Ending Allowance |
| Single-family residential | \$64,184 | \$(7,307) |) \$15,631 | \$(10,148) |) \$62,360 |
| Construction - speculative | 8,407 | (938) |) \$97 | (1,179) |) 6,387 |
| Construction - custom | 882 | — | — | 796 | 1,678 |
| Land - acquisition & development | 9,165 | (541) |) 823 | (2,492) |) 6,955 |
| Land - consumer lot loans | 3,552 | (559) |) 22 | (153) |) 2,862 |
| Multi-family | 3,816 | — | — | 325 | 4,141 |
| Commercial real estate | 5,595 | (105) |) 24 | 1,175 | 6,689 |
| Commercial & industrial | 16,614 | (730) |) 3,277 | (465) |) 18,696 |
| HELOC | 1,002 | (18) |) — | 31 | 1,015 |
| Consumer | 3,524 | (2,788) |) 2,871 | (240) |) 3,367 |
| | \$116,741 | \$(12,986) |) \$22,745 | \$(12,350) |) \$114,150 |

The Company recorded a \$1,932,000 reversal of the provision for loan losses during the quarter ended June 30, 2015, while a reversal of \$3,000,000 was recorded for the same quarter one year ago. While the credit quality of the portfolio has been improving significantly and economic conditions are more favorable, the Company experienced two isolated charge-offs in the quarter ended June 30, 2015 that explain some of this reduction. The change in the current period was comprised of a reversal of \$2,399,000 in allowance for loan losses and an increase in the reserve for unfunded commitments of \$467,000. During the fiscal year ended September 30, 2014, there was a transfer of \$2,910,000 from the general allowance to establish a reserve for unfunded commitments. Unfunded commitments are likely to be higher going forward as commercial loans are becoming a greater portion of balances. This reserve was \$2,366,000 as of June 30, 2015.

Non-performing assets ("NPAs") amounted to \$128,883,000, or 0.90% of total assets at June 30, 2015, compared to \$147,311,000, or 1.00%, of total assets as of September 30, 2014. Non-accrual loans decreased from \$87,431,000 at September 30, 2014, to \$65,308,000 at June 30, 2015.

Acquired loans, including covered loans, are not usually classified as non-performing because at acquisition, the carrying value of these loans is adjusted to reflect fair value. As of June 30, 2015, \$33,573,000 in acquired loans were subject to the general allowance as the discount related to these balances was no longer sufficient to absorb potential

losses.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
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A loan is charged-off when the loss is estimable and it is confirmed that the borrower will not be able to meet its contractual obligations. The Company had net charge-offs of \$313,000 for the quarter ended June 30, 2015 compared with \$2,219,000 of net recoveries for the same quarter one year prior.

As of June 30, 2015, \$105,611,000 of the allowance was calculated under the formulas contained in our general allowance methodology. As of September 30, 2014, \$112,287,000 of the allowance was calculated under the formulas contained in our general allowance methodology and the remaining \$60,000 was made up of specific reserves on loans which were deemed to be impaired.

The following tables shows a summary of loans collectively and individually evaluated for impairment and the related allocation of general and specific reserves as of June 30, 2015 and September 30, 2014:

| June 30, 2015 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | | |
|---|---|--|-------|---|-------------------------|--|-------|---|
| | Allowance Allocation | Recorded Investment of Loans (1) | Ratio | | Allowance Allocation | Recorded Investment of Loans (1) | Ratio | |
| | (In thousands) | | | | (In thousands) | | | |
| Single-family residential | \$52,004 | \$5,497,635 | 1.0 | % | \$— | \$49,305 | — | % |
| Construction - speculative | 5,933 | 110,727 | 5.4 | | — | 6,983 | — | |
| Construction - custom | 985 | 204,914 | 0.5 | | — | — | — | |
| Land - acquisition & development | 5,772 | 68,234 | 8.5 | | — | 3,237 | — | |
| Land - consumer lot loans | 2,999 | 91,392 | 3.3 | | — | 11,044 | — | |
| Multi-family | 5,035 | 1,008,452 | 0.5 | | — | 4,584 | — | |
| Commercial real estate | 7,268 | 685,198 | 1.1 | | — | 11,133 | — | |
| Commercial & industrial | 21,662 | 484,902 | 4.5 | | — | — | — | |
| HELOC | 864 | 121,241 | 0.7 | | — | 1,633 | — | |
| Consumer | 3,089 | 205,862 | 1.5 | | — | 89 | — | |
| | \$105,611 | \$8,478,557 | 1.3 | % | \$— | \$88,008 | — | % |
| (1)Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans | | | | | | | | |
| September 30, 2014 | Loans Collectively Evaluated for Impairment | | | Loans Individually Evaluated for Impairment | | | | |
| | Allowance Allocation | Recorded Investment of Loans (1) | Ratio | | Allowance Allocation | Recorded Investment of Loans (1) | Ratio | |
| | (In thousands) | | | | (In thousands) | | | |
| Single-family residential | \$62,067 | \$5,487,331 | 1.1 | % | \$— | \$72,869 | — | % |
| Construction - speculative | 6,682 | 130,901 | 5.5 | | 60 | 9,159 | 0.7 | |
| Construction - custom | 1,695 | 385,464 | 0.5 | | — | 360 | — | |
| Land - acquisition & development | 5,592 | 73,999 | 7.6 | | — | 3,833 | — | |
| Land - consumer lot loans | 3,077 | 95,684 | 3.2 | | — | 12,939 | — | |
| Multi-family | 4,248 | 911,162 | 0.5 | | — | 6,124 | — | |
| Commercial real estate | 7,548 | 563,534 | 1.4 | | — | 27,802 | — | |
| Commercial & industrial | 17,223 | 421,816 | 4.6 | | — | — | — | |
| HELOC | 928 | 114,393 | 0.9 | | — | 1,650 | — | |
| Consumer | 3,227 | 132,590 | 2.4 | | — | — | — | |
| | \$112,287 | \$8,316,874 | 1.4 | % | \$60 | \$134,736 | — | % |

(1) Excludes acquired loans with discounts sufficient to absorb potential losses and covered loans

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
(UNAUDITED)

The Company has an asset quality review function that analyzes its loan portfolios and reports the results of the review to the Board of Directors on a quarterly basis. The single-family residential, HELOC and consumer portfolios are evaluated based on their performance as a pool of loans, since no single loan is individually significant or judged by its risk rating, size or potential risk of loss. The construction, land, multi-family, commercial real estate and commercial and industrial loans are risk rated on a loan by loan basis to determine the relative risk inherent in specific borrowers or loans. Based on that risk rating, the loans are assigned a grade and classified as follows:

Pass – the credit does not meet one of the definitions below.

Special mention – A special mention credit is considered to be currently protected from loss but is potentially weak. No loss of principal or interest is foreseen; however, proper supervision and Management attention is required to deter further deterioration in the credit. Assets in this category constitute some undue and unwarranted credit risk but not to the point of justifying a risk rating of substandard. The credit risk may be relatively minor yet constitutes an unwarranted risk in light of the circumstances surrounding a specific asset.

Substandard – A substandard credit is an unacceptable credit. Additionally, repayment in the normal course is in jeopardy due to the existence of one or more well defined weaknesses. In these situations, loss of principal is likely if the weakness is not corrected. A substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified will have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets risk rated substandard.

Doubtful – A credit classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weakness makes collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss – Credits classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be affected in the future. Losses should be taken in the period in which they are identified as uncollectible. Partial charge-off versus full charge-off may be taken if the collateral offers some identifiable protection.

The following tables provide information on loans (net of LIP and excluding covered loans) based on credit quality indicators as defined above as of June 30, 2015 and September 30, 2014.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014

(UNAUDITED)

| June 30, 2015 | Internally Assigned Grade | | | | | Total |
|--------------------------------------|---------------------------|-----------------|-------------|----------|------|-------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | Gross Loans |
| | (In thousands) | | | | | |
| Non-acquired loans | | | | | | |
| Single-family residential | \$5,456,628 | \$— | \$90,313 | \$— | \$— | \$5,546,941 |
| Construction - speculative | 114,706 | — | 3,005 | — | — | 117,711 |
| Construction - custom | 204,914 | — | — | — | — | 204,914 |
| Land - acquisition & development | 67,726 | — | 5,130 | — | — | 72,856 |
| Land - consumer lot loans | 102,007 | — | 429 | — | — | 102,436 |
| Multi-family | 1,009,785 | — | 3,960 | — | — | 1,013,745 |
| Commercial real estate | 682,908 | 5,068 | 9,984 | — | — | 697,960 |
| Commercial & industrial | 411,925 | 965 | 38,583 | — | — | 451,473 |
| HELOC | 122,626 | — | 248 | — | — | 122,874 |
| Consumer | 205,950 | — | — | — | — | 205,950 |
| | 8,379,175 | 6,033 | 151,652 | — | — | 8,536,860 |
| Non-impaired acquired loans | | | | | | |
| Single-family residential | 12,872 | — | 23 | — | — | 12,895 |
| Land - acquisition & development | 651 | — | 377 | — | — | 1,028 |
| Land - consumer lot loans | 2,355 | — | 117 | — | — | 2,472 |
| Multi-family | 3,692 | — | — | — | — | 3,692 |
| Commercial real estate | 86,529 | 511 | 14,502 | — | — | 101,542 |
| Commercial & industrial | 54,243 | 1,228 | 2,141 | — | — | 57,612 |
| HELOC | 6,414 | — | — | — | — | 6,414 |
| Consumer | 2,484 | — | 413 | — | — | 2,897 |
| | 169,240 | 1,739 | 17,573 | — | — | 188,552 |
| Credit-impaired acquired loans | | | | | | |
| Pool 1 - Construction and land A&D | 6,655 | — | 2,305 | — | — | 8,960 |
| Pool 2 - Single-family residential | 320 | — | — | — | — | 320 |
| Pool 3 - Multi-family | — | — | — | — | — | — |
| Pool 4 - HELOC & other consumer | 8,598 | — | 638 | — | — | 9,236 |
| Pool 5 - Commercial real estate | 47,715 | — | 22,811 | — | — | 70,526 |
| Pool 6 - Commercial & industrial | 2,931 | — | 375 | — | — | 3,306 |
| Total credit impaired acquired loans | 66,219 | — | 26,129 | — | — | 92,348 |
| Total gross loans | \$8,614,634 | \$7,772 | \$195,354 | \$— | \$— | \$8,817,760 |
| | 97.7 | % 0.1 | % 2.2 | % — | % — | % |

Total grade as a % of total gross
loans

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014

(UNAUDITED)

| September 30, 2014 | Internally Assigned Grade | | | | | Total |
|--------------------------------------|---------------------------|-----------------|-------------|----------|------|-------------|
| | Pass | Special mention | Substandard | Doubtful | Loss | Gross Loans |
| | (In thousands) | | | | | |
| Non-acquired loans | | | | | | |
| Single-family residential | \$5,424,624 | \$2,793 | \$130,339 | \$— | \$— | \$5,557,756 |
| Construction - speculative | 81,931 | — | 5,104 | — | — | 87,035 |
| Construction - custom | 192,098 | — | — | — | — | 192,098 |
| Land - acquisition & development | 61,949 | — | 6,117 | — | — | 68,066 |
| Land - consumer lot loans | 107,979 | — | 610 | — | — | 108,589 |
| Multi-family | 887,639 | — | 4,556 | — | — | 892,195 |
| Commercial real estate | 495,892 | 1,971 | 31,441 | — | — | 529,304 |
| Commercial & industrial | 359,168 | 14,740 | 5,265 | — | — | 379,173 |
| HELOC | 115,794 | — | 248 | — | — | 116,042 |
| Consumer | 132,444 | — | 241 | — | — | 132,685 |
| | 7,859,518 | 19,504 | 183,921 | — | — | 8,062,943 |
| Non-impaired acquired loans | | | | | | |
| Single-family residential | 11,716 | — | — | — | — | 11,716 |
| Land - acquisition & development | 503 | — | 402 | — | — | 905 |
| Land - consumer lot loans | 2,502 | — | — | — | — | 2,502 |
| Multi-family | 2,999 | — | — | — | — | 2,999 |
| Commercial real estate | 88,940 | 2,571 | 6,353 | — | — | 97,864 |
| Commercial & industrial | 36,309 | 13,642 | 1,375 | 58 | — | 51,384 |
| HELOC | 8,274 | — | — | — | — | 8,274 |
| Consumer | 5,670 | — | — | — | — | 5,670 |
| | 156,913 | 16,213 | 8,130 | 58 | — | 181,314 |
| Credit-impaired acquired loans | | | | | | |
| Pool 1 - Construction and land A&D | 1,251 | — | 330 | — | — | 1,581 |
| Pool 2 - Single-family residential | 325 | — | — | — | — | 325 |
| Pool 3 - Multi-family | — | — | — | — | — | — |
| Pool 4 - HELOC & other consumer | 10,194 | — | — | — | — | 10,194 |
| Pool 5 - Commercial real estate | 48,867 | 2,143 | 12,702 | — | — | 63,712 |
| Pool 6 - Commercial & industrial | 643 | — | 2,833 | — | — | 3,476 |
| Total credit impaired acquired loans | 61,280 | 2,143 | 15,865 | — | — | 79,288 |
| Total gross loans | \$8,077,711 | \$37,860 | \$207,916 | \$58 | \$— | \$8,323,545 |

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| | | | | | | |
|---|------|-------|-------|-----|-----|---|
| Total grade as a % of total gross loans | 97.2 | % 0.4 | % 2.4 | % — | % — | % |
|---|------|-------|-------|-----|-----|---|

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
(UNAUDITED)

Credit Risk Profile Based on Payment Activity (excludes acquired and covered loans):

| June 30, 2015 | Performing Loans | | Non-Performing Loans | | |
|----------------------------------|------------------|---------------------------|----------------------|---------------------------|-----|
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans | |
| | (In thousands) | | | | |
| Single-family residential | \$5,490,303 | 99.0 | % | \$56,638 | 1.0 |
| Construction - speculative | 116,949 | 99.4 | | 762 | 0.6 |
| Construction - custom | 204,559 | 99.8 | | 355 | 0.2 |
| Land - acquisition & development | 71,471 | 100.0 | | — | — |
| Land - consumer lot loans | 101,128 | 98.4 | | 1,308 | 1.6 |
| Multi-family | 1,012,250 | 99.8 | | 786 | 0.2 |
| Commercial real estate | 693,479 | 99.7 | | 2,852 | 0.3 |
| Commercial & industrial | 450,124 | 99.8 | | 1,205 | 0.2 |
| HELOC | 121,985 | 99.3 | | 889 | 0.7 |
| Consumer | 205,437 | 99.8 | | 513 | 0.2 |
| | \$8,467,685 | 99.2 | % | \$65,308 | 0.8 |
| | | | | | % |
| | | | | | |
| September 30, 2014 | Performing Loans | | Non-Performing Loans | | |
| | Amount | % of Total Gross Loans | Amount | % of Total Gross Loans | |
| | (In thousands) | | | | |
| Single-family residential | \$5,486,136 | 98.7 | % | \$74,067 | 1.3 |
| Construction - speculative | 138,583 | 98.9 | | 1,477 | 1.1 |
| Construction - custom | 385,824 | 100.0 | | — | — |
| Land - acquisition & development | 77,021 | 99.0 | | 811 | 1.0 |
| Land - consumer lot loans | 105,986 | 97.6 | | 2,637 | 2.4 |
| Multi-family | 915,544 | 99.8 | | 1,742 | 0.2 |
| Commercial real estate | 586,230 | 99.1 | | 5,106 | 0.9 |
| Commercial & industrial | 379,219 | 100.0 | | 7 | — |
| HELOC | 115,247 | 99.3 | | 795 | 0.7 |
| Consumer | 131,801 | 99.4 | | 789 | 0.6 |
| | \$8,321,591 | 99.0 | % | \$87,431 | 1.0 |
| | | | | | % |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
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The following table provides information on impaired loan balances and the related allowances by loan types as of June 30, 2015 and September 30, 2014:

| June 30, 2015 | Recorded Investment (In thousands) | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-------------------------------------|--|--------------------------------|----------------------|-----------------------------------|
| With no related allowance recorded: | | | | |
| Single-family residential | \$21,524 | \$24,151 | \$— | \$20,724 |
| Construction - speculative | 613 | 808 | — | 615 |
| Construction - custom | 355 | 355 | — | 178 |
| Land - acquisition & development | 680 | 1,223 | — | 683 |
| Land - consumer lot loans | 1,101 | 1,187 | — | 969 |
| Multi-family | 1,531 | 1,531 | — | 1,138 |
| Commercial real estate | 10,416 | 14,797 | — | 9,795 |
| Commercial & industrial | 4,340 | 18,276 | — | 5,664 |
| HELOC | 1,008 | 1,819 | — | 905 |
| Consumer | 414 | 627 | — | 414 |
| | 41,982 | 64,774 | — | 41,085 |
| With an allowance recorded: | | | | |
| Single-family residential | 275,179 | 279,043 | 8,057 | 275,889 |
| Construction - speculative | 6,371 | 7,161 | — | 6,389 |
| Construction - custom | — | — | — | — |
| Land - acquisition & development | 3,536 | 4,476 | — | 3,571 |
| Land - consumer lot loans | 11,540 | 11,805 | — | 11,627 |
| Multi-family | 3,843 | 3,843 | — | 3,853 |
| Commercial real estate | 19,251 | 21,206 | — | 19,962 |
| Commercial & industrial | — | — | — | — |
| HELOC | 1,394 | 1,394 | — | 1,394 |
| Consumer | 120 | 291 | — | 121 |
| | 321,234 | 329,219 | 8,057 | (1) 322,806 |
| Total: | | | | |
| Single-family residential | 296,703 | 303,194 | 8,057 | 296,613 |
| Construction - speculative | 6,984 | 7,969 | — | 7,004 |
| Construction - custom | 355 | 355 | — | 178 |
| Land - acquisition & development | 4,216 | 5,699 | — | 4,254 |
| Land - consumer lot loans | 12,641 | 12,992 | — | 12,596 |
| Multi-family | 5,374 | 5,374 | — | 4,991 |
| Commercial real estate | 29,667 | 36,003 | — | 29,757 |
| Commercial & industrial | 4,340 | 18,276 | — | 5,664 |
| HELOC | 2,402 | 3,213 | — | 2,299 |
| Consumer | 534 | 918 | — | 535 |
| | \$363,216 | \$393,993 | \$8,057 | (1) \$363,891 |

(1) Included in the general reserves.

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| September 30, 2014 | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|
| | (In thousands) | | | |
| With no related allowance recorded: | | | | |
| Single-family residential | \$24,044 | \$26,628 | \$— | \$16,843 |
| Construction - speculative | 1,603 | 2,173 | — | 1,804 |
| Land - acquisition & development | 837 | 2,325 | — | 1,038 |
| Land - consumer lot loans | 974 | 1,072 | — | 713 |
| Multi-family | 1,111 | 1,111 | — | 327 |
| Commercial real estate | 13,234 | 20,085 | — | 11,720 |
| Commercial & industrial | 3,195 | 17,166 | — | 3,900 |
| HELOC | 1,019 | 1,730 | — | 612 |
| Consumer | 663 | 833 | — | 517 |
| | 46,680 | 73,123 | — | 37,474 |
| With an allowance recorded: | | | | |
| Single-family residential | 322,320 | 327,869 | 10,527 | 316,348 |
| Construction - speculative | 7,556 | 7,986 | 60 | 7,532 |
| Land - acquisition & development | 4,696 | 5,636 | — | 4,114 |
| Land - consumer lot loans | 13,002 | 13,385 | — | 12,858 |
| Multi-family | 5,243 | 5,463 | — | 4,957 |
| Commercial real estate | 34,159 | 35,028 | — | 18,572 |
| HELOC | 1,486 | 1,486 | — | 1,204 |
| Consumer | 43 | 214 | — | 79 |
| | 388,505 | 397,067 | 10,587 | (1) 365,664 |
| Total: | | | | |
| Single-family residential | 346,364 | 354,497 | 10,527 | 333,191 |
| Construction - speculative | 9,159 | 10,159 | 60 | 9,336 |
| Land - acquisition & development | 5,533 | 7,961 | — | 5,152 |
| Land - consumer lot loans | 13,976 | 14,457 | — | 13,571 |
| Multi-family | 6,354 | 6,574 | — | 5,284 |
| Commercial real estate | 47,393 | 55,113 | — | 30,292 |
| Commercial & industrial | 3,195 | 17,166 | — | 3,900 |
| HELOC | 2,505 | 3,216 | — | 1,816 |
| Consumer | 706 | 1,047 | — | 596 |
| | \$435,185 | \$470,190 | \$10,587 | (1) \$403,138 |

(1) Includes \$60,000 of specific reserves and \$10,527,000 included in the general reserves.

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NOTE F – New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03,

Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. These amendments are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860) - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures. Under this new accounting guidance, repurchase-to-maturity transactions will be accounted for as secured borrowings rather than sales of an asset, and transfers of financial assets with contemporaneous repurchase financings will no longer be evaluated to determine whether they should be accounted for on a combined basis as forward contracts. The new guidance also prescribes additional disclosures particularly on the nature of collateral pledged in repurchase financings accounted for as secured borrowings. The amendments in this update were effective for the first interim or annual period beginning after December 31, 2014, with the exception of the collateral disclosures which will be effective for interim periods beginning after March 15, 2015. This guidance did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This new accounting guidance clarifies the principles for recognizing revenue from contracts with customers. The new accounting guidance does not apply to financial instruments. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017 and interim reporting periods within annual reporting periods beginning after December 15, 2017. The Company does not expect the new guidance to have a material impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The new guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. ASU 2014-04 is effective for annual and interim reporting periods within those annual periods, beginning after December 15, 2014. Adoption of the new guidance is not expected to have a significant impact on the Company's consolidated financial statements.

NOTE G – Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair

value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active exchange markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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We have established and documented the Company's process for determining the fair values of the Company's assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, fair value is determined using valuation models or third-party appraisals. The following is a description of the valuation methodologies used to measure and report the fair value of financial assets and liabilities on a recurring or nonrecurring basis:

Measured on a Recurring Basis**Securities**

Securities available for sale are recorded at fair value on a recurring basis. Most securities at fair value are priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Securities that are traded on active exchanges are considered a Level 1 input method.

Bank owned life insurance is recorded at the fair values of insurance policies owned based on the insurance contracts' cash surrender values. These are considered a Level 2 input method.

The bank offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the bank enters into the opposite trade with a counter party to offset its interest rate risk. The bank has also entered into long term borrowing hedges through forward starting interest rate swaps. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique. These are considered a Level 2 input method.

The following tables present the balance of assets measured at fair value on a recurring basis at June 30, 2015 and September 30, 2014:

| | Fair Value at June 30, 2015 | | | |
|--|-----------------------------|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Financial Assets | | | | |
| Available-for-sale securities: | | | | |
| Equity securities | \$ 102,447 | \$— | \$— | \$ 102,447 |
| Obligations of U.S. government | — | 529,472 | — | 529,472 |
| Obligations of states and political subdivisions | — | 27,275 | — | 27,275 |
| Corporate debt securities | — | 528,716 | — | 528,716 |
| Agency pass-through certificates | — | 1,328,852 | — | 1,328,852 |
| Other Commercial MBS | — | 107,612 | — | 107,612 |
| Total available-for-sale securities | 102,447 | 2,521,927 | — | 2,624,374 |
| Bank owned life insurance | — | 101,720 | — | 101,720 |
| Interest rate contracts | — | 5,429 | — | 5,429 |
| Total financial assets | \$ 102,447 | \$ 2,629,076 | \$— | \$ 2,731,523 |
| Financial Liabilities | | | | |
| Interest rate contracts | — | 5,429 | — | 5,429 |
| Long term borrowing hedge | — | 3,914 | — | 3,914 |
| Total financial liabilities | \$— | \$ 9,343 | \$— | \$ 9,343 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the quarter ended June 30, 2015.

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| | Fair Value at September 30, 2014 | | | |
|--|----------------------------------|-------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (In thousands) | | | |
| Financial Assets | | | | |
| Available-for-sale securities: | | | | |
| Equity securities | \$101,387 | \$— | \$— | \$101,387 |
| Obligations of U.S. government | — | 731,943 | — | 731,943 |
| Obligations of states and political subdivisions | — | 23,681 | — | 23,681 |
| Obligations of foreign governments | — | — | — | — |
| Corporate debt securities | — | 509,007 | — | 509,007 |
| Mortgage-backed securities | | | | |
| Agency pass-through certificates | — | 1,584,508 | — | 1,584,508 |
| Other Commercial MBS | — | 98,916 | — | 98,916 |
| Total available-for-sale securities | 101,387 | 2,948,055 | — | 3,049,442 |
| Interest rate contracts | — | 2,879 | — | 2,879 |
| Total financial assets | \$101,387 | \$2,950,934 | \$— | \$3,052,321 |
| Financial Liabilities | | | | |
| Interest rate contracts | — | 2,879 | — | 2,879 |
| Long term borrowing hedge | — | 268 | — | 268 |
| Total financial liabilities | \$— | \$3,147 | \$— | \$3,147 |

There were no transfers between, into and/or out of Levels 1, 2 or 3 during the fiscal year ended September 30, 2014.

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Measured on a Nonrecurring Basis

Impaired Loans & Real Estate Held for Sale

Real estate held for sale consists principally of properties acquired through foreclosure. From time to time, and on a nonrecurring basis, fair value adjustments are recorded to reflect increases or decreases of principal balances based on the current appraisal or estimated value of the collateral, but only up to the fair value of the real estate owned as of the initial transfer date less selling costs.

When management determines that the fair value of the collateral or the real estate held for sale requires additional adjustments, either as a result of a non-current appraisal value or when there is no observable market price, the Company classifies the impaired loan or real estate held for sale as Level 3. Level 3 assets recorded at fair value on a nonrecurring basis at June 30, 2015 included loans for which a specific reserve allowance was established or a partial charge-off was recorded based on the fair value of collateral, as well as covered REO and real estate held for sale for which fair value of the properties was less than the cost basis.

The following tables present the aggregated balance of assets that were measured at estimated fair value on a nonrecurring basis at June 30, 2015 and June 30, 2014, and the total losses (gains) resulting from those fair value adjustments for the quarters and nine months ended June 30, 2015 and June 30, 2014. These estimated fair values are shown gross of estimated selling costs.

| | Nine Months Ended June 30, 2015 | | | | Quarter Ended June 30, 2015 | Nine Months Ended June 30, 2015 |
|-------------------------------|---------------------------------|---------|----------|----------|--------------------------------|---------------------------------------|
| | Level 1 | Level 2 | Level 3 | Total | Total Losses (Gains) | |
| | (In thousands) | | | | | |
| Impaired loans (1) | \$— | \$— | \$6,735 | \$6,735 | \$3,621 | \$4,201 |
| Covered REO (2) | — | — | 1,950 | 1,950 | (20 |) 168 |
| Real estate held for sale (2) | — | — | 71,831 | 71,831 | 2,386 | (8,571) |
| Balance at end of period | \$— | \$— | \$80,516 | \$80,516 | \$5,987 | \$(4,202) |

(1) The losses represent remeasurements of collateral-dependent loans.

(2) The (gains) losses represent net valuation adjustments on real estate held for sale.

| | Nine Months Ended June 30, 2014 | | | | Quarter Ended June 30, 2014 | Nine Months Ended June 30, 2014 |
|-------------------------------|---------------------------------|---------|----------|----------|-----------------------------------|---------------------------------------|
| | Level 1 | Level 2 | Level 3 | Total | Total Losses (Gains) | |
| | (In thousands) | | | | | |
| Impaired loans (1) | \$— | \$— | \$10,156 | \$10,156 | \$(775 |) \$(1,311) |
| Covered REO (2) | — | — | 8,935 | 8,935 | 374 | 503 |
| Real estate held for sale (2) | — | — | 43,082 | 43,082 | 10,400 | 16,782 |
| Balance at end of period | \$— | \$— | \$62,173 | \$62,173 | \$9,999 | \$15,974 |

(1) The gains represents remeasurements of collateral-dependent loans.

(2) The losses represent aggregate net writedowns and charge-offs on real estate held for sale.

Impaired loans - The Company adjusts the carrying amount of impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows or the fair value of the underlying collateral.

Impaired loans with a specific reserve allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets.

The evaluations for impairment are prepared by the Problem Loan Review Committee, which is chaired by the Chief Credit Officer and includes the Loan Review manager and Special Credits manager, as well as senior credit officers, division managers and group executives, as applicable. These evaluations are performed in conjunction with the quarterly allowance for probable loan & lease losses process.

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Applicable loans that were included in the previous quarter's review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and collateral value) are compared. Material differences are evaluated for reasonableness and discussions are held between the relationship manager and their division manager to understand the difference and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values. The following methods are used to value impaired loans:

The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, assessments provided by third-party appraisers and other valuation models. The Company performs or reaffirms valuations of collateral-dependent impaired loans at least annually. Adjustments are made if management believes that more recent information is available and relevant with respect to the fair value of the collateral.

The present value of the expected future cash flows of the collateral is used for measurement of non collateral-dependent loans to test for impairment. The Company calculates the amount and timing of the future cash flows, the effective interest rate to be used to discount the cash flows and the basis for determination of the cash flows, including consideration of current economic and environmental factors, as well as other information relating to current or previous conditions.

Real estate held for sale ("REO") - When a loan is reclassified from loan status to real estate held for sale due to the Company taking possession of the collateral, a Special Credits officer, along with the Special Credits manager, obtains a valuation, which may include appraisals or third-party price options, which is used to establish the fair value of the underlying collateral. The determined fair value, less selling costs, becomes the carrying value of the REO asset. The fair value of REO assets is re-evaluated quarterly and the REO asset is adjusted to reflect the fair value as necessary. After foreclosure, the valuations are updated periodically and current market conditions may require the assets to be written down further or up to the cost basis established on the date of transfer. The carrying balance of REO assets are also written down or up once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the cost established on the transfer date.

Fair Values of Financial Instruments

U. S. GAAP requires disclosure of fair value information about financial instruments, whether or not recognized on the statement of financial condition, for which it is practicable to estimate those values. Certain financial instruments and all non-financial instruments are excluded from the 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 below, such amounts have not been comprehensively revalued for purposes of these financial statements since the dates shown, and therefore, estimates of fair value subsequent to those dates may differ significantly from the amounts presented below.

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| | | June 30, 2015 | | September 30, 2014 | |
|--|-------------------------------|-----------------|----------------------|--------------------|----------------------|
| | Level in Fair Value Hierarchy | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| (In thousands) | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1 | \$ 349,550 | \$ 349,550 | \$ 781,843 | \$ 781,843 |
| Available-for-sale securities | | | | | |
| Equity securities | 1 | 102,447 | 102,447 | 101,387 | 101,387 |
| Obligations of U.S. government | 2 | 529,472 | 529,472 | 731,943 | 731,943 |
| Obligations of states and political subdivisions | 2 | 27,275 | 27,275 | 23,681 | 23,681 |
| Corporate debt securities | 2 | 528,716 | 528,716 | 509,007 | 509,007 |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,328,852 | 1,328,852 | 1,584,508 | 1,584,508 |
| Other Commercial MBS | 2 | 107,612 | 107,612 | 98,916 | 98,916 |
| Total available-for-sale securities | | 2,624,374 | 2,624,374 | 3,049,442 | 3,049,442 |
| Held-to-maturity securities | | | | | |
| Mortgage-backed securities | | | | | |
| Agency pass-through certificates | 2 | 1,586,514 | 1,553,716 | 1,548,265 | 1,499,218 |
| Total held-to-maturity securities | | 1,586,514 | 1,553,716 | 1,548,265 | 1,499,218 |
| Loans receivable | 3 | 8,645,609 | 9,175,928 | 8,148,322 | 8,667,771 |
| Covered loans | 3 | 77,311 | 81,737 | 176,476 | 176,761 |
| FDIC indemnification asset | 3 | 18,783 | 18,263 | 36,860 | 35,976 |
| FHLB and FRB stock | 2 | 103,189 | 103,189 | 158,839 | 158,839 |
| Bank owned life insurance | 2 | 101,720 | 101,720 | — | — |
| Other assets - interest rate contracts | 2 | — | 5,429 | — | 2,879 |
| Financial liabilities | | | | | |
| Customer accounts | 2 | 10,578,385 | 9,830,817 | 10,716,928 | 9,946,586 |
| FHLB advances | 2 | 1,730,000 | 1,833,413 | 1,930,000 | 2,054,437 |
| Other liabilities - interest rate contracts | 2 | — | 5,429 | — | 2,879 |
| Other liabilities - long term borrowing | 2 | — | 3,914 | — | 268 |
| hedge | | | | | |

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.

Available-for-sale securities and held-to-maturity securities – Securities at fair value are primarily priced using model pricing based on the securities' relationship to other benchmark quoted prices as provided by an independent third party, and under the provisions of the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification are considered a Level 2 input method. Equity securities which are exchange traded are considered a Level 1 input method.

Loans receivable and covered loans – For certain homogeneous categories of loans, such as fixed- and variable-rate residential mortgages, fair value is estimated for securities backed by similar loans, adjusted for differences in loan characteristics, using the same methodology described above for AFS and HTM securities. 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. Net deferred loan fees are not included in the fair value calculation but are included in the carrying amount.

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FDIC indemnification asset – The fair value of the indemnification asset is estimated by discounting the expected future cash flows using the current rates.

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

Bank owned life insurance – Fair values of insurance policies owned are based on the insurance contracts' cash surrender values.

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 – 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.

Interest Rate Contracts – The bank offers interest rate swaps to its variable rate borrowers who want to manage their interest rate risk. At the same time, the bank enters into the opposite trade with a counterparty to offset its interest rate risk. The fair value of these interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.

Long Term Borrowing Hedges – The fair value of the forward starting interest rate swaps are estimated by a third party pricing service using a discounted cash flow technique.

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The following tables provide a reconciliation of amortized cost to fair value of available-for-sale and held-to-maturity securities as of June 30, 2015, and September 30, 2014:

| | June 30, 2015 Amortized Cost (In thousands) | Gross Unrealized Gains | Losses | Fair Value | Yield | |
|---|--|---------------------------|------------|---------------|-------|---|
| Available-for-sale securities | | | | | | |
| U.S. government and agency securities due | | | | | | |
| 1 to 5 years | \$135,967 | \$2,078 | \$(460) |) \$137,585 | 1.43 | % |
| 5 to 10 years | 75,441 | 149 | (7) |) 75,583 | 1.20 | |
| Over 10 years | 316,929 | 435 | (1,060) |) 316,304 | 1.31 | |
| Equity Securities | | | | | | |
| Within 1 year | 500 | 18 | — | 518 | 1.80 | |
| 1 to 5 years | 100,000 | 1,929 | — | 101,929 | 1.90 | |
| 5 to 10 years | — | — | — | — | — | |
| Corporate bonds due | | | | | | |
| Within 1 year | 39,702 | 283 | — | 39,985 | 0.68 | |
| 1 to 5 years | 303,094 | 1,414 | — | 304,508 | 0.81 | |
| 5 to 10 years | 133,306 | 1,814 | (1,647) |) 133,473 | 1.54 | |
| Over 10 years | 50,000 | 750 | — | 50,750 | 3.00 | |
| Municipal bonds due | | | | | | |
| 1 to 5 years | 2,278 | — | (1) |) 2,277 | 1.23 | |
| 5 to 10 years | 1,295 | — | (14) |) 1,281 | 2.05 | |
| Over 10 years | 20,387 | 3,330 | — | 23,717 | 6.45 | |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 1,316,686 | 14,988 | (2,822) |) 1,328,852 | 2.58 | |
| Other Commercial MBS | 107,512 | 151 | (51) |) 107,612 | 1.48 | |
| | 2,603,097 | 27,339 | (6,062) |) 2,624,374 | 2.00 | |
| Held-to-maturity securities | | | | | | |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 1,586,514 | 6,193 | (38,991) |) 1,553,716 | 3.16 | |
| | \$4,189,611 | \$33,532 | \$(45,053) |) \$4,178,090 | 2.43 | % |

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| | September 30, 2014 | | | | | |
|---|--------------------|----------------|----------------------|----------------|-------|---|
| | Amortized Cost | Gross Gains | Unrealized Losses | Fair Value | Yield | |
| | (In thousands) | | | | | |
| Available-for-sale securities | | | | | | |
| U.S. government and agency securities due | | | | | | |
| 1 to 5 years | \$ 171,154 | \$ 2,585 | \$(748) |) \$ 172,991 | 1.26 | % |
| 5 to 10 years | 203,317 | 300 | (102) |) 203,515 | 1.45 | |
| Over 10 years | 354,828 | 1,028 | (419) |) 355,437 | 1.25 | |
| Equity Securities | | | | | | |
| 1 to 5 years | 100,500 | 887 | — | 101,387 | 1.90 | |
| Corporate bonds due | | | | | | |
| Within 1 year | 15,000 | 75 | — | 15,075 | 1.00 | |
| 1 to 5 years | 302,540 | 2,372 | — | 304,912 | 0.71 | |
| 5 to 10 years | 138,201 | 1,789 | (970) |) 139,020 | 1.43 | |
| Over 10 years | 50,000 | — | — | 50,000 | 3.00 | |
| Municipal bonds due | | | | | | |
| Over 10 years | 20,402 | 3,279 | — | 23,681 | 6.45 | |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 1,561,639 | 24,893 | (2,024) |) 1,584,508 | 2.57 | |
| Other Commercial MBS | 98,851 | 65 | — | 98,916 | 1.49 | |
| | 3,016,432 | 37,273 | (4,263) |) 3,049,442 | 1.99 | |
| Held-to-maturity securities | | | | | | |
| Mortgage-backed securities | | | | | | |
| Agency pass-through certificates | 1,548,265 | 4,855 | (53,902) |) 1,499,218 | 3.13 | |
| | \$ 4,564,697 | \$ 42,128 | \$(58,165) |) \$ 4,548,660 | 2.38 | % |

During the quarter ended June 30, 2015, there were \$238,000,000 of available-for-sale securities sold for a gain of \$9,639,000. There were no available-for-sale securities sold during the quarter ended June 30, 2014. Substantially all of the agency mortgage-backed securities have contractual due dates that exceed 10 years.

The following tables show the unrealized gross losses and fair value of securities as of June 30, 2015 and September 30, 2014, by length of time that individual securities in each category have been in a continuous loss position. The decline in fair value is attributable to changes in interest rates. Because the Company does not intend to sell these securities and does not consider it more likely than not that it will be required to sell these securities before the recovery of amortized cost basis, which may be upon maturity, the Company does not consider these investments to be other than temporarily impaired.

| June 30, 2015 | Less than 12 months | | 12 months or more | | Total | |
|---------------------|-------------------------------|---------------|-------------------------------|---------------|-------------------------------|---------------|
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| | (In thousands) | | | | | |
| Corporate bonds due | \$(1,022) |) \$23,978 | \$(625) |) \$34,375 | \$(1,647) |) \$58,353 |
| Municipal bonds due | (15) |) 3,558 | — | — | (15) |) 3,558 |
| | (558) |) 140,285 | (969) |) 142,318 | (1,527) |) 282,603 |

U.S. government and agency
securities due

| | | | | | | | | | |
|----------------------------------|----------|---|-----------|-----------|---|-------------|-----------|---|-------------|
| Agency pass-through certificates | (1,919 |) | 454,980 | (39,945 |) | 1,360,218 | (41,864 |) | 1,815,198 |
| | \$(3,514 |) | \$622,801 | \$(41,539 |) | \$1,536,911 | \$(45,053 |) | \$2,159,712 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
(UNAUDITED)

| September 30, 2014 | Less than 12 months | | 12 months or more | | Total | |
|--|----------------------------|---------------|----------------------------|---------------|-------------------------------|---------------|
| | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value | Unrealized Gross Losses | Fair Value |
| | (In thousands) | | | | | |
| Corporate bonds due | \$(125 |) \$24,875 | \$(845 |) \$24,155 | \$(970 |) \$49,030 |
| U.S. government and agency securities due | (472 |) 316,578 | (797 |) 109,354 | (1,269 |) 425,932 |
| Agency pass-through certificates | (215 |) 19,212 | (55,711 |) 1,509,209 | (55,926 |) 1,528,421 |
| | \$(812 |) \$360,665 | \$(57,353 |) \$1,642,718 | \$(58,165 |) \$2,003,383 |

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NOTE H – Covered Assets

Covered assets represent loans and real estate held for sale acquired from the FDIC that are subject to loss sharing agreements and these net balances were \$81,745,000 as of June 30, 2015 compared to \$200,558,000 as of September 30, 2014. The FDIC loss share coverage for the acquired commercial loans from the former Horizon Bank of \$47,774,000 expired as of March 31, 2015 with final reporting as of April 30, 2015 and these loans were transferred to non-covered loans receivable. Recoveries to the extent that claims were made will continue to be shared through March 31, 2018. As of June 30, 2015, there were \$38,712,000 of commercial loans from the former Home Valley Bank which are scheduled to have their loss share expire on September 30, 2015. The FDIC loss share coverage for single family residential loans will continue for another five years.

Changes in the net carrying amount and accretible yield for acquired impaired and non-impaired covered loans for the year to date period ended June 30, 2015 and the fiscal year ended September 30, 2014 were as follows:

| June 30, 2015 | Acquired Impaired | | Acquired Non-impaired | |
|---|---------------------|------------------------------------|-----------------------|------------------------------------|
| | Accretible Yield | Net Carrying Amount of Loans | Accretible Yield | Net Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance at beginning of period | \$64,534 | \$78,055 | \$10,259 | \$98,422 |
| Transfer to non-covered | (23,167) |) (15,866 |) (1,482 |) (33,649 |
| Reclassification from nonaccretable balance, net | 6,307 | — | — | — |
| Accretion | (11,577 |) 11,577 | (4,358 |) 4,358 |
| Transfers to REO | — | (1,893 |) — | — |
| Payments received, net | — | (19,845 |) — | (43,848 |
| Balance at end of period | \$36,097 | \$52,028 | \$4,419 | \$25,283 |
| September 30, 2014 | Acquired Impaired | | Acquired Non-impaired | |
| | Accretible Yield | Net Carrying Amount of Loans | Accretible Yield | Carrying Amount of Loans |
| | (In thousands) | | | |
| Balance at beginning of period | \$78,277 | \$138,091 | \$17,263 | \$157,856 |
| Reclassification from nonaccretable balance, net | 10,186 | (2,069 |) — | — |
| Accretion | (23,929 |) 23,929 | (7,004 |) 7,004 |
| Transfers to REO | — | (8,943 |) — | — |
| Payments received, net | — | (72,953 |) — | (66,438 |
| Balance at end of period | \$64,534 | \$78,055 | \$10,259 | \$98,422 |

At June 30, 2015, none of the acquired impaired or non-impaired covered loans were classified as non-performing assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, was recognized on all acquired loans.

The outstanding principal balance of acquired covered loans was \$81,164,000 and \$213,203,000 as of June 30, 2015 and September 30, 2014, respectively. The discount balance related to the acquired covered loans was \$3,853,000 and \$34,483,000 as of June 30, 2015 and September 30, 2014, respectively.

There is no allowance for covered loans as of June 30, 2015. There was an allowance of \$2,244,000 as of September 30, 2014.

The allowance for credit losses related to the acquired loans as of September 30, 2014 results from decreased expectations of future cash flows due to increased credit losses for certain acquired loan pools. The allowance allocation was reversed during the quarter ended December 31, 2014 due to improvements in the expected future cash flows of certain acquired loan pools.

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The following table shows the year to date activity for the FDIC indemnification asset:

| | June 30, 2015 | September 30, 2014 | |
|---|----------------|--------------------|---|
| | (In thousands) | | |
| Balance at beginning of fiscal year 2015 and 2014 | \$36,860 | \$64,615 | |
| Additions and deletions (1) | (1,795 |) 1,795 | |
| Payments made (received) | 714 | (2,502 |) |
| Amortization | (17,418 |) (27,850 |) |
| Accretion | 422 | 802 | |
| Balance at end of period | \$18,783 | \$36,860 | |

(1) reclassification of ALLL allowance due to changes in cash flows

The following tables provide information on covered loans based on credit quality indicators (defined in Note E) as of June 30, 2015 and September 30, 2014:

| June 30, 2015 | Internally Assigned Grade | | | | | Total |
|---------------------------------------|---------------------------|-----------------|-------------|---------------------|--------------------|-----------|
| | Pass | Special mention | Substandard | Doubtful | Loss | Net Loans |
| | (In thousands) | | | | | |
| Acquired non-impaired loans: | | | | | | |
| Single-family residential | \$15,300 | \$ — | \$593 | \$— | \$— | \$15,893 |
| Commercial & industrial | — | — | 28 | — | — | 28 |
| HELOC | 9,214 | — | — | — | — | 9,214 |
| | \$24,514 | \$ — | \$621 | \$— | \$— | \$25,135 |
| Total grade as a % of total net loans | 97.5 | % — | % 2.5 | % — | % — | % |
| Acquired credit-impaired loans: | | | | | | |
| Pool 1 - Construction and land A&D | \$151 | \$ — | \$1,613 | \$— | \$— | \$1,764 |
| Pool 2 - Single-family residential | 14,375 | — | 331 | — | — | 14,706 |
| Pool 3 - Multi-family | 48 | — | 377 | — | — | 425 |
| Pool 4 - HELOC & other consumer | 2,611 | — | — | — | — | 2,611 |
| Pool 5 - Commercial real estate | 23,805 | — | 11,048 | — | — | 34,853 |
| Pool 6 - Commercial & industrial | 394 | — | 1,276 | — | — | 1,670 |
| | \$41,384 | \$ — | \$14,645 | \$— | \$— | 56,029 |
| | | | | Total covered loans | | 81,164 |
| | | | | | Discount Allowance | (3,853) |
| | | | | | Covered loans, net | \$77,311 |

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| September 30, 2014 | Internally Assigned Grade | | | | | Total |
|---------------------------------------|---------------------------|-----------------|-------------|---------------------|--------------------|-----------|
| | Pass | Special mention | Substandard | Doubtful | Loss | Net Loans |
| | (In thousands) | | | | | |
| Acquired non-impaired loans: | | | | | | |
| Single-family residential | \$21,311 | \$— | \$1,756 | \$— | \$— | \$23,067 |
| Land - acquisition & development | 972 | — | 392 | — | — | 1,364 |
| Land - consumer lot loans | 73 | — | — | — | — | 73 |
| Multi-family | 6,598 | — | — | — | — | 6,598 |
| Commercial real estate | 26,940 | 115 | 24,281 | — | — | 51,336 |
| Commercial & industrial | 2,801 | — | 2,691 | — | — | 5,492 |
| HELOC | 11,777 | — | — | — | — | 11,777 |
| Consumer | 454 | — | — | — | — | 454 |
| | \$70,926 | \$115 | \$29,120 | \$— | \$— | \$100,161 |
| Total grade as a % of total net loans | 70.8 | % 0.1 | % 29.1 | % — | % — | % |
| Acquired credit-impaired loans: | | | | | | |
| Pool 1 - Construction and land A&D | \$8,349 | \$— | \$11,912 | \$— | \$— | \$20,261 |
| Pool 2 - Single-family residential | 15,585 | — | 379 | — | — | 15,964 |
| Pool 3 - Multi-family | 52 | — | 471 | — | — | 523 |
| Pool 4 - HELOC & other consumer | 2,804 | — | 1,173 | — | — | 3,977 |
| Pool 5 - Commercial real estate | 33,909 | 700 | 29,782 | — | — | 64,391 |
| Pool 6 - Commercial & industrial | 3,509 | — | 3,892 | 525 | — | 7,926 |
| | \$64,208 | \$700 | \$47,609 | \$525 | \$— | 113,042 |
| | | | | Total covered loans | | 213,203 |
| | | | | | Discount | (34,483) |
| | | | | | Allowance | (2,244) |
| | | | | | Covered loans, net | \$176,476 |

The following tables provide an analysis of the age of acquired non credit-impaired covered loans in past due status as of June 30, 2015 and September 30, 2014:

| June 30, 2015 | Days Delinquent Based on \$ Amount of Loans | | | | | | % based on \$ |
|---------------------------|---|----------|------|-------|-------|----------------|---------------|
| Type of Loans | Amount of Loans Net of LIP & Chg.-Offs | Current | 30 | 60 | 90 | Total Past Due | |
| Single-family residential | \$ 15,893 | \$15,300 | \$— | \$214 | \$379 | \$593 | 3.73 % |
| Commercial & industrial | 28 | 28 | — | — | — | — | — |
| HELOC | 9,214 | 9,204 | 10 | — | — | 10 | 0.11 |
| | \$ 25,135 | \$24,532 | \$10 | \$214 | \$379 | \$603 | 2.40 % |

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| September 30, 2014 Type of Loans | Amount of Loans Net of LIP & Chg.-Offs | Days Delinquent Based on \$ Amount of Loans | | | | | Total Past Due | % based on \$ | |
|-------------------------------------|---|---|-------|------|---------|---------|-------------------|------------------|---|
| | | Current | 30 | 60 | 90 | | | | |
| Single-family residential | \$ 23,067 | \$22,391 | \$230 | \$40 | \$406 | \$676 | | 2.93 | % |
| Land - acquisition & development | 1,364 | 1,328 | — | — | 36 | 36 | | 2.64 | |
| Land - consumer lot loans | 73 | 73 | — | — | — | — | | — | |
| Multi-family | 6,598 | 5,502 | — | — | 1,096 | 1,096 | | 16.61 | |
| Commercial real estate | 51,336 | 51,336 | — | — | — | — | | — | |
| Commercial & industrial | 5,492 | 5,492 | — | — | — | — | | — | |
| HELOC | 11,777 | 11,777 | — | — | — | — | | — | |
| Consumer | 454 | 443 | 11 | — | — | 11 | | 2.42 | |
| | \$ 100,161 | \$98,342 | \$241 | \$40 | \$1,538 | \$1,819 | | 1.82 | % |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - QUARTER ENDED JUNE 30, 2015 and 2014
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NOTE I – Derivatives and Hedging Activities

The Bank periodically enters into certain commercial loan interest rate swap agreements in order to provide commercial loan customers the ability to convert from variable to fixed interest rate payments, while the Bank retains a variable rate loan. Under these agreements, the Bank enters into a variable rate loan agreement and a swap agreement with the client. The swap agreement effectively converts the client's variable rate loan into a fixed rate. The Bank enters into a corresponding swap agreement with a third party in order to offset its exposure on the variable and fixed components of the client's swap agreement. The interest rate swap agreements with the clients and third parties are not designated as hedges under ASC 815, the Derivatives and Hedging topic; the instruments are marked to market in earnings.

The notional amount of open interest rate swap agreements at June 30, 2015 was \$736,232,000 compared to \$264,169,000 as of September 30, 2014. There was no impact to the statement of operations for the nine months ended June 30, 2015 as the asset and liability side of the swaps offset each other. The fee income related to swaps was \$936,673 for the nine months ended June 30, 2015.

Additionally, the Bank had \$400,000,000 in forward starting interest rate swaps to hedge future borrowing rates as of June 30, 2015. Their impact on accumulated other comprehensive income as of June 30, 2015 was an after-tax loss of \$2,476,000. These derivatives are designated as cash flow hedging instruments in accordance with ASC 815.

The following table presents the fair value and balance sheet classification of derivatives at June 30, 2015 and September 30, 2014:

| | Asset Derivatives | | | | Liability Derivatives | | | |
|---------------------------|-------------------|------------|--------------------|------------|-----------------------|------------|--------------------|------------|
| | June 30, 2015 | | September 30, 2014 | | June 30, 2015 | | September 30, 2014 | |
| | Balance Sheet | | Balance Sheet | | Balance Sheet | | Balance Sheet | |
| | Location | Fair Value | Location | Fair Value | Location | Fair Value | Location | Fair Value |
| | (In thousands) | | | | | | | |
| Interest rate contracts | Other assets | \$5,429 | Other assets | \$2,879 | Other liabilities | \$5,429 | Other liabilities | \$2,879 |
| Long term borrowing hedge | Other assets | — | Other assets | — | Other liabilities | 3,914 | Other liabilities | 268 |

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q includes certain “forward-looking statements,” as defined in the Securities Act of 1933 and the Securities Exchange Act of 1934 as amended (the “Exchange Act”), based on current management expectations. Actual results could differ materially from those management expectations. Such forward-looking statements include statements regarding the Company’s intentions, beliefs or current expectations as well as the assumptions on which such statements are based. Stockholders and potential stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to: general economic conditions; legislative and regulatory changes, including without limitation the potential effect of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations being promulgated thereunder; monetary fiscal policies of the federal government; changes in tax policies; rates and regulations of federal, state and local tax authorities; changes in interest rates; deposit flows; cost of funds; demand for loan products; demand for financial services; competition; changes in the quality or composition of the Company’s loan and investment portfolios; changes in accounting principles; policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company’s operations, markets, products, services and fees. The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

GENERAL

Washington Federal, Inc. is a Washington corporation headquartered in Seattle, Washington. The Company is a bank holding company that conducts its operations through the Bank, a federally-insured national bank subsidiary, Washington Federal, National Association. The Bank converted from a federal savings association to a national bank charter with the Office of the Comptroller of the Currency on July 17, 2013. At the same time, the Company which had previously been a savings and loan holding company, became a bank holding company under the Bank Holding Company Act.

The Company's fiscal year end is September 30th. All references to 2014 represent balances as of September 30, 2014 or activity for the fiscal year then ended.

The results discussed below were impacted by the acquisition on close of business October 31, 2013 of eleven branches from Bank of America, National Association (“BOA”); these branches are located in New Mexico. Effective as of the close of business on December 6, 2013, the Bank completed the acquisition of another forty branches from BOA; these branches are located in Washington, Oregon, and Idaho. Effective as of the close of business on May 2, 2014, the Bank completed the acquisition of an additional twenty-three branches from BOA; these branches are located in Arizona and Nevada. The combined acquisitions provided \$1,853,798,000 in deposit accounts, \$12,881,000 of loans, and \$25,097,000 in branch properties. Washington Federal paid a 1.99% premium on the total deposits and received \$1,776,660,000 in cash from the transactions.

The operating results of the Company include the operating results produced by the first eleven branches for the period from November 1, 2013 to June 30, 2015, the additional forty branches from December 7, 2013 to June 30, 2015 and the twenty-three branches from May 3, 2014 to June 30, 2015.

INTEREST RATE RISK

Based on Management's assessment of the current interest rate environment, the Bank has taken steps to reduce its interest rate risk profile compared to its historical norms, including growing shorter-term business loans, transaction deposit accounts and extending the maturity on borrowings. The recent branch acquisitions have accelerated these efforts. The mix of transaction accounts is now approximately 54% of total deposits. The Bank has also been purchasing more variable rate investments. The composition of the investment portfolio is 43% variable and 57%

fixed rate. In addition, \$1,586,514,000 of its purchased 30-year fixed rate mortgage-backed securities have been designated as held-to-maturity. With rising interest rates, these securities may be subject to unrealized losses. As of June 30, 2015, the net unrealized loss on these securities was \$32,798,000. The net unrealized gain on the net balance of \$2,603,097,000 of available-for-sale securities was \$21,277,000 as of June 30, 2015. The Bank has executed \$400,000,000 in forward starting interest rate swaps to hedge future borrowing rates as of June 30, 2015. The net unrealized loss on the interest rate swaps as of June 30, 2015 was \$3,914,000. All of the above are pre-tax net unrealized gains/(losses).

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The Company relies on various measures of interest rate risk, including an asset/liability maturity gap analysis, modeling of changes in forecasted net interest income under various rate change scenarios, and the impact of interest rate changes on the net portfolio value (“NPV”) of the Company.

Repricing Gap Analysis. At June 30, 2015, the Company had approximately \$1,901,989,000 more in liabilities subject to maturity or repricing in the next year than assets, which resulted in a negative one-year maturity gap of 13.2% of total assets. This was an increase from the 11.3% negative gap as of September 30, 2014. A negative maturity gap implies that funding costs will change more rapidly than interest income on earning assets with movements in interest rates. A negative maturity gap typically results in lower margins when interest rates rise and higher margins when interest rates decline. Gap analysis provides management with a high-level indication of interest rate risk, but it is considered less reliable than more detailed modeling.

Net Interest Income Sensitivity. The potential impact of rising interest rates on net interest income in the future under various rate change scenarios is estimated using a model that is based on account level detail for loans and deposits. In the event of an immediate and parallel increase of 200 basis points in both short and long-term interest rates, the model estimates that net interest income will decrease by 2.20% in the next year. This compares to an estimated decrease of 1.50% as of the September 30, 2014 analysis. This analysis assumes zero balance sheet growth and a constant percentage composition of assets and liabilities for consistency. It also assumes that loan and deposit prices respond in full to the increase in market rates. Actual results will differ from the assumptions used in this model, as Management monitors and adjusts loan and deposit pricing and the size and composition of the balance sheet to respond to changing interest rates. It is noted that a flattening yield curve due to a greater increase in short term rates as compared to long term rates would likely result in a more significant decrease in net interest income. Management estimates that a gradual increase of 300 basis points in short term rates and 100 basis points in long term rates over two years would result in a net interest income decrease of 3.25% in the first year and 6.50% in the second year assuming a constant balance sheet and no changes in management actions.

NPV Sensitivity. The NPV is an estimate of the market value of shareholder's equity. It is derived by calculating the difference between the present value of expected cash flows from interest-earning assets and the present value of expected cash flows from interest-paying liabilities and off-balance-sheet contracts. The sensitivity of the NPV to changes in interest rates provides a longer term view of interest rate risk as it incorporates all future expected cash flows. In the event of an immediate and parallel increase of 200 basis points in interest rates, the NPV is estimated to decline by \$572,000,000 or 20.4% and the NPV to total assets ratio to decline to 16.50% from a base of 19.23%. As of September 30, 2014, the NPV in the event of a 200 basis point increase in rates was estimated to decline by \$598,000,000 or 21.7% and the NPV to total assets ratio to decline to 15.68% from a base of 18.53%. The decreased NPV sensitivity and higher base NPV ratio is due to lower interest rates and higher prices as of June 30, 2015.

Interest Rate Spread. The interest rate spread is measured as the difference between the rate on total loans and investments and the rate on costing liabilities at the end of each period. The interest rate spread increased to 2.71% at June 30, 2015 from 2.66% at September 30, 2014. The spread increased primarily due to lower rates on deposits and borrowings. As of June 30, 2015, the weighted average rate on customer deposit accounts and borrowings decreased by 3 basis points compared to September 30, 2014, while the weighted average rate on earning assets declined by 2 basis points to 3.61%.

Net Interest Margin. The net interest margin is measured using the interest income and expense over the average assets and liabilities for the period. The net interest margin decreased to 3.02% for the quarter ended June 30, 2015 from 3.05% for the quarter ended June 30, 2014. The yield on earning assets decreased 15 basis points to 3.89% and the cost of interest bearing liabilities declined 12 basis points to 0.93%. The lower yield on earning assets is the result

of lower rates on loans and investments due to the continued low interest rate environment. The decrease in interest costs was a combination of continued downward repricing of time deposits and the prepayment of a \$100,000,000 FHLB advance in the quarter ended December 31, 2014. Management prepaid an additional \$100,000,000 FHLB advance in the quarter ended June 30, 2015.

The following table sets forth the information explaining the changes in the net interest margin for the periods indicated compared to the same periods one year ago.

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| | Quarter Ended June 30, 2015 | | | | Quarter Ended June 30, 2014 | | | |
|--|--------------------------------------|-------------|-----------------|-------|--------------------------------------|-------------|-----------------|-------|
| | Average Balance (In thousands) | Interest | Average Rate | | Average Balance (In thousands) | Interest | Average Rate | |
| Assets | | | | | | | | |
| Loans and covered loans | \$8,628,345 | \$107,250 | 4.99 | % | \$8,040,819 | \$108,089 | 5.39 | % |
| Mortgaged-backed securities | 3,024,821 | 16,995 | 2.25 | | 3,341,969 | 20,507 | 2.46 | |
| Cash & Investments | 1,543,556 | 4,625 | 1.20 | | 2,011,154 | 6,003 | 1.20 | |
| FHLB & FRB stock | 134,692 | 430 | 1.28 | | 166,522 | 412 | 0.99 | |
| Total interest-earning assets | 13,331,414 | 129,300 | 3.89 | % | 13,560,464 | 135,011 | 3.99 | % |
| Other assets | 1,124,750 | | | | 988,917 | | | |
| Total assets | \$14,456,164 | | | | \$14,549,381 | | | |
| Liabilities and Equity | | | | | | | | |
| Customer accounts | \$10,635,364 | \$12,485 | 0.47 | % | \$10,608,318 | \$14,239 | 0.54 | % |
| FHLB advances | 1,820,110 | 16,250 | 3.58 | | 1,930,000 | 17,493 | 3.64 | |
| Other borrowings | — | — | — | | — | — | — | |
| Total interest-bearing liabilities | 12,455,474 | 28,735 | 0.93 | % | 12,538,318 | 31,732 | 1.02 | % |
| Other liabilities | 46,980 | | | | 26,278 | | | |
| Total liabilities | 12,502,454 | | | | 12,564,596 | | | |
| Stockholder's equity | 1,953,710 | | | | 1,984,785 | | | |
| Total liabilities and equity | \$14,456,164 | | | | \$14,549,381 | | | |
| Net interest income | | \$100,565 | | | | \$103,279 | | |

Net interest margin 3.02 % 3.05 %

As of June 30, 2015, total assets had declined by \$385,545,000 to \$14,370,496,000 from \$14,756,041,000 at September 30, 2014. For the quarter ended June 30, 2015, compared to the quarter ended September 30, 2014, loans (including covered loans) increased \$398,122,000 or 4.78%. Investment securities decreased \$386,819,000 or 8.41%. Cash and cash equivalents of \$349,550,000 and stockholders' equity of \$1,959,121,000 as of June 30, 2015 provides management with flexibility in managing interest rate risk going forward.

LIQUIDITY AND CAPITAL RESOURCES

The principal sources of funds for the Company's activities are loan repayments (including prepayments), net deposit inflows, repayments and sales of investments and borrowings and retained earnings, if applicable. The Company's principal sources of revenue are interest on loans and interest and dividends on investments.

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The Bank has a credit line with the Federal Home Loan Bank of Des Moines ("FHLB") equal to 49.0% of total assets, providing a substantial source of additional liquidity if needed. On June 1, 2015, the FHLB of Seattle merged into the FHLB of Des Moines to create a larger, financially stronger, member-owned cooperative. The resulting institution is headquartered in Des Moines with a smaller presence maintained in Seattle for members of the former FHLB of Seattle. This merger will benefit the Bank due to the return of excess FHLB stock and projected improvements in the cash dividends on the remaining activity based stock that will be required.

The Bank has entered into borrowing agreements with the FHLB to borrow funds under a short-term floating rate cash management advance program and fixed-rate term loan agreements. All borrowings are secured by stock of the FHLB, deposits with the FHLB, and a blanket pledge of qualifying loans receivable as provided in the agreements with the FHLB. The total collateral value on loans receivable as of June 30, 2015 was \$4,748,000,000 and the remaining FHLB borrowing capacity was \$3,013,000,000. The Bank is also eligible to borrow under the Federal Reserve Bank's primary credit program.

The Company's cash and cash equivalents amounted to \$349,550,000 at June 30, 2015, a decrease from \$781,843,000 at September 30, 2014. These amounts include the Bank's operating cash.

The Company's net worth at June 30, 2015 was \$1,959,121,000, or 13.63% of total assets. This was a decrease of \$14,162,000 from September 30, 2014 when net worth was \$1,973,283,000 which was 13.37% of total assets. The Company's net worth was impacted in the nine months ended June 30, 2015 by net income of \$117,818,000, the payment of \$38,997,000 in cash dividends, treasury stock purchases of \$103,049,000, as well as a decrease in other comprehensive income of \$9,731,000. The ratio of tangible capital to tangible assets at June 30, 2015 was 11.79%. The Company has paid out 33.1% of its 2015 earnings year-to-date in cash dividends to common shareholders, compared with 26.7% for fiscal year 2014. For the nine months ended June 30, 2015, \$142,046,000 or 121% of net income was returned to shareholders in the form of cash dividends or share repurchases. Management believes this strong net worth position will help the Company manage its interest rate risk and provide the capital support needed for controlled growth in a regulated environment.

The Company (on a consolidated basis) and its banking subsidiary are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements.

In July 2013, federal banking agencies released new regulatory capital rules which became effective on January 1, 2015. These new rules raise the minimum capital ratios and establish new criteria for regulatory capital. Minimum capital ratios for four measures are established for capital adequacy purposes. These new standards are indicated in the table below. The common equity tier 1 capital ratio is new; it recognizes common equity as the highest form of capital. The denominator for all except the leverage ratio is risk weighted assets. The new rules also set forth a "capital conservation buffer" of up to 2.5%. In the event that a bank's capital levels fall below the minimum ratios plus these buffers, restrictions can be placed on the bank by its regulators. These restrictions include reducing dividend payments, share-backs, and staff bonus payments. The purpose of these buffers is to require banks to build up capital outside of periods of stress that can be drawn down during periods of stress. As a result, even during periods where losses are incurred, the minimum capital ratios can still be met. The new capital rules detail a phase-in period for the new minimum ratios and the capital buffers, before the full minimum ratios take effect in 2019. The Company has calculated its capital ratios using the new rules as of March 31, 2015 and June 30, 2015. This did not have a material impact on its consolidated financial statements.

There are also new standards for Adequate and Well Capitalized criteria that are used for "Prompt Corrective Action" purposes. To remain categorized as well capitalized, the Bank and Holding Company must maintain minimum common equity risk-based, tier 1 risk-based, total risk-based and tier 1 leverage ratios as set forth in the following

table.

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| | Actual | | | Minimum Capital Adequacy Guidelines | | | Minimum Well-Capitalized Guidelines | | |
|--|--------------|-------|---|-------------------------------------|-------|---|-------------------------------------|-------|---|
| | Capital | Ratio | | Capital | Ratio | | Capital | Ratio | |
| (In thousands) | | | | | | | | | |
| June 30, 2015 | | | | | | | | | |
| Common Equity Tier I risk-based capital ratio: | | | | | | | | | |
| The Company | \$ 1,651,546 | 19.60 | % | \$ 638,737 | 4.50 | % | \$ 922,620 | 6.50 | % |
| The Bank | 1,630,586 | 19.35 | % | 638,683 | 4.50 | % | 922,542 | 6.50 | % |
| Tier I risk-based capital ratio: | | | | | | | | | |
| The Company | 1,651,546 | 19.60 | % | 505,489 | 6.00 | % | 673,985 | 8.00 | % |
| The Bank | 1,630,586 | 19.35 | % | 505,547 | 6.00 | % | 674,063 | 8.00 | % |
| Total risk-based capital ratio: | | | | | | | | | |
| The Company | 1,757,778 | 20.86 | % | 673,985 | 8.00 | % | 842,482 | 10.00 | % |
| The Bank | 1,736,830 | 20.61 | % | 674,063 | 8.00 | % | 842,579 | 10.00 | % |
| Tier 1 Leverage ratio: | | | | | | | | | |
| The Company | 1,651,546 | 11.64 | % | 567,766 | 4.00 | % | 709,708 | 5.00 | % |
| The Bank | 1,630,586 | 11.49 | % | 567,718 | 4.00 | % | 709,648 | 5.00 | % |
| September 30, 2014 | | | | | | | | | |
| Tier I risk-based capital ratio: | | | | | | | | | |
| The Company | 1,648,199 | 22.71 | % | 290,335 | 4.00 | % | NA | NA | |
| The Bank | 1,658,704 | 22.85 | % | 290,386 | 4.00 | % | 435,579 | 6.00 | % |
| Total risk-based capital ratio: | | | | | | | | | |
| The Company | 1,739,658 | 23.97 | % | 580,671 | 8.00 | % | NA | NA | |
| The Bank | 1,750,179 | 24.11 | % | 580,772 | 8.00 | % | 725,965 | 10.00 | % |
| Tier 1 Leverage ratio: | | | | | | | | | |
| The Company | 1,648,199 | 11.39 | % | 578,804 | 4.00 | % | NA | N/A | |
| The Bank | 1,658,704 | 11.46 | % | 578,816 | 4.00 | % | 723,520 | 5.00 | % |

CHANGES IN FINANCIAL CONDITION

Available-for-sale and held-to-maturity securities: Available-for-sale securities decreased \$425,068,000, or 13.9%, during the nine months ended June 30, 2015, due to sales and prepayments, calls and maturities which were partially offset by the purchase of \$329,490,000 of available-for-sale securities. There were \$235,109,000 of available-for-sale securities sold during the nine months ended June 30, 2015 at a gain of \$9,639,000. During the same period, there were \$249,382,000 million in held-to-maturity securities purchased. There were no held to maturity securities sold. As of June 30, 2015, the Company had net unrealized gains on available-for-sale securities and long term borrowing hedges of \$10,977,000, net of tax, which were recorded as part of other comprehensive income. This includes a net unrealized gain (net of tax) of \$13,453,000 on available for sale securities and a net unrealized loss (net of tax) of \$2,476,000 on long term borrowing hedges.

Loans receivable: During the nine months ended June 30, 2015, the balance of net loans receivable increased to \$8,645,609,000 compared to \$8,148,322,000 at September 30, 2014. This increase includes net loan activity (originations less principal payments and maturities) for non-covered loans of \$267,222,000, loan purchases of \$183,406,000, and transfers from covered loans of \$49,515,000. During the nine month period, \$23,940,000 of

non-covered loans were transferred to REO.

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Covered loans: As of June 30, 2015, FDIC covered loans decreased 56.2%, or \$99,165,000 to \$77,311,000, compared to September 30, 2014. There was a reduction of \$49,515,000 due to the expiration of the FDIC loss share coverage for the acquired commercial loans from the former Horizon Bank that expired after March 31, 2015. The FDIC loss share coverage for single family residential loans will continue for another five years. There were also \$65,585,000 of net principal payments, maturities and transfers to REO which were partially offset by \$15,935,000 in accretable yield.

There are \$38,712,000 of covered assets from the former Home Valley Bank as of June 30, 2015 that will lose their FDIC loss share coverage as of September 30, 2015. If all FDIC loss share coverage had expired as of June 30, 2015, the NPA ratio would increase from 0.90% to 1.04% and the delinquency rate would rise from 0.98% to 1.05%.

The following table shows the loan portfolio by category for the last three quarters.

| Loan Portfolio by Category * | June 30, 2015 | | March 31, 2015 | | December 31, 2014 | |
|-----------------------------------|----------------|------|----------------|------|-------------------|------|
| Non-Acquired loans | (In thousands) | | | | | |
| Single-family residential | \$5,549,746 | 60.1 | % \$5,535,104 | 61.4 | % \$5,608,208 | 63.9 |
| Construction - speculative | 181,668 | 2.0 | 163,657 | 1.8 | 152,450 | 1.7 |
| Construction - custom | 375,425 | 4.1 | 370,693 | 4.1 | 377,561 | 4.3 |
| Land - acquisition & development | 87,382 | 0.9 | 105,058 | 1.2 | 84,000 | 1.0 |
| Land - consumer lot loans | 102,495 | 1.1 | 102,082 | 1.2 | 104,492 | 1.2 |
| Multi-family | 1,089,682 | 11.8 | 1,010,003 | 11.2 | 977,752 | 11.2 |
| Commercial real estate | 808,539 | 8.7 | 741,137 | 8.2 | 597,436 | 6.8 |
| Commercial & industrial | 451,478 | 4.9 | 408,358 | 4.6 | 391,327 | 4.5 |
| HELOC | 122,870 | 1.3 | 120,901 | 1.3 | 118,047 | 1.3 |
| Consumer | 205,932 | 2.2 | 218,680 | 2.5 | 126,929 | 1.4 |
| Total non-acquired loans | 8,975,217 | 97.1 | 8,775,673 | 97.5 | 8,538,202 | 97.3 |
| Non-impaired acquired loans | | | | | | |
| Single-family residential | 12,895 | 0.1 | 10,977 | 0.1 | 11,163 | 0.1 |
| Land - acquisition & development | 1,028 | — | 728 | — | 872 | — |
| Land - consumer lot loans | 2,472 | — | 2,476 | — | 2,496 | — |
| Multi-family | 3,692 | — | 2,912 | — | 2,954 | — |
| Commercial real estate | 102,089 | 1.1 | 87,313 | 1.0 | 92,133 | 1.0 |
| Commercial & industrial | 57,614 | 0.6 | 55,659 | 0.6 | 58,836 | 0.7 |
| HELOC | 6,414 | 0.1 | 6,700 | 0.1 | 7,749 | 0.1 |
| Consumer | 2,916 | — | 2,794 | — | 4,369 | — |
| Total non-impaired acquired loans | 189,120 | 1.9 | 169,559 | 1.8 | 180,572 | 1.9 |
| Credit-impaired acquired loans | | | | | | |
| Single-family residential | 6,288 | 0.1 | 322 | — | 323 | — |
| Land - acquisition & development | 1,842 | — | 1,395 | — | 1,533 | — |
| Land - consumer lot loans | 496 | — | — | — | — | — |
| Commercial real estate | 71,196 | 0.8 | 56,727 | 0.6 | 60,287 | 0.7 |
| Commercial & industrial | 3,881 | — | 2,190 | — | 3,255 | — |
| HELOC | 8,553 | 0.1 | 8,838 | 0.1 | 9,202 | 0.1 |

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| | | | | | | |
|--------------------------------------|-----------|------|-----------|------|-----------|------|
| Consumer | 108 | — | 51 | — | 54 | — |
| Total credit-impaired acquired loans | 92,364 | 1.0 | 69,523 | 0.7 | 74,654 | 0.8 |
| Total Loans | | | | | | |
| Single-family residential | 5,568,929 | 60.3 | 5,546,403 | 61.5 | 5,619,694 | 64.0 |
| Construction - speculative | 181,668 | 2.0 | 163,657 | 1.8 | 152,450 | 1.7 |

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| | | | | | | | |
|----------------------------------|-------------|------|-------------|------|-------------|------|---|
| Construction - custom | 375,425 | 4.1 | 370,693 | 4.1 | 377,561 | 4.3 | |
| Land - acquisition & development | 90,252 | 0.9 | 107,181 | 1.2 | 86,405 | 1.0 | |
| Land - consumer lot loans | 105,463 | 1.1 | 104,558 | 1.2 | 106,988 | 1.2 | |
| Multi-family | 1,093,374 | 11.8 | 1,012,915 | 11.2 | 980,706 | 11.2 | |
| Commercial real estate | 981,824 | 10.6 | 885,177 | 9.8 | 749,856 | 8.5 | |
| Commercial & industrial | 512,973 | 5.5 | 466,207 | 5.2 | 453,418 | 5.2 | |
| HELOC | 137,837 | 1.5 | 136,439 | 1.5 | 134,998 | 1.5 | |
| Consumer | 208,956 | 2.2 | 221,525 | 2.5 | 131,352 | 1.4 | |
| Total Loans | 9,256,701 | 100 | % 9,014,755 | 100 | % 8,793,428 | 100 | % |
| Less: | | | | | | | |
| Allowance for probable losses | 105,611 | | 108,323 | | 108,700 | | |
| Loans in process | 438,941 | | 426,836 | | 370,655 | | |
| Discount on acquired loans | 28,399 | | 20,845 | | 22,535 | | |
| Deferred net origination fees | 38,141 | | 37,763 | | 37,621 | | |
| | 611,092 | | 593,767 | | 539,511 | | |
| | \$8,645,609 | | \$8,420,988 | | \$8,253,917 | | |

* Excludes covered loans

Non-performing assets (excludes discounted acquired assets): NPAs decreased during the quarter ended June 30, 2015 to \$128,883,000 from \$147,311,000 at September 30, 2014, a 12.5% decrease. The decrease is due to improving credit conditions and credit quality. Non-performing assets as a percentage of total assets was 0.90% at June 30, 2015 compared to 1.00% at September 30, 2014. This level of NPAs is improved from the 0.96% average in the Company's 29+ year history as a public company.

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

| | June 30, 2015 (In thousands) | | September 30, 2014 | | |
|---|------------------------------------|------|-----------------------|------|---|
| Restructured loans: | | | | | |
| Single-family residential | \$275,428 | 85.7 | % \$323,732 | 86.3 | % |
| Construction - speculative | 6,370 | 2.0 | 7,360 | 2.0 | |
| Land - acquisition & development | 3,536 | 1.1 | 4,737 | 1.3 | |
| Land - consumer lot loans | 11,539 | 3.6 | 13,002 | 3.5 | |
| Multi - family | 3,843 | 1.2 | 5,243 | 1.4 | |
| Commercial real estate | 19,251 | 6.0 | 19,140 | 5.1 | |
| HELOC | 1,394 | 0.4 | 1,486 | 0.4 | |
| Consumer | 120 | — | 43 | — | |
| Total restructured loans (1) | \$321,481 | 100 | % \$374,743 | 100 | % |
| Non-accrual loans: | | | | | |
| Single-family residential | \$56,638 | 86.7 | % \$74,067 | 84.8 | % |
| Construction - speculative | 762 | 1.2 | 1,477 | 1.7 | |
| Construction - custom | 355 | 0.5 | — | — | |
| Land - consumer lot loans | 1,308 | 2.0 | 2,637 | 3.0 | |
| Multi-family | 786 | 1.2 | 1,742 | 2.0 | |
| Commercial real estate | 2,852 | 4.4 | 5,106 | 5.8 | |
| Commercial & industrial | 1,205 | 1.8 | 7 | — | |
| HELOC | 889 | 1.4 | 795 | 0.9 | |
| Consumer | 513 | 0.8 | 789 | 0.9 | |
| Total non-accrual loans (2) | 65,308 | 100 | % 87,431 | 100 | % |
| Total REO (3) | 59,239 | | 55,072 | | |
| Total REHI (3) | 4,336 | | 4,808 | | |
| Total non-performing assets | \$128,883 | | \$147,311 | | |
| Total non-performing assets and performing restructured loans as a percentage of total assets | 3.04 | % | 3.37 | % | |

(1) Restructured loans were as follows:

| | | | | | |
|--|-----------|------|-------------|------|---|
| Performing | \$308,355 | 95.9 | % \$350,653 | 93.6 | % |
| Non-performing (included in non-accrual loans above) | 13,126 | 4.1 | 24,090 | 6.4 | |
| | \$321,481 | 100 | % \$374,743 | 100 | % |

(2) The Company recognized interest income on cash payments received from the borrower on nonaccrual loans of approximately \$5,272,000 in the nine months ended June 30, 2015. Had these loans performed according to their original contract terms, the Company would have recognized interest income of approximately \$2,421,000 for the nine months ended June 30, 2015. The recognized interest income may include more than nine months of interest

for some of the loans that were brought current. In addition to the nonaccrual loans reflected in the above table, the Company had \$94,346,000 of loans that were less than 90 days delinquent at June 30, 2015 but which it had classified as substandard for one or more reasons. If these loans were deemed non-performing, the Company's ratio of total NPAs and performing restructured loans as a percent of total assets would have increased to 3.04% at June 30, 2015.

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(3) Total REO and REHI includes real estate held for sale acquired in settlement of loans or acquired from purchased institutions in settlement of loans. Includes net exposure to covered REO of \$3,748,000.

Restructured single-family residential loans are reserved for under the Company's general reserve methodology. If any individual loan is significant in balance, the Company may establish a specific reserve as warranted.

Most restructured loans are accruing and performing loans where the borrower has proactively approached the Bank about modifications due to temporary financial difficulties. Each request is individually evaluated for merit and likelihood of success. Single-family residential loans comprised 85.7% of restructured loans as of June 30, 2015. The concession for these loans is typically a payment reduction through a rate reduction of from 100 to 200 bps for a specific term, usually six to twelve months. Interest-only payments may also be approved during the modification period.

For commercial loans, six consecutive payments on newly restructured loan terms are required prior to returning the loan to accrual status. In some instances after the required six consecutive payments are made, a management assessment will conclude that collection of the entire principal balance is still in doubt. In those instances, the loan will remain on non-accrual. Homogeneous loans may or may not be on accrual status at the time of restructuring, but all are placed on accrual status upon the restructuring of the loan. Homogeneous loans are restructured only if the borrower can demonstrate the ability to meet the restructured payment terms; otherwise, collection is pursued and the loan remains on non-accrual status until liquidated. If the homogeneous restructured loan does not perform it will be placed in non-accrual status when it is 90 days delinquent.

A loan that defaults and is subsequently modified would impact the Company's delinquency trend, which is part of the qualitative risk factors component of the general reserve calculation. Any modified loan that re-defaults and is charged-off would impact the historical loss factors component of the Company's general reserve calculation.

Allocation of the allowance for loan losses: The following table shows the allocation of the Company's allowance for loan losses at the dates indicated.

| | June 30, 2015 | | | September 30, 2014 | | | |
|----------------------------------|--------------------------|-----------------------------|-----------------------|--------------------------|-----------------------------|-----------------------|---|
| | Amount (In thousands) | Loans to Total Loans (1) | Coverage Ratio (2) | Amount (In thousands) | Loans to Total Loans (1) | Coverage Ratio (2) | |
| Single-family residential | \$52,004 | 64.8 | % 0.9 | % \$62,763 | 65.6 | % 1.1 | % |
| Construction - speculative | 5,933 | 1.4 | 5.0 | 6,742 | 1.7 | 5.2 | |
| Construction - custom | 985 | 2.4 | 0.5 | 1,695 | 4.6 | 0.5 | |
| Land - acquisition & development | 5,772 | 0.8 | 8.1 | 5,592 | 0.9 | 7.2 | |
| Land - consumer lot loans | 2,999 | 1.2 | 2.9 | 3,077 | 1.3 | 2.8 | |
| Multi-family | 5,035 | 11.8 | 0.5 | 4,248 | 10.9 | 0.5 | |
| Commercial real estate | 7,268 | 8.1 | 1.0 | 7,548 | 7.0 | 1.3 | |
| Commercial & industrial | 21,662 | 5.7 | 4.5 | 16,527 | 5.0 | 4.6 | |
| HELOC | 864 | 1.4 | 0.7 | 928 | 1.4 | 0.9 | |
| Consumer | 3,089 | 2.4 | 1.5 | 3,227 | 1.6 | 2.4 | |
| | \$105,611 | 100 | % | \$112,347 | 100 | % | |

(1)

Represents the total amount of the loan category as a % of total gross loans, excluding non-acquired and non-covered loans outstanding not subject to the allowance for loan loss.

- (2) Represents the allocated allowance of the loan category as a % of total gross loans, excluding non-acquired and non-covered loans outstanding not subject to the allowance for loan loss, for the same loan category.

Real Estate Held for Sale: Real estate held for sale increased during the nine months ended June 30, 2015 by \$419,000 to \$55,491,000. The increase is attributable to upward net market value adjustments from prior period corrections and the addition of previously covered loans from the commercial portion of the former Horizon Bank portfolio which were partially offset by sales of existing REO properties during the quarter.

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Interest Receivable: Interest receivable decreased by \$12,487,000 as compared to September 30, 2014, largely as a result of the correction for the over-accrual of interest income of \$8,872,000 that was made in a prior quarter that had accumulated since fiscal 2011 and was detected during this fiscal year. Management believes this error and its correction had no material impact to any prior reporting period. The remaining difference is primarily due to lower yields on earning assets.

Bank Owned Life Insurance: The Company purchased \$100,000,000 in bank-owned life insurance, with a expected 2015 pre-tax equivalent yield of 5.14%, in the quarter ended December 31, 2014 to assist in funding the growth of employee benefit costs.

Customer accounts: Customer accounts decreased \$138,543,000, or 1.3%, to \$10,578,385,000 at June 30, 2015 compared with \$10,716,928,000 at September 30, 2014.

The following table shows the composition of the Bank's customer accounts by deposit type as of the dates shown:

| | June 30, 2015 | | | | September 30, 2014 | | | |
|-------------------------|---|--------------------------------|-------------------|---|---|--------------------------------|-------------------|---|
| | Deposit Account Balance (In thousands) | As a % of Total Deposits | Wtd. Avg. Rate | | Deposit Account Balance (In thousands) | As a % of Total Deposits | Wtd. Avg. Rate | |
| Non-interest checking | \$933,645 | 8.8 | % — | % | \$883,601 | 8.2 | % — | % |
| Interest checking | 1,556,136 | 14.7 | 0.06 | % | 1,447,569 | 13.5 | 0.09 | % |
| Savings (passbook/stmt) | 671,426 | 6.4 | 0.10 | % | 622,546 | 5.8 | 0.10 | % |
| Money Market | 2,535,329 | 24.0 | 0.14 | % | 2,536,971 | 23.7 | 0.18 | % |
| CD's | 4,881,849 | 46.1 | 0.93 | % | 5,226,241 | 48.8 | 0.92 | % |
| Total | \$10,578,385 | 100 | % 0.48 | % | \$10,716,928 | 100 | % 0.51 | % |

FHLB advances and other borrowings: Total borrowings were \$1,730,000,000 as of June 30, 2015 which is lower than the balance as of September 30, 2014 by \$200,000,000. In December 2014, there was a prepayment of a FHLB advance of \$100,000,000 with a maturity date in September 2015, resulting in a prepayment penalty of \$2,613,000. In June 2015, there was a prepayment of a FHLB advance of \$100,000,000 with a maturity date in September 2017, resulting in a prepayment penalty of \$7,941,000.

RESULTS OF OPERATIONS

Net Income: The quarter ended June 30, 2015 produced net income of \$39,050,000 compared to \$37,910,000 for the same quarter one year ago. For the nine months ended June 30, 2015, net income totaled \$117,818,000 compared to \$116,803,000 for the same period one year ago. Net income for the quarter and nine months ended June 30, 2015 benefited from higher net interest income and overall lower credit costs, which included the reversal of loan loss provision and net gains rather than losses on real estate acquired through foreclosure for the nine month period. Some of this benefit was offset by higher other expenses during these periods. Please see the discussion below about these changes.

Net Interest Income: For the quarter ended June 30, 2015, net interest income was \$2,714,000 lower than in the same quarter of the prior year. Average earning assets were \$229,050,000 lower due to repayments of cash and investments that were not completely offset by loan growth. In addition, the yield on interest earning assets declined by 10 basis points and the cost of funds only declined by 9 basis points. The net interest margin decreased to 3.02% from 3.05% in quarter ended June 30, 2014.

Net interest income was \$4,402,000 higher for the nine months ended June 30, 2015 as compared to the nine months ended June 30, 2014 as average earnings assets were higher by \$302,440,000 and the cost of funds declined as the Company shifted from certificates of deposit to transaction accounts.

The following table sets forth certain information explaining changes in interest income and interest expense for the periods indicated compared to the same periods one year ago. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate) and (2) changes in rate (changes in rate multiplied by old volume). The change in interest income and interest expense attributable to changes in both volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

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Rate / Volume Analysis:

| | Comparison of Quarters Ended 6/30/15 and 6/30/14 | | | Comparison of Nine Months Ended 6/30/15 and 6/30/14 | | |
|------------------------------------|---|-----------|-----------|--|------------|---------|
| | Volume (In thousands) | Rate | Total | Volume (In thousands) | Rate | Total |
| Interest income: | | | | | | |
| Loans and covered loans | \$7,510 | \$(8,349) | \$(839) | \$21,831 | \$(18,664) | \$3,167 |
| Mortgaged-backed securities | (1,848) | (1,664) | (3,512) | (3,041) | (3,593) | (6,634) |
| Investments (1) | (1,463) | 103 | (1,360) | (195) | 256 | 61 |
| All interest-earning assets | 4,199 | (9,910) | (5,711) | 18,595 | (22,001) | (3,406) |
| Interest expense: | | | | | | |
| Customer accounts | 38 | (1,791) | (1,753) | 2,226 | (8,239) | (6,013) |
| FHLB advances and other borrowings | (960) | (284) | (1,244) | (2,452) | 657 | (1,795) |
| All interest-bearing liabilities | (922) | (2,075) | (2,997) | (226) | (7,582) | (7,808) |
| Change in net interest income | \$5,121 | \$(7,835) | \$(2,714) | \$18,821 | \$(14,419) | \$4,402 |

(1) Includes interest on cash equivalents and dividends on FHLB & FRB stock

Provision (Reversal) for Loan Losses: The provision for loan losses amounted to a reversal of provision of \$1,932,000 and \$11,381,000 for the quarter and nine months ended June 30, 2015, respectively, as compared to a reversal of provision of \$3,000,000 and \$11,936,000 for the quarter and nine months ended June 30, 2014, respectively. The reversals of provision for loan losses are the result of the continued improvement of the Company's loan portfolio. The related improvement in the allowance for loan losses is in response to three primary factors: first, the amount of NPAs improved year-over-year; second, non-accrual loans as a percentage of net loans decreased from 1.30% at June 30, 2014, to 0.76% at June 30, 2015; and third, the percentage of loans 30 days or more delinquent decreased from 1.57% at June 30, 2014, to 0.98% at June 30, 2015.

The Company had net charge-offs of \$313,000 for the quarter ended June 30, 2015, compared with \$2,219,000 of net recoveries for the same quarter one year ago. Non-performing assets amounted to \$128,883,000, or 0.90%, of total assets at June 30, 2015, compared to \$162,357,000, or 1.10% of total assets at June 30, 2014. Non-accrual loans decreased from \$94,226,000 at June 30, 2014, to \$65,308,000 at June 30, 2015, a 30.7% decrease.

Management believes the allowance for loan losses plus the reserve for unfunded commitments, totaling \$107,977,000, or 1.17% of gross loans, is sufficient to absorb estimated losses inherent in the portfolio. See Note E for further discussion and analysis of the allowance for loan losses for the quarter ended June 30, 2015.

Other Income: For the quarter and nine months ended June 30, 2015, total other income was \$11,811,000 and \$28,031,000 as compared to \$8,072,000 and \$20,562,000 for the quarter and nine months ended June 30, 2014.

Deposit fee income was \$5,156,000 and \$16,538,000 for the quarter and nine months ended June 30, 2015 compared to \$4,036,000 and \$9,120,000 for the quarter and nine months ended June 30, 2014. The increase was primarily due to the increase in branches and customers obtained through acquisitions during fiscal 2014. Loan fee income of \$1,915,000 and \$6,028,000 for the quarter and nine months ended June 30, 2015 was also higher than the same quarter and nine months of the prior year.

The remaining other income was \$3,042,000 in the current quarter compared to \$1,739,000 in the same quarter of the prior year. During the quarter, there was a \$9,639,000 gain on the sale of \$235,109,000 in available for sale securities.

This was partially offset by a prepayment charge of \$7,941,000 due to the payoff of a \$100,000,000 Federal Home Loan Bank advance that was accruing interest at 4.49% and was scheduled to expire in September 2017. For the nine months ended June 30, 2015, other income was \$6,380,000 compared to \$5,774,000 in the same period of the prior year.

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART I – Financial Information

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Other Expense: The quarter ended June 30, 2015 produced total other expense of \$56,719,000 compared to \$53,293,000 for the same quarter one year ago, a 6.4% increase. This increase was driven primarily by an increase in employees as well as occupancy, product delivery and marketing expenses related to the branch acquisitions during the 2014 fiscal year.

Total other expense for the quarters ended June 30, 2015 and 2014 equaled 1.57% and 1.47%, respectively, of average assets. The number of staff, including part-time employees on a full-time equivalent basis, was 1,839 and 1,948 at June 30, 2015 and 2014, respectively. Higher staff and occupancy expense were both due to an increase in the number of branches from 231 as of June 30, 2014 to 246 as of June 30, 2015.

Gain (Loss) on Real Estate Acquired Through Foreclosure: Gains (losses) recognized on real estate acquired through foreclosure was a net gain of \$3,188,000 and \$4,976,000 for the quarter and nine months ended June 30, 2015, respectively, as compared to a net loss of \$2,056,000 and \$3,454,000 for the quarter and nine month periods one year ago, respectively. The table below indicates some of the activity in the gain (loss) on real estate acquired through foreclosure in the periods indicated above.

| | Quarter Ended June 30, | | Nine Months Ended June 30, | |
|--|------------------------|-----------|----------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| | (In thousands) | | (In thousands) | |
| Net Gain on Sale | \$2,970 | \$2,466 | \$8,446 | \$7,161 |
| REO Net Writedowns | (57) | (2,953) | (1,489) | (6,069) |
| REO Operating Expenses | 275 | (1,569) | (1,982) | (4,546) |
| Gain (loss) on real estate acquired through foreclosure, net | \$3,188 | \$(2,056) | \$4,975 | \$(3,454) |

Taxes: Income taxes increased to \$21,727,000 for the quarter ended June 30, 2015, as compared to \$21,092,000 for the same period one year ago. Income taxes for the nine months ended June 30, 2015 were \$65,556,000 which was similar to the nine months ended June 30, 2014 as income before taxes was similar. The effective tax rate for both the quarters and nine months ended June 30, 2015 and June 30, 2014 was 35.75%. The Company expects a lower effective tax rate going forward due to the effects of the addition of Bank owned life insurance and increased investment in low income housing tax credit partnerships.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes that there have been no material changes in the Company’s quantitative and qualitative information about market risk since September 30, 2014. For a complete discussion of the Company’s quantitative and qualitative market risk, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s 2014 Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. The Company maintains a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company’s President and Chief Executive Officer along with the Company’s Senior Vice

President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management has evaluated, with the participation of the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on the evaluation, the Company's President and Chief Executive Officer along with the Company's Senior Vice President and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control over Financial Reporting. During the period to which this report relates, there have not been any changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or that are reasonably likely to materially affect, such controls.

WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

PART II – Other Information

Item 1. Legal Proceedings

From time to time the Company and its subsidiaries are engaged in legal proceedings in the ordinary course of business, none of which are considered to have a material impact on the Company's financial position or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed under "Part I--Item 1A--Risk Factors" in the 2014 Form 10-K for the year ended September 30, 2014. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations and capital position, and could cause its actual results to differ materially from our historical results or the results contemplated by the forward-looking statements contained in this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to purchases made by or on behalf of the Company of the Company's common stock during the three months ended June 30, 2015.

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan (1) | Maximum Number of Shares That May Yet Be Purchased Under the Plan at the End of the Period |
|---------------------------------|-------------------------------------|---------------------------------|--|---|
| April 1, 2015 to April 30, 2015 | 278,327 | \$22.08 | 278,327 | 6,147,942 |
| May 1, 2015 to May 31, 2015 | 787,647 | 21.87 | 787,647 | 5,360,295 |
| June 1, 2015 to June 30, 2015 | 105,688 | 22.00 | 105,688 | 5,254,607 |
| Total | 1,171,662 | \$21.93 | 1,171,662 | 5,254,607 |

(1) The Company's only stock repurchase program was publicly announced by its Board of Directors on February 3, 1995 and has no expiration date. Under this ongoing program, a total of 46,956,264 shares have been authorized for repurchase. This includes the authorization of an additional 5 million shares that may be repurchased under Washington Federal's share repurchase program that was announced in May 2015.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

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(a) Exhibits

31.1 Section 302 Certification by the Chief Executive Officer

31.2 Section 302 Certification by the Chief Financial Officer

32 Section 906 Certification by the Chief Executive Officer and the Chief Financial Officer

101 Financial Statements from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2015 formatted in XBRL

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WASHINGTON FEDERAL, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 7, 2015

/S/ ROY M. WHITEHEAD
ROY M. WHITEHEAD
Chairman, President and Chief Executive Officer

August 7, 2015

/S/ DIANE L. KELLEHER
DIANE L. KELLEHER
Senior Vice President and Chief Financial Officer