WASHINGTON BANCORP
Form 10QSB
May 14, 2002

FORM 10-QSB

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________ to _______________

Commission file number 0-25076

Washington Bancorp
(Exact name of small business issuer as specified in its charter)

Iowa	42-1446740
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

102 East Main Street, Washington, Iowa 52353
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (319)653-7256

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

State the number of shares outstanding of each of the issuers classes of common equity, as of the latest practicable date.

Common Stock, $.01 par value 504,832 shares outstanding as of May 13, 2002

Transitional Small Business Disclosure Format (check one): Yes[ ] No[X]

1

INDEX

Part 1. Financial Information
Item 1. Consolidated Financial Statements

Washington Bancorp and Subsidiaries

Consolidated Statements of Financial Condition

	March 31, 2002	June 30, 2001 *
ASSETS	(unaudited)	
Cash and cash equivalents:		
Interest-bearing	$ 1,942,216	$ 2,462,282
Noninterest-bearing	1,013,032	679,041
Investment securities:		
Held to maturity	1,150,105	1,142,599
Available-for-sale	14,217,251	22,090,836
Federal funds sold	10,469,000	3,350,000
Loans receivable, net of allowance for loan losses $802,534 at March 31, 2002 and $607,833 at June 30, 2001	83,444,940	84,095,349
Accrued interest receivable	1,258,915	1,517,702
Federal Home Loan Bank stock	1,757,400	1,756,200
Foreclosed real estate	192,001	145,949
Premises and equipment, net	1,261,286	986,635
Goodwill	1,091,402	1,091,402
Other assets	333,420	373,855
Total assets	$118,130,968	$119,691,850

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Deposits:		
Noninterest-bearing	$ 4,408,105	$ 4,107,003
Interest-bearing	75,593,934	68,797,275
Total deposits	80,002,039	72,904,278
Federal funds purchased	- -	1,500,000
Borrowed funds	24,966,504	32,334,794
Advances from borrowers for taxes and insurance ...	137,217	244,377
Accrued expenses and other liabilities	690,114	754,975
Total liabilities	105,795,874	107,738,424
Redeemable common stock held by ESOP	459,187	336,980
Stockholders' Equity		
Common Stock:		
Common Stock	6,511	6,511
Additional Paid-in Capital	6,167,602	6,175,332
Retained Earnings	8,765,148	8,175,145
Accumulated other comprehensive gain (loss) ...	(57,435)	(29,669)
Cost of common shares acquired for the treasury .	(2,282,239)	(2,070,600)
Deferred compensation	(22,781)	(21,093)
Maximum cash obligation related to ESOP shares ..	(459,187)	(336,980)
Unearned ESOP shares	(241,712)	(282,200)
Total stockholders' equity	11,875,907	11,616,446
Total liabilities and stockholders' equity ..	$118,130,968	$119,691,850

See Notes to Financial Statements.

Washington Bancorp and Subsidiaries

Unaudited Consolidated Statements of Income

	Three Months Ended March 31,		Nine Months March
	2002	2001	2002
Interest and dividend income:			
Loans, including fees:			
First mortgage loans	$1,035,648	$1,148,803	$3,269,292
Consumer and other loans	697,446	692,559	2,198,189
Investment securities:			
Taxable	132,532	331,961	735,289
Nontaxable	19,785	15,534	60,285
Federal Home Loan Bank stock	12,445	15,039	48,028
Total interest income	1,897,856	2,203,896	6,311,083

Interest expense:			
Deposits	702,288	876,442	2,306,961
Borrowed funds	349,296	413,743	1,175,507
Total interest expense	1,051,584	1,290,185	3,482,468
Net interest income	846,272	913,711	2,828,615
Provision for loan losses	97,500	37,500	255,000
Net interest income after provision for loan losses	748,772	876,211	2,573,615
Noninterest income:			
Security gains	- -	14,614	84,639
Service charges and fees	139,985	121,426	418,835
Insurance commissions	11,684	28,161	45,331
Investment commissions	8,640	10,308	30,596
Other	16,148	744	36,248
Total noninterest income	176,457	175,253	615,649
Noninterest expense:			
Compensation and benefits	371,871	343,179	1,136,399
Occupancy and equipment	64,216	62,475	193,597
FDIC deposit insurance premium	11,061	8,986	28,916
Data processing	42,449	33,699	103,705
Goodwill amortization	- -	23,640	- -
Other	131,422	146,806	479,603
Total noninterest expense	621,019	618,785	1,942,220
Income before income taxes	304,210	432,679	1,247,044
Income tax expense	98,796	150,871	413,959
Net income	$ 205,414	$ 281,808	$ 833,085
Earnings per common share			
Basic	$ 0.43	$ 0.58	$ 1.71
Diluted	$ 0.41	$ 0.57	$ 1.66
Dividends per common share	$ - -	$ - -	$ 0.50
Weighted average common shares for:			
Basic earnings per share	483,068	484,780	488,303
Diluted earnings per share	496,135	492,953	500,541

See Notes to Financial Statements

4

Washington Bancorp and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

	Three Months Ended March 31,		Nine Months End March 31,	
	2002	2001	2002	20

Net income	$205,414	$281,808	$833,085	$ 78
Other comprehensive income(loss):				
Unrealized holding gains (losses) arising during the period, net of income taxes	(16,276)	224,043	25,302	40
Reclassification adjustments for net losses (gains) realized in net income, net of income taxes	- -	(8,915)	(53,068)	(
Comprehensive income	$189,138	$496,936	$805,319	$1,18

See Notes to Financial Statements

5

Washington Bancorp and Subsidiaries

Unaudited Consolidated Statements of Cash Flows
Nine Months Ended March 31, 2002 and 2001

	2002
Cash Flows from Operating Activities	
Net income	$ 833,085
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of premiums and discounts on debt securities	249,460
Amortization of goodwill	- -
Provision for loan losses	255,000
(Gain) on sale of investment securities	(84,639)
Proceeds from loans sold	2,705,164
Loans originated for sale	(2,705,164)
Loss on sale of foreclosed real estate	2,829
Depreciation	86,089
Compensation under stock awards	22,500
ESOP contribution expense	73,282
Decrease in accrued interest receivable	258,788
Decrease in other assets	42,686
Increase(decrease) in accrued expenses and other liabilities	(50,437)
Net cash provided by operating activities	1,688,643
Cash Flows from Investing Activities	
Held-to-maturity securities:	
Purchases	(7,800)
Available-for-sale securities:	
Sales	2,000,000
Maturities and calls	15,914,616
Purchases	(10,250,000)
Federal funds sold, net	(7,119,000)
Purchase of Federal Home Loan Bank stock	(1,200)
Loans made to customers, net	346,528
Purchase of premises and equipment	(360,741)
Net cash provided by investing activities	522,403
Cash Flows from Financing Activities	
Net increase in deposits	7,097,761
Proceeds from Federal Home Loan Bank advances	4,680,000
Principal payments on Federal Home Loan Bank advances	(12,048,290)

Federal funds purchased, net	(1,500,000)
Net (decrease) in advances from borrowers for taxes and insurance	(107,161)
Acquisition of common stock	(353,412)
Stock options exercised	77,063
Dividends paid	(243,082)
Net cash (used in) financing activities	(2,397,121)
(Decrease) in cash and cash equivalents	(186,075)
Cash and cash equivalents:	
Beginning	3,141,323
Ending	$ 2,955,248

6

Washington Bancorp and Subsidiaries

Unaudited Consolidated Statements of Cash Flows
Nine months Ended March 31, 2002 and 2001

	2002	2001
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest paid to depositors	$1,962,392	$2,060,379
Interest paid on other obligations	$1,175,507	$1,409,195
Income taxes, net of refunds	$ 482,815	$ 527,800
Supplemental Schedule of Noncash Investing and Financing Activities		
Transfers from loans to foreclosed real estate	$ 225,966	$ 401,636
Contract sales of foreclosed real estate	$ 177,085	$ 478,350

See Notes to Financial Statements.

7

Washington Bancorp and Subsidiaries
Notes to Financial Statements

Principles of consolidation. The accompanying consolidated financial statements include the accounts of Washington Bancorp, Washington Federal Savings Bank("Washington Federal"), WFSB's wholly-owned subsidiary Washington Financial Services, Inc., which is a discount brokerage firm, and Rubio Savings Bank of Brighton, Iowa ("Rubio"). All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of presentation. Interim Financial Information (unaudited): The financial statements and notes related thereto for the three and nine month periods ended March 31, 2002, are unaudited, but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations. The operating results for the interim periods are not indicative of the operating results to be expected for a full year or for other interim periods. Not all disclosures required by accounting principles generally accepted in the United States of America necessary for a complete presentation have been included. It is recommended that these consolidated condensed financial statements be read in conjunction with the Annual Report on Form 10-KSB for the year ended June 30, 2001 and all related amendments and exhibits (including all financial statements and notes therein), filed by the Company with the Securities and Exchange Commission.

Goodwill. Goodwill resulting from the Company's acquisition of Rubio Savings Bank was being amortized by the straight-line method over 15 years. Beginning July 1, 2001 goodwill was no longer amortized, but will be periodically reviewed for impairment based upon an assessment of future operations to ensure that it is appropriately valued.

Foreclosed real estate. Real estate properties acquired through loan foreclosure are initially recorded at the lower of cost or fair value less estimated selling expenses at the date of foreclosure. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Redeemable common stock held by ESOP. In accordance with SEC Accounting Series Release 268, the Company's maximum cash obligation related to these shares is classified outside of stockholders' equity because the shares are not readily traded and could be put to the Company for cash. The maximum cash obligation represents the approximate market value of the allocated ESOP shares at the end of the reporting period.

Regulatory capital requirements. Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of March 31, 2002 and 2001, that the Company and the Banks met all capital adequacy requirements to which they are subject.

As of March 31, 2002, the most recent notification from the Federal Deposit Insurance Corporation categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Banks' category. The Company's and the Banks' actual capital amounts and ratios as of March 31, 2002 and 2001 are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To B Capitalized Prompt Corr Action Prov
	Amount	Ratio	Amount	Ratio	Amount
March 31, 2002					
Total capital to risk					
Weighted assets:					
Consolidated	11,876	15.40%	$6,168	8.00%	N/A
Washington	8,271	13.29%	4,980	8.00%	6,225

Rubio	3,683	24.85%	1,185	8.00%	1,482
Tier 1 capital to risk Weighted assets:					
Consolidated	10,842	14.06%	3,084	4.00%	N/A
Washington	8,304	13.34%	2,490	4.00%	3,735
Rubio	2,616	17.65%	593	4.00%	889
Tier 1 capital to Average assets:					
Consolidated	10,842	9.28%	4,672	4.00%	N/A
Washington	8,304	8.79%	3,781	4.00%	4,726
Rubio	2,616	11.33%	693	4.00%	1,154
March 31, 2001					
Total capital to risk Weighted assets:					
Consolidated	11,307	14.60%	6,197	8.00%	N/A
Washington	7,782	12.37%	5,035	8.00%	6,293
Rubio	3,624	24.94%	1,163	8.00%	1,453
Tier 1 capital to risk Weighted assets:					
Consolidated	10,244	13.22%	3,099	4.00%	N/A
Washington	7,790	12.38%	2,517	4.00%	3,776
Rubio	2,580	17.75%	581	4.00%	872
Tier 1 capital to Average assets:					
Consolidated	10,244	8.83%	4,639	4.00%	N/A
Washington	7,790	8.42%	3,700	4.00%	4,626
Rubio	2,580	11.59%	668	4.00%	1,113

Item 2. Management's Discussion and Analysis

Forward-Looking Statements

When used in this Form 10-QSB or future filings by the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "believe" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and to advise readers that various factors, including regional and national economic conditions , changes in levels of market interest rates, credit risks of lending activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligations, to revise any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

9

General

Washington Bancorp is an Iowa corporation which was organized in October 1995 by

Washington Federal Savings Bank for the purpose of becoming a savings and loan holding company. Washington Federal is a federally chartered savings bank headquartered in Washington, Iowa. Originally chartered in 1934, Washington Federal converted to a federal savings bank in 1994. Its deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

In March 1996, simultaneous with the completion of the conversion of Washington Federal to the stock form of organization through the sale and issuance of its common stock to the Company, Washington Bancorp completed the initial public offering of its common stock. On June 24, 1997, Washington entered into a merger agreement to acquire Rubio Savings Bank of Brighton, Iowa. Rubio Savings Bank is held as a separate subsidiary of Washington Bancorp. In January 1998, Washington Bancorp became a bank holding company upon the completion of its acquisition of Rubio Savings Bank.

In December 1998, Washington Federal opened a branch office, Wellman Federal Savings, in Wellman, Iowa. In September 2000, Washington Federal opened a branch office, Richland Federal Savings, in Richland, Iowa. The principal assets of Washington Bancorp are Washington Federal and Rubio Savings Bank (collectively, the "Banks"). Washington Bancorp presently has no separate operations and its business consists primarily of the business of the Banks. All references to Washington Bancorp, unless otherwise indicated at or before March 11, 1996, refer to Washington Federal.

In November 2001, Washington Bancorp announced a voluntary odd lot program to holders of less than 100 shares to sell their common shares back to the Company for cash. The shares submitted through the program were purchased at $19.00 per share and the transaction was not subject to commission charges. Odd lot holders who decided to participate sold all their shares and the decision was irrevocable. The program was offered to provide shareholders of less than 100 shares an opportunity to realize the value of their investment and reduce the Company's expense of administering the shares on an ongoing basis. Upon completion of the transaction, 41 stockholders had tendered 1,421 shares. As a result, Washington Bancorp may be eligible to deregister its common stock. The elimination of costs associated with SEC-reporting and other related requirements would further reduce the expense of administering the common stock.

In January 2002, Mr. Dale Torpey accepted the position of President of Washington Federal. Mr. Torpey currently serves as Chairman of the Federal Home Loan Bank Board in Des Moines, Iowa. He serves as Chairman of the Lending Committee for the Independent Community Bankers of America (the "ICBA") and is a member of the Washington, Iowa Rotary Club. Mr. Torpey brings to Washington Federal over 30 years of banking experience and will be working closely with the Company's loan portfolio. Mr. Stan Carlson, the former President of Washington Federal, will remain CEO of Washington Federal, President of Rubio, and President and CEO of Washington Bancorp.

Washington Federal attracts deposits from the general public in its local market area and uses such deposits primarily to invest in one- to four-family residential loans secured by owner occupied properties and non-residential properties, as well as construction loans on such properties. To meet customer demand for long term fixed rate mortgages, Washington Federal has an agreement with a third-party mortgage provider. When a long-term fixed rate mortgage is requested by the customer, the loan is originated by Washington Federal on behalf of the third-party mortgage provider on an individual loan-by-loan basis. The third-party mortgage provider funds 100% of the loan and retains the servicing rights. Washington also invests in United States treasury securities, mortgage-backed securities, federal agency bonds, corporate bonds, agricultural loans, commercial loans, consumer loans, and automobile loans.

Rubio attracts deposits from the general public in its local market area and the businesses in the Brighton area. The deposits are primarily invested in federal agency bonds, agricultural operating loans, commercial loans, one- to four-family residential real estate loans, and farm real estate loans. Rubio also invests in United States treasury securities, commercial real estate loans, automobile loans and consumer loans.

The executive office of the Company is located at 102 East Main Street, Washington, Iowa 52353, telephone (319)653-7256.

Financial Condition

Total assets. Total consolidated assets decreased $1.6 million from $119.7 million at June 30, 2001 to $118.1 million at March 31, 2002. The decrease was primarily due to a $7.9 million decrease in investment securities, a $650,000 decrease in loans receivable, a $259,000 decrease in accrued interest receivable, a $186,000 decrease in cash and cash equivalents and a $40,000 decrease in other assets, partially offset by a $7.1 million increase in federal funds sold, a $275,000 increase in premises and equipment, and a $46,000 increase in foreclosed real estate.

Loans receivable, net. Loans receivable, net decreased $650,000 from $84.1 million at June 30, 2001 to $83.4 million at March 31, 2002. This decrease is primarily due to an increase in customer demand for long-term fixed rate 1-4 family mortgage loans, which are not currently offered through the Company's portfolio products. To meet this demand the Company has an arrangement with a third-party loan provider, through which $2.7 million in 1-4 family long-term fixed rate loans were originated in the nine months, ended March 31, 2002. None of these loans are retained in the Company's portfolio.

The Company's non-performing assets were $1.5 million or 1.25% of total assets at March 31, 2002 as compared to $714,000 or 0.60% of total assets at June 30, 2001 primarily due to an increase in commercial loans past due. The Company is working closely with the principals of the businesses to restructure debt, to increase future cash flows, and to reduce levels of inventory. It is the Company's policy to provide for probable losses in the Company's loan portfolio. A provision for loan losses is charged to operations based on management's evaluation of the probable losses that may be incurred in the Company's loan portfolio. Such evaluation, which includes a review of all loans of which full collectibility of interest and principal may not be reasonably assured, considers the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current experience level of the Company's lending personnel, and current economic conditions.

The Company's reserve for loan loss requirement is calculated by first evaluating loans for impairment. Loans evaluated for impairment include borrowers with an excess of $300,000 in total outstanding loan balances, loans over ninety days past due, loans classified by internal processes or by examiners, loans on non-accrual status, and other loans that may be adversely affected by current economic conditions. The required allowance for loan loss on the non-homogenous loans is established by considering either the present value of future cash flows or the fair value of collateral less the cost to sell such collateral in comparison to the current loan balance. The remainder of the loan portfolio is segmented into groups with similar risk characteristics. Each segment is assigned a loss measurement based on historical loss ratios adjusted for current industry and economic conditions. The loss measurement is applied to the current loan balance of each group to establish the required level of allowance for loan losses. At March 31, 2002, the allowance for loan losses was $803,000 or 0.96% of loans receivable, net compared to $664,000 or 0.58% of loans receivable, net at March 31, 2001. The allowance for loan loss as a percentage of non-performing assets was 54.37% at March 31, 2002, compared to 98.54% at March 31, 2001. Management feels that the current level of allowance for loan losses is adequate to cover probable losses.

Investment securities. Investment securities decreased $7.9 million from $23.2 million at June 30, 2001 to $15.4 million at March 31, 2002 primarily due to the maturity or call of $15.9 million, the sale of $2.0 million, the decrease in market value of the portfolio of $44,000, and the amortization of premiums and discounts of $249,000, partially offset by the purchase of $10.3 million. The portfolio of available- for- sale securities is comprised primarily of investment securities carrying fixed interest rates. The aggregate fair value of these securities was less on March 31, 2002 than their carrying value.

Deposits. Deposits increased $7.1 million from $72.9 million at June 30, 2001 to $80.0 million at March 31, 2002. Transaction and savings deposits increased as a percentage of total deposits from $25.9 million or 35.5% at June 30, 2001 to $29.7 million or 37.2% at March 31, 2002. Certificates of deposit decreased as a percentage of total deposits from $47.0 million or 64.5% at June 30, 2001 to $50.2 million or 62.8% at March 31, 2002.

Total stockholders' equity. Total stockholders' equity increased $259,000 from $11.6 million at June 30, 2001 to $11.9 million at March 31, 2002. The increase is primarily due to net income of $833,000, proceeds from the exercise of stock options of $77,000, the allocation of ESOP shares of $73,000, and the amortization of deferred compensation of $22,000, partially offset by $353,000 for the repurchase of 18,489 shares of the Company's common stock, dividends paid to shareholders of $243,000, the increase in the maximum cash obligation on allocated ESOP shares of $122,000, and the increase in net unrealized loss in the available for sale securities of $28,000.

Results of Operations - Three Months Ended March 31, 2002 As Compared To The Three Months Ended March 31, 2001

Performance summary. Net income decreased $77,000 to $205,000 for the three months ended March 31, 2002 from $282,000 for the three months ended March 31, 2001. The decrease is primarily due to a decrease in net interest income of $68,000, an increase in provision for loan loss of $60,000, and an increase in non-interest expense of $2,000, partially offset by an increase in non-interest income of $1,000. For the three months ended March 31, 2002 the annualized return on average assets was 0.71% compared to 0.98% for the three months ended March 31, 2001, while the annualized return on average equity was 6.91% for the three months ended March 31, 2002 compared to 10.44% for the three months ended March 31, 2001.

Net interest income. Net interest income decreased $68,000 to $846,000 for the three months ended March 31, 2002 from $914,000 for the three months ended March 31, 2001. The decrease is primarily due to the decrease of $306,000 in interest income to $1.9 million for the three months ended March 31, 2002 from $2.2 million for the three months ended March 31, 2001 partially offset by a decrease in interest expense of $239,000 to $1.1 million for the three months ended March 31, 2002 from $1.3 million for the three months ended March 31, 2001. The decrease in interest income was primarily due to the acceleration of the amortization of premiums on federal agency bonds which were called.

For the three months ended March 31, 2002, the average yield on interest-earning assets was 6.95% compared to 7.97% for the three months ended March 31, 2001. The average cost of interest-bearing liabilities was 4.30% for the three months ended March 31, 2002 compared to 5.22% for the three months ended March 31, 2001. The average balance of interest earning assets decreased $1.4 million to

$109.2 million for the three months ended March 31, 2002 from $110.6 million for the three months ended March 31, 2001. During this same period, the average balance of interest-bearing liabilities decreased $1.0 million to $97.9 million for the three months ended March 31, 2002 from $98.9 million for the three months ended March 31, 2001.

Due to the decrease in the average rate of return on the interest earning assets partially offset by the decrease in the average cost of interest-bearing liabilities, the average interest rate spread was 2.65% for the three months ended March 31, 2002 compared to 2.76% for the three months ended March 31, 2001. The average net interest margin was 3.10% for the three months ended March 31, 2002 compared to 3.31% for the three months ended March 31, 2001.

Provision for loan loss. Provision for loan loss increased $60,000 to $98,000 for the three months ended March 31, 2002 from $38,000 for the three months ended March 31, 2001. The primary reason for the increase in the provision was an increase in loans past due and an increase in loans with more risk characteristics such as nonresidential real estate, commercial and agriculture loans. Despite this increase, the Company's loan portfolio remains primarily residential mortgage loans and the Company has experienced a minimal amount of charge-offs in the past three years.

Noninterest income. Noninterest income increased $1,000 to $176,000 for the three months ended March 31, 2002 from $175,000 for the three months ended March 31, 2001. The increase is primarily due an increase in service charges and fees of $19,000, and an increase in other fee income of $15,000 partially offset by a decrease in insurance commissions of $16,000, a decrease in security gains of $15,000, and a decrease in investment commissions of $2,000.

Service charges and fees increased primarily due to an increase in loan fees and charges resulting from mortgage loans refinancing into secondary market loan products, an increase in fee income related to a new check printing service, and an increase in overdraft fee income. Other noninterest income increased primarily due to gains on the sale of real estate owned. Insurance commissions decreased primarily due to a decrease in the level of credit life and disability sales on loan products. Security gains decreased primarily due to no bonds being sold during the three months ended March 31, 2002 and the gain realized from the sale of corporate bonds during the three months ended March 31, 2001. Investment commissions decreased primarily due to the decrease in sales.

Noninterest expense. Noninterest expense increased $2,000 to $621,000 for the three months ended March 31, 2002 from $619,000 for the three months ended March 31, 2001. The increase is primarily due to a $29,000 increase in compensation and benefits, a $9,000 increase in data procesing, a $2,000 increase in deposit insurance premium, and a $2,000 increase in occupancy and equipment, partially offset by a $23,000 decrease in the amortization of goodwill, and an $15,000 other noninterest expense.

Compensation and benefits increased primarily due to the increase in salaries and benefits due to regular salary adjustments. Data processing increased primarily due to an increase in the usage of services offered by Washington Federal's main data processing provider. Other noninterest expense decreased primarily due the costs associated with the disposition of real estate owned and

In accordance with the Financial Accounting Standards Board Statement No. 142, the Company re-evaluated the goodwill that resulted from the purchase of Rubio Savings Bank of Brighton in 1998. As a result of the re-evaluation, management had determined that the goodwill is not impaired. The goodwill will be tested for impairment on an annual basis at December 31.

Income tax expense. Income tax expense decreased $52,000 to $99,000 for the three months ended March 31, 2002 from $151,000 for the three months ended March 31, 2001. The decrease is primarily due the decrease in taxable income, the decrease in non-deductible expenses and the increase in non-taxable income.

Results of Operations - Nine Months Ended March 31, 2002 As Compared To The Nine Months Ended March 31, 2001

Performance summary. Net income increased $48,000 to $833,000 for the nine months ended March 31, 2002 from $785,000 for the nine months ended March 31, 2001. The increase is primarily due to an increase in net interest income of $126,000, an increase in noninterest income of $142,000, and a decrease in income tax expense of $97,000 partially offset by an increase in noninterest expense of $164,000, and an increase in provision for loan loss of $154,000. For the nine months ended March 31, 2002 the annualized return on average assets was 0.95% compared to 0.90% for the nine months ended March 31, 2001, while the annualized return on average equity was 9.48% for the nine months ended March 31, 2002 compared to 9.63% for the nine months ended March 31, 2001.

Net interest income. Net interest income increased $126,000 to $2.8 million for the nine months ended March 31, 2002 from $2.7 million for the nine months ended March 31, 2001. The increase is primarily due to the decrease of $540,000 in interest expense to $3.5 million for the nine months ended March 31, 2002 from $4.0 million for the nine months ended March 31, 2001, partially offset by a decrease in interest income of $413,000 to $6.3 million for the nine months ended March 31, 2002 from $6.7 million for the nine months ended March 31, 2001.

For the nine months ended March 31, 2002, the average yield on interest-earning assets was 7.57% compared to 8.09% for the nine months ended March 31, 2001. The average cost of interest-bearing liabilities was 4.67% for the nine months ended March 31, 2002 compared to 5.36% for the nine months ended March 31, 2001. The average balance of interest-earning assets increased $400,000 to $111.2 million for the nine months ended March 31, 2002 from $110.8 million for the nine months ended March 31, 2001. During this same period, the average balance of interest-bearing liabilities decreased $700,000 to $99.3 million for the nine months ended March 31, 2002 from $100.0 million for the nine months ended March 31, 2001.

Due to the decrease in the average cost of interest-bearing liabilities, partially offset by the decrease in the average rate of return on the interest-earning assets, the average interest rate spread was 2.89% for the nine months ended March 31, 2002 compared to 2.73% for the nine months ended March 31, 2001. The average net interest margin was 3.39% for the nine months ended March 31, 2002 compared to 3.25% for the nine months ended March 31, 2001.

Provision for loan loss. Provision for loan loss increased $154,000 to $255,000 for the nine months ended March 31, 2002 from $101,000 for the nine months ended March 31, 2001. The primary reason for the increase in the provision was due to an increase in loans past due and an increase in loans with more risk characteristics such as nonresidential real estate, commercial and agriculture loans. Despite this increase, the Company's loan portfolio remains primarily residential mortgage loans and the Company has experienced a minimal amount of charge-offs in the past three years.

Noninterest income. Noninterest income increased $142,000 to $615,000 for the nine months ended March 31, 2002 from $473,000 for the nine months ended March 31, 2001. The increase is primarily due an increase in security gains of $70,000, an increase in service charges and fees of $71,000, an increase in other noninterest income of $8,000, and an increase in investment commissions of $3,000, partially offset by a decrease in insurance commissions of $10,000.

Security gains increased primarily due to the gain realized from the sale of investment securities during the period of declining interest rates. Service charges and fees increased primarily due to an increase in loan fees and charges resulting from mortgage loans refinancing into secondary market loan products, an increase in overdraft fee income, and income from a new check and coupon book printing service. Other noninterest income increased primarily due to the farm subsidy payments received by the Company on agricultural real estate which was held for a short period and has since been sold. Investment commissions increased primarily due to the increase in sales. Insurance commissions decreased primarily due to a decrease in the level of credit life and disability sales on loan products.

Noninterest expense. Noninterest expense increased $164,000 to $1.9 million for the nine months ended March 31, 2002 from $1.8 million for the nine months ended March 31, 2001. The increase is primarily due to a $189,000 increase in compensation and benefits, a $47,000 increase in other noninterest expense, and a $20,000 increase in data processing, partially offset by a $71,000 decrease in the amortization of goodwill, and a $21,000 decrease in occupancy and equipment.

Compensation and benefits increased primarily due to the increase in salaries and benefits due to regular salary adjustments, an increase in full-time equivalent employees, and an increase in the cost of retirement benefits. Other noninterest expense increased primarily due to costs associated with the Company's advertising campaign, an increase in processing fees with correspondent bank due to a lower earnings credit because of the current interest rate environment, and the cost of supplies for the new check printing services. Data processing increased primarily due to an increase in the usage of services offered by Washington Federal's main data processing provider.

In accordance with the Financial Accounting Standards Board Statement No. 142, the Company re-evaluated the goodwill that resulted from the purchase of Rubio Savings Bank of Brighton in 1998. As a result of the re-evaluation, management had determined that the goodwill is not impaired. The goodwill will be tested for impairment on an annual basis at December 31. Occupancy and equipment decreased primarily due to a decrease in equipment maintenance expense.

Income tax expense. Income tax expense decreased $97,000 to $414,000 for the nine months ended March 31, 2002 from $511,000 for the nine months ended March 31, 2001. The decrease is primarily due to the decrease in non-deductible expenses and the increase in non-taxable income.

Liquidity and capital resources. The Banks' principal sources of funds are deposits, amortization and prepayment of loan principal, borrowings, and the sale and maturity of investment securities. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan repayments are more influenced by interest rates, general economic conditions, and competition. The Banks generally manage the pricing of the deposits to maintain a steady deposit balance, but has from time to time decided not to pay deposit rates that are as high as those of the competition, and when necessary, to supplement deposits with alternative sources of funds.

Liquidity management is both a daily and long-term responsibility of management. The Banks adjust their investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) expected deposit flows, (iii) yields available on interest-bearing deposits, and (iv) the objective of its asset/liability management program. Excess liquidity is invested generally in interest-bearing overnight deposits and other short-term government and agency obligations. If the Banks require funds beyond their ability to generate them internally, they have additional borrowing capacity with the FHLB of Des Moines and collateral eligible for reverse repurchase agreements.

The Banks anticipate that they will have sufficient funds available to meet current loan commitments. At March 31, 2002, Washington Federal had outstanding commitments to extend credit which amounted to $6.0 million and Rubio Savings Bank had outstanding commitments to extend credit which amounted to $692,000.

Part II - Other Information

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits (listed by numbers corresponding to the Exhibit Table of Item 601 on Regulation S-B)

11 Computation of Earnings Per Common Share

(b) Reports on Form 8-K

No reports on Form 8-K have been filed during the quarter for which this report was filed.

Signatures

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

Washington Bancorp

(Registrant)

Date May 13, 2002 /s/ Stan Carlson

Stan Carlson, President and Chief Executive Officer

Date May 13, 2002 /s/ Leisha A. Linge

Leisha A. Linge, Executive Vice President