WASHINGTON MUTUAL INC
Form 10-K/A
March 19, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

Commission File Number 1-14667

WASHINGTON MUTUAL, INC.

(Exact name of registrant as specified in its charter)

Washington (State or other jurisdiction of incorporation or organization)	**91-1653725** (I.R.S. Employer Identification Number)
1201 Third Avenue, Seattle, Washington (Address of principal executive offices)	**98101** (Zip Code)

Registrant's telephone number, including area code: **(206) 461-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Litigation Tracking Warrants	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 ý No o.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ý No o.

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2003:

Common Stock $37,362,586,793[1]

[1] Does not include any value attributable to 17,100,000 shares held in escrow.

The number of shares outstanding of the issuer's classes of common stock as of February 27, 2004:

Common Stock 868,397,759[2]

[2] Includes 6,000,000 shares held in escrow.

Documents Incorporated by Reference

Portions of the definitive proxy statement for the Annual Meeting of Shareholders to be held April 20, 2004, are incorporated by reference into Part III.

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Explanatory Note

Washington Mutual, Inc. ("Washington Mutual" or the "Company") is filing this Amendment No. 1 on Form 10-K/A to amend its Annual Report on Form 10-K for the year ended December 31, 2003 to correct the funds transfer pricing methodology applied to the 2001 financial results of the Company's operating segments. Such information had no effect on previously reported 2001 consolidated results of operations or any other period presented in this report.

This Amendment No. 1 on Form 10-K/A amends:

Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) solely to reflect the changes to segment information reported for 2001 in the tables and narrative discussion of Operating Segments on pages 40 through 44; and

Item 8 (Financial Statements and Supplementary Data) to reflect, in Notes 2 "Restatements of Financial Statements" and 25 "Operating Segments" to the Consolidated Financial Statements, the changes to segment information reported in the table for the year ended December 31, 2001 contained in Note 25, and to include the reissued report of the Company's independent auditors.

While this Amendment No. 1 also sets forth the complete text of each other item of the Company's Form 10-K for the year ended December 31, 2003, it does not change any information contained in these other items as originally filed on March 15, 2004. This Amendment No. 1 also does not reflect events that have occurred after the original filing of the Form 10-K.

PART I

BUSINESS

Overview

With a history dating back to 1889, Washington Mutual, Inc. (together with its subsidiaries, "Washington Mutual," or the "Company") is a financial services company committed to serving consumers and small- to mid-sized businesses. Based on our consolidated assets at December 31, 2003, we were the largest thrift holding company in the United States and the eighth largest among all U.S.-based bank and thrift holding companies.

Company Growth

Our assets have grown over the last eight years primarily through the following significant acquisitions:

Acquisition Name	Date Acquired	Loans	Deposits	Assets
			(in millions)	
Keystone Holdings, Inc.	Dec. 20, 1996	$ 14,563	$ 12,815	$ 21,894
Great Western Financial Corporation	July 1, 1997	32,448	27,785	43,770
H.F. Ahmanson & Company[(1)]	Oct. 1, 1998	33,939	33,975	50,355
Mortgage operations of The PNC Financial Services Group, Inc.[(2)]	Jan. 31, 2001	3,352		7,307
Bank United Corp.	Feb. 9, 2001	14,983	8,093	19,034
Fleet Mortgage Corp.[(2)]	June 1, 2001	4,378		7,813
Dime Bancorp, Inc.	Jan. 4, 2002	21,660	15,171	31,305

(1) Includes loans, deposits and assets acquired by Ahmanson from Coast Savings Financial, Inc.

(2) This was an acquisition of selected assets and/or liabilities.

Our mission is to become the nation's leading retailer of consumer financial services. Our strategy is to focus primarily on middle-market consumers in the largest metropolitan areas. Through advertising, branding and positioning we build customer awareness of our home lending products and encourage households to conduct business with Washington Mutual. In selected metropolitan markets, we then overlay our retail banking operations and cross-sell key products, including checking accounts, deposit accounts and home equity products. Store expansion was a priority in 2003 and will continue to be a priority in 2004. We plan to achieve our mission principally through organic growth of our retail banking franchise and by driving efficiencies in our operations.

Business Segments

In the fourth quarter of 2003 we realigned our business segments and we now manage and report information concerning the Company's activities, operations, products and services around our two customer categories: consumers and commercial customers. Our realigned business segments are the Consumer Group and the Commercial Group. The Consumer Group separately reports information for two distinct reporting segments: the Retail Banking and Financial Services segment and the Mortgage Banking segment.

We manage interest rate risk, liquidity, capital, funding and securities held for general asset and liability management purposes on an enterprise-wide basis through our Treasury Division.

Consumer Group

The Consumer Group offers products and services to consumers and manages activities and operations affecting consumers. The Group serves approximately 11.6 million households through multiple

distribution channels, including 1,776 retail banking stores, 432 retail home loan stores, 2,990 ATMs, 39 wholesale home loan centers, correspondent lenders, telephone call centers and online banking.

The Consumer Group's primary objectives in 2004 are to increase the number of the Group's products and services used by consumers, thus increasing profitability, and to drive efficiencies in its operations. The Group plans to achieve its objective by cross-selling products and services to its existing customers and by establishing and enlarging its customer base in selected markets.

Retail Banking and Financial Services

The principal activities of the Retail Banking and Financial Services segment include:

- Offering a comprehensive line of deposit and other retail banking products and services to consumers;
- Holding the Company's portfolio of home loans held for investment;
- Managing and servicing the home equity and consumer loan portfolios; and
- Providing investment advisory and brokerage services, sales of annuities, mutual fund management and other financial services.

The segment's expansion of its national retail banking franchise is an integral element of the Consumer Group's strategy for achieving its 2004 objective. In 2004, the segment plans to open approximately 250 new retail banking stores, primarily in the Tampa, Chicago and New York metropolitan areas. In 2003, the segment opened 260 stores primarily in the Chicago, Houston, Dallas and New York metropolitan areas. New retail banking stores are configured on an award-winning and innovative retail banking platform that serves customers in an open, free-flowing retail environment.

Deposit products offered by the segment include the Company's signature free checking and Platinum accounts as well as other personal checking accounts, savings accounts, money market deposit accounts and time deposit accounts. The segment also offers home equity loans and lines of credit and consumer loans. Home equity loans and lines of credit accounted for 16% of loans held in portfolio at the end of 2003, up from 11% at the end of 2002. Home equity loans and lines of credit generally provide higher margins than home loans. As such, the Company believes they represent an attractive opportunity to grow the loan portfolio.

The segment holds loans in portfolio that are originated by the Mortgage Banking segment. Through our specialty mortgage finance program, the segment also purchases and re-underwrites loans to higher risk borrowers; such loans, while held in portfolio, are serviced by third parties.

Investment advisory and securities brokerage services are provided by approximately 600 financial consultants of WM Financial Services, Inc., a licensed broker-dealer. In addition, fixed annuities are offered to the public by approximately 1,300 licensed banking employees. The Company's mutual fund management business, WM Advisors, Inc., offers investment advisory and mutual fund distribution services and had assets under management at December 31, 2003 of $17.87 billion.

Mortgage Banking

The principal activities of the Mortgage Banking segment include:

- Originating and servicing home loans;
- Buying and selling home loans in the secondary market; and
- Providing insurance-related products.

The Mortgage Banking segment's primary objectives in 2004 are to drive significant efficiencies by fully integrating the mortgage banking companies we acquired in 2001 and 2002 and to increase the number of the Company's products and services used by customers. The segment is transitioning to a single non-proprietary servicing platform for home loans in 2004 and is also consolidating its origination systems and loan fulfillment centers.

In 2003 Washington Mutual was a leading originator and servicer of mortgage loans and expanded its distribution channel with the opening of 93 new retail home loan centers.

Through its multiple lending channels, the segment offers a diverse set of home loan products including:

- Fixed-rate home loans;
- Adjustable-rate home loans (where the interest rate may be adjusted as frequently as every month);
- Hybrid home loans (where the interest rate is fixed for a predetermined time period, typically 3 or 5 years, and then reprices monthly or annually, depending on the product); and
- Government insured or guaranteed home loans.

Home loans are either originated or purchased and are either held in portfolio by the Retail Banking and Financial Services segment or sold by the Mortgage Banking segment to institutional investors in the secondary market or to the housing government-sponsored enterprises. In general, the Retail Banking and Financial Services segment holds in portfolio purchased loans made to higher-risk borrowers and adjustable-rate mortgages, and the Mortgage Banking segment sells fixed-rate home loans, generally to the Federal National Mortgage Association ("Fannie Mae"), a government-sponsored enterprise. As conditions warrant, the Mortgage Banking segment may securitize adjustable-rate loans into available-for-sale securities to be held by the Treasury Division as part of the Company's overall asset and liability management strategy. In the future, the segment may securitize and sell adjustable-rate loans in the secondary market as part of the Company's capital management process.

Mortgage servicing involves the administration and collection of home loan payments. The Mortgage Banking segment performs most home loan servicing activities, including the servicing of loans held in portfolio by the Retail Banking and Financial Services segment. When loans are sold into the secondary market, the Company generally retains the right to service those loans and hence retains the customer relationship. The Company intends to use these customer relationships to cross-sell additional products and services.

All loans, whether originated or purchased, are subject to the same nondiscriminatory underwriting standards. When originating home loans, the Company follows established lending policies and procedures that require consideration of an applicant's credit profile relative to the size and characteristics of the loan. When purchasing home loans, the Company normally delegates the underwriting responsibility to the correspondent lenders that originate the loans. The Company requires correspondent lenders to comply with its underwriting and appraisal standards and performs quality control procedures to ensure that compliance occurs.

The Mortgage Banking segment makes insurance products available to its customers that complement the mortgage lending process including private mortgage insurance, mortgage life insurance, flood, homeowners', earthquake and other property and casualty insurance. Other types of insurance products made available include accidental death and dismemberment, and term and whole life insurance. The Mortgage Banking segment also manages the Company's captive reinsurance activities.

See Note 25 to the Consolidated Financial Statements "Operating Segments" for financial information regarding the two operating segments of the Consumer Group and refer to Management's Discussion and Analysis "Operating Segments" for a description of the principal differences between the previous and newly aligned segment structures.

Commercial Group

The principal activities of the Commercial Group include:

Providing financing to developers, investors, mortgage bankers and homebuilders for the acquisition or construction of multi-family dwellings, other commercial properties and new homes;

Originating and servicing multi-family and other commercial real estate loans and either holding such loans in portfolio as part of its commercial asset management business or selling them in the secondary market;

Originating, selling and servicing home loans to higher-risk borrowers through the Company's subsidiary, Long Beach Mortgage Company; and

Offering a full array of commercial banking products and services.

The Group's primary objectives in 2004 are to improve productivity by consolidating operations and to increase market share in the highly fragmented multi-family, commercial real estate and commercial banking markets through organic growth. The Group expects to integrate approximately 80 commercial banking centers and small business centers with its existing multi-family and commercial real estate operations. Additional productivity improvements should result from centralizing servicing operations and automating and streamlining the underwriting and loan closing processes.

The multi-family lending business, which accounts for a majority of the Group's revenues, is comprised of three key activities: originating and managing loans retained in the loan portfolio, servicing loans and providing ancillary banking services to enhance customer retention. Combining these three activities into one integrated business model has allowed the Group to become a leading originator and holder of multi-family loans. The Group's multi-family lending program has a dominant market share of more than 20% in certain key cities along the west coast and is building market share on the east coast with recent office openings in Boston, Washington, D.C., and Miami.

As part of the Company's specialty mortgage finance program, the Group originates home loans to higher-risk borrowers through Long Beach Mortgage, which it then sells to secondary market participants, retaining the servicing relationship.

The Group also offers a full array of commercial banking products and services, including lines of credit, receivables and inventory financing, equipment loans, real estate financing, government-guaranteed loans, international trade financing, cash management and merchant bankcard services.

The Company completed the sale of Washington Mutual Finance Corporation, its consumer finance subsidiary, which was formerly part of the Commercial Group, on January 9, 2004. Washington Mutual Finance's operations are reported as discontinued operations elsewhere in this report on Form 10-K unless otherwise noted.

See Note 25 to the Consolidated Financial Statements "Operating Segments" for financial information regarding the Commercial Group and refer to Management's Discussion and Analysis "Operating Segments" for a description of the principal differences between the previous and newly aligned segment structures.

Available Information

We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act, available free of charge on or through our website located at www.wamu.com/ir as soon as reasonably practicable after filing with the United States Securities and Exchange Commission.

The Company's Code of Conduct, which applies to all officers, directors and employees of the Company, and the Code of Ethics for Senior Financial Officers, which applies to the Company's Chief

Executive Officer, Chief Financial Officer, Controller, and each business segment or business line chief financial officer and controller, as well as any waiver of our Code of Conduct and amendment to or waiver of the Code of Ethics for Senior Financial Officers, are disclosed on our website located at www.wamu.com/ir.

Employees

At December 31, 2003, we had 63,720 employees, compared with 55,200 at December 31, 2002 and 41,901 at December 31, 2001, which included 2,346, 2,330 and 2,717 employees related to the Company's discontinued operations. During 2003, our number of employees increased substantially to accommodate the high refinancing activity in the earlier part of the year and the opening of new retail banking stores. The increase in 2002 over the same period in 2001 was primarily due to the acquisitions of Dime and HomeSide Lending, Inc., which was acquired in two transactions in 2002. We believe that we have been successful in attracting quality employees and that our employee relations are good.

Factors That May Affect Future Results

Our Form 10-K and other documents that we file with the Securities and Exchange Commission have forward-looking statements. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could" or "may."

Forward-looking statements provide our expectations or predictions of future conditions, events or results. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. These statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. There are a number of factors, many of which are beyond our control, that could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements.

Some of these factors are described below.

General business and economic conditions may significantly affect our earnings.

Our business and earnings are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, money supply, fluctuations in both debt and equity capital markets, the strength of the U.S. economy, and of the local economies in which we conduct business. Changes in these conditions may adversely affect our business and earnings. For example, if short-term interest rates rise faster than mortgage rates, our net interest income, which is our largest component of net income, could be adversely affected. A prolonged economic downturn could increase the number of customers who become delinquent or default on their loans, or a rising interest rate environment could decrease the demand for loans. An increase in delinquencies or defaults could result in a higher level of charge-offs and provision for loan and lease losses, which could adversely affect our earnings.

In addition, our business and earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board's policies directly and indirectly influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Changes in those policies are beyond our control and difficult to predict.

If we are unable to effectively manage the volatility of our mortgage banking business, our earnings could be adversely affected.

Changes in interest rates significantly affect the mortgage banking business. One of the principal risks of declining interest rates on the mortgage banking business is the acceleration of prepayments which reduce the fair value of our mortgage servicing rights ("MSR"). One of the ways we mitigate this risk is by purchasing financial instruments, such as fixed-rate investment securities, interest rate contracts and forward commitments to purchase mortgage-backed securities, which tend to increase in value when long-term interest rates decline. The success of this strategy, however, is dependent on management's judgments regarding the amount, type and mix of MSR risk management instruments that we select to manage the changes in fair value of our mortgage servicing asset. If this strategy is not successful, our net income could be adversely affected. Moreover, many of our interest rate and MSR risk management strategies depend on liquidity in mortgage-related financial instruments traded in the secondary market. If periods of illiquidity develop in these markets, our ability to effectively implement our MSR risk management strategies could be adversely affected. Another significant risk to the mortgage banking business is the effect of interest rates on loan volume and gain from mortgage loans. In rising interest rate environments, loan volume is generally lower and, accordingly, the overall amount of gain from mortgage loans is lower. Due to the high levels of salable fixed-rate loan volume in 2002 and 2003 that resulted from historically low mortgage interest rates, our gain from mortgage loans in 2003 and 2002 was higher than it is likely to be when mortgage interest rates rise above their historical low points for a sustained period of time. For further discussion of how interest rate risk, basis risk and MSR prepayment risk are managed, see "Market Risk Management."

If we are unable to fully realize the operational and systems efficiencies sought to be achieved from our recently announced business segment realignment, our earnings could be adversely affected.

In the fourth quarter of 2003 we realigned our operating segment structure according to products and services that are grouped into two primary categories those offered to retail consumers and those offered to commercial customers in order to create a more highly integrated and unified retailing strategy and to streamline and simplify operations. To accomplish these goals we are eliminating redundancies throughout the organization, completing the integration of the mortgage banking companies we acquired in 2001 and 2002, transitioning to a single non-proprietary platform for the servicing of home loans, consolidating our mortgage origination systems and loan fulfillment centers and integrating call centers. We anticipate that these initiatives will result in operating efficiencies.

If we experience difficulties, such as a prolonged interruption of our service, as we realign our business segments and continue to integrate our systems and operations, including those of the acquired mortgage companies, we could experience higher than anticipated administrative costs and the loss of customers, among other things. These events could adversely affect our operations and financial condition.

The financial services industry is highly competitive.

We are subject to significant competition in attracting and retaining deposits and making loans as well as in providing other financial services in all of our market areas. We face pricing competition for loan and deposit products. In addition, customer convenience and service capabilities, such as product lines offered and the accessibility of services are significant competitive factors.

Our most direct competition for loans comes from commercial banks, other savings institutions, national mortgage companies and government-sponsored enterprises. Our most direct competition for deposits comes from commercial banks, other savings institutions, and credit unions doing business in our market areas. As with all banking organizations, we have also experienced competition from nonbanking sources, including mutual funds, corporate and government debt securities and other investment alternatives offered within and outside of our primary market areas.

Changes in the regulation of financial services companies and housing government-sponsored enterprises could adversely affect our business.

Proposals for further regulation of the financial services industry are continually being introduced in Congress. Proposals that are now receiving a great deal of attention include consumer protection initiatives relating to the Real Estate Settlement Procedures Act, predatory lending, credit reporting and privacy. The agencies regulating the financial services industry also periodically adopt changes to their regulations. It is possible that one or more legislative proposals may be adopted or regulatory changes may be made that would have an adverse effect on our business. For further discussion of the regulations of financial services, see "Regulation and Supervision."

The Federal National Mortgage Association ("FNMA" or "Fannie Mae"), the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac") and the Federal Home Loan Banks are housing government-sponsored enterprises ("GSEs") which play a powerful role in the mortgage industry. We have significant business relationships with these GSEs. Proposals are being considered in Congress and by various regulators which would affect the manner in which these GSEs conduct their business. These proposals include establishing a new independent agency to regulate GSEs, requiring GSEs to register their stock with the United States Securities and Exchange Commission, and reducing or limiting certain business benefits GSEs receive from the federal government. The enactment of any of these proposals could increase the costs incurred by, or otherwise adversely affect the business of, the GSEs, which in turn could have an adverse impact on our business. For discussion of the Federal Home Loan Bank System and the regulation of financial services, see "Regulation and Supervision."

Taxation

General

For federal income tax purposes, we report income and expenses using the accrual method of accounting on a calendar year basis. We are subject to federal income tax under existing provisions of the Internal Revenue Code of 1986, as amended, in generally the same manner as other corporations.

State Income Taxation

Many of the states in which we do business impose corporate income taxes on companies doing business in those states. The State of Washington does not currently have a corporate income tax, but has a business and occupation tax on gross receipts. Currently, the tax does not apply to interest received on loans secured by first mortgages or deeds of trust on residential properties.

Assistance Agreement

In connection with the acquisition of Keystone Holdings, Inc. in 1996, we succeeded to the rights and obligations of Keystone Holdings and certain of its affiliates under a number of continuing agreements with the predecessor to the Federal Deposit Insurance Corporation ("FDIC"), including an Assistance Agreement. The Assistance Agreement provides, in part, for the payment to the Federal Savings & Loan Insurance Corporation Resolution Fund over time of 75% of most of the federal tax savings and 19.5% of most of the California tax savings (in each case computed in accordance with specific provisions contained in the Assistance Agreement) attributable to the utilization of certain tax loss carryforwards. The provision for such payments is reflected in the Consolidated Financial Statements as "Income Taxes."

See Note 14 to the Consolidated Financial Statements "Income Taxes" for further discussion.

Environmental Regulation

Our business and properties are subject to federal and state laws and regulations governing environmental matters, including the regulation of hazardous substances and wastes. For example, under

the federal Comprehensive Environmental Response, Compensation, and Liability Act and similar state laws, owners and operators of contaminated properties may be liable for the costs of cleaning up hazardous substances without regard to whether such persons actually caused the contamination. Such laws may affect us both as an owner of properties used in or held for our business, and as a secured lender on property that is found to contain hazardous substances or wastes. Our general policy is to obtain an environmental assessment prior to foreclosing on commercial property. The existence of hazardous substances or wastes on such property may cause us to elect not to foreclose on the property, thereby limiting, and in some instances precluding, our realization on such loans.

Regulation and Supervision

The following discussion describes elements of the extensive regulatory framework applicable to savings and loan holding companies, federal savings associations and state savings banks and provides some specific information relevant to us. This regulatory framework is primarily intended for the protection of depositors, federal deposit insurance funds and the banking system as a whole rather than for the protection of shareholders and creditors.

To the extent that this section describes statutory and regulatory provisions, it is qualified in its entirety by reference to those provisions. Those statutes and regulations, as well as related policies, are subject to change by Congress, state legislatures and federal and state regulators. Changes in statutes, regulations or regulatory policies applicable to the Company, including interpretation or implementation thereof, could have a material effect on the Company's business.

General

Washington Mutual, Inc. is a Washington state corporation. It owns two federal savings associations and one Washington state-chartered savings bank, as well as numerous nonbank subsidiaries. Because our state bank has elected to be treated as a savings association for purposes of federal holding company law, Washington Mutual, Inc. is a savings and loan holding company. As a savings and loan holding company, Washington Mutual, Inc. is subject to regulation by the Office of Thrift Supervision (the "OTS").

Our federal savings associations are subject to extensive regulation and examination by the OTS, their primary federal regulator, as well as the FDIC. Our state bank is subject to regulation and supervision by the Director of Financial Institutions of the State of Washington (the "State Director") and by the FDIC. Our nonbank financial subsidiaries are also subject to various federal and state laws and regulations.

All of our banking subsidiaries are under the common control of Washington Mutual, Inc. and are insured by the FDIC. If an insured institution fails, claims for administrative expenses of the receiver and for deposits in U.S. branches (including claims of the FDIC as subrogee of the failed institution) have priority over the claims of general unsecured creditors. In addition, the FDIC has authority to require any of our banking subsidiaries to reimburse it for losses it incurs in connection either with the failure of another of our banking subsidiaries or with the

FDIC's provision of assistance to one of our banking subsidiaries that is in danger of failure.

Payment of Dividends

Washington Mutual, Inc. is a legal entity separate and distinct from its banking and other subsidiaries. Its principal sources of funds are cash dividends paid by those subsidiaries, investment income, and borrowings. Federal and state laws limit the amount of dividends or other capital distributions that a banking institution, such as our federal associations and our state bank, can pay. Each of our banking subsidiaries has a policy to remain well-capitalized and, accordingly, would not pay dividends to the extent payment of the dividend would result in it not being well-capitalized. In addition, our federal associations must file a notice with the OTS at least 30 days before they can pay dividends to their parent companies.

See Note 19 to the Consolidated Financial Statements "Regulatory Capital Requirements and Dividend Restrictions" for a more detailed description of the limits on the dividends our subsidiary banks can pay.

Capital Adequacy

Washington Mutual, Inc. is not currently subject to any regulatory capital requirements, but each of its subsidiary depository banking institutions is subject to various capital requirements. Our state bank is subject to FDIC capital requirements, while our federal associations are subject to OTS capital requirements. An institution's capital category depends upon where its capital levels are in relation to relevant capital measures, which include a risk-based capital measure, a leverage ratio capital measure, a tangible equity ratio measure, and certain other factors.

Federal law and regulations establish minimum capital standards, and under the OTS and FDIC regulations, an institution (that is not in the most highly-rated category) is required to have a leverage ratio of at least 4.00%, a Tier 1 risk-based ratio of 4.00% and a total risk-based ratio of 8.00%. In addition, our federal associations are required to have a tangible capital ratio of 1.50%. Federal law and regulations also establish five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution is treated as well-capitalized if its ratio of total capital to risk-weighted assets is 10.00% or more, its ratio of Tier 1 capital to risk-weighted assets is 6.00% or more, its leverage ratio is 5.00% or more, and it is not subject to any federal supervisory order or directive to meet a specific capital level. In order to be adequately capitalized, an institution must have a total risk-based capital ratio of not less than 8.00%, a Tier 1 risk-based capital ratio of not less than 4.00%, and (unless it is in the most highly-rated category) a leverage ratio of not less than 4.00%. Any institution that is neither well-capitalized nor adequately capitalized will be considered undercapitalized. Any institution with a tangible equity ratio of 2.00% or less will be considered critically undercapitalized.

As of December 31, 2003 each of our banking subsidiaries met all capital requirements to which it was subject and satisfied the requirements to be treated as well-capitalized. See Note 19 to the Consolidated Financial Statements "Regulatory Capital Requirements and Dividend Restrictions" for an analysis of our regulatory capital.

Holding Company Status and Acquisitions

Washington Mutual, Inc. is a multiple savings and loan holding company, as defined by federal law, because it owns more than one savings association. Washington Mutual, Inc. is regulated as a unitary savings and loan holding company, however, because the OTS deems our federal associations to have been acquired in supervisory transactions. Therefore, we are exempt from certain restrictions that would otherwise apply under federal law to the activities and investments of a multiple savings and loan holding company. These restrictions will apply to Washington Mutual, Inc. if any of our three banking institutions fails to meet a qualified thrift lender test established by federal law. As of December 31, 2003, the Company's three banking subsidiaries were in compliance with qualified thrift lender standards.

Washington Mutual, Inc. may not acquire control of another savings association unless the OTS approves. Washington Mutual, Inc. may not be acquired by a company, other than a bank holding company, unless the OTS approves, or by an individual unless the OTS does not object after receiving notice. Washington Mutual, Inc. may not be acquired by a bank holding company unless the Board of Governors of the Federal Reserve System (the "Federal Reserve") approves. In any case, the public must have an opportunity to comment on the proposed acquisition, and the OTS or Federal Reserve must complete an application review. Without prior approval from the OTS, Washington Mutual, Inc. may not acquire more than 5% of the voting stock of any savings institution that is not one of its subsidiaries.

The Gramm-Leach-Bliley Act generally restricts any non-financial entity from acquiring Washington Mutual, Inc. unless such non-financial entity was, or had submitted an application to become, a savings and loan holding company as of May 4, 1999. Since Washington Mutual, Inc. was treated as a unitary savings and loan holding company prior to that date, Washington Mutual, Inc. may engage in non-financial activities and acquire non-financial subsidiaries.

Federal Home Loan Bank System

The primary purpose of the Federal Home Loan Banks (the "FHLBs") is to provide funding to their members for making housing loans as well as for affordable housing and community development lending. The FHLBs are generally able to make advances to their member institutions at interest rates that are lower than could otherwise be obtained by such institutions. The FHLB System consists of twelve regional FHLBs; each is federally chartered but privately owned by its member institutions. The Federal Housing Finance Board ("Finance Board"), a government agency, is generally responsible for regulating the FHLB System.

One of our federal savings associations, Washington Mutual Bank, FA, currently is a member only of the San Francisco FHLB. Our state bank, Washington Mutual Bank, and our other federal association, Washington Mutual Bank fsb, are members of the Seattle FHLB.

Proposals have been made recently which would affect the operations and structure of the FHLB System. The Finance Board has proposed a regulation that would require each FHLB to register its stock with the United States Securities and Exchange Commission and provide more public disclosure. Congress is considering proposals which would establish a new regulator for the FHLB System, as well as for other housing government-sponsored entities. We cannot predict at this time which, if any, of these proposals may be adopted or what effect they would have on the business of the Company.

Deposit Insurance

The FDIC insures the deposits of each of our banking subsidiaries to the applicable maximum in each institution, and such insurance is backed by the full faith and credit of the United States government. The FDIC administers two separate deposit insurance funds, the Bank Insurance Fund (the "BIF") and the Savings Association Insurance Fund (the "SAIF"). The BIF is a deposit insurance fund for commercial banks and some federal and state-chartered savings banks. The SAIF is a deposit insurance fund for most savings associations. Our state bank is a member of the BIF, but a substantial portion of its deposits is insured through the SAIF. Our federal associations are members of the SAIF, but a small portion of Washington Mutual Bank, FA's deposits are insured through the BIF.

The FDIC has established a risk-based system for setting deposit insurance assessments. Under the risk-based assessment system, an institution's insurance assessments vary according to the level of capital the institution holds and the degree to which it is the subject of supervisory concern. During 2003, the assessment rate for both SAIF and BIF deposits ranged from zero to 0.27% of assessable deposits. Our banking subsidiaries qualified for the lowest rate on their deposits in 2003 and paid no deposit insurance assessments.

Affiliate Transaction Restrictions

Our three banking subsidiaries are subject to the same affiliate and insider transaction rules applicable to member banks of the Federal Reserve System as well as additional limitations imposed by the OTS. These provisions prohibit or limit a banking institution from extending credit to, or entering into certain transactions with, affiliates (such as Washington Mutual, Inc.), principal stockholders, directors and executive officers of the banking institution and its affiliates. Each of our banking subsidiaries currently is in material compliance with all of these limitations.

Federal Reserve, Consumer and Other Regulation

Numerous regulations promulgated by the Federal Reserve Board affect the business operations of our banking subsidiaries. These include regulations relating to equal credit opportunity, electronic fund transfers, collection of checks, truth in lending, truth in savings and availability of funds.

Under Federal Reserve Board regulations, each of our banking subsidiaries is required to maintain a reserve against its transaction accounts (primarily interest-bearing and noninterest-bearing checking accounts). Because reserves must generally be maintained in cash or in noninterest-bearing accounts, the effect of the reserve requirements is to increase an institution's cost of funds.

The Gramm-Leach-Bliley Act included provisions that give consumers new protections regarding the transfer and use of their nonpublic personal information by financial institutions. In addition, states are permitted under the Gramm-Leach-Bliley Act to have their own privacy laws, which may offer greater protection to consumers than the Gramm-Leach-Bliley Act. Numerous states in which the Company does business have enacted such laws.

The four federal banking agencies, including our regulators, have jointly issued expanded examination and supervision guidance relating to two areas affecting our activities subprime lending and, most recently, mortgage banking and mortgage servicing rights.

The USA PATRIOT Act, which was enacted following the events of September 11, 2001, included numerous provisions designed to fight international money laundering and to block terrorist access to the U.S. financial system. We have established policies and procedures to ensure compliance with the Act's provisions, and the impact of the Act on our operations has not been material.

Community Reinvestment Act

The Community Reinvestment Act ("CRA") requires that our banking subsidiaries ascertain and help meet the credit needs of the communities we serve, including low- to moderate-income neighborhoods, while maintaining safe and sound banking practices. We maintain a CRA file that is available for public viewing. The file includes copies of our most recent CRA Public Evaluations, descriptions of our products and services, delivery outlet information, and public comments.

In September 2001, we announced a new ten-year $375 billion community commitment, effective January 2002. This commitment replaced prior ones made by us and the companies we acquired. As of December 31, 2003, we had exceeded our yearly targets for lending in low- to moderate-income neighborhoods and underserved market areas.

Regulatory Enforcement

The OTS, FDIC and the State Director may take regulatory enforcement actions against any of their regulated institutions that do not operate in accordance with applicable regulations, policies and directives. Proceedings may be instituted against any banking institution, or any institution-affiliated party, such as a director, officer, employee, agent, or controlling person, who engages in unsafe and unsound practices, including violations of applicable laws and regulations. Each of the OTS, the FDIC and the State Director has authority under various circumstances to appoint a receiver or conservator for an insured institution that it regulates, to issue cease and desist orders, to obtain injunctions restraining or prohibiting unsafe or unsound practices, to revalue assets and to require the establishment of reserves. The FDIC has additional authority to terminate insurance of accounts, after notice and hearing, upon a finding that the insured institution is or has engaged in any unsafe or unsound practice that has not been corrected, is operating in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, or order of, or condition imposed by the FDIC.

Regulation of Nonbanking Affiliates

As broker-dealers registered with the Securities and Exchange Commission and as members of the National Association of Securities Dealers, Inc., our broker-dealer subsidiaries are subject to various regulations and restrictions imposed by those entities, as well as by various state authorities. As a registered investment advisor, WM Advisors is subject to various federal and state securities regulations and restrictions. Our specialty mortgage finance subsidiary is subject to various federal and state laws and regulations, including those relating to truth-in-lending, equal credit opportunity, fair credit reporting, real estate settlement procedures, debt collection practices and usury. Our insurance subsidiaries are subject to regulation by various state insurance regulators. Some of our subsidiaries are subject to various state licensing and examination requirements.

Executive Officers

The following table sets forth certain information regarding the executive officers of Washington Mutual:

Executive Officers	Age	Capacity in Which Served	Employee of Company Since
Kerry K. Killinger	54	Chairman of the Board of Directors, President and Chief Executive Officer	1983
Thomas W. Casey	41	Executive Vice President and Chief Financial Officer	2002
Craig J. Chapman	47	President, Commercial Group and Chief Administrative Officer	1998

Executive Officers	Age	Capacity in Which Served	Employee of Company Since
Fay L. Chapman	57	Senior Executive Vice President and General Counsel	1997
Daryl D. David	49	Executive Vice President, Human Resources	2000
Jeremy V. Gross	46	Executive Vice President and Chief Information Officer	2001
William A. Longbrake	61	Vice Chair	1996
Robert H. Miles	47	Senior Vice President and Controller	1999
Deanna W. Oppenheimer	45	President, Consumer Group	1985
Craig E. Tall	58	Vice Chair, Corporate Development	1985
James G. Vanasek	60	Executive Vice President and Chief Enterprise Risk Officer	1999

Mr. Killinger established the Executive Committee in 1990 to facilitate and coordinate decision making by and communication among the most senior executive officers of the Company who, as a committee, determine the Company's strategic direction. The President's Council, established by Mr. Killinger in December 2002 and comprised of the Chief Financial Officer, the Chief Administrative Officer and the Group Presidents, is focused on operational efficiency, operational decision-making and strategic execution, with particular emphasis on operations and execution across business segments. The executive officers serving on these committees at December 31, 2003 are indicated below.

Mr. Killinger is Chairman, President and Chief Executive Officer of Washington Mutual. He was named President and Director in 1988, Chief Executive Officer in 1990 and Chairman in 1991. Mr. Killinger joined Washington Mutual as an Executive Vice President of Washington Mutual Bank in 1983. He has been a member of the Executive Committee since its formation in 1990.

Mr. Casey is Executive Vice President and Chief Financial Officer of Washington Mutual. As a member of the Executive Committee and the President's Council, he oversees all aspects of Washington Mutual's corporate finance, strategic planning and investor relations functions. Prior to joining Washington Mutual, Mr. Casey was with GE Capital Corp. from 1992 through 2002 where he held advising,

controllership and analyst positions prior to becoming a vice president of GE and Senior Vice President and CFO of GE Financial Assurance in 1999.

Mr. Chapman is President of the Commercial Group and Chief Administrative Officer. He is responsible for overseeing multi-family lending, commercial real estate, homebuilder finance, mortgage banker finance, Long Beach Mortgage Company, and commercial banking. As Chief Administrative Officer, Mr. Chapman oversees operational excellence, acquisition integration, corporate property services and strategic sourcing. After joining Washington Mutual in 1998 as President and Chief Executive Officer of Washington Mutual Finance Corporation, he became a member of the Executive Committee in 2001 and a member of the President's Council in 2002. Previously, Mr. Chapman served as President of AMRESCO Residential Mortgage Corporation from 1996 to 1997.

Ms. Chapman is Washington Mutual's General Counsel and has been Senior Executive Vice President since 1999. She became Executive Vice President, General Counsel and a member of the Executive Committee in 1997. Prior to joining Washington Mutual, she was a partner at the Seattle law office of Foster Pepper & Shefelman PLLC from 1979 to 1997.

Mr. David joined Washington Mutual in 2000 as Executive Vice President, Human Resources. He is responsible for talent acquisition, organizational capabilities, leadership development and rewards and benefits. Mr. David became a member of the Executive Committee in 2001. He joined Washington Mutual from Amazon.com where he was Vice President of Strategic Growth and Human Resources from 1999 to 2000. Previously, he served as Executive Vice President and Chief Administrative Officer of Sanga International from 1998 to 1999.

Mr. Gross joined Washington Mutual in 2001 as Executive Vice President and Chief Information Officer and became a member of the Executive Committee at that time. He is responsible for directing the Company's corporate technology strategy. Mr. Gross joined Washington Mutual from Sydney, Australia-based Westpac Banking Corp. where he was Group Executive of Technology, Operations and eCommerce from 1999 to 2001. From 1992 to 1999, he was Managing Director and Chief Technology Officer at Countrywide Credit Industries.

Mr. Longbrake has been Vice Chair since 1999 and a member of the Executive Committee since 1996. He serves as the Company's primary executive liaison with regulators, legislators, industry trade organizations, and government-sponsored enterprises. Mr. Longbrake was an Executive Vice President from 1996 to 1999 and served as the Company's Chief Financial Officer from 1996 to 2002.

Mr. Miles has been Senior Vice President and Controller since January 2001. He serves as Washington Mutual's principal accounting officer. Mr. Miles joined the Company as Senior Vice President, Corporate Tax in June 1999. Prior to joining the Company, Mr. Miles was Director, Domestic Taxes of the former BankBoston, N.A. from 1996 to 1999.

Ms. Oppenheimer is President of the Consumer Group. She is responsible for two of the Company's reporting segments, Retail Banking and Financial Services, and Mortgage Banking. Additionally, Ms. Oppenheimer oversees corporate relations and the Company's Corporate Innovation and Research Center. Ms. Oppenheimer became Executive Vice President in 1993, has been a member of the Executive Committee since its formation in 1990, and became a member of the President's Council in 2002. She has been an officer of the Company since 1985.

Mr. Tall is Vice Chair of Corporate Development. He is responsible for overseeing the Company's corporate development, including acquisitions and divestitures. He is also Chairman of Washington Mutual's Strategic Capital Fund Investment Committee. Mr. Tall became an Executive Vice President in 1987 and Vice Chair in 1999. He has been a member of the Executive Committee since its formation in 1990.

Mr. Vanasek is Executive Vice President and Chief Enterprise Risk Officer. He is responsible for overseeing credit risk management for the Company, as well as compliance, market and operational risk, internal audit and business continuity. Mr. Vanasek became a member of the Executive Committee in 2001. Prior to joining Washington Mutual in 1999, he spent eight years at the former Norwest Bank, in a variety of lending risk management positions including Chief Credit Officer.

Properties

The Company's headquarters are located at 1201 Third Avenue, Seattle, Washington 98101. As of December 31, 2003, we conducted business in 47 states through approximately 2,913 physical distribution centers.

The Company, in a joint venture with the Seattle Art Museum, is constructing a new headquarters building in downtown Seattle. On completion of the building, the Company will own approximately 900,000 square feet and will lease from the Seattle Art Museum an additional 250,000 square feet for a period of up to 25 years. The lessor has the right to cancel the lease, in whole or in part, at any time after the tenth year of the lease. Occupancy and the term of the lease are expected to commence concurrently in 2006.

Additionally, significant facilities that we owned or leased were as follows:

Location	Leased/Owned	Approximate Square Footage	Termination or Renewal Date(1)
1201 3rd Ave., Seattle, WA	Leased	400,000	2006-2010
1111 3rd Ave., Seattle, WA	Leased	249,000	2004-2017
1191 2nd Ave., Seattle, WA	Leased	238,000	2015
999 3rd Ave., Seattle, WA	Leased	158,000	2004-2006
1301 5th Ave., Seattle, WA	Leased	130,000	2005-2008
1501 4th Ave., Seattle, WA	Leased	112,000	2005-2010
2500 & 2530 223rd St. SE, Bothell, WA	Leased	106,000	2005-2008
18525 36th Ave. S, SeaTac, WA	Owned	106,000	n/a
Chatsworth, CA(2)	Leased	454,000	2005-2015
Chatsworth, CA(2)	Owned	343,000	n/a
Irvine, CA(2)	Owned	421,000	n/a
Irvine, CA(2)	Leased	176,000	2004-2010
Northridge, CA(2)	Leased	348,000	2005-2006
Stockton, CA(2)	Owned	329,000	n/a
3883 Airway Drive, Santa Rosa, CA	Owned	106,000	n/a
Jacksonville, FL(2)	Leased	423,000	2004-2009
1501 Yamato Rd., Boca Raton, FL	Owned	167,000	n/a
7301 Baymeadows Way, Jacksonville, FL	Owned	145,000	n/a
2601 10th Ave. N., Lake Worth, FL	Owned	102,000	n/a
Vernon Hills, IL(2)	Leased	419,000	2004-2006
3050 Highland Pkwy, Downers Grove, IL	Leased	176,000	2013
Houston, TX(2)	Leased	352,000	2004-2008

Location	Leased/Owned	Approximate Square Footage	Termination or Renewal Date[1]
9601 McAllister Fwy, San Antonio, TX	Leased	159,000	2005
Florence, SC[2]	Leased	245,000	2005-2008
11200 W. Parkland Ave., Milwaukee, WI	Owned	230,000	n/a
231 E. Ave., Albion, NY	Leased	221,000	2009-2011
EAB Plaza, Uniondale, NY	Leased	109,000	2007

(1) The Company has options to renew leases at most locations.

(2) Multiple locations.

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Legal Proceedings

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to a number of pending and threatened legal actions and proceedings, including actions brought on behalf of various classes of claimants. In certain of these actions and proceedings, claims for substantial monetary damages are asserted against the Company and its subsidiaries. Certain of these actions and proceedings are based on alleged violations of consumer protection, banking and other laws.

See Note 15 to the Consolidated Financial Statements "Commitments, Guarantees and Contingencies" for a further discussion of pending and threatened litigation action and proceedings against the Company.

Submission of Matters to a Vote of Security Holders

No matters were submitted to shareholders during the fourth quarter of 2003.

PART II

Market for our Common Stock and Related Stockholder Matters

Our common stock trades on The New York Stock Exchange under the symbol WM. As of February 27, 2004, there were 868,397,759 shares issued and outstanding (including 6 million shares held in escrow) held by 51,293 shareholders of record. The information regarding high and low quarterly sales prices of the Company's common stock, and the quarterly cash dividends declared thereon, is set forth in this Form 10-K/A in the "Quarterly Results of Operations" table included under Supplementary Data on page 151 and is expressly incorporated herein by reference.

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

Restatements of Financial Statements

During the fourth quarter of 2003, the Company concluded that the inclusion of certain components (i.e. deferred acquisition costs and claims stabilization reserves) in the cash surrender value of its bank-owned life insurance policies was incorrect. The accounting policy the Company previously used resulted in the overstatement of the cash surrender value of the policies and, accordingly, other noninterest income. This restatement also decreased other assets, and correspondingly, retained earnings by $73 million, $38 million and $28 million as of December 31, 2002, 2001 and 2000. The restatement only affects periods commencing with the second quarter of 2000 when the policies were first acquired and had no tax effect. The Company has corrected its accounting for all affected prior reporting periods.

During the first quarter of 2004 and subsequent to the original filing of the Company's Annual Report on Form 10-K, the Company corrected the funds transfer pricing methodology applied to the financial results of the Company's operating segments for the year ending December 31, 2001. The correction revises certain operating segment information, including net interest income and net income, of its operating segment results reported for that year. The corrected information is included in the operating segment tables presented herein and in Note 25 to the Consolidated Financial Statements "Operating Segments." Such information had no effect on previously reported 2001 consolidated results of operations or any other period presented in this report.

Discontinued Operations

On November 24, 2003 the Company announced a definitive agreement to sell its subsidiary, Washington Mutual Finance Corporation, to CitiFinancial, a subsidiary of Citigroup, for approximately $1.25 billion in cash. This sale was completed on January 9, 2004. Accordingly, Washington Mutual Finance is presented in this report as a discontinued operation with the results of operations and cash flows segregated from the Company's results of continuing operations for all periods presented on the Consolidated Statements of Income, Cash Flows and Notes to the Consolidated Financial Statements as well as the tables presented herein, unless otherwise noted. Likewise, the assets and liabilities of Washington Mutual Finance have each been combined and presented as separate captions on the Consolidated Statements of Financial Condition.

Controls and Procedures

Disclosure Controls and Procedures

The Company's management, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934.

We review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and improve our controls and procedures over time and correct any deficiencies that we may discover. While we believe the present design of our disclosure controls and procedures is effective, future events affecting our business may cause us to modify our disclosure controls and procedures.

Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fourth quarter of 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Overview

Net income increased to $3.88 billion or $4.21 per diluted share in 2003, from $3.86 billion or $4.02 per diluted share in 2002, an increase of 5% on a per share basis. The increase in earnings per share was predominantly due to share repurchase activity that occurred during the year. During 2003, the Company repurchased a total of 65.9 million shares, as compared with 38.0 million shares repurchased in 2002. Largely in response to a favorable change in the federal income tax treatment of dividends and our financial performance, the Company's common stock dividend payout ratio increased from 25.92% in 2002 to 32.63% in 2003.

Net interest income declined to $7.63 billion in 2003, a decrease of $500 million from $8.13 billion in 2002. This decrease was attributable to a 30 basis point decline in the net interest margin year-over-year. We expect the margin to contract further in 2004 as yields on our debt securities and loans continue to reprice downward to current market levels.

Home loan mortgage banking income was $1.97 billion in 2003, an increase of $1.27 billion from $707 million in 2002. During the first part of 2003, the anemic recovery in the U.S. economy pressured home loan mortgage lending rates to historical lows. This, in turn, fueled an industry-wide mortgage refinance boom, and led to extremely high loan volume, an increase in gain from mortgage loans and high levels of noninterest-bearing custodial deposits (collected from loan payoff activity) during the first half of 2003. In the third quarter of 2003, the monthly average of the U.S. mortgage refinance index (seasonally adjusted) declined by 31%, which was caused by a sharp increase in mortgage interest rates. As a result, customer preferences began to shift from fixed-rate, salable production to adjustable-rate, portfolio activity, which resulted in a decline in gain from mortgage loans and lower levels of custodial balances. Market volatility and operational issues exacerbated the decrease in gain from mortgage loans during the third quarter of 2003. Refinancing activity diminished further in the fourth quarter of 2003 as mortgage interest rates remained above their historical low points and thus caused gain from mortgage loans to remain well below the levels recorded during the first half of the year. The volatility in mortgage interest rates in 2003 also caused significant fluctuations in the anticipated prepayment speeds of the Company's loans serviced for others portfolio and, as a result, led to significant changes in the amortization level and the fair value of the Company's MSR. The performance of the Company's MSR risk management instruments during the year, which consist of derivative financial instruments and available-for-sale securities, mitigated the financial effects of prepayment speed volatility.

Additional strides were made in retail banking market penetration as there was a net increase of over 800,000 retail checking accounts during the year, including over 180,000 during the fourth quarter, bringing the Company's total to more than 8 million accounts. The year produced depositor and other retail banking fees of $1.82 billion, an increase of $184 million from $1.63 billion in 2002. At year end, the average mature retail banking household maintained 5.59 products and services with the Company, an increase from 5.28 at year end 2002. A total of 260 new retail banking stores were opened in 2003, bringing the total number of retail banking stores nationwide to 1,776 at the end of the year. The build out of our national retail banking franchise will continue in 2004, as we expect to open approximately 250 new stores and deepen existing relationships by cross-selling additional products to customers.

Noninterest expense was $7.41 billion, an increase of $1.22 billion from $6.19 billion in 2002 due to higher personnel costs to accommodate the high refinancing activity in the earlier part of the year and the opening of new retail banking stores. With the refinancing boom over, the Company announced its cost containment initiative in the fourth quarter of 2003. The Company intends to reduce expenses in those areas of operations that are not integral to the Company's planned expansion of the retail banking

franchise. The savings realized from this cost containment initiative will be used to facilitate this expansion. The recent realignment of the Company's operations into two major categories retail consumers and commercial customers will support this initiative by eliminating redundant operations and processes. The Company expects that the impact of this initiative, which is not scheduled to be completed until the middle of 2005, coupled with the costs to be incurred in 2004 from the continuing expansion of the retail banking franchise, will result in an increase in noninterest expense of no more than 5% in 2004, as compared with 2003.

Credit quality of the Company's loan portfolio improved in 2003 as the Company benefited from the strengthening U.S. economy during the latter part of the year and continued to take advantage of market opportunities to reduce specific credit risk exposures. At December 31, 2003, nonperforming assets as a percentage of total assets were 0.70 percent versus 0.93 percent at December 31, 2002. Total nonperforming assets were down $546 million to $1.94 billion at December 31, 2003, as compared with $2.48 billion at December 31, 2002. The improved credit risk profile resulted in the recording of a $202 million reversal in the allowance for loan and lease losses in the fourth quarter of 2003 and a provision for loan and lease losses of $42 million for the year ended December 31, 2003.

In the fourth quarter of 2003, the Company entered into a definitive agreement to sell Washington Mutual Finance Corporation, a subsidiary of the Company, to CitiFinancial, a subsidiary of Citigroup, for approximately $1.25 billion. The sale was completed on January 9, 2004 and resulted in a pre-tax gain of approximately $660 million, to be recorded in the first quarter of 2004.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in our Consolidated Financial Statements and accompanying notes. We believe that the judgments, estimates and assumptions used in the preparation of our Consolidated Financial Statements are appropriate given the factual circumstances as of December 31, 2003.

Various elements of our accounting policies, by their nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. In particular, we have identified four accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, and the sensitivity of our Consolidated Financial Statements to those judgments, estimates and assumptions,

are critical to an understanding of our Consolidated Financial Statements. The table below represents information about the nature of and rationale for the Company's critical accounting estimates:

Critical Accounting Policy	Consolidated Statements of Financial Position Caption	Consolidated Statements of Income Caption	Nature of Estimates Required	Reference
Fair value of mortgage servicing rights	Mortgage servicing rights	Home loan mortgage banking income (expense): Mortgage servicing rights recovery (impairment)	Determining the fair value of our MSR requires us to anticipate changes in market conditions, including interest rates. Our loan servicing portfolio is subject to prepayment risk, which subjects our MSR to impairment risk. The fair value of our MSR is estimated using a discounted cash flow model. The discounted cash flow model estimates the present value of the future net cash flows of the servicing portfolio based on various assumptions, such as servicing costs, expected prepayment speeds and discount rates. This model is highly sensitive to changes in assumptions. Changes in anticipated prepayment speeds, in particular, result in substantial fluctuations in the estimated fair value of MSR. If actual prepayment experience differs from the anticipated rates used in the Company's model, this difference may result in a material change in MSR fair value. While the Company's model estimates a value, the specific value used is based on a variety of factors, such as documented observable data and anticipated changes in market conditions. All assumptions are based on standards used by market participants in valuing MSR. The reasonableness of these assumptions is confirmed through quarterly independent broker surveys. Independent appraisals of the fair value of our servicing portfolio are obtained periodically, but not less frequently than annually, and are used by management to evaluate the reasonableness of the fair value estimates.	Limitations to the measurement of MSR fair value and the key economic assumptions and the sensitivity of the current fair value for home loans' MSR to immediate changes in those assumptions are described in the subsequent section of Management's Discussion and Analysis "Earnings Performance" on page 31 and in Note 7 to the Consolidated Financial Statements "Mortgage Banking Activities."

Rate lock commitments	Other assets	Home loan mortgage banking income (expense): Gain from mortgage loans	The Company enters into commitments to originate or purchase loans whereby the interest rate on the loan is set prior to funding (rate lock commitments). The fair value of salable rate lock commitments includes the value of the anticipated retained servicing income, which is calculated using the same valuation methodologies used to value the Company's MSR, adjusted for an anticipated fallout factor for loan commitments not expected to be funded. This valuation policy has the effect of recognizing the gain from mortgage loans before the loans are sold. However, in a recently released Securities and Exchange Commission ("SEC") Staff Accounting Bulletin, the SEC ruled that the amount of the anticipated servicing income should not be included when determining the fair value of derivative interest rate lock commitments. In anticipation of this Bulletin, the Company prospectively changed its accounting policy for	See further discussion in the subsequent section of Management's Discussion and Analysis "Earnings Performance" on page 31.

			derivative rate lock commitments on January 1, 2004. Under the new policy, the expected servicing rights that had previously been recorded at the initiation of the rate lock are not recognized until the underlying loans are sold.	
Allowance for loan and lease losses	Allowance for loan and lease losses	Provision for loan and lease losses	The allowance for loan and lease losses represents management's estimate of credit losses inherent in the Company's loan and lease portfolios as of the balance sheet date. The estimation of the allowance is based on a variety of factors, including past loan loss experience, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral and general economic conditions. The Company's methodology for assessing the adequacy of the allowance includes the evaluation of three distinct components: the formula allowance, the specific allowance and the unallocated allowance. As the process for determining the adequacy of the allowance requires subjective and complex judgment by management about the effect of matters that are inherently uncertain, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan and lease losses.	The estimates and judgments are described in further detail in the subsequent section of Management's Discussion and Analysis "Asset Quality" on page 49 and in Note 1 to the Consolidated Financial Statements "Summary of Significant Accounting Policies."

Net periodic benefit cost	Other assets	Compensation and benefits	The net periodic benefit cost is actuarially determined using assumed discount rates, assumed rates of compensation increase and expected return on assets. These assumptions are ultimately determined by management. The discount rate is determined using Moody's Aa spot rate as of year end. The compensation rate is determined by reviewing the Company's salary increases each year along with reviewing industry averages. The expected long-term return on plan assets represents management's expectation of the average rate of earnings on the funds invested to provide for the benefits included in the projected benefit obligation.	The impact to compensation and benefits expense if certain assumptions are changed is discussed in the subsequent section of Management's Discussion and Analysis "Liquidity" on page 56.

Management has discussed the development and selection of these critical accounting policies with the Audit Committee of our Board of Directors. In addition, there are other complex accounting standards that require the Company to employ significant judgment in interpreting and applying certain of the principles prescribed by those standards. These judgments include, but are not limited to, the determination of whether a financial instrument or other contract meets the definition of a derivative in accordance with Statement of Financial Accounting Standards ("Statement") No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and the applicable hedge accounting criteria. These policies and the judgments, estimates and assumptions are described in greater detail in subsequent sections of Management's Discussion and Analysis and in Note 1 to the Consolidated Financial Statements "Summary of Significant Accounting Policies."

Recently Issued Accounting Standards

In December 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46R ("FIN 46R"), *Consolidation of Variable Interest Entities*, an interpretation of Accounting Research Bulletin No. 51. FIN 46R is a revision to the original FIN 46 that addresses the consolidation of certain variable interest entities (e.g., non-qualified special purpose entities). The revision clarifies how variable interest entities should be identified and evaluated for consolidation purposes. FIN 46R must be applied no later than March 31, 2004. The Company adopted FIN 46 as of July 1, 2003. The Company is still in the process of studying and evaluating the impact of FIN 46R. However, at this time the Company does not expect the impact of FIN 46R to have a significant effect on the results of operations or financial condition.

In December 2003, the Accounting Standards Executive Committee of the AICPA issued Statement of Position No. 03-3 ("SOP 03-3"), *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. SOP 03-3 addresses the accounting for differences between the contractual cash flows and the cash flows expected to be collected from purchased loans or debt securities if those differences are attributable, in part, to credit quality. SOP 03-3 requires purchased loans and debt securities to be recorded initially at fair value based on the present value of the cash flows expected to be collected with no carryover of any valuation allowance previously recognized by the seller. Interest income should be recognized based on the effective yield from the cash flows expected to be collected. To the extent that the purchased loans experience subsequent deterioration in credit quality, a valuation allowance would be established for any additional cash flows that are not expected to be received. However, if more cash flows subsequently are expected to be received than originally estimated, the effective yield would be adjusted on a prospective basis. SOP 03-3 will be effective for loans and debt securities acquired after December 31, 2004. Although the Company anticipates that the implementation of SOP 03-3 will require significant loan system and

operational changes to track credit related losses on loans purchased starting in 2005, it is not expected to have a significant effect on the Consolidated Financial Statements.

In March 2004, Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 105 was issued, which provides guidance regarding loan commitments that are accounted for as derivative instruments under FASB No. 133 (as amended), *Accounting for Derivative Instruments and Hedging Activities*. In this Bulletin, the SEC ruled that the amount of the expected servicing rights should not be included when determining the fair value of derivative interest rate lock commitments. This guidance must be applied to rate locks initiated after March 31, 2004. In anticipation of this Bulletin, the Company prospectively changed its accounting policy for derivative rate lock commitments on January 1, 2004. Under the new policy, the expected servicing rights that had previously been recorded at the initiation of the rate lock are not recognized until the underlying loans are sold. The impact that this new policy will have on the Company's results of operations in the first quarter of 2004 will be significantly influenced by that quarter's amount of salable rate lock volume and by the timing of when loan sales are executed. As rate lock volume is highly sensitive to changes in interest rates and the timing of loan sales may be affected by market conditions, the Company cannot provide a reliable estimate of the impact this change will have to its future results of operations.

Five-Year Summary of Selected Financial Data

	December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(in millions, except per share amounts)				
Income Statement Data (for the year ended)					
Net interest income	$ 7,629	$ 8,129	$ 6,492	$ 3,952	$ 4,127
Provision for loan and lease losses	42	404	426	77	67
Noninterest income	5,850	4,469	3,176	1,925	1,479
Noninterest expense	7,408	6,188	4,416	2,970	2,775
Net income	3,880	3,861	3,104	1,871	1,817
Basic earnings per common share[1]:					
Income from continuing operations	4.20	4.01	3.57	2.24	2.03
Income from discontinued operations, net	0.09	0.08	0.07	0.09	0.09
Net income	4.29	4.09	3.64	2.33	2.12

	December 31,				
Diluted earnings per common share[1]:					
Income from continuing operations	4.12	3.94	3.51	2.23	2.02
Income from discontinued operations, net	0.09	0.08	0.07	0.09	0.09
Net income	4.21	4.02	3.58	2.32	2.11
Dividends declared per common share[1]	1.40	1.06	0.90	0.76	0.65
Balance Sheet Data (at year end)					
Securities	$ 36,707	$ 43,905	$ 58,233	$ 58,547	$ 60,663
Loans held for sale	20,343	38,782	27,574	3,404	794
Loans held in portfolio	175,644	143,869	126,396	115,898	110,684
Mortgage servicing rights	6,354	5,341	6,241	1,017	643
Goodwill	6,196	6,213	2,116	919	1,007
Assets	275,178	268,225	242,468	194,688	186,514
Deposits	153,181	155,516	106,946	79,384	80,940
Securities sold under agreements to repurchase	28,333	16,717	39,447	29,756	30,163
Advances from Federal Home Loan Banks	48,330	51,265	61,072	57,698	56,978
Other borrowings	15,483	14,712	9,925	7,734	4,207
Stockholders' equity	19,742	20,061	14,025	10,138	9,053
Supplemental Data					
Loan volume:					
Home:					
Adjustable rate	$ 99,899	$ 84,627	$ 37,224	$ 37,286	$ 33,114
Fixed rate	263,604	180,745	108,105	6,631	10,678
Specialty mortgage finance[2]	20,678	14,077	10,333	7,549	5,008
Total home loan volume	384,181	279,449	155,662	51,466	48,800
Total loan volume	432,245	309,419	172,951	62,973	56,844
Home loan refinancing[3]	269,442	183,788	97,555	14,853	11,792
Total refinancing[3]	277,717	188,807	99,207	16,409	12,586

(1) Restated for all stock splits.

(2) Represents purchased subprime loans and mortgages originated by Long Beach Mortgage.

(3) Includes loan refinancing entered into by both new and pre-existing customers.

Ratios and Other Supplemental Data

	Year Ended December 31,		
	2003	2002	2001
	(dollars in millions, except per share amounts)		
Profitability			
Return on average assets[1]	1.37%	1.42%	1.38%
Return on average common stockholders' equity[1]	18.85	19.34	23.51

	Year Ended December 31,		
Net interest margin	3.11	3.41	3.19
Efficiency ratio[2][3]	54.96	49.12	44.29
Asset Quality			
Nonaccrual loans[4][5]	$ 1,626	$ 2,155	$ 1,920
Foreclosed assets[5]	311	328	216
Total nonperforming assets[5]	1,937	2,483	2,136
Nonperforming assets/total assets[5]	0.70%	0.93%	0.88%
Restructured loans[5]	$ 111	$ 98	$ 118
Total nonperforming assets and restructured loans[5]	2,048	2,581	2,254
Allowance for loan and lease losses[5]	1,250	1,503	1,278
Allowance as a percentage of total loans held in portfolio[5]	0.71%	1.04%	1.01%
Net charge-offs	$ 309	$ 248	$ 177
Capital Adequacy[5]			
Stockholders' equity/total assets	7.17%	7.48%	5.78%
Tangible common equity[6]/total tangible assets[6]	5.26	5.26	5.13
Estimated total risk-based capital/risk-weighted assets[7]	10.94	11.53	12.84
Per Common Share Data[8]			
Number of common shares outstanding at end of period (in thousands)	880,986	944,047	873,089
Common stock dividend payout ratio	32.63%	25.92%	24.73%
Book value per common share[5][9]	$ 22.56	$ 21.66	$ 16.40
Market prices:			
High	46.55	39.45	42.69
Low	32.98	28.41	28.56
Year end	40.12	34.53	32.70

(1) Includes income from continuing and discontinued operations.

(2) Based on continuing operations.

(3) The efficiency ratio is defined as noninterest expense, excluding amortization of goodwill (applicable only to 2001), divided by total revenue (net interest income and noninterest income).

(4) Excludes nonaccrual loans held for sale.

(5) As of year end.

(6) Excludes unrealized net gain/loss on available-for-sale securities and derivatives, goodwill and intangible assets, but includes MSR.

(7) Estimate of what the total risk-based capital ratio would be if Washington Mutual, Inc. was a bank holding company that is subject to Federal Reserve Board capital requirements.

(8) Restated for all stock splits.

(9) Excludes 6 million shares at December 31, 2003, and 18 million shares at December 31, 2002 and 2001, held in escrow.

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Earnings Performance from Continuing Operations

Net Interest Income

For 2003, net interest income was $7.63 billion, a decrease of $500 million, or 6%, compared with 2002. The decrease resulted from contraction of the net interest margin, which declined to 3.11% for the year ended December 31, 2003 from 3.41% for the same period in 2002, as yields on loans and debt securities continued to reprice downward from the higher interest rate environment of 2002. The decline in the net interest margin was partially offset by decreases in the rates paid on interest-bearing deposits. In particular, the average rate paid on interest-bearing checking (Platinum) accounts decreased to 1.83% from 2.94% on an average balance of $57.10 billion and $34.02 billion for 2003 and 2002. The free funding impact of noninterest-bearing sources that resulted from high average custodial balances also partially offset the contraction in the margin for 2003 when compared with 2002. These balances, which peaked shortly after the midpoint of 2003, declined sharply during the latter part of the year as refinancing activity diminished.

For 2002, net interest income increased $1.64 billion, or 25% compared with 2001. Most of this increase was attributable to the growth in average interest-earning assets, which increased primarily as a result of the Dime acquisition, and the expansion of the net interest margin, which increased 22 basis points during the year. The margin benefited from the full effect that the 475 basis point reduction in the Federal Funds rate in 2001 had on our wholesale borrowings, which reprice to market interest levels more quickly than our interest-earning assets. After peaking in the first quarter of 2002, the net interest margin declined throughout the remainder of that year, largely due to the downward repricing of loans and debt securities.

Interest rate contracts, including embedded derivatives, held for asset/liability interest rate risk management purposes decreased net interest income by $622 million in 2003. Interest rate contracts, including embedded derivatives, decreased net interest income by $424 million in 2002 and increased net interest income by $1 million in 2001.

Certain average balances, together with the total dollar amounts of interest income and expense and the weighted average interest rates, were as follows:

	Year Ended December 31,								
	2003			2002			2001		
	Average Balance	Rate	Interest Income	Average Balance	Rate	Interest Income	Average Balance	Rate	Interest Income
	(dollars in millions)								
Assets									
Interest-earning assets:									
Federal funds sold and securities purchased under resale agreements	$ 2,570	1.45%	$ 37	$ 2,352	1.70%	$ 40	$ 335	4.46%	$ 15
Available-for-sale securities[1]:									
Mortgage-backed securities	20,977	4.91	1,030	24,654	5.46	1,345	41,423	6.94	2,875
Investment securities	18,742	3.77	708	32,387	4.96	1,606	13,033	5.26	685
Loans held for sale[2]	44,832	5.54	2,483	30,954	6.19	1,917	18,010	6.68	1,203
Loans held in portfolio[2][3]:									
Loans secured by real estate:									
Home	86,443	4.77	4,124	86,039	5.90	5,077	81,686	7.23	5,908
Purchased specialty mortgage finance	10,794	5.43	586	9,028	6.27	566	6,936	7.63	529
Total home loans	97,237	4.84	4,710	95,067	5.94	5,643	88,622	7.26	6,437
Home equity loans and lines of credit	21,163	4.98	1,053	13,382	5.91	790	7,248	7.72	560
Home construction:									
Builder[4]	1,084	4.79	52	1,316	5.93	78	1,826	7.72	141
Custom[5]	978	7.13	70	906	8.19	74	905	8.96	81

	Year Ended December 31,								
Multi-family	19,409	5.30	1,029	17,973	6.01	1,081	16,480	7.72	1,273
Other real estate	7,243	6.35	460	8,368	6.83	572	5,913	7.98	472
Total loans secured by real estate	147,114	5.01	7,374	137,012	6.01	8,238	120,994	7.41	8,964
Consumer	1,208	8.87	107	2,340	9.41	220	1,804	11.17	201
Commercial business	4,771	4.31	205	4,223	5.14	217	3,973	7.15	284
Total loans held in portfolio	153,093	5.02	7,686	143,575	6.04	8,675	126,771	7.45	9,449
Other	5,109	4.27	219	4,513	6.04	272	4,052	6.03	244
Total interest-earning assets	245,323	4.96	12,163	238,435	5.81	13,855	203,624	7.11	14,471
Noninterest-earning assets:									
Mortgage servicing rights	5,721			6,650			5,276		
Goodwill	6,198			5,996			1,839		
Other[6]	25,877			20,339			14,802		
Total assets	$ 283,119			$ 271,420			$ 225,541		

(This table is continued on next page.)

(1) The average balance and yield are based on average amortized cost balances.

(2) Nonaccrual loans are included in the average loan amounts outstanding.

(3) Interest income for loans held in portfolio includes amortization of net deferred loan origination costs of $314 million, $246 million and $158 million for the years ended December 31, 2003, 2002 and 2001.

(4) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(5) Represents construction loans made directly to the intended occupant of a single-family residence.

(6) Includes assets of continuing and discontinued operations.

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	Year Ended December 31,								
	2003			2002			2001		
	Average Balance	Rate	Interest Expense	Average Balance	Rate	Interest Expense	Average Balance	Rate	Interest Expense
	(dollars in millions)								
Liabilities									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing checking	$ 62,723	1.69%	$ 1,057	$ 40,338	2.55%	$ 1,028	$ 7,540	1.58%	$ 119
Savings accounts and money market deposit accounts	28,196	0.93	263	31,529	1.48	466	35,828	3.17	1,134
Time deposit accounts	31,416	2.69	845	37,253	3.13	1,167	36,324	5.03	1,828

	Year Ended December 31,								
Total interest-bearing deposits	122,335	1.77	2,165	109,120	2.44	2,661	79,692	3.87	3,081
Federal funds purchased and commercial paper	3,158	1.18	37	2,976	1.90	57	4,428	4.01	177
Securities sold under agreements to repurchase	22,318	2.44	545	34,830	2.31	804	29,582	4.05	1,197
Advances from Federal Home Loan Banks	49,441	2.62	1,296	59,369	2.82	1,676	63,732	4.58	2,918
Other	13,315	3.68	491	12,172	4.34	528	10,705	5.66	606
Total interest-bearing liabilities	210,567	2.15	4,534	218,467	2.62	5,726	188,139	4.24	7,979
Noninterest-bearing sources:									
Noninterest-bearing deposits	41,250			25,396			16,613		
Other liabilities(7)	10,724			7,624			7,614		
Stockholders' equity	20,578			19,933			13,175		
Total liabilities and stockholders' equity	$ 283,119			$ 271,420			$ 225,541		
Net interest spread and net interest income		2.81	$ 7,629		3.19	$ 8,129		2.87	$ 6,492
Impact of noninterest-bearing sources		0.30			0.22			0.32	
Net interest margin		3.11			3.41			3.19	

(7) Includes liabilities of continuing and discontinued operations.

The dollar amounts of interest income and interest expense fluctuate depending upon changes in interest rates and upon changes in the volume of our interest-earning assets and interest-bearing liabilities. Changes attributable to (i) changes in volume (changes in average outstanding balances multiplied by the prior period's rate), (ii) changes in rate (changes in average interest rate multiplied by the prior period's volume), and (iii) changes in rate/volume (changes in rate times the change in volume) which were allocated proportionately to the changes in volume and the changes in rate and included in the relevant column below were as follows:

	2003 vs. 2002			2002 vs. 2001		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Volume	Rate	Total Change	Volume	Rate	Total Change
	(in millions)					
Interest Income						
Federal funds sold and securities purchased under resale agreements	$ 3	$ (6)	$ (3)	$ 39	$ (14)	$ 25
Available-for-sale securities:						
Mortgage-backed securities	(189)	(126)	(315)	(1,001)	(529)	(1,530)
Investment securities	(573)	(325)	(898)	962	(41)	921
Loans held for sale	786	(220)	566	807	(93)	714
Loans held in portfolio:						

	2003 vs. 2002			2002 vs. 2001		
Loans secured by real estate:						
Home	24	(977)	(953)	302	(1,133)	(831)
Purchased specialty mortgage finance	102	(82)	20	142	(105)	37
Total home loans	126	(1,059)	(933)	444	(1,238)	(794)
Home equity loans and lines of credit	403	(140)	263	386	(156)	230
Home construction:						
Builder[1]	(13)	(13)	(26)	(34)	(29)	(63)
Custom[2]	6	(10)	(4)		(7)	(7)
Multi-family	82	(134)	(52)	108	(300)	(192)
Other real estate	(74)	(38)	(112)	175	(75)	100
Total loans secured by real estate	530	(1,394)	(864)	1,079	(1,805)	(726)
Consumer	(101)	(12)	(113)	54	(35)	19
Commercial business	26	(38)	(12)	17	(84)	(67)
Total loans held in portfolio	455	(1,444)	(989)	1,150	(1,924)	(774)
Other	33	(86)	(53)	28		28
Total interest income	515	(2,207)	(1,692)	1,985	(2,601)	(616)
Interest Expense						
Deposits:						
Interest-bearing checking	450	(421)	29	797	112	909
Savings accounts and money market deposit accounts	(45)	(158)	(203)	(123)	(545)	(668)
Time deposit accounts	(169)	(153)	(322)	46	(707)	(661)
Total deposit expense	236	(732)	(496)	720	(1,140)	(420)
Borrowings:						
Federal funds purchased and commercial paper	3	(23)	(20)	(46)	(74)	(120)
Securities sold under agreements to repurchase	(304)	45	(259)	186	(579)	(393)
Advances from Federal Home Loan Banks	(266)	(114)	(380)	(189)	(1,053)	(1,242)
Other	47	(84)	(37)	76	(154)	(78)
Total borrowing expense	(520)	(176)	(696)	27	(1,860)	(1,833)
Total interest expense	(284)	(908)	(1,192)	747	(3,000)	(2,253)
Net interest income	$ 799	$ (1,299)	$ (500)	$ 1,238	$ 399	$ 1,637

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

Noninterest Income

Noninterest income from continuing operations consisted of the following:

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001
		(in millions)			
Home loan mortgage banking income (expense):					
Loan servicing income (expense):					
Loan servicing fees	$ 2,273	$ 2,237	$ 1,375	2%	63%
Amortization of mortgage servicing rights	(3,269)	(2,616)	(1,054)	25	148
Mortgage servicing rights recovery (impairment)	712	(3,219)	(1,701)		89
Other, net	(592)	(271)	(141)	118	92
Net home loan servicing expense	(876)	(3,869)	(1,521)	(77)	154
Revaluation gain from derivatives	338	2,517		(87)	
Net settlement income from certain interest-rate swaps	543	382		42	
Gain from mortgage loans	1,250	1,375	936	(9)	47
Loan related income	399	268	156	49	72
Gain from sale of originated mortgage-backed securities	320	34	117	841	(71)
Total home loan mortgage banking income (expense)	1,974	707	(312)	179	
Depositor and other retail banking fees	1,818	1,634	1,290	11	27
Securities fees and commissions	395	362	303	9	19
Insurance income	188	155	71	21	118
Portfolio loan related income	439	349	193	26	81
Gain from other available-for-sale securities	676	768	600	(12)	28
Gain (loss) on extinguishment of securities sold under agreements to repurchase	(129)	282	621		(55)
Other income	489	212	410	131	(48)
Total noninterest income from continuing operations	$ 5,850	$ 4,469	$ 3,176	31	41

Home Loan Mortgage Banking Income (Expense)

In 2003, loan servicing fees increased slightly due to the acquisition of HomeSide Lending, Inc. ("HomeSide") in the fourth quarter of 2002, which added approximately $130 billion to the Company's portfolio of loans serviced for others. This increase was substantially offset by a decline in the aggregate weighted average servicing fee. The weighted average servicing fee decreased from 40 basis points at December 31, 2002 to 34 basis points at December 31, 2003 primarily due to the Company's continuing process of selling a portion of the future contractual servicing cash flows to third parties. This process decreased the net MSR balance by $628 million but had no impact on the unpaid principal balance of the loans serviced for others portfolio. Additionally, the Company has entered into loan sales and securitizations with certain government-sponsored and private enterprises in which it has retained a smaller servicing fee than is common in the industry. The smaller servicing fee leads to a lower value for the resulting MSR and greater cash income when the loans or securities are sold.

During the first half of 2003, we recorded an other than temporary MSR impairment of $1.11 billion. The amount of the other than temporary impairment was determined by selecting an appropriate interest rate shock to estimate the amount of MSR fair value that we might expect to recover in the foreseeable future. To the extent that the gross carrying value of the MSR exceeded the estimated recoverable amount, that portion of the gross carrying value was written off as an other than temporary impairment. Although the writedowns had no impact on our results of operations or financial condition, they did reduce the gross carrying value of the MSR, which is used as the basis for MSR amortization. The results of similar analyses performed during the third and fourth quarters of 2003 concluded that no further recording of an other than temporary impairment was necessary.

The Company recognized a recovery of $712 million during 2003 in its MSR impairment valuation allowance. This recovery was primarily due to an increase in mortgage rates during the second half of 2003, which decreased the expected prepayment rate on the Company's servicing portfolio. Although this decrease in expected prepayment rates and the recording of an other than temporary impairment also had the effect of lowering the amortization rate on the servicing portfolio, total amortization expense in 2003 was higher than 2002 due to the very high levels of prepayment activity that occurred during the first half of 2003, and the acquisition of HomeSide in the fourth quarter of 2002, which added approximately $1 billion to the amortization base of the MSR. A continued decrease in long-term mortgage rates in 2002 and 2001 led to higher expected prepayment rates, which resulted in MSR impairment of $3,219 million and $1,701 million for 2002 and 2001. Continued high volumes of prepayment activity during 2002, coupled with the growth in the MSR portfolio, resulted in higher amortization, as compared with 2001.

The increase in other home loan servicing expense in 2003 and 2002 resulted from higher loan pool expenses due to significant refinancing activity. Loan pool expenses represent the amount of interest expense that the Company incurs for the elapsed time between the borrower payoff date and the next monthly investor pool cutoff date.

In measuring the fair value of MSR, we stratify the loans in our servicing portfolio based on loan type and coupon rate. We measure MSR impairment by estimating the fair value of each stratum. A valuation allowance for a stratum is recorded when, and in the amount by which, its fair value is less than its gross carrying value. A recovery of the valuation allowance for a stratum is recorded when its fair value exceeds its net carrying value. However, a recovery in any particular stratum cannot exceed its valuation allowance. At December 31, 2003, we stratified the loans in our servicing portfolio as follows:

		December 31, 2003			
	Rate Band	Gross Carrying Value	Valuation Allowance	Net Carrying Value	Fair Value
		(in millions)			
Primary Servicing:					
Adjustable	All loans	$ 1,606	$ 566	$ 1,040	$ 1,040
Government-sponsored enterprise	6.00% and below	2,462	211	2,251	2,251
Government-sponsored enterprise	6.01% to 7.49%	1,785	755	1,030	1,030
Government-sponsored enterprise	7.50% and above	301	127	174	174
Government	6.00% and below	420	20	400	400
Government	6.01% to 7.49%	705	291	414	414
Government	7.50% and above	346	120	226	226
Private	6.00% and below	504	114	390	390
Private	6.01% to 7.49%	312	142	170	170
Private	7.50% and above	131	39	92	92
Total primary servicing		8,572	2,385	6,187	6,187
Master servicing	All loans	116	50	66	66
Specialty home loans	All loans	75		75	105
Multi-family	All loans	26		26	28
Total		$ 8,789	$ 2,435	$ 6,354	$ 6,386

The value of our MSR asset is subject to prepayment risk. Future expected net cash flows from servicing a loan in our servicing portfolio will not be realized if the loan pays off earlier than anticipated. Moreover, since most loans within our servicing portfolio do not contain penalty provisions for early payoff, we will not receive a corresponding economic benefit if the loan pays off earlier than expected. MSR represent the discounted present value of the future net cash flows we expect to receive from our servicing portfolio. Accordingly, prepayment risk subjects our MSR to impairment risk.

We estimate fair value of each MSR stratum using a discounted cash flow model. The discounted cash flow model estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, expected prepayment speeds and discount rates, about which management must make assumptions based on future expectations. While the Company's model estimates a value, the specific value used is based on a variety of factors, such as documented observable data and anticipated changes in market conditions. All the assumptions are based on standards used by market participants in valuing MSR. The reasonableness of management's assumptions about these factors is confirmed through quarterly independent broker surveys. Independent appraisals of the fair value of our servicing portfolio are obtained periodically, but not less frequently than annually, and are used by management to evaluate the reasonableness of the fair value conclusions.

Our methodology for estimating the fair value of MSR is highly sensitive to changes in assumptions. For example, our determination of fair value uses anticipated prepayment speeds. Actual prepayment experience may differ and any difference may have a material effect on the MSR fair value. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Thus, any measurement of MSR fair value is limited by the conditions existing and assumptions made as of a particular point in time. Those assumptions may not be appropriate if they are applied to a different point in time. Refer to "Market Risk Management" for discussion of how MSR prepayment risk is managed and to Note 1 to the Consolidated Financial Statements "Summary of Significant Accounting Policies" for further discussion of how MSR impairment is measured. For a quantitative analysis of key economic assumptions used in measuring the fair value of MSR, and a sensitivity analysis based on changes to those assumptions, see Note 7 to the Consolidated Financial Statements "Mortgage Banking Activities."

As part of its mortgage banking activities, the Company enters into commitments to originate or purchase loans whereby the interest rate on the loan is set prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Therefore, they are recorded at fair value on the Consolidated Statements of Financial Condition with changes in fair value recorded in gain from mortgage loans on the Consolidated Statements of Income. In measuring the fair value of rate lock commitments, the amount of the expected servicing rights is included in the valuation. This value is calculated using the same methodologies as are used to value the Company's MSR, adjusted for an anticipated fallout factor for loan commitments that are not expected to be funded. When funding occurs, the value of the rate lock commitment becomes part of the cost basis of the loan. The aggregate fair value of these assets on the Consolidated Statements of Financial Condition at December 31, 2003 and 2002 was $247 million and $961 million.

A new SEC Staff Accounting Bulletin regarding the accounting for interest rate lock commitments will delay the Company's recognition of the value of the expected servicing rights until the loans are sold. The Company adopted and prospectively applied this new accounting guidance to all commitments for loans originated for sale that were initiated after December 31, 2003. Refer to "Recently Issued Accounting Standards" for further discussion of this Staff Accounting Bulletin.

High levels of loan refinancing activity during the first half of 2003, which occurred due to historically low long-term mortgage rates that were in effect during that period, resulted in rate lock commitment volume of $290.77 billion for the year, compared with $236.05 billion in 2002. Although this increase also resulted in strong levels of salable home loan volume, gain from mortgage loans in 2003 decreased by

$125 million, or 9%, from 2002. The decrease was largely the result of losses sustained during the third quarter of 2003. These losses stemmed from various market volatility and operational issues, including unhedged rate lock extensions granted to customers, a diminished level of market liquidity for certain instruments used to manage interest rate risk on rate locks and loans held for sale, and system issues that caused data interruptions during the period. The Company undertook numerous actions to correct these issues and to mitigate their financial effects, including the sale of originated mortgage-backed securities, which resulted in a gain of $258 million in the third quarter of 2003, and the sale of other available-for-sale securities, which produced a gain of $381 million during that period.

In accordance with regulatory guidance issued in December of 2003, the Company's buyouts of delinquent mortgages contained within Government National Mortgage Association ("GNMA") loan pools that it services must now be classified as loans on the Consolidated Statements of Financial Condition. As the Company sells most of these repurchased loans to secondary market participants, they are classified as loans held for sale on the Consolidated Statements of Financial Condition. Accordingly, gains that are generated from the subsequent resale of these delinquent mortgages, which had been recorded as part of other home loan mortgage banking income on the Consolidated Statements of Income in prior periods, are now classified as gain from mortgage loans. Prior periods have been restated. In one part of the Company's program, loans that have been 30 days past due for three consecutive months (referred to as "rolling 30 loans") are repurchased from GNMA and then resold in the secondary market. In the other, loans that have missed three consecutive payments are likewise purchased and resold. These loans are collectively referred to as Early Buy-Out Loans. Gain from the sale of these loans was $369 million and $126 million in 2003 and 2002. The Company does not have the option of repurchasing "rolling 30 loans" from pools created after January 1, 2003, but continues to make such purchases from previously created pools. Over time, we expect gains from the repurchase of "rolling 30 loans" to diminish as the pools that are eligible for repurchase are depleted.

The following tables separately present the MSR, loans held for sale and the other risk management activities included within noninterest income in 2003 and 2002.

	Year Ended December 31, 2003			
	MSR Risk Management	Loans Held for Sale Risk Management	Other Risk Management	Total
	(in millions)			
Revaluation gain (loss) from derivatives	$ 526	$ (188)	$	$ 338
Net settlement income from certain interest-rate swaps	514	29		543
Gain from other available-for-sale securities	305		371	676
Loss on extinguishment of securities sold under agreements to repurchase			(129)	(129)
Total	$ 1,345	$ (159)	$ 242	$ 1,428

	Year Ended December 31, 2002			
	MSR Risk Management	Loans Held for Sale Risk Management	Other Risk Management	Total
	(in millions)			
Revaluation gain (loss) from derivatives	$ 2,645	$ (128)	$	$ 2,517
Net settlement income from certain interest-rate swaps	382			382
Gain (loss) from other available-for-sale securities	795		(27)	768
Gain on extinguishment of securities sold under agreements to repurchase	257		25	282
Total	$ 4,079	$ (128)	$ (2)	$ 3,949

Revaluation gain (loss) from derivatives is the earnings impact of the changes in fair value from certain derivatives where the Company either has not attempted to achieve, or has attempted but did not achieve, hedge accounting treatment under Statement No. 133. Derivatives that were used for MSR risk management purposes produced a revaluation gain of $526 million for the year ended December 31, 2003, compared with a gain of $2,645 million for 2002. The total notional amount of these MSR risk management derivatives at December 31, 2003 and December 31, 2002 was $65.42 billion and $41.97 billion with a combined net fair value of $669 million and $3.03 billion.

The fair value changes in loans held for sale and the offsetting changes in the derivative instruments used as fair value hedges are recorded within gain from mortgage loans when hedge accounting treatment is achieved. Loans held for sale where hedge accounting treatment is not achieved ("nonqualifying" loans held for sale) are not recorded at fair value and are instead recorded at the lower of aggregate cost or market value. Due to net decreases in the fair value of derivatives acquired to mitigate the risk of fair value changes to these nonqualifying loans, net losses of $188 million and $128 million were recognized as revaluation losses from derivatives in 2003 and 2002. A gain may be recognized when the loans are subsequently sold if the fair value of those loans is higher than the carrying amount. As of December 31, 2003, both the fair value and carrying amount of loans held for sale were $20.34 billion, and as of December 31, 2002, the fair value was $38.84 billion with a carrying amount of $38.78 billion.

Net settlement income from certain interest-rate swaps consisted of receive-fixed swaps, which were used predominantly as MSR risk management derivatives. At December 31, 2003, the total notional amount of these receive-fixed swaps was $32.54 billion, compared with $17.92 billion at December 31, 2002.

Gain from other available-for-sale securities of $305 million and $795 million for the years ended December 31, 2003 and December 31, 2002 resulted from sales of mortgage-backed securities and investment securities of approximately $6.57 billion in 2003 and $17.83 billion in 2002, all of which were designated as MSR risk management instruments.

Loan related income increased during 2003 and 2002 primarily due to increased fees charged to our correspondent lenders and higher levels of late charges on the loans serviced for others portfolio.

All Other Noninterest Income Analysis

The increase in depositor and other retail banking fees in 2003 and 2002 was primarily due to higher levels of checking fees that resulted from an increase in the number of noninterest-bearing checking accounts and an increase in debit card and ATM related income. The number of noninterest-bearing checking accounts at December 31, 2003 totaled approximately 6.5 million, compared with approximately 5.8 million at December 31, 2002 and 4.9 million at December 31, 2001.

Insurance income increased during 2003 and 2002 largely due to the continued growth in our captive reinsurance programs.

The growth in portfolio loan related income in 2003 and 2002 was mostly due to increased late charges on the loan portfolio and high levels of loan prepayment fees as a result of refinancing activity.

Several securities sold under agreements to repurchase ("repurchase agreements") that contained embedded pay-fixed swaps were restructured during 2003, resulting in a loss on extinguishment of repurchase agreements of $129 million for the year. The restructured repurchase agreements also contain embedded pay-fixed swaps with the same terms, but with a lower pay rate. Gain on extinguishment of repurchase agreements decreased in 2002 compared with 2001 largely due to lower gains recognized on terminations of certain repurchase agreements with embedded interest rate floors. The gains in 2001 were recognized to partially offset MSR impairment incurred during that year. Beginning in 2002, the Company altered its MSR risk management strategy by decreasing its reliance on embedded interest rate contracts and, instead, shifted to a blend of available-for-sale securities and derivative financial instruments.

Other noninterest income increased in 2003 compared with 2002 partially due to fees paid to the Company by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). The Company received $100 million in nonrefundable fees to induce the Company to swap approximately $6 billion of multi-family loans for 100% of the beneficial interest in those loans in the form of mortgage-backed securities issued by Freddie Mac. Since the Company has the unilateral right to collapse the securities after one year, the Company has effectively retained control over the loans. Accordingly, the assets continue to be accounted for and reported as loans. This transaction was undertaken by Freddie Mac in order to facilitate fulfilling its 2003 affordable housing goals as set by the Department of Housing and Urban Development. In addition, the Company completed the sale of the Ahmanson Ranch property to the Mountains Recreation and Conservation Authority of California for $150 million in the fourth quarter of 2003. The sale resulted in a gain of $77 million. During the third quarter of 2002, the Company's removal of the cash flow hedge designation on certain payor swaptions resulted in the reclassification of a $112 million loss from accumulated other comprehensive income to other income.

Noninterest Expense

Noninterest expense from continuing operations consisted of the following:

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001

	Year Ended December 31,			Percentage Change	
	(in millions)				
Compensation and benefits	$ 3,304	$ 2,813	$ 1,829	17%	54%
Occupancy and equipment	1,592	1,136	776	40	46
Telecommunications and outsourced information services	554	507	436	9	16
Depositor and other retail banking losses	201	204	144	(1)	42
Amortization of goodwill	[1]	[1]	134		(100)
Amortization of other intangible assets	61	67	33	(9)	103
Advertising and promotion	278	234	176	19	33
Professional fees	267	201	189	33	6
Postage	220	192	131	15	47
Loan expense	253	211	126	20	67
Travel and training	149	137	108	9	27
Reinsurance expense	61	51	13	20	292
Other expense	468	435	321	8	36
Total noninterest expense from continuing operations	$ 7,408	$ 6,188	$ 4,416	20	40

(1) The Company adopted Statement No. 142 on January 1, 2002, and no longer amortizes goodwill.

The increase in employee base compensation and benefits expense in 2003 over 2002 was substantially due to higher personnel costs to accommodate the high refinancing activity in the earlier part of the year and the opening of new retail banking stores. For the year, 260 new retail banking stores were opened, bringing the total number of retail banking stores nationwide to 1,776. The increase in 2002 over 2001 was primarily due to the acquisitions of Dime and HomeSide, the hiring of additional staff to support our expanding operations and an increase in incentive compensation. The number of employees was 61,374 at December 31, 2003 compared with 52,870 at December 31, 2002 and 39,184 at December 31, 2001.

The increase in occupancy and equipment expense in 2003 resulted primarily from higher equipment depreciation expense and building rent expense. These increases occurred primarily due to the completion of technology projects that were placed into service in 2003 and the expansion of the Company's distribution network. Additionally, as part of the realignment of its operating segment structure in the

fourth quarter of 2003, the Company wrote off approximately $150 million of capitalized costs as a result of its decision to discontinue the development of a loan origination system and to migrate and consolidate its loan origination fulfillment activities onto a smaller complex of preexisting systems. The increase in occupancy and equipment expense in 2002 resulted from rent, maintenance and depreciation expense due to the acquisitions of Dime and HomeSide.

Professional fees increased in 2003 over 2002, primarily as a result of increased technology and corporate services-related projects.

The increase in loan expense in 2003 and 2002 was primarily due to higher loan closing costs and mortgage payoff expenses, which were attributable to an overall increase in loan originations, purchases and refinancing activity.

Other expense increased in 2003 primarily due to higher foreclosed asset expense, outside services, and charitable contributions. A significant portion of the increase in other expense during 2002 was due to increases in foreclosed assets expense, business taxes and office supplies.

Review of Financial Condition

Assets

At December 31, 2003, our assets were $275.18 billion, an increase of $6.95 billion or 3% from $268.23 billion at December 31, 2002. This increase was predominantly attributable to an increase in loans held in portfolio largely as a result of higher adjustable-rate loan production and an increase in investment securities. This increase was mostly offset by a decrease in loans held for sale and mortgage-backed securities.

Securities

Securities consisted of the following:

	December 31, 2003	December 31, 2002
	(in millions)	
Available-for-sale securities, total amortized cost of $36,858 and $42,528:		
Mortgage-backed securities	$ 10,695	$ 28,375
Investment securities	26,012	15,530
Total available-for-sale securities	$ 36,707	$ 43,905

Our mortgage-backed securities portfolio declined $17.68 billion to $10.70 billion at December 31, 2003 from $28.38 billion at December 31, 2002. Substantially all of this decrease resulted from the sale of $12.24 billion of mortgage-backed securities during 2003 and prepayments that occurred from refinancing activity. The Company sold mortgage-backed securities during the latter part of 2003 to mitigate the effects of market volatility and operational issues experienced in the third quarter. Our investment securities increased $10.48 billion to $26.01 billion at December 31, 2003 from $15.53 billion at December 31, 2002, predominantly due to the purchase of U.S. Government and agency bonds. Refer to Note 5 to the Consolidated Financial Statements "Securities" for additional information on securities, classified by security type.

Loans

Total loans consisted of the following:

	December 31, 2003	2002	2001	2000	1999
	(in millions)				
Loans held for sale	$ 20,343	$ 38,782	$ 27,574	$ 3,404	$ 794
Loans held in portfolio:					
Loans secured by real estate:					
Home	100,043	82,842	79,624	80,181	80,234
Purchased specialty mortgage finance	12,973	10,128	8,209	5,541	3,124
Total home loans	113,016	92,970	87,833	85,722	83,358
Home equity loans and lines of credit	27,647	16,168	7,970	5,772	4,404
Home construction:					
Builder[1]	1,052	1,017	1,623	440	338
Custom[2]	1,168	932	979	991	905
Multi-family[3]	20,324	18,000	15,608	15,657	15,261

	December 31,				
Other real estate[4]	6,649	7,986	6,089	3,920	3,585
Total loans secured by real estate	169,856	137,073	120,102	112,502	107,851
Consumer	1,028	1,663	2,009	1,669	1,438
Commercial business	4,760	5,133	4,285	1,727	1,395
Total loans held in portfolio	$ 175,644	$ 143,869	$ 126,396	$ 115,898	$ 110,684

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

(3) Includes multi-family construction balances of $325 million in 2003, $491 million in 2002, $385 million in 2001, $90 million in 2000, and $52 million in 1999.

(4) Includes other commercial real estate construction balances of $382 million in 2003, $469 million in 2002, $608 million in 2001, $177 million in 2000 and $185 million in 1999.

During most of 2003, loans held for sale remained at elevated levels due to the high volume of fixed-rate mortgage refinancing activity, which the Company generally sells to secondary mortgage market participants. As refinancing activity subsided in the latter part of the year, loans held for sale declined sharply, ultimately resulting in a decline in the year-end spot balance, as compared with the spot balance at December 31, 2002. The increase in loans held for sale in 2002 was primarily the result of the addition of the mortgage operations through the acquisitions of Dime and HomeSide in 2002, which coincided with a period of high fixed-rate loan refinancing activity.

Our loans held in portfolio increased $31.77 billion to $175.64 billion at December 31, 2003 from $143.87 billion at December 31, 2002. This increase was predominantly due to an increase in total home loans and home equity loans and lines of credit. As refinancing activity declined during the latter part of 2003, loan volume began to shift away from salable fixed-rate production and into short-term adjustable-rate mortgages, which the Company generally retains in its portfolio. In particular, the portfolio balance of U.S. Treasury-indexed short-term adjustable-rate loans increased from $39.95 billion at September 30, 2003 to $51.49 billion at December 31, 2003. Also contributing to home loan portfolio growth in 2003 was the retention of certain medium-term adjustable-rate mortgages originated during the third quarter of 2003. These products, also referred to as "hybrid" loans, offer fixed interest rates during their initial term, which is typically three or five years, and then convert to an adjustable rate for their remaining life. The increase in the loan portfolio in 2002 was primarily due to the Dime acquisition, partially offset by high levels of loan prepayment activity.

Home, multi-family and other commercial real estate construction loans and commercial business loans by maturity date were as follows:

	December 31, 2003			
	Due Within One Year	After One But Within Five Years	After Five Years	Total
	(in millions)			
Home construction:				
Adjustable rate	$ 449	$ 871	$ 56	$ 1,376
Fixed rate	187	50	607	844
Multi-family construction:				
Adjustable rate		244	36	280

	December 31, 2003			
Fixed rate		27	18	45
Other commercial real estate construction:				
Adjustable rate	3	201	128	332
Fixed rate		34	16	50
Commercial business:				
Adjustable rate	1,032	2,574	829	4,435
Fixed rate	5	132	188	325
Total	$ 1,676	$ 4,133	$ 1,878	$ 7,687

Deposits

Deposits consisted of the following:

	December 31,	
	2003	2002
	(in millions)	
Checking accounts:		
Noninterest bearing	$ 27,906	$ 35,730
Interest bearing	68,318	56,132
Total checking accounts	96,224	91,862
Savings accounts	11,029	10,313
Money market deposit accounts	17,971	19,573
Time deposit accounts	27,957	33,768
Total deposits[(1)]	$ 153,181	$ 155,516

(1) Includes custodial/escrow deposits related to loan servicing activities of $14.99 billion as of December 31, 2003 and $25.90 billion as of December 31, 2002. Substantially all custodial/escrow balances reside in noninterest bearing checking accounts.

Deposits decreased to $153.18 billion at December 31, 2003 from $155.52 billion at December 31, 2002. After remaining at extremely high levels throughout most of 2003, custodial balances declined sharply during the latter part of the year due to a marked decline in refinancing activity, which reduced the volume of loan payoffs within the servicing portfolio. Time deposit accounts decreased by $5.81 billion from year end 2002 predominantly as a result of decreases in certificates of deposit accounts. These decreases were substantially offset by increases in interest-bearing checking (Platinum) accounts. Platinum accounts totaled $62.89 billion at December 31, 2003, compared with $50.20 billion at December 31, 2002. During 2003, the number of Platinum accounts increased by more than 300,000.

Checking accounts, savings accounts and money market deposit accounts increased to 82% of total deposits at December 31, 2003, compared with 78% at year end 2002. These products generally have the benefit of lower interest costs, compared with time deposit accounts. Even though checking, savings and money market deposits are more liquid, we consider them to be the core relationship with our customers. At December 31, 2003, deposits funded 56% of total assets, compared with 58% at year end 2002.

Borrowings

Our borrowings predominantly take the form of repurchase agreements from financial intermediaries and advances from the Federal Home Loan Banks of Seattle, San Francisco, Dallas and New York. The exact mix of these two types of wholesale borrowings at any given time is dependent upon the market pricing of the individual borrowing sources.

Our wholesale borrowings increased by $10.19 billion at December 31, 2003 compared with year end 2002 predominantly due to an increase in repurchase agreements and federal funds purchased, which was partially offset by a decrease in advances from FHLBs. Other borrowings increased by $771 million during 2003 substantially due to an increase in outstanding secured lines of credit. Refer to "Liquidity" for further discussion of funding sources at December 31, 2003, compared with year end 2002.

Operating Segments

The Company uses various methodologies, and continues to enhance those methodologies, to assign certain balance sheet and income statement items to the responsible operating segment. Methodologies that are applied to the measurement of segment profitability include: (1) a funds transfer pricing system, which matches assets and liabilities with the approximate market benchmark of the Company's cost of funds. It is based on the maturities and interest rate sensitivities of assets and liabilities and is designed to extract interest rate risk from the business units and concentrate it in the Treasury Division, where it is managed. This system measures the interest margin that is contributed by individual products, customers and organizational units; (2) a calculation of the provision for loan and lease losses based on management's current assessment of the long-term, normalized net charge-off ratio for loan products within each segment, which differs from the "losses inherent in the loan portfolio" methodology that is used to measure the allowance for loan and lease losses under accounting principles generally accepted in the United States of America. This methodology is used to provide segment management with provision information for strategic decision making; (3) the utilization of an activity-based costing approach to measure allocations of certain operating expenses that were not directly charged to the segments; (4) the allocation of goodwill and other intangible assets to the operating segments based on benefits received from each acquisition; (5) capital charges for goodwill as a component of an internal measurement of return on the goodwill allocated to the operating segment; and (6) an economic capital model which is the framework for assessing business performance on a risk-adjusted basis. Changing economic conditions, further research and new data may lead to the update of the capital allocation assumptions.

On September 30, 2003, the Company announced the realignment of its operating segment structure. As a result of this realignment, the Company's products and services are now grouped into two primary categories those marketed to retail consumers and those marketed to commercial customers. The financial information reported for the Company's operating segments is presented under this recently realigned structure. Historical periods have been restated to conform to this new presentation.

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The following table presents the operating segments, under both the previous and newly aligned segment structure:

	Previous Segment Structure			Current Segment Structure		
				Consumer Group		
Product or Service	**Banking and Financial Services Group**	**Home Loans and Insurance Services Group**	**Specialty Finance Group**	**Retail Banking and Financial Services**	**Mortgage Banking**	**Commercial Group**
Deposit and other retail banking products and services to consumers	X			X		
Home equity loan products and consumer lending	X			X		
Investment advisory and brokerage services	X			X		

Business banking	X					X
Originating[1] and servicing home loans		X			X	
Originating[1] and selling home loans on the secondary market		X			X	
Home loan portfolio		X		X		
Insurance products and services		X			X	
Specialty mortgage finance: purchased subprime home loan portfolio		X		X		
Specialty mortgage finance: Long Beach Mortgage		X				X
Loans to developers and investors for the construction and purchase of multi-family dwellings, other commercial properties and new homes			X			X
Servicing multi-family and other commercial real estate loans			X			X

(1) Includes home loans purchased from correspondents.

The Consumer Group provides access to customers through a wide range of channels, which encompass a network of retail banking stores, retail and wholesale home loan centers and ATMs. Additionally, 24-hour service is provided through telephone call centers and online banking. The Consumer Group consists of two distinct operating segments for which separate financial reports are prepared: the Retail Banking and Financial Services segment, and the Mortgage Banking segment.

The Retail Banking and Financial Services segment offers a diversified set of products and financial services to individual consumers. These products and services include deposit products such as the Company's signature free checking and Platinum accounts, savings accounts, money market deposit accounts and time deposit accounts. Loan products include home loans, home equity loans and lines of credit and consumer loans. This segment also holds those home loans originated and serviced by the Mortgage Banking segment for retention in the Company's loan portfolio, and purchased subprime home loans. Financial services offered by this segment include the Company's mutual fund management business, WM Advisors, Inc., which provides investment advisory and mutual fund distribution services,

and investment advisory and securities brokerage services that are offered by WM Financial Services, Inc., a licensed broker-dealer. Fixed annuities are also offered to the public through licensed banking employees.

The Mortgage Banking segment originates and services home loans that are sold to secondary market participants and loans that are held in portfolio by the Retail Banking and Financial Services segment. Costs incurred by the Mortgage Banking segment for servicing the Company's home loan portfolio are charged to the Retail Banking and Financial Services segment. Insurance services that complement the mortgage process, such as private mortgage insurance and property and casualty insurance policies, are also offered by this segment. This segment also manages the Company's captive reinsurance activities and offers a variety of life insurance policies.

The Commercial Group's activities are managed as one operating segment. This group's products and services include loans made to developers and investors of multi-family and other commercial real estate properties, commercial real estate loan servicing, selling commercial real estate loans to secondary market participants, mortgage banker financing and loans made to small- and mid-sized businesses. The Group also provides financing to builders for the construction of new homes. Through Long Beach Mortgage, a wholly-owned subsidiary of the Company and a component of the Company's specialty mortgage finance program, the Commercial Group originates and services home loans made to higher-risk borrowers that are sold to private and other secondary market participants.

Consumer Group

Retail Banking and Financial Services

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001
		(in millions)			
Condensed income statement:					
Net interest income	$ 4,018	$ 3,813	$ 2,743	5%	39%
Provision for loan and lease losses	146	282	218	(48)	29
Noninterest income	2,497	2,243	1,817	11	23
Inter-segment revenue	179	96	62	86	55
Noninterest expense	3,950	3,562	2,551	11	40
Income before income taxes	2,598	2,308	1,853	13	25
Income taxes	996	880	694	13	27
Net income	$ 1,602	$ 1,428	$ 1,159	12	23
Performance and other data:					
Efficiency ratio[1]	51.27%	49.79%	52.64%	3	(5)
Average loans	$ 121,119	$ 114,149	$ 98,364	6	16
Average assets	133,004	125,682	107,556	6	17
Average deposits	125,440	112,034	81,194	12	38

(1) The efficiency ratio is defined as noninterest expense, excluding a cost of capital charge on goodwill, divided by total revenue (net interest income and noninterest income).

Net income increased to $1,602 million in 2003, compared with $1,428 million in 2002 and $1,159 million in 2001. Net interest income increased to $4,018 million in 2003 from $3,813 million in 2002 and $2,743 million in 2001. The increase in net interest income was the result of growth experienced in interest-bearing checking balances, predominantly consisting of Platinum accounts, which increased the amount of credits received through the funds transfer pricing process. Also contributing to the increase

was a decrease in interest rates paid to customers holding Platinum checking accounts. This increase was partially offset by a decrease in interest income received from loans, as a result of the continued downward pricing of the loan portfolio to current market levels. The overall increase in net interest income for 2002 was driven mostly by higher home equity loans and lines of credit balances.

Noninterest income increased to $2,497 million in 2003, compared with $2,243 million in 2002 and $1,817 million in 2001. These increases in noninterest income were primarily a result of an increase in depositor and other retail banking fees due to higher levels of checking fees, resulting from an increase in the number of noninterest-bearing checking accounts and an increase in debit card and ATM related income.

Noninterest expense increased to $3,950 million in 2003, compared with $3,562 million in 2002 and $2,551 million in 2001. The increase in noninterest expense was primarily a result of an increase in employee base compensation and benefits expense, which was due to higher personnel costs to accommodate the opening of 260 new retail banking stores during the year. Also contributing to the increase was an increase in occupancy and equipment expense resulting from the expansion of the Company's distribution network. The increase in 2002 was primarily the result of an increase in the goodwill cost of capital allocation and an increase in higher employee compensation and benefits expense due to the Dime and HomeSide acquisitions.

Total average assets increased by 6%, or $7,322 million in 2003 and increased 17%, or $18,126 million in 2002. The increase in 2003 was substantially due to an increase in home equity loans and lines of credit and an increase in the purchased subprime portfolio. The increase in 2002 was primarily driven by an increase in home equity loans and lines of credit and home loan mortgages.

Total average deposits increased by 12%, or $13,406 million in 2003 and by 38%, or $30,840 million in 2002. These increases were substantially driven by the growth in Platinum accounts, partially offset by decreases in money market and time deposit accounts.

Mortgage Banking

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001
	(in millions)				
Condensed income statement:					
Net interest income	$ 2,462	$ 1,774	$ 828	39%	114%
Noninterest income	2,980	2,365	1,288	26	84
Inter-segment expense	179	96	62	86	55
Noninterest expense	3,105	2,293	1,134	35	102
Income before income taxes	2,158	1,750	920	23	90
Income taxes	827	655	357	26	83
Net income	$ 1,331	$ 1,095	$ 563	22	94
Performance and other data:					
Efficiency ratio[(1)]	55.03%	51.67%	51.77%	7	
Average loans	$ 42,626	$ 28,666	$ 18,169	49	58
Average assets	69,900	48,560	26,356	44	84
Average deposits	27,112	13,583	7,591	100	79

(1) The efficiency ratio is defined as noninterest expense, excluding a cost of capital charge on goodwill, divided by total revenue (net interest income and noninterest income).

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Net income increased to $1,331 million in 2003, compared with $1,095 million in 2002 and $563 million in 2001. Net interest income increased to $2,462 million in 2003 from $1,774 million in 2002 and $828 million in 2001. These increases in net interest income were primarily the result of the higher levels of loans held for sale due to extremely high refinancing activity which resulted in a large increase in salable loan volume.

Noninterest income increased to $2,980 million in 2003, compared with $2,365 million in 2002 and $1,288 million in 2001. The increase in noninterest income was primarily due to a recovery, net of changes in risk management instruments, in the MSR impairment valuation allowance during 2003. This recovery was largely the result of an increase in mortgage rates during the second half of the year, which decreased the expected prepayment rate on the Company's servicing portfolio. The increase in 2003 was partially offset by an increase in MSR amortization. MSR amortization increased due to high levels of prepayment activity in the first half of 2003, and from the purchase of HomeSide in the fourth quarter of 2002, which increased the amortization base of the MSR. The increase in 2002 was largely due to increases in loan servicing fees, revaluation gain from derivatives and gain from other available-for-sale securities. This increase was partially offset by an increase in MSR impairment.

Noninterest expense increased to $3,105 million in 2003, compared with $2,293 million in 2002 and $1,134 million in 2001. The increase in noninterest expense was primarily the result of an increase in employee base compensation and benefits expense, which was due to higher personnel costs to accommodate the refinancing activity during the year. Also contributing to the increase was higher occupancy and equipment expense resulting from a write down of capitalized technology costs and the expansion of the Company's distribution network. The increase in 2002 was primarily driven by increases in compensation and benefits and occupancy and equipment expense related to the Dime and HomeSide acquisitions. The goodwill cost of capital charge related to the Dime acquisition also contributed to the increase in 2002.

Total average assets increased by 44%, or $21,340 million in 2003 and increased by 84%, or $22,204 million in 2002. These increases were primarily due to the elevated levels of loans held for sale that resulted from high levels of fixed-rate mortgage refinancing activity during 2003 and 2002, which the Company generally sells to secondary mortgage market participants. After remaining at high levels throughout much of 2003, loans held for sale sharply declined towards the latter part of the year due to a decline in refinancing activity.

Total average deposits increased by 100%, or $13,529 million in 2003 and by 79%, or $5,992 million in 2002. These increases were substantially due to elevated levels in refinancing activity during both years, which resulted in high levels of custodial deposits from prepayment activity in the loan servicing portfolio. After remaining at high levels throughout much of 2003, custodial balances sharply declined towards the latter part of the year due to a decline in refinancing activity.

Commercial Group

	Year Ended December 31, (in millions)			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001
Condensed income statement:					
Net interest income	$ 1,323	$ 1,179	$ 892	12%	32%
Provision for loan and lease losses	115	202	119	(43)	70
Noninterest income	476	508	429	(6)	18
Noninterest expense	561	514	373	9	38
Income from continuing operations before income taxes	1,123	971	829	16	17
Income taxes	405	352	302	15	17
Income from continuing operations	718	619	527	16	18
Income from discontinued operations, net of taxes	87	72	61	21	18
Net income	$ 805	$ 691	$ 588	16	18

	Year Ended December 31,			Percentage Change	
Performance and other data:					
Efficiency ratio[1]	24.68%	23.76%	23.31%	4	2
Average loans	$ 35,695	$ 33,106	$ 29,061	8	14
Average assets	44,376	40,171	35,176	10	14
Average deposits	5,407	4,014	3,855	35	4

(1) The efficiency ratio is defined as noninterest expense, excluding a cost of capital charge on goodwill, divided by total revenue (net interest income and noninterest income).

Net income increased to $805 million in 2003, compared with $691 million in 2002 and $588 million in 2001. Net interest income increased to $1,323 million in 2003, from $1,179 million in 2002 and $892 million in 2001. These increases were mostly due to lower funding costs resulting from reduced interest rates and higher average balances of home loans held for sale and multi-family loans.

Noninterest income decreased to $476 million in 2003, compared with $508 million in 2002 and $429 million in 2001. This decrease was predominantly due to lower gain from mortgage loans, partially offset by nonrefundable fees received as consideration for swapping approximately $6 billion of multi-family loans with Freddie Mac and receiving beneficial interests in those loans in the form of mortgage-backed securities. Higher loan prepayment fees during 2003 also offset the decrease. The increase in 2002 was mostly due to higher loan related income and revaluation adjustments on residual interests in collateralized mortgage obligations.

Noninterest expense was $561 million in 2003, compared with $514 million in 2002 and $373 million in 2001. A significant portion of the increase in noninterest expense was due to an increase in employee base compensation and benefits which was due to higher personnel costs to accommodate the increase in multi-family and other commercial real estate refinancing activity during the year. Also contributing to the increase was higher occupancy and equipment expense resulting from the expansion of the Company's distribution network. This increase was partially offset by lower allocated overhead expense. The increase in 2002 was mostly due to increased compensation and benefits expense and an increase in the goodwill cost of capital allocation from the Dime acquisition in 2002.

Total average assets increased by 10%, or $4,205 million in 2003 and increased 14%, or $4,995 million in 2002. The increase in average assets in 2003 was largely due to higher levels of home loans held for sale and growth in multi-family loans held in portfolio. The increase in 2002 was driven mostly by higher multi-family and other commercial real estate loans held in portfolio.

Corporate Support/Treasury and Other

	Year Ended December 31,			Percentage Change	
	2003	2002	2001	2003/2002	2002/2001
		(in millions)			
Condensed income statement:					
Net interest income (expense)	$ (530)	$ 1,068	$ 1,765	%	(39)%
Provision for loan and lease losses	3	3	7		(57)
Noninterest income (expense)	649	(76)	(74)		3
Noninterest expense	635	635	610		4
Income (loss) before income taxes	(519)	354	1,074		(67)
Income taxes (benefit)	(192)	131	397		(67)
Net income (loss)	$ (327)	$ 223	$ 677		(67)

	Year Ended December 31,			Percentage Change	
Performance and other data:					
Average loans	$ (255)	$ (435)	$ (20)	(41)	
Average assets	37,920	58,824	57,875	(36)	2
Average deposits	5,626	4,885	3,665	15	33

Corporate Support/Treasury and Other had a net loss of $327 million in 2003, compared with net income of $223 million in 2002 and $677 million in 2001. Net interest expense was $530 million in 2003, compared with net interest income of $1,068 million in 2002 and $1,765 million in 2001. The decrease in net interest income was predominantly due to decreases in the average balances of available-for-sale securities resulting from sales of mortgage-backed and investment securities and prepayments of mortgage-backed securities that occurred from refinancing activity. The decrease was also attributable to the impact of the funds transfer pricing process. This decrease was partially offset by a reduction in interest expense from borrowed funds, as a result of lower interest rates and higher levels of lower-costing average deposit balances. The decrease in 2002 was primarily due to the impact of the funds transfer pricing process to the results of our Treasury operations.

Noninterest income was $649 million in 2003, compared with noninterest expense of $76 million in 2002 and $74 million in 2001. The increase in 2003 was predominantly due to gain on sale of mortgage-backed and investment securities.

Off-Balance Sheet Activities

Asset Securitization

We transform loans into securities, which are sold to investors a process known as securitization. Securitization involves the sale of loans to a qualifying special-purpose entity ("QSPE"), typically a trust. The QSPE, in turn, issues interest-bearing securities, commonly called asset-backed securities, which are secured by future collections on the sold loans. The QSPE sells securities to investors, which entitle the investors to receive specified cash flows during the term of the security. The QSPE uses proceeds from the sale of these securities to pay the Company for the loans sold to the QSPE. These QSPEs are not consolidated within our financial statements since they satisfy the criteria established by Statement No. 140*, Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. In general, these criteria require the QSPE to be legally isolated from the transferor (the Company), be limited to permitted activities, and have defined limits on the assets it can hold and the permitted sales, exchanges or distributions of its assets.

When we sell or securitize loans, we generally retain the right to service the loans and may retain senior, subordinated, residual, and other interests, all of which are considered retained interests in the sold

or securitized assets. Retained interests may provide credit enhancement to the investors and, absent the violation of representations and warranties, generally represent the Company's maximum risk exposure associated with these transactions. Retained interests were $2.36 billion at December 31, 2003, of which $2.34 billion have either a AAA credit rating or are agency insured. See Note 7 to the Consolidated Financial Statements "Mortgage Banking Activities" for additional information concerning securitization transactions.

Contractual Obligations

The following table presents, as of December 31, 2003, the Company's significant fixed and determinable contractual obligations, within the categories described below, by payment date or contractual maturity. These contractual obligations, except for the operating lease and purchase obligations, are included in the Consolidated Statements of Financial Condition. The payment amounts represent those amounts contractually due to the recipient.

	Payments Due by Period (in millions)				
Contractual Obligations	**Total**	**Less than 1 year**	**1 but less than 3 years**	**3 but less than 5 years**	**5 years or more**
Debt obligations[1]	$ 91,558	$ 58,489	$ 16,101	$ 11,337	$ 5,631

	Payments Due by Period (in millions)				
Capital lease obligations	76	10	15	12	39
Operating lease obligations[2]	2,158	442	688	410	618
Purchase obligations[3]	502	138	254	86	24
Total contractual obligations	$ 94,294	$ 59,079	$ 17,058	$ 11,845	$ 6,312

(1) Excludes debt obligations of $2.43 billion from discontinued operations.

(2) Excludes operating lease obligations of $16 million from discontinued operations.

(3) Purchase obligations are defined as legally binding agreements whereby the Company commits to a minimum purchase amount of $1 million or more over a specified period of time. Estimated payments for contracts that may be terminated early without penalty are shown through the first termination date, all others are shown through the date of contract termination. Excluded from the table are purchase obligations expected to be settled in cash within 90 days of the end of the reporting period.

The Company enters into derivative contracts under which the Company is required to either receive cash or pay cash to counterparties depending on changes in interest rates. Derivative contracts are carried at fair value on the Consolidated Statements of Financial Condition with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. The fair value of the contracts changes daily as market interest rates change. Further discussion of derivative instruments is included in Note 1 "Summary of Significant Accounting Policies" and Note 22 "Derivative Financial Instruments" to the Consolidated Financial Statements.

Commitments, Guarantees and Contingencies

The Company may incur liabilities under certain contractual agreements contingent upon the occurrence of certain events. A discussion of these contractual agreements under which the Company may be held liable is included in Note 15 "Commitments, Guarantees and Contingencies" to the Consolidated Financial Statements. In addition, the Company has commitments and obligations under pension and other postretirement benefit plans as described in Note 21 "Employee Benefits Programs and Other Expense" to the Consolidated Financial Statements.

Asset Quality

Nonaccrual Loans, Foreclosed Assets and Restructured Loans

Loans are generally placed on nonaccrual status when they are 90 days or more past due. Additionally, loans in non-homogeneous portfolios are placed on nonaccrual status prior to becoming 90 days past due

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when payment in full of principal and interest is not expected. Management's classification of a loan as nonaccrual or restructured does not necessarily indicate that the principal or interest of the loan is uncollectible in whole or in part.

Nonaccrual loans and foreclosed assets ("nonperforming assets") and restructured loans from continuing operations consisted of the following:

	December 31,				
	2003	2002	2001	2000	1999
	(dollars in millions)				
Nonperforming assets and restructured loans:					
Nonaccrual loans:					

	December 31,				
Loans secured by real estate:					
Home	$ 736	$ 1,068	$ 1,010	$ 509	$ 572
Purchased specialty mortgage finance	597	438	292	127	23
Total home nonaccrual loans	1,333	1,506	1,302	636	595
Home equity loans and lines of credit	47	36	34	27	22
Home construction:					
Builder[1]	25	42	26	16	15
Custom[2]	10	7	10	2	3
Multi-family	19	50	56	10	21
Other real estate	153	413	376	35	33
Total nonaccrual loans secured by real estate	1,587	2,054	1,804	726	689
Consumer	8	22	16	14	12
Commercial business	31	79	100	12	10
Total nonaccrual loans held in portfolio	1,626	2,155	1,920	752	711
Foreclosed assets	311	328	216	144	195
Total nonperforming assets	$ 1,937	$ 2,483	$ 2,136	$ 896	$ 906
As a percentage of total assets	0.70%	0.93%	0.88%	0.46%	0.49%
Restructured loans	$ 111	$ 98	$ 118	$ 120	$ 117
Total nonperforming assets and restructured loans	$ 2,048	$ 2,581	$ 2,254	$ 1,016	$ 1,023

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

Home loan nonaccruals totaled $736 million at December 31, 2003, down 31% from December 31, 2002. The Company continued its program of selling packages of nonperforming loans that it holds in portfolio. During 2003, the Company sold $619 million of nonperforming loans that it held in portfolio, incurring $38 million in related charge-offs. We will periodically evaluate nonperforming loan sales as part of our ongoing portfolio management strategy.

Nonaccrual loans held for sale, which are excluded from the nonaccrual balances presented above, were $66 million, $119 million, $123 million, $32 million and $30 million at December 31, 2003, 2002, 2001, 2000 and 1999. Valuation changes on loans held for sale are reflected as gains or losses within gain from mortgage loans in noninterest income.

Purchased specialty mortgage finance nonaccrual loans totaled $597 million at December 31, 2003, an increase of $159 million from December 31, 2002 primarily reflecting the seasoning and growth of this loan portfolio.

Nonaccrual home equity loans and lines of credit totaled $47 million at December 31, 2003, an increase of $11 million from December 31, 2002. However, the percentage of nonaccruals to total loans in this portfolio totaled 0.17% at December 31, 2003, down from 0.22% at December 31, 2002.

At December 31, 2003, other real estate loans on nonaccrual totaled $153 million, down from $413 million at December 31, 2002. Much of the year-to-date improvement was due to reinstatements, payoffs, transfers to foreclosed assets, and other dispositions in the commercial portfolios, including the Company's exit from the franchise-oriented finance business, which accounted for $132 million of nonaccrual loans at December 31, 2002.

The multi-family portfolio continued to exhibit strong performance, with nonaccrual loans in this category representing 0.09% of total multi-family loans at December 31, 2003, compared with 0.28% at December 31, 2002.

Commercial business nonaccrual loans decreased $48 million during the year ended December 31, 2003 to $31 million. During 2003, the Company aggressively disposed of or charged-off distressed assets in this portfolio.

At December 31, 2003, foreclosed assets were $311 million, compared with $328 million at December 31, 2002. The Company's foreclosed assets include residential and commercial real estate as well as a small amount of personal property. While residential secured properties increased $16 million during 2003, declines in commercial and personal property totaled $27 million and $5 million.

If interest on nonaccrual loans under the original terms had been recognized, such income is estimated to have been $86 million in 2003, $118 million in 2002 and $92 million in 2001.

Loans held in portfolio (exclusive of the allowance for loan and lease losses) and nonaccrual loans by geographic concentration at December 31, 2003 were as follows:

	California		Washington/Oregon		New York/New Jersey	
	Portfolio	Nonaccrual	Portfolio	Nonaccrual	Portfolio	Nonaccrual
			(dollars in millions)			
Loans secured by real estate:						
Home	$ 48,447	$ 172	$ 6,132	$ 99	$ 9,736	$ 85
Purchased specialty mortgage finance	3,102	62	362	21	1,659	79
Total home loans	51,549	234	6,494	120	11,395	164
Home equity loans and lines of credit	14,070	14	4,242	10	1,618	4
Home construction:						
Builder[1]	278		77		75	
Custom[2]	556	1	323	5	28	1
Multi-family	15,589	5	1,258	6	1,885	2
Other real estate	1,648	2	1,422	12	1,399	3
Total loans secured by real estate	83,690	256	13,816	153	16,400	174
Consumer	358	1	391	3	63	
Commercial business	621	4	1,698	9	533	
Total loans held in portfolio (exclusive of the allowance for loan and lease losses)	$ 84,669	$ 261	$ 15,905	$ 165	$ 16,996	$ 174
Loans and nonaccrual loans as a percentage of total loans and total nonaccrual loans	48%	16%	9%	10%	10%	11%

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

	Florida		Texas	
	Portfolio	Nonaccrual	Portfolio	Nonaccrual
	(dollars in millions)			
Loans secured by real estate:				
Home	$ 7,612	$ 60	$ 1,523	$ 28
Purchased specialty mortgage finance	1,064	38	795	47
Total home loans	8,676	98	2,318	75
Home equity loans and lines of credit	1,448	2	3,188	6
Home construction:				
Builder[1]	126	9	273	12
Custom[2]	45		11	
Multi-family	57		241	2
Other real estate	152	4	491	55
Total loans secured by real estate	10,504	113	6,522	150
Consumer	47		35	
Commercial business	434	2	421	15
Total loans held in portfolio (exclusive of the allowance for loan and lease losses)	$ 10,985	$ 115	$ 6,978	$ 165
Loans and nonaccrual loans as a percentage of total loans and total nonaccrual loans	6%	7%	4%	10%

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

	Other[3]		Total	
	Portfolio	Nonaccrual	Portfolio	Nonaccrual
	(dollars in millions)			
Loans secured by real estate:				
Home	$ 26,593	$ 292	$ 100,043	$ 736
Purchased specialty mortgage finance	5,991	350	12,973	597
Total home loans	32,584	642	113,016	1,333
Home equity loans and lines of credit	3,081	11	27,647	47
Home construction:				
Builder[1]	223	4	1,052	25
Custom[2]	205	3	1,168	10
Multi-family	1,294	4	20,324	19

	Other[3]		Total	
Other real estate	1,537	77	6,649	153
Total loans secured by real estate	38,924	741	169,856	1,587
Consumer	134	4	1,028	8
Commercial business	1,053	1	4,760	31
Total loans held in portfolio (exclusive of the allowance for loan and lease losses)	$ 40,111	$ 746	$ 175,644	$ 1,626
Loans and nonaccrual loans as a percentage of total loans and total nonaccrual loans	23%	46%	100%	100%

(1) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(2) Represents construction loans made directly to the intended occupant of a single-family residence.

(3) Of this category, Illinois had the largest portfolio balance of approximately $5.24 billion and the largest nonaccrual amount of $90 million.

90 or More Days Past Due

The amount of loans held in portfolio which were 90 or more days contractually past due and still accruing interest were $46 million, $60 million, $86 million, $45 million and $60 million at December 31, 2003, 2002, 2001, 2000 and 1999. The majority of these loans are either VA- or FHA-insured with little or no risk of loss of principal or interest.

In prior periods, our held for sale portfolio included an immaterial amount of loans which were 90 or more days contractually past due and still accruing interest. However, as a result of regulatory guidelines issued in December of 2003, delinquent mortgages contained within GNMA loan servicing pools that are repurchased or are eligible to be repurchased by the Company must be reported as loans on the Consolidated Statements of Financial Condition. As the Company sells most of these repurchased loans to secondary market participants, they are classified as loans held for sale on the Consolidated Statements of Financial Condition. Substantially all of these loans are either guaranteed or insured by agencies of the federal government and, therefore, do not expose the Company to significant risk of loss. Our held for sale portfolio contained $2.50 billion, $3.22 billion and $692 million of such loans which were 90 or more days contractually past due and still accruing interest at December 31, 2003, 2002 and 2001. We did not participate in this program prior to 2001.

Provision and Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management's estimate of credit losses inherent in the Company's loan and lease portfolios as of the balance sheet date. The estimation of the allowance is based on a variety of factors, including past loan loss experience, adverse situations that have occurred but are not yet known that may affect the borrower's ability to repay, the estimated value of underlying collateral and general economic conditions. The Company's methodology for assessing the adequacy of the allowance includes the evaluation of three distinct components: the formula allowance, the specific allowance (which includes the allowance for loans deemed to be impaired by Statement No. 114, *Accounting by Creditors for Impairment of a Loan*) and the unallocated allowance. The formula allowance and the specific allowance collectively represent the portion of the allowance for loan and lease losses that is allocated to the various loan portfolios. As the process for determining the adequacy of the allowance requires subjective and complex judgment by management about the effect of matters that are inherently uncertain, subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for loan and lease losses.

The allowance considers losses that are inherent in loan portfolios, but have not yet been realized. Losses are recognized when (a) available information indicates that it is probable that a loss has been incurred and (b) the amount of the loss can be reasonably estimated. Generally, the Company believes that borrowers are impacted by events that result in loan default and eventual loss well in advance of a lender's knowledge of those events. The time frame between the occurrence of such events and the resulting default and loss realization is referred to as the loss emergence period. Examples of such loss-causing events for home loans are borrower job loss, divorce and medical crisis. An example for commercial real estate loans would be the loss of a major tenant.

The formula allowance is calculated by applying loss factors against all loans in what are considered homogeneous portfolios (such as home loans, home equity loans and lines of credit, and purchased specialty mortgage finance loans). Loss factors are based on an analysis of the historical loss experience of each loan category and an assessment of portfolio trends and conditions, as well as specific risk factors impacting the loan and lease portfolios. These factors may be adjusted for external factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date. Such external factors include, but are not limited to, the interest rate environment and housing prices.

For non-homogeneous loans such as commercial real estate, larger commercial business loans and builder home construction loans, loss factors are assigned based on risk ratings that are ascribed to the

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individual loans. A specific allowance may be assigned to these loans if they have been individually determined to be impaired.

Loans, other than those included in homogeneous portfolios, are considered impaired when it is probable that we will be unable to collect all amounts past due, including interest payments. For loans that are determined to be impaired, the amount of impairment is measured by a discounted cash flow analysis, using the loan's effective interest rate, except when it is determined that the only source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by estimated disposal costs, will be used in place of discounted cash flows. In estimating the fair value of collateral, we evaluate various factors, such as occupancy and rental rates in our real estate markets and the level of obsolescence that may exist on assets acquired from commercial business loans.

Loans that are determined to be impaired are excluded from the formula allowance analysis so as not to double-count the loss exposure.

In estimating the amount of credit losses inherent in the Company's loan and lease portfolios, various assumptions are made. For example, when assessing the condition of the overall economic environment, assumptions are made regarding current economic trends and their impact on the loan and lease portfolio. In the event the national economy were to sustain a prolonged downturn, the loss factors applied to our portfolios may need to be revised, which may significantly impact the measurement of the allowance for loan and lease losses. For impaired loans that are collateral-dependent, the estimated fair value of the collateral may deviate significantly from the proceeds received when the collateral is sold. To mitigate the imprecision inherent in most estimates of expected credit losses, the allocated component of the allowance is supplemented by an unallocated component. The unallocated component reflects our judgmental assessment of the impact that various factors have on the overall measurement of credit losses. These factors include, but are not limited to, general economic and business conditions affecting the key lending areas of the Company, credit quality and collateral value trends, loan concentrations, specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle, the impact of new product initiatives and other such variables for which recent historical data do not provide a high level of precision for risk evaluation, the results of regulatory examinations and findings from the Company's internal credit review function.

Refer to Note 1 to the Consolidated Financial Statements "Summary of Significant Accounting Policies" for further discussion of the Allowance for Loan and Lease Losses.

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Changes in the allowance for loan and lease losses were as follows:

	Year Ended December 31,				
	2003	**2002**	**2001**	**2000**	**1999**
	(dollars in millions)				
Balance, beginning of year	$ 1,503	$ 1,278	$ 909	$ 942	$ 987
Allowance transferred to loans held for sale	(3)	(31)		(36)	(1)
Allowance acquired through business combinations		148	120		
Allowance for certain loan commitments	17	(48)			
Provision for loan and lease losses	42(1)	404	426	77	67
	1,559	1,751	1,455	983	$ 1,053

	Year Ended December 31,				
Loans charged off:					
Loans secured by real estate:					
Home	(65)	(52)	(29)	(19)	(38)
Purchased specialty mortgage finance	(39)	(33)	(25)	(4)	
Total home loan charge-offs	(104)	(85)	(54)	(23)	(38)
Home equity loans and lines of credit	(14)	(14)	(4)	(3)	
Home construction[2]	(2)	(1)		(1)	
Multi-family	(5)	(1)		(2)	(15)
Other real estate	(97)	(60)	(35)	(4)	(24)
Total loans secured by real estate	(222)	(161)	(93)	(33)	(77)
Consumer	(69)	(70)	(51)	(41)	(46)
Commercial business	(79)	(73)	(49)	(9)	(3)
Total loans charged off	(370)	(304)	(193)	(83)	(126)
Recoveries of loans previously charged off:					
Loans secured by real estate:					
Home	10	2	2	1	4
Purchased specialty mortgage finance	3			1	
Total home loan recoveries	13	2	2	2	4
Home equity loans and lines of credit	1	1	1		
Multi-family	1	1		1	3
Other real estate	17	12	3	1	4
Total loans secured by real estate	32	16	6	4	11
Consumer	15	13	4	4	3
Commercial business	14	27	6	1	1
Total recoveries of loans previously charged off	61	56	16	9	15
Net charge-offs	(309)	(248)	(177)	(74)	(111)
Balance, end of year	$ 1,250	$ 1,503	$ 1,278	$ 909	$ 942
Net charge-offs as a percentage of average loans held in portfolio	0.20%	0.17%	0.14%	0.07%	0.10%
Allowance as a percentage of total loans held in portfolio	0.71%	1.04%	1.01%	0.78%	0.85%

(1) Includes a $202 million reversal of provision for loan and lease losses recorded in the fourth quarter.

(2) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale and construction loans made directly to the intended occupant of a single-family residence.

Charge-offs and recoveries applicable to Washington Mutual Finance Corporation are not included for the years presented in this table due to its status as a discontinued operation. Prior to this change in

status, this business unit had accounted for approximately one-third of the total net charge-offs reported by the Company in prior periods.

During 2003, there were several key events that resulted in a significant improvement in the Company's overall credit quality. First, the Company has been aggressively managing its inventory of nonperforming assets through regular sales of loans. Second, the Company sold its portfolio of franchise finance loans. Finally, the general economic conditions improved significantly in the latter part of the year.

The Company sold $619 million of nonperforming single-family residential loans during 2003. The resulting charge-offs related to these sales were $38 million. We believe these sales are a more efficient and effective means of dealing with potentially troubled assets than solely managing these assets through the collection and foreclosure process.

During the fourth quarter, management also achieved a significant improvement in the risk profile of its loan portfolio by entering into sales transactions to dispose of the remaining $385 million portfolio of franchise finance loans. The transaction resulted in a net charge-off of $39 million and a reversal in the amount of the remaining specific reserve of $82 million.

Beginning in the second half of 2001 and continuing through 2002, the Company provisioned for loan and lease losses in amounts that were in excess of the net charge-offs incurred during those periods. Those decisions reflected management's judgment in response to declining credit quality trends observed in the Company's residential and commercial loan portfolios, growth in its nonperforming loan balance, and the general downturn of the domestic economy. Among other effects, the economic weakness triggered higher levels of unemployment and uncertain implications for real estate values in a number of markets key factors which affect the Company's estimate of inherent losses within its major loan portfolios. Beginning in 2003, signs of a stabilizing credit environment began to appear, including a favorable shift in certain economic indicators. However, a discernable, positive trend in these indicators was not evident until the release of data in the fourth quarter. This information showed significant growth in the national economy during the third quarter, complementing the ongoing trends of stable housing prices, strong residential construction rates and a continued low interest rate environment.

In response to the positive implications of these factors a growing national economy, a significant reduction in nonperforming loans (down $529 million, or 25%, for the year, including a $187 million reduction in the fourth quarter) and the disposition of its highest risk asset portfolio in the fourth quarter the Company determined that a reduction in the overall size of the allowance was appropriate. Accordingly, a $120 million reversal of the allowance for loan and lease losses was recorded in the fourth quarter of 2003, in addition to the reversal of the remaining franchise finance portfolio specific reserve of $82 million.

An analysis of the allowance for loan and lease losses was as follows:

	December 31,								
	2003			**2002**			**2001**		
	Allowance for Loan and Lease Losses	**Allocated Allowance as a % of Loan Category**	**Loan Category as a % of Total Loans[(1)]**	**Allowance for Loan and Lease Losses**	**Allocated Allowance as a % of Loan Category**	**Loan Category as a % of Total Loans[(1)]**	**Allowance for Loan and Lease Losses**	**Allocated Allowance as a % of Loan Category**	**Loan Category as a % of Total Loans[(1)]**
	(dollars in millions)								
Specific and allocated allowances:									
Loans secured by real estate:									

	December 31,								
Home	$ 321	0.32%	56.95%	$ 251	0.30%	57.58%	$ 290	0.36%	63.00%
Purchased specialty mortgage finance	84	0.65	7.39	169	1.67	7.04	97	1.18	6.49
Total home loans	405	0.36	64.34	420	0.45	64.62	387	0.44	69.49
Home equity loans and lines of credit	82	0.30	15.74	46	0.29	11.24	27	0.34	6.31
Home construction:									
Builder[2]	10	0.95	0.60	15	1.48	0.71	28	1.73	1.28
Custom[3]	8	0.68	0.66	7	0.75	0.65	4	0.41	0.77
Multi-family	139	0.68	11.57	146	0.81	12.51	138	0.88	12.35
Other real estate	110	1.65	3.79	296	3.71	5.55	161	2.64	4.82
Total allocated allowance secured by real estate	754	0.44	96.70	930	0.68	95.28	745	0.62	95.02
Consumer	49	4.77	0.59	70	4.21	1.15	71	3.53	1.59
Commercial business	72	1.51	2.71	116	2.26	3.57	92	2.15	3.39
Total allocated allowance held in portfolio	875	0.50	100.00	1,116	0.78	100.00	908	0.72	100.00
Unallocated allowance	375	0.21		387	0.26		370	0.29	
Total allowance for loan and lease losses	$ 1,250	0.71%	100.00%	$ 1,503	1.04%	100.00%	$ 1,278	1.01%	100.00%

(Continued on next table.)

(1) Excludes loans held for sale.

(2) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(3) Represents construction loans made directly to the intended occupant of a single-family residence.

	December 31,					
	2000			1999		
	Allowance for Loan and Lease Losses	**Allocated Allowance as a % of Loan Category**	**Loan Category as a % of Total Loans[1]**	**Allowance for Loan and Lease Losses**	**Allocated Allowance as a % of Loan Category**	**Loan Category as a % of Total Loans[1]**
	(dollars in millions)					
Specific and allocated allowances:						
Loans secured by real estate:						
Home	$ 250	0.31%	69.18%	$	%	72.49%

	December 31,					
Purchased specialty mortgage finance	52	0.94	4.78			2.82
Total home loans	302	0.35	73.96			75.31
Home equity loans and lines of credit	20	0.35	4.98			3.98
Home construction:						
Builder(2)	4	0.91	0.38	5	1.48	0.30
Custom(3)	3	0.30	0.86			0.82
Multi-family	138	0.88	13.51	59	0.39	13.79
Other real estate	100	2.55	3.38			3.24
Total allocated allowance secured by real estate	567	0.50	97.07	64	0.06	97.44
Consumer	70	4.19	1.44			1.30
Commercial business	33	1.91	1.49	18	1.29	1.26
Total allocated allowance held in portfolio	670	0.58	100.00	82	0.07	100.00
Unallocated allowance	239	0.20		860	0.78	
Total allowance for loan and lease losses	$ 909	0.78%	100.00%	$ 942	0.85%	100.00%

(1) Excludes loans held for sale.

(2) Represents loans to builders for the purpose of financing the acquisition, development and construction of single-family residences for sale.

(3) Represents construction loans made directly to the intended occupant of a single-family residence.

During 2000, in conjunction with our continued expansion of our lending activity beyond traditional home loans, management enhanced its methodology for determining the allocated components of the allowance. This enhancement resulted in an allocation of previously unallocated allowance amounts to individual loan categories.

Liquidity

The objective of liquidity management is to ensure the Company has the continuing ability to maintain cash flows that are adequate to fund operations and meet obligations and other commitments on a timely and cost-effective basis. The Company establishes liquidity guidelines for its principal operating subsidiaries as well as for the parent holding company, Washington Mutual, Inc.

Banking Subsidiaries

The principal sources of liquidity for our banking subsidiaries are customer deposits, wholesale borrowings, the maturity and repayment of portfolio loans, securities held in our available-for-sale portfolio and mortgage loans designated as held for sale. Among these sources, transaction deposits and wholesale borrowings from FHLB advances and repurchase agreements continue to provide the Company with a significant source of stable funding. During 2003, those sources funded 72% of average total assets. Our continuing ability to retain our transaction deposit base and to attract new deposits depends on various factors, such as customer service satisfaction levels and the competitiveness of interest rates offered on our deposit products. We expect to continue to have the necessary assets available to pledge as collateral to obtain FHLB advances and repurchase agreements to offset any potential declines in deposit balances.

In 2003, the Company's proceeds from the sales of loans held for sale were approximately $325.00 billion. These proceeds were, in turn, used as the primary funding source for the origination and purchases of approximately $315.11 billion of loans held for sale during the same period. As this cyclical pattern of sales and originations/purchases repeats itself during the course of a period, the amount of funding necessary to sustain our mortgage banking operations does not significantly affect the Company's overall level of liquidity resources.

To supplement our funding sources, our banking subsidiaries also raise funds in domestic and international capital markets. In August 2003, the Company established a new $20 billion Global Bank Note Program for Washington Mutual Bank, FA ("WMBFA") and Washington Mutual Bank ("WMB") to issue senior and subordinated notes in the United States and in international capital markets in a variety of currencies and structures. This program replaced the $15 billion program established in April 2001. Under this program, WMBFA will be allowed to issue up to $15 billion in notes, of which $5 billion can be issued as subordinated notes subject to regulatory approval. WMB will be allowed to issue up to $5 billion in senior notes. The maximum aggregate principal amount of notes with maturities greater than 270 days from the date of issue offered by WMBFA may not exceed $7.5 billion. At December 31, 2003, the Company had $20 billion available for issuance under this program.

Washington Mutual, Inc. and Non-banking Subsidiaries

Liquidity for Washington Mutual, Inc. is generated through its ability to raise funds in various capital markets and through dividends from subsidiaries, commercial paper programs and lines of credit.

Washington Mutual, Inc.'s primary funding source during 2003 was from dividends paid by our banking subsidiaries. Although we expect Washington Mutual, Inc. to continue to receive banking subsidiary dividends during 2004, various regulatory requirements related to capital adequacy and retained earnings limit the amount of dividends that can be paid by our banking subsidiaries. For more information on dividend restrictions applicable to our banking subsidiaries, refer to "Business Regulation and Supervision" and Note 19 to the Consolidated Financial Statements "Regulatory Capital Requirements and Dividend Restrictions."

In February 2003, Washington Mutual, Inc. filed a shelf registration statement with the Securities and Exchange Commission to register $2 billion of debt securities, preferred stock and depositary shares in the United States and in international capital markets in a variety of currencies and structures. The shelf registration statement was declared effective on April 15, 2003. In November 2003, Washington Mutual, Inc. issued $1.65 billion of fixed- and adjustable-rate debt securities. As of December 31, 2003, Washington Mutual, Inc. had $350 million available for issuance under this shelf registration statement.

In addition, in October 2003, Washington Mutual, Inc. filed with the Securities and Exchange Commission an additional shelf registration statement under which Washington Mutual, Inc. will be permitted to issue in the United States and in international capital markets in a variety of currencies and structures up to $5 billion of debt securities, preferred stock and depositary shares. This registration statement became effective in November 2003. At December 31, 2003, Washington Mutual, Inc. had $5 billion available under this shelf registration.

Washington Mutual, Inc. and its non-banking subsidiaries also have various other credit facilities and agreements that are sources of liquidity, including a revolving credit facility totaling $800 million which provides back-up for certain commercial paper programs of Washington Mutual, Inc. and Washington Mutual Finance as well as funds for general corporate purposes. At December 31, 2003, there was $333 million available under this facility for purposes other than back-up of commercial paper. Additionally, Washington Mutual Finance had agreements to participate in a $600 million asset-backed commercial paper conduit program. Subsequently, the Company sold Washington Mutual Finance to CitiFinancial, a subsidiary of Citigroup. The sale was closed on January 9, 2004. Washington Mutual Finance was removed from the $800 million revolving credit facility agreement at that date and the whole

amount is now available to Washington Mutual, Inc. The $600 million asset-backed commercial paper was paid off on the closing date. Washington Mutual Finance, now a subsidiary of Citigroup, continues to be responsible for its outstanding unsecured commercial paper and notes.

Long Beach Mortgage has revolving credit facilities with non-affiliated lenders totaling $4 billion that are used to fund loans held for sale. At December 31, 2003, Long Beach had borrowed $2.7 billion under these credit facilities.

The Company maintains a noncontributory cash balance defined benefit pension plan (the "Pension Plan") for substantially all eligible employees. In measuring the variables that determine the funded status of the Pension Plan, three of the more significant assumptions that must be estimated are the expected long-term rate of return on the plan's assets, the discount rate and the compensation rate increase that are used to calculate the accumulated benefit obligation. Due to the improvement in the equity market in 2003 we exceeded our long-term rate of return on plan assets of 8%. Additionally, due to the extremely low interest rate environment that has existed throughout 2003, the assumed discount rate for 2003 was lower than 2002, which increased the present value of the December 31, 2003 estimated accumulated benefit obligation. The Company contributed additional funding of $85 million to the Pension Plan during 2003, which was sufficient to prevent the recognition of a pension liability.

The Company has used an assumed discount rate of 6.50%, an assumed rate of compensation increase of 5.50% and an expected long-term return on plan assets of 8.00% to calculate a net periodic benefit cost of $68 million for 2003. An assumed discount rate of 6.00% and an assumed rate of compensation increase of 5.50% were used to calculate the Company's projected benefit obligation of $1.28 billion as of December 31, 2003. Refer to Note 21 to the Consolidated Financial Statements "Employee Benefits Programs and Other Expense" for further discussion.

The table below illustrates the potential impact of 50 basis point increases and decreases in the key assumptions outlined above to the 2004 projected net periodic benefit cost and the December 31, 2003 projected benefit obligation (50 basis points is equivalent to one-half of one percent). The 50 basis point increases and decreases represent the Company's estimate of the changes which may occur over a twelve month period.

	Basis Points	Projected 2004 Net Periodic Benefit Cost Impact	Projected Benefit Obligation Impact
		(dollars in millions)	
Discount rate increase	+50	$ (12.7)	$ (84.9)
Discount rate decrease	-50	13.8	94.8
Rate of compensation decrease[1]	-50	(4.9)	(9.6)
Return on assets increase	+50	(6.4)	n/a
Return on assets decrease	-50	6.4	n/a

(1) Only the rate of compensation decrease is provided because, due to the current economic conditions, it is not anticipated that the assumed rate of compensation increase will be greater than 5.50%.

Capital Adequacy

Reflecting the increases in loans held in portfolio and investment securities and a decrease in stockholders' equity during 2003, the ratio of stockholders' equity to total assets decreased to 7.17% at December 31, 2003 from 7.48% at December 31, 2002.

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The regulatory capital ratios of WMBFA, WMB and Washington Mutual Bank fsb ("WMBfsb") and minimum regulatory ratios to be categorized as well-capitalized were as follows:

	December 31, 2003			
	WMBFA	WMB	WMBfsb	Well-Capitalized Minimum
Tier 1 capital to adjusted total assets (leverage)	5.50%	5.82%	10.34%	5.00%
Adjusted tier 1 capital to total risk-weighted assets	8.72	9.10	16.36	6.00
Total risk-based capital to total risk-weighted assets	10.80	11.23	17.04	10.00

Our federal savings bank subsidiaries, WMBFA and WMBfsb, are also required by Office of Thrift Supervision regulations to maintain tangible capital of at least 1.50% of assets. WMBFA and WMBfsb both satisfied this requirement at December 31, 2003.

Our broker-dealer subsidiaries are also subject to capital requirements. At December 31, 2003, both of our broker-dealer subsidiaries were in compliance with their applicable capital requirements.

During 2003, the Company repurchased 65.9 million shares of our common stock at an average price of $40.93 as part of our share repurchase program. Effective July 15, 2003, the Company adopted a new share repurchase program approved by the Board of Directors. Under the new program, the Company is authorized to repurchase up to 100 million shares of its common stock, as conditions warrant. This Program replaces the Company's previous share repurchase program. From January 1, 2004 through February 27, 2004, the Company repurchased an additional 16.1 million shares. Management may engage in future share repurchases as liquidity conditions permit and market conditions warrant.

Market Risk Management

Market risk is defined as the sensitivity of income, fair market values and capital to changes in interest rates, foreign currency exchange rates, commodity prices and other relevant market rates or prices. The primary market risk to which we are exposed is interest rate risk. Substantially all of our interest rate risk arises from instruments, positions and transactions entered into for purposes other than trading. They include loans, MSR, securities, deposits, borrowings, long-term debt and derivative financial instruments.

We manage interest rate risk within a consolidated enterprise risk management framework that includes an assessment of interest rate risk within our Asset/Liability Management process, which includes the measurement and management of specific portfolios (MSR and Other Mortgage Banking) discussed below. The principal objective of asset/liability management is to manage the sensitivity of net income to changing interest rates. Asset/liability management is governed by a policy reviewed and approved annually by our Board. The Board has delegated the oversight of the administration of this policy to the Finance Committee.

Overview of Interest Rate Risk

Increases or decreases in interest rates can cause changes in net income, fluctuations in the fair value of assets and liabilities, such as MSR, investment securities and derivatives, and changes in noninterest income and noninterest expense, particularly gain from mortgage loans, loan servicing fees and the amortization of MSR. Our interest rate risk arises because assets and liabilities reprice, mature, prepay or decay at different times or in accordance with different indices as market interest rates change.

Types of Interest Rate Risk

We are exposed to different types of interest rate risks. These include lag, repricing, basis, prepayment, lifetime cap and volatility risk.

Lag/Repricing Risk

Lag risk results from the inherent timing difference between the repricing of adjustable-rate assets and liabilities. Repricing risk is caused by the mismatch in the maturities between assets and liabilities. For example, if our assets reprice slower than our liabilities, the effect of this timing difference, or "lag," will be favorable during a period of declining interest rates and unfavorable during a period of rising interest rates. Lag/repricing risk can produce short-term volatility in net interest income during periods of interest rate movements even though the effect of this lag generally balances out over time.

Basis Risk

Basis risk occurs when assets and liabilities have similar repricing frequencies but are tied to different market interest rate indices.

Prepayment Risk

Prepayment risk results from the ability of customers to pay off their loans prior to maturity. Generally, prepayments increase in falling interest rate environments and decrease in rising interest rate environments.

Lifetime Cap Risk

The lifetime interest rate caps on adjustable-rate loans limits, or "caps," the interest rate at a contractually determined level. In periods of dramatically rising rates, adjustable-rate loans that have reached lifetime caps will no longer reprice upward.

Volatility Risk

Volatility risk is the change to the fair value of an option, or a fixed income instrument containing options (such as mortgages) from changes in the implied market level of future volatility ("implied volatility"). Implied volatility is a key determinant of option value with higher volatility generally increasing option value and lower volatility generally decreasing option value. Mortgage loans generally contain embedded written options so increases in volatility generally decreases their value and decreases in volatility generally increases their value.

MSR Risk Management

We manage potential impairment in the fair value of MSR and increased amortization levels of MSR through a comprehensive risk management program. Our intent is to offset the changes in fair value and amortization levels of MSR with changes in the fair value of risk management instruments. The risk management instruments include interest rate contracts, forward purchase commitments and available-for-sale securities.

The available-for-sale securities generally consist of fixed-rate debt securities, such as U.S. Government and agency obligations and mortgage-backed securities, including principal-only strips. The interest rate contracts typically consist of interest rate swaps, interest rate swaptions, interest rate floors and forward commitments to purchase mortgage-backed securities. These forward purchase commitments generally consist of agreements to purchase 15- and 30-year fixed-rate mortgage-backed securities. From time to time, we may choose to embed interest rate contracts into our borrowing instruments, such as repurchase agreements.

As derivatives, the interest rate swaps, interest rate swaptions, stand alone interest rate floors and forward commitments are marked-to-market through earnings. Changes in the fair value of MSR risk management instruments are recorded as components of noninterest income.

We measure on a daily basis the fair value and risk profile of the MSR and, when appropriate, adjust on a daily basis the instruments we use to manage MSR fair value changes. The fair value of MSR is primarily affected by changes in prepayments that result from shifts in mortgage rates. Changes in the behavior of how MSR risk management instruments respond to changes in interest rates vary based on the specific instrument. The difference in market indices between the MSR and the risk management instruments results in basis risk. For example, changes in the fair value of interest rate swaps are driven by shifts in interest rate swap rates while the fair value of U.S. Treasury bonds is based on changes in U.S. Treasury rates. Mortgage rates may move more or less than the rates on Treasury bonds or interest rate swaps. This could result in a change in the fair value of the MSR that differs from the change in fair value of the MSR risk management instruments.

Additionally, changes in long-term rates impact the fair value and the amortization rate of MSR. The fair value of MSR decreases and the amortization rate increases in a declining long-term interest rate environment due to the higher prepayment activity, resulting in the potential for impairment and a reduction in net loan servicing income. During periods of rising long-term interest rates, the amortization rate of MSR decreases and the fair value of MSR increases, resulting in the potential recovery of the MSR valuation allowance and an increase in net loan servicing income. The timing and amount of any potential MSR recovery cannot be predicted with absolute precision because of its dependency on the timing and magnitude of future interest rate increases and the amount of the valuation allowance within each interest rate strata of our loans serviced for others portfolio at the time of the increase.

We manage the MSR daily against our risk tolerance limits and adjust the mix of instruments used to manage MSR fair value changes as interest rates and market conditions warrant. The objective is to maintain an efficient and fairly liquid mix as well as a diverse portfolio of risk management instruments with maturity ranges that correspond well to the anticipated behavior of the MSR. The mix of instruments we use to manage MSR fair value changes is predicated, in part, on the requirement that we account for MSR at the lower of cost or market value, whereby each interest rate stratum within our servicing portfolio is recorded at the lower of its aggregate fair value or its aggregate amortized cost. This could have resulted in increases in the fair value of MSR that are not marked-to-market through earnings. The Company is poised to apply fair value hedge accounting treatment, as prescribed by Statement No. 133, to a significant portion of its mortgage servicing assets. For that portion which qualifies for hedge accounting treatment, all changes in fair value to the MSR, including situations when the fair value is higher than amortized cost, will be recorded through earnings. We believe this overall risk management strategy is the most efficient approach to managing MSR fair value risk.

We also manage the size and risk profile of the MSR asset. Depending on market conditions and our desire to expand customer relationships, we may periodically sell or purchase additional servicing. We also may structure loan sales to control the size of the MSR asset. Our net income could be adversely affected if we are unable to effectively implement, execute or manage this strategy.

Other Mortgage Banking Risk Management

We also manage the risks associated with our mortgage warehouse and pipeline. The mortgage warehouse consists of funded loans, which are primarily fixed-rate home mortgages to be sold in the secondary market. The pipeline consists of commitments to originate or purchase fixed-rate and, to a lesser degree, adjustable-rate home loans to be sold in the secondary market. The risk associated with the mortgage pipeline and warehouse is the potential change in interest rates between the time the customer locks in the rate on the loan and the time the loan is sold. Generally, loans in the mortgage warehouse are sold within 60 to 120 days after the initial recognition of the rate lock commitment.

We measure the risk profile of the mortgage warehouse and pipeline daily against our established risk tolerance limits. As needed to manage the warehouse and pipeline risk, we execute forward sales commitments, interest rate contracts, mortgage option contracts and interest rate futures. A forward sales

commitment protects us in a rising interest rate environment, since the sales price and delivery date are already established. A forward sales commitment is different, however, from an option contract in that we are obligated to deliver the loan to the third party on the agreed-upon future date. We also estimate the fallout factor, which represents the percentage of loans that are not expected to be funded, when determining the appropriate amount of our pipeline and warehouse risk management instruments.

Asset/Liability Risk Management

The asset/liability risk management process oversees the aggregate risk profile of the consolidated Company. Asset/liability risk analysis combines the MSR and Other Mortgage Banking activities with substantially all the other remaining interest rate risk positions inherent in the Company's operations.

To analyze net income sensitivity, we project net income over a twelve month horizon based on parallel shifts in the yield curve. Management also employs other analyses and interest rate scenarios to evaluate interest rate risk. For example, we project net income and net interest income under a variety of interest rate scenarios, including non-parallel shifts in the yield curve and more extreme non-parallel rising and falling rate environments. These scenarios also capture the net income and net interest income sensitivity due to changes in the slope of the yield curve and changes in the spread between Treasury and LIBOR rates. Additionally, management measures the sensitivity of asset and liability fair value changes to changes in interest rates to analyze risk exposure over longer periods of time.

The projection of the sensitivity of net income requires numerous behavioral assumptions. Prepayment, decay rate (the estimated runoff of deposit accounts that do not have a stated maturity) and loan and deposit volume and mix projections are the most significant assumptions. Prepayments affect the size of the balance sheet, which impacts net interest income, and is also a major factor in the valuation of MSR. The decay rate assumptions also impact net interest income by altering the expected deposit mix and rates in various interest rate environments. The prepayment and decay rate assumptions reflect management's best estimate of future behavior. These assumptions are derived from internal and external analysis of customer behavior.

The sensitivity of new loan volume and mix to changes in market interest rate levels is also projected. Generally, we assume loan production increases in falling interest rate scenarios with an increased proportion of salable fixed-rate production. We generally assume a reduction in total loan production in rising interest rate scenarios with a shift towards a greater proportion of adjustable-rate production, which we generally hold in our loan portfolio. The gain from mortgage loans also varies under different interest rate scenarios. Normally, the gain from mortgage loans increases in falling interest rate environments primarily from high fixed-rate mortgage refinancing activity. Conversely, the gain from mortgage loans tends to decline when interest rates increase as salable loan volume declines and loan pricing becomes more competitive.

In addition to gain from mortgage loans, the sensitivity of noninterest income and expense also involves estimates. The impairment and recovery of MSR is the most significant element of sensitivity in the projection of noninterest income. Management analyzes MSR on a daily basis and adjusts the risk management instruments based on this daily analysis. The analysis also assumes that mortgage and interest rate swap spreads remain constant in all interest rate environments. Changes in these spreads could result in significant changes in projected net income sensitivity.

The other components of noninterest income and expense, such as deposit and loan fees and expenses, generally increase or decrease in conjunction with depositor and loan volumes. Loan servicing fees and the amortization of MSR are also dependent on prepayment expectations.

To manage interest rate sensitivity, management first utilizes the interest rate risk characteristics of our balance sheet assets and liabilities to offset each other as much as possible. Balance sheet products have a variety of risk profiles and sensitivities. Some of the components of our interest rate risk are countercyclical. We may adjust the amount or mix of risk management instruments based on the countercyclical behavior of our balance sheet products.

The slope of the yield curve, current interest rate conditions and the speed of changes in interest rates affect our sensitivity to changes in interest rates. Our deposits and borrowings typically reprice faster than our mortgage loans and securities. In addition, a lag effect is inherent in our adjustable-rate loans and mortgage-backed securities indexed to the 12-month average of the annual yields on actively traded U.S. Treasury securities adjusted to a constant maturity of one year ("MTA") and to the 11th District FHLB monthly weighted average cost of funds index ("COFI").

In periods of rising interest rates, the net interest margin normally contracts since the repricing period of liabilities is shorter than the repricing period of assets. Also, in periods of relatively high interest rates the lifetime cap feature on adjustable-rate loan products may adversely impact net interest income. Typically, the lifetime cap is 300 to 500 basis points above the fully indexed initial rate. The lifetime caps on our existing loan and mortgage-backed security portfolios would not have a material adverse effect on net interest income unless interest rates increased substantially from current levels. The net interest margin generally expands in periods of falling interest rates as borrowing costs reprice downward faster than asset yields.

When the countercyclical behavior inherent in portions of our balance sheet composition do not result in an acceptable risk profile, management utilizes investment securities and interest rate contracts to mitigate this situation. The interest rate contracts used for this purpose are classified as asset/liability risk management instruments. These contracts are often used to modify the repricing period of our interest-bearing funding sources with the intention of reducing the volatility of changes in net interest income. The types of contracts used for this purpose consist of interest rate swaps, interest rate corridors, interest rate swaptions and certain derivatives that are embedded in borrowings. We also use receive-fixed swaps as part of our asset/liability risk management strategy to help us modify the repricing characteristics of certain long-term liabilities to match those of our assets. Typically, these are swaps of long-term fixed-rate debt to a short-term adjustable-rate which more closely resembles our asset repricing characteristics.

January 1, 2004 and January 1, 2003 Sensitivity Comparison

The table below indicates the sensitivity of net income and net interest income to interest rate movements. The comparative scenarios assume a parallel shift in the yield curve with interest rates rising 200 basis points in even quarterly increments over the twelve month periods ending December 31, 2004 and December 31, 2003 and interest rates decreasing by 50 basis points in even quarterly increments over the first six months of the twelve month periods. The net income and net interest income simulations performed for the one year period beginning January 1, 2004 include the effects of securities that were sold during the first quarter of 2004, which had the effect of mitigating both sensitivity measurements. No other actions were taken after December 31, 2003 that would materially change the sensitivities shown in the table. The projected net income and net interest income profile may not be realized and may not be present for non-parallel shifts in the yield curve or changes in the spreads between mortgage, Treasury and LIBOR rates.

	Gradual Change in Rates	
	-50 basis points	**+200 basis points**
Net income change for the one-year period beginning:		
January 1, 2004	2.45%	(1.96)%
January 1, 2003	5.24	3.98
Net interest income change for the one-year period beginning:		
January 1, 2004	3.01	(2.57)
January 1, 2003	2.32	(5.91)

The change in the profile of the MSR and related hedges occurred due to the substantial prepayment activity that occurred throughout 2003. This prepayment activity caused a significant decline in the weighted average rate paid on the loans underlying the MSR; which, in turn, significantly altered the risk profile of the MSR (since the rate paid on the underlying loan is a primary driver of the prepayment risk of

the loan). The higher long term rates at year end 2003 compared to year end 2002 additionally affected the risk profile of the MSR.

Net interest income sensitivity changed since year end 2002 mainly due to changes to the assumptions concerning the repricing of our Platinum checking accounts. Net income sensitivity changed primarily due to changes in the profile of the MSR and related hedge instruments.

Maturity and Repricing Information

We use interest rate risk management contracts and available-for-sale securities as tools to manage our interest rate risk profile. The following tables summarize the key contractual terms associated with these contracts and available-for-sale securities. Interest rate risk management contracts that are embedded within certain adjustable- and fixed-rate borrowings, while not accounted for as derivatives under Statement No. 133, have been included in the tables since they also function as interest rate risk management tools. Substantially all of the pay-fixed swaps, receive-fixed swaps, payor swaptions, floors and embedded derivatives at December 31, 2003 are indexed to three-month LIBOR.

The following estimated net fair value amounts from continuing operations have been determined by the Company using available market information and appropriate valuation methodologies:

	December 31, 2003							
	Maturity Range							
	Net Fair Value	Total Notional Amount	2004	2005	2006	2007	2008	After 2008
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Asset/Liability Risk Management								
Pay-fixed swaps:	$ (748)							
Contractual maturity		$ 21,894	$ 9,083	$ 3,288	$ 4,745	$ 3,700	$ 553	$ 525
Weighted average pay rate		4.30%	3.97%	4.13%	4.38%	5.02%	5.00%	4.66%
Weighted average receive rate		1.18%	1.17%	1.16%	1.22%	1.17%	1.15%	1.17%
Receive-fixed swaps:	401							
Contractual maturity		$ 6,440	$ 200	$ 180	$ 1,000	$ 750	$ 750	$ 3,560
Weighted average pay rate		1.41%	1.38%	0.29%	1.18%	3.43%	1.15%	1.16%
Weighted average receive rate		5.44%	6.75%	5.35%	6.81%	4.91%	3.71%	5.47%
Interest rate corridors:								
Contractual maturity		$ 254	$ 191	$ 63				
Weighted average strike rate long cap		7.60%	8.14%	5.94%				
Weighted average strike rate short cap		8.98%	9.48%	7.44%				
Payor swaptions(1):	1							
Contractual maturity (option)		$ 41		$ 41				
Weighted average strike rate		5.89%		5.89%				
Contractual maturity (swap)								$ 41
Weighted average pay rate								5.89%
Embedded pay-fixed swaps:	(99)							
Contractual maturity		$ 2,500				$ 2,500		
Weighted average pay rate		4.09%				4.09%		
Weighted average receive rate		1.16%				1.16%		
Embedded caps:								
Contractual maturity		$ 500	$ 500					
Weighted average strike rate		7.75%	7.75%					
Embedded payor swaptions(1):								
Contractual maturity (option)		$ 500	$ 500					
Weighted average strike rate		6.21%	6.21%					
Contractual maturity (swap)								$ 500
Weighted average pay rate								6.21%

	December 31, 2003	
Total asset/liability risk management	$ (445)	$ 32,129

(1) Interest rate swaptions are only exercisable upon maturity.

(This table is continued on the next page.)

(Continued from the previous page.)

	December 31, 2003							
			Maturity Range					
	Net Fair Value	Total Notional Amount	2004	2005	2006	2007	2008	After 2008
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Other Mortgage Banking Risk Management								
Forward purchase commitments:	$ 15							
Contractual maturity		$ 5,556	$ 5,556					
Weighted average price		100.88	100.88					
Forward sales commitments:	(122)							
Contractual maturity		$ 16,795	$ 16,795					
Weighted average price		101.08	101.08					
Interest rate futures:								
Contractual maturity		$ 12,874	$ 1,851	$ 1,542	$ 2,255	$ 2,002	$ 5,224	
Weighted average price		96.17	98.34	96.79	95.64	94.81	94.40	
Mortgage put options:								
Contractual maturity		$ 100	$ 100					
Weighted average strike price		99.07	99.07					
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December 31, 2003

Receive-fixed swaps:					
Contractual maturity		$ 1,950		$ 250	$ 1,700
Weighted average pay rate		1.17%		1.17%	1.17%
Weighted average receive rate		4.79%		3.90%	4.92%
Floors(2):	1				
Contractual maturity		$ 250	$ 250		
Weighted average strike rate					