RAINWATER KEITH S
Form 4
March 29, 2018

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
RAINWATER KEITH S

(Last) (First) (Middle)

C/O SCBT FINANCIAL CORPORATION, 520 GERVAIS STREET

(Street)

COLUMBIA, SC 29201

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SOUTH STATE Corp [SSB]

3. Date of Earliest Transaction (Month/Day/Year)
03/28/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Principal Accounting Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/28/2018		A		834 (1)	A	$ 0 (2)	5,723	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
								Date Exercisable	Expiration Date	Title	Amount or Number of Shares		
				Code	V	(A)	(D)						

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
RAINWATER KEITH S C/O SCBT FINANCIAL CORPORATION 520 GERVAIS STREET COLUMBIA, SC 29201			Principal Accounting Officer	

Signatures

Keith S. Rainwater	03/29/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Restricted Stock Units are subject to vesting based on performance and, potentially, performance and time of service, subject to acceleration and adjustment upon, among other events, a change of control.

(2) Not Applicable

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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)

Allocated allowance:

Loans secured by real estate:

Home

$

251

0.30

%

57.92

%

$

290

0.36

%

63.00

%

Specialty mortgage finance(2)

169

1.67

7.08

97

1.18

6.49

Total home loans

420

0.45

65.00

387

0.44

69.49

Home equity loans and lines of credit

46

0.29

11.31

27

0.34

6.31

Home construction(3)

22

Explanation of Responses:

1.13

1.36

32

1.23

2.05

Multi-family

146

0.81

Explanation of Responses:

12.59

138

0.88

12.35

Other real estate

296

3.71

5.58

161

2.64

4.82

Total allocated allowance secured by real estate

930

0.68

95.84

745

0.62

95.02

Consumer:

Credit card

Other

Explanation of Responses:

70

4.21

1.16

71

3.53

1.59

Commercial business

116

2.70

3.00

92

2.15

3.39

Total allocated allowance held in portfolio

1,116

0.78

Explanation of Responses:

100.00

908

0.72

100.00

Unallocated allowance

387

0.27

Explanation of Responses:

370

0.29

Total allowance for loan and lease losses

$

1,503

1.05

%

100.00

%

$

1,278

1.01

%

100.00

%

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(1) Excludes loans held for sale.

(2) Represents purchased subprime home loan portfolios and subprime home loans originated by Long Beach Mortgage Company and held in its investment portfolio.

(3) 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.

Growth in the Company s specialty mortgage finance portfolio since 2001 has resulted in a substantial increase in the allocated allowance attributable to this portfolio and a substantial increase in nonaccrual loans. The Company seeks to mitigate the credit risk in this portfolio by ensuring compliance with underwriting standards on loans originated to subprime borrowers and by re-underwriting all purchased subprime loans. During 2005, while the size of this portfolio grew by $1.97 billion or 10%, nonaccrual loans and net charge-offs expressed as a percentage of the loan category increased by 16% and 18%, and as a result, the allocated allowance increased from 1.26% of specialty mortgage finance loans held in portfolio to 1.77%.

Home equity loans and lines of credit increased from $7.97 billion at December 31, 2001 to $50.85 billion at December 31, 2005. With the strong housing market that has existed during the current decade, home equity loans and lines of credit have become an increasingly popular product as they enable homeowners to borrow a portion of their equity for personal expenditures. Although the allocated allowance for this portfolio increased from $27 million at December 31, 2001 to $107 million at the end of 2005, that allowance as a percentage of loans in this portfolio declined from 0.34% to 0.21% during that same period, reflecting generally high credit scores among borrowers, lower risk loan-to-value ratios and a significant portion of loans that are in a first lien position.

90 or More Days Past Due and Still Accruing

The total amount of loans held in portfolio, excluding credit card loans, that were 90 days or more contractually past due and still accruing interest was $107 million, $85 million, $46 million, $60 million and $86 million at December 31, 2005, 2004, 2003, 2002 and 2001. The majority of these loans are either VA- or FHA-insured with little or no risk of loss of principal or interest. Credit card loans held in portfolio that were 90 days or more contractually past due and still accruing interest were $87 million at

December 31, 2005. Credit card loans are charged-off when they are determined to be uncollectible or by the end of the month in which the account becomes 180 days past due.

As a result of regulatory guidelines issued in 2003, delinquent mortgages contained within GNMA 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 credit loss. The Company s held for sale portfolio contained $1.06 billion, $1.60 billion, $2.50 billion, $3.22 billion and $692 million of such loans that were 90 days or more contractually past due and still accruing interest at December 31, 2005, 2004, 2003, 2002 and 2001.

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Liquidity Risk Management

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 its other obligations on a timely and cost-effective basis. The Company establishes liquidity guidelines for the parent holding company, Washington Mutual, Inc., as well as for its principal operating subsidiaries. The Company also maintains contingency liquidity plans that outline alternative actions and enable appropriate and timely responses under stress scenarios.

Washington Mutual, Inc.

Liquidity for Washington Mutual, Inc. (the Parent Company) is generated through its ability to raise funds through dividends from subsidiaries and in various capital markets through the issuance of unsecured debt, commercial paper and other securities.

One of Washington Mutual, Inc. s key funding sources is from dividends paid by its banking subsidiaries. Banking subsidiaries dividends may be reduced from time to time to ensure that internal capital targets are met. Various regulatory requirements related to capital adequacy and retained earnings also limit the amount of dividends that can be paid by the Parent Company s banking subsidiaries. For more information on such dividend limitations applicable to the Company s banking subsidiaries, refer to Business Regulation and Supervision and Note 19 to the Consolidated Financial Statements Regulatory Capital Requirements and Dividend Restrictions.

In January 2006, the Company filed an automatically effective registration statement under the Securities Offering Reform rules recently adopted by the SEC. The Company registered an unlimited amount of debt securities and preferred stock on this registration statement.

Washington Mutual, Inc. also has a commercial paper program and a revolving credit facility that are sources of liquidity. At December 31, 2005, the commercial paper program provided for up to $1 billion in funds. In addition, the Company s revolving credit facility of $800 million provides credit support for Washington Mutual, Inc. s commercial paper program as well as funds for general corporate purposes. At December 31, 2005, Washington Mutual, Inc. had $671 million in commercial paper available for issuance and the entire amount of the revolving credit facility was available.

The Parent Company s senior debt and commercial paper was rated A and F1 by Fitch, A3 and P2 by Moody s and A- and A2 by Standard and Poor s.

Washington Mutual, Inc. maintains sufficient liquidity to cover all debt obligations maturing over the next twelve months.

Banking Subsidiaries

The principal sources of liquidity for the Company s banking subsidiaries are customer deposits, wholesale borrowings, the maturity and repayment of portfolio loans, securities held in the available-for-sale portfolio and mortgage loans designated as held for sale. Among these sources, transaction account deposits and wholesale borrowings from FHLB advances, repurchase agreements and federal funds purchased continue to provide the Company with a significant source of stable funding. During 2005, those sources funded 65% of average total assets. The Company s continuing ability to retain its transaction account 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 deposit products. The Company continues to have the necessary assets available to pledge as collateral to obtain additional FHLB advances and repurchase agreements to offset potential declines in deposit balances.

At December 31, 2005, the Company s proceeds from the sales of loans were approximately $167 billion. These proceeds were, in turn, used as the primary funding source for the origination and

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purchases, net of principal payments, of approximately $165 billion of loans held for sale during the same period. Typically, a cyclical pattern of sales and originations/purchases repeats itself during the course of a period and the amount of funding necessary to sustain mortgage banking operations does not significantly affect the Company s overall level of liquidity resources.

The Company s banking subsidiaries also raise funds in domestic and international capital markets to supplement their primary funding sources. In August 2003, the Company established a Global Bank Note Program that allows Washington Mutual Bank to issue senior and subordinated notes in the United States and in international capital markets in a variety of currencies and structures. The program was renewed in December 2005. Washington Mutual Bank had $22 billion available under this program at December 31, 2005.

Senior unsecured long-term obligations of Washington Mutual Bank were rated A by Fitch, A2 by Moody s and A by Standard and Poor s. Short-term obligations were rated F1 by Fitch, P1 by Moody s and A1 by Standard and Poor s.

Non-banking Subsidiaries

Long Beach Mortgage Company has revolving credit facilities with non-affiliated lenders totaling $6.5 billion that are used to fund loans held for sale. At December 31, 2005, Long Beach Mortgage Company had borrowings outstanding of approximately $2.8 billion under these credit facilities.

In June 2005, Long Beach Mortgage Company launched Strand Capital LLC (Strand), a single-seller asset-backed extendible note facility, to augment its existing credit facilities. Strand has total funding capacity of $9.5 billion, and as of December 31, 2005 approximately $4.2 billion in notes were outstanding.

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 the Company is exposed is interest rate risk. Substantially all of its interest rate risk arises from instruments, positions and transactions entered into for purposes other than trading. These include loans, MSR, securities, deposits, borrowings, long-term debt and derivative financial instruments.

The Company s trading assets are primarily comprised of financial instruments that are retained from securitization transactions, or are purchased for MSR risk management purposes. The Company does not take significant short-term trading positions for the purpose of benefiting from price differences between financial instruments and markets.

Interest rate risk is managed within a consolidated enterprise risk management framework that includes asset/liability management and the 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 the Board. The Board has delegated the oversight of the administration of this policy to the Finance Committee of the Board.

Types of Interest Rate Risk

The Company is exposed to different types of interest rate risks. These include lag, repricing, basis, prepayment, lifetime and periodic payment caps, and volatility risk.

Lag/Repricing Risk

Lag risk results from timing differences 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, the

Company s assets may reprice slower than its 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, but 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. For example, adjustable-rate loans may reprice based on Treasury rates while borrowings may reprice based on LIBOR rates.

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 and Periodic Payment Cap Risk

Many of the Company s adjustable-rate home loan products contain lifetime interest rate caps, which prevent the interest rate on the loan from exceeding a contractually determined level. In periods of dramatically rising rates, those adjustable-rate loans that have reached their lifetime cap rate will no longer reprice upward. Periodic payment caps limit the amount that a borrower s scheduled payment on an adjustable-rate loan can increase when the interest rate is adjusted upward on the loan s periodic repricing date.

Volatility Risk

Volatility risk is the potential change in 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). For the holder of an option contract, implied volatility is a key determinant of option value with higher volatility generally increasing option value and lower volatility generally decreasing option value.

MSR Risk Management

The Company manages potential impairment in the fair value of MSR and increased amortization levels of MSR through a comprehensive risk management program. The intent is to offset the changes in MSR fair value and changes in MSR amortization above anticipated levels 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 and trading securities. The 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 interest rate caps. The Company may purchase or sell option contracts, depending on the portfolio risks it seeks to manage. The Company also enters into forward commitments to purchase and sell mortgage-backed securities, which generally are comprised of fixed-rate mortgage-backed securities with 15 or 30 year maturities.

The fair value of MSR is primarily affected by changes in prepayments that result from shifts in mortgage rates. Changes in the value of MSR risk management instruments vary based on the specific instrument. For example, changes in the fair value of interest rate swaps are driven by shifts in interest rate swap rates and the fair value of U.S. Treasury securities 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. This difference in market indices between the MSR and the risk management instruments results in what is referred to as basis risk.

The fair value of MSR decreases and the amortization rate increases in a declining interest rate environment due to higher prepayment activity. During periods of rising interest rates, the amortization rate of MSR decreases and the fair value of MSR increases due to lower prepayment activity.

The Company manages the MSR daily and adjusts 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. For that portion of the MSR which qualifies for hedge accounting treatment, all changes in fair value of the MSR, even when the fair value is higher than amortized cost, will be recorded through earnings. MSR which do not qualify for hedge accounting treatment must be accounted for at the lower of cost or fair value. The Company also manages the size of the MSR asset. Depending on market conditions and the desire to expand customer relationships, management may periodically sell or purchase additional servicing. Management may also structure loan sales to control the size of the MSR asset created by any particular transaction.

The Company believes this overall risk management strategy is the most efficient approach to managing MSR fair value risk. The success of this strategy, however, is dependent on management s decisions regarding the amount, type and mix of MSR risk management instruments that are selected to manage the changes in fair value of the mortgage servicing asset. If this strategy is not successful, net income could be adversely affected.

Other Mortgage Banking Risk Management

The Company also manages the risks associated with its home loan mortgage warehouse and pipeline. The mortgage warehouse consists of funded loans intended for sale in the secondary market. The pipeline consists of commitments to originate or purchase mortgages to be sold in the secondary market. The risk associated with the mortgage pipeline and warehouse is the potential for changes in interest rates between the time the customer locks in the rate on the loan and the time the loan is sold.

The Company measures the risk profile of the mortgage warehouse and pipeline daily. To manage the warehouse and pipeline risk, management executes forward sales commitments, interest rate contracts and mortgage option contracts. A forward sales commitment protects against 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 the Company is obligated to deliver the loan to the third party on the agreed-upon future date. Management also estimates the fallout factor, which represents the percentage of loans that are not expected to be funded, when determining the appropriate amount of pipeline risk management instruments.

Asset/Liability Risk Management

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

To analyze net income sensitivity, management projects net income in a variety of interest rate scenarios, assuming both parallel and non-parallel shifts in the yield curve. These scenarios illustrate net interest income sensitivity that results from changes in the slope of the yield curve and changes in the spread between Treasury and LIBOR rates. The net income simulations also demonstrate projected changes in MSR and MSR hedging activity under a variety of scenarios. Additionally, management projects the fair market values of assets and liabilities under different interest rate scenarios to assess their risk exposure over longer periods of time.

The projection of the sensitivity of net interest income and net income requires numerous assumptions. Prepayment speeds, decay rates (the estimated runoff of deposit accounts that do not have a stated maturity), future deposit and loan rates and loan and deposit volume and mix projections are among the most significant assumptions. Prepayments affect the size of the loan and mortgage-backed securities portfolios, which impacts net interest income. All deposit and loan portfolio assumptions, including loan prepayment speeds and deposit decay rates, require management s judgments of anticipated customer behavior in various interest rate environments. These assumptions are derived from internal and external analyses. The rates on new investment securities are based on secondary market rates while the rates on loans are based on the rates offered by the Company to retail customers.

The slope of the yield curve, current interest rate conditions and the speed of changes in interest rates all affect sensitivity to changes in interest rates. Short-term borrowings and, to a lesser extent, interest-bearing deposits typically reprice faster than the Company s adjustable-rate assets. This lag effect is inherent in 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 and those indexed to the 11th District FHLB monthly weighted average cost of funds index.

The sensitivity of new loan volume and mix to changes in market interest rate levels is also projected. Management generally assumes a reduction in total loan production in rising long-term interest rate scenarios accompanied by a shift towards a greater proportion of adjustable-rate production. Conversely, the Company generally assumes an increase in total loan production in falling long-term interest rate scenarios accompanied by a shift towards a greater proportion of fixed-rate loans. The gain from mortgage loans also varies under different interest rate scenarios. Normally, the gain from mortgage loans increases in falling long-term interest rate environments primarily from high fixed-rate mortgage refinancing activity. Conversely, the gain from mortgage loans may decline when long-term interest rates increase if management chooses to retain more loans in the portfolio.

In periods of rising interest rates, the net interest margin normally contracts since the repricing period of the Company s liabilities is shorter than the repricing period of its assets. The net interest margin generally expands in periods of falling interest rates as borrowing costs reprice downward faster than asset yields.

To manage interest rate sensitivity, management utilizes the interest rate risk characteristics of the 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 interest rate risk are countercyclical. Management may adjust the amount or mix of risk management instruments based on the countercyclical behavior of the balance sheet products.

When the countercyclical behavior inherent in portions of the Company s balance sheet does 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 interest-bearing funding sources with the intention of reducing the volatility of net interest income. The types of contracts used for this purpose may consist of interest rate swaps, interest rate corridors, interest rate swaptions and certain derivatives that are embedded in borrowings. Management also uses receive-fixed swaps as part of the asset/liability risk management strategy to help modify the repricing characteristics of certain long-term liabilities to match those of the assets. Typically, these are swaps of long-term fixed-rate debt to a short-term adjustable-rate, which more closely resembles asset repricing characteristics.

January 1, 2006 and January 1, 2005 Sensitivity Comparison

The table below indicates the sensitivity of net interest income and net income as a result of hypothetical interest rate movements on market risk sensitive instruments. The base case used for this sensitivity analysis is similar to the Company s most recent earnings plan for the respective twelve-month periods as of the date the analysis was performed. The comparative results assume parallel shifts in the yield curve with interest rates rising 200 basis points in even quarterly increments over the twelve-month periods ending December 31, 2006 and December 31, 2005 and interest rates decreasing by 50 basis points in even quarterly increments over the first six months of the twelve-month periods. Periodically the Company reassesses its sensitivity analysis and, as economic conditions warrant, will update key model characteristics, assumptions and parameters used in providing quantitative information about market risk. Such updates include altering the hypothetical interest rate movements applied to market risk sensitive instruments to reflect current trends in reasonably possible near term changes in expected economic conditions. Due to continual increases in short-term interest rates since June of 2004, the Company has provided an additional sensitivity analysis that considers the hypothetical effect of interest rates rising 100 basis points and decreasing 100 basis points in even quarterly increments over the twelve-month period ending December 31, 2006.

These analyses also incorporate assumptions about balance sheet dynamics such as loan and deposit growth and pricing, changes in funding mix and asset and liability repricing and maturity characteristics. The projected interest rate sensitivities of net interest income and net income shown below may differ significantly from actual results, particularly with respect to non-parallel shifts in the yield curve or changes in the spreads between mortgage, Treasury and LIBOR rates. The analysis for January 1, 2005 excludes Providian Financial Corporation, which the Company acquired on October 1, 2005.

Comparative Net Interest Income and Net Income Sensitivity

	Gradual Change in Rates	
	-50 basis points	+200 basis points
Net interest income change for the one-year period beginning:		
January 1, 2006	1.46 %	(3.58)%
January 1, 2005	2.61	(2.18)
Net income change for the one-year period beginning:		
January 1, 2006	1.20	(5.32)
January 1, 2005	(0.95)	(1.37)

Net Interest Income and Net Income Sensitivity

	Gradual Change in Rates	
	-100 basis points	+100 basis points
Net interest income change for the one-year period beginning:		
January 1, 2006	2.62 %	(2.45)%
Net income change for the one-year period beginning:		
January 1, 2006	2.59	(3.27)

Net interest income was adversely impacted by rising short-term rates and the continued flattening of the yield curve. Short-term interest rates have increased approximately 200 basis points since December 31, 2004 while long-term rates have increased less than 50 basis points. These yield curve movements have resulted in flat Treasury and LIBOR curves at December 31, 2005.

Net interest income was projected to increase in the -50 basis point scenario as expansion of the net interest margin more than offsets the unfavorable impact of a slight decline in earning assets. Net income was projected to increase in this scenario mainly due to the increase in net interest income as other income was relatively neutral. Decreases in other income in this scenario adversely impacted the prior year s analysis.

Net interest income was projected to decrease in the +200 basis point scenario mainly due to contraction of the net interest margin. Net income was projected to decline in this scenario mainly due to the adverse impact of net interest income.

Net interest income was projected to increase in the -100 basis point scenario and decrease in the +100 basis point scenario mainly due to expansion and contraction of the net interest margin. Net income in these scenarios was primarily impacted by changes in net interest income although other income adversely affected the falling rate scenario and had a modest favorable effect in the rising rate scenario.

These sensitivity analyses are limited in that they were performed at a particular point in time. The analyses assume management does not initiate strategic actions, such as increasing or decreasing term funding or selling assets, to offset the impact of projected changes in net interest income or net income in these scenarios. The analyses are also based on the reliability of various assumptions used, including prepayment forecasts and discount rates, and do not incorporate other factors that would impact the Company s overall financial performance in such scenarios, most significantly the impact of changes in gain from mortgage loans that result from changes in interest rates. In addition, not all of the changes in fair value may impact current period earnings. For example, the portion of the MSR that does not qualify for fair value hedge accounting treatment may increase in value, but the amount of the increase that is recorded in current period earnings may be limited to the recovery of the impairment reserve within each stratum. These analyses also assume that the projected MSR risk management strategy is effectively implemented and that mortgage and interest rate swap spreads are constant in all interest rate environments. These assumptions may not be realized. For example, changes in spreads between interest rate indices could result in significant changes in projected net income sensitivity. Projected net income may increase if market rates on interest rate swaps decrease by more than the decrease in mortgage rates, while the projected net income may decline if the rates on swaps increase by more than mortgage rates. Accordingly, the preceding sensitivity estimates should not be viewed as an earnings forecast.

Operational Risk Management

Operational risk is the risk of loss resulting from human fallibility, inadequate or failed internal processes and systems, or from external events, including loss related to legal risk. Operational risk can occur in any activity, function, or unit of the Company.

Primary responsibility for managing operational risk rests with the lines of business. Each line of business is responsible for identifying its operational risks and establishing and maintaining appropriate business-specific policies, internal control procedures and monitoring tools for these risks. To help identify, assess and manage corporate-wide risks, the Company uses corporate support groups such as Legal, Compliance, Information Security, Continuity Assurance, Strategic Sourcing and Finance. These groups assist the lines of business in the development and implementation of risk management practices specific to the needs of each business.

The Operational Risk Management Policy, approved by the Audit Committee of the Board of Directors, establishes the Company s operational risk framework and defines the roles and responsibilities for the management of operational risk. The operational risk framework consists of a methodology for identifying, measuring, monitoring and controlling operational risk combined with a governance process that complements the Company s organizational structure and risk management philosophy. The Operational Risk Management Committee ensures consistent communication and oversight of significant operational risk issues across the Company and ensures sufficient resources are allocated to maintain business-specific operational risk controls, policies and practices consistent with and in support of the operational risk framework and corporate standards. The Operational Risk Management function, part of Enterprise Risk Management, is responsible for maintaining the framework and works with the lines of business and corporate support functions to ensure consistent and effective policies, practices, controls and monitoring tools for assessing and managing operational risk across the Company. The objective of the framework is to provide an integrated risk management approach that emphasizes proactive management of operational risk using measures, tools and techniques that are risk-focused and consistently applied company-wide.

The Company has a process for identifying and monitoring operational loss event data, thereby permitting root cause analysis and monitoring of trends by line of business, process, product and risk-type. This analysis is essential to sound risk management and supports the Company s process management and improvement efforts.

Maturity and Repricing Information

The Company uses interest rate contracts and available-for-sale and trading securities as tools to manage its interest rate risk profile. The following tables summarize the key contractual terms associated with these contracts and securities. Most of the interest rate swaps, swaptions, and caps at December 31, 2005 are indexed to three-month LIBOR.

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

	December 31, 2005 Maturity Range							
	Net Fair Value	Total Notional Amount	2006	2007	2008	2009	2010	After 2010
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Asset/Liability Risk Management								
Pay-fixed swaps:	$ 11							
Contractual maturity		$ 23,458	$ 11,933	$ 4,506			$ 5,117	$ 1,902
Weighted average pay rate		4.30 %	3.69 %	4.95 %			4.92 %	4.97 %
Weighted average receive rate		4.36 %	4.33 %	4.37 %			4.43 %	4.35 %
Receive-fixed swaps:	(364)							
Contractual maturity		$ 29,303	$ 1,000	$ 12,773	$ 5,173	$ 1,232	$ 1,185	$ 7,940
Weighted average pay rate		4.32 %	4.34 %	4.20 %	4.07 %	4.77 %	4.25 %	4.60 %
Weighted average receive rate		4.34 %	6.81 %	3.67 %	4.12 %	4.25 %	5.67 %	5.07 %
Basis swaps:	2							
Contractual maturity		$ 5,000		$ 3,500	$ 500	$ 1,000		
Weighted average pay rate		3.97 %		3.98 %	3.94 %	3.95 %		
Weighted average receive rate		4.29 %		4.29 %	4.29 %	4.29 %		
Interest rate caps:	11							
Contractual maturity		$ 13,070	$ 13,070					
Weighted average strike rate		4.67 %	4.67 %					
Payor swaptions:	3							
Contractual maturity (option)		$ 4,000	$ 4,000					
Weighted average strike rate		5.50 %	5.50 %					
Contractual maturity (swap)					$ 4,000			
Weighted average pay rate					5.50 %			
Receiver swaptions:	6							
Contractual maturity (option)		$ 6,795	$ 5,770	$ 1,025				
Weighted average strike rate		3.64 %	3.63 %	3.69 %				
Contractual maturity (swap)					$ 2,850	$ 2,595	$ 275	$ 1,075
Weighted average receive rate					3.31 %	3.74 %	4.26 %	4.15 %
Receiver floater swaps:	87							
Contractual maturity		$ 4,167			$ 4,167			
Weighted average pay rate		3.66 %			3.66 %			
Weighted average receive rate		4.12 %			4.12 %			
Payor floater swaps:	(110)							
Contractual maturity		$ 13,667			$ 13,667			
Weighted average pay rate		1.33 %			1.33 %			
Weighted average receive rate		1.12 %			1.12 %			
Receiver market value swaps:	(40)							
Contractual maturity		$ 4,141			$ 4,141			
Payor market value swaps	40							
Contractual maturity		$ 4,141			$ 4,141			
Eurodollar futures sale contracts:	3							
Contractual maturity		$ 32,846	$ 31,846	$ 1,000				
Weighted average price		95.18	95.18	95.26				
Treasury futures purchase contracts:	40							
Contractual maturity		$ 7,631	$ 7,631					
Weighted average price		104.90	104.90					
Treasury futures options:	5							
Contractual maturity		$ 4,007	$ 4,007					
Weighted average strike price		110.22	110.22					
Total asset/liability risk management	$ (306)	$ 152,226						

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	December 31, 2005 Maturity Range Net Fair Value (dollars in millions)	Total Notional Amount	2006	2007	2008	2009	2010	After 2010
Interest Rate Risk Management Contracts:								
MSR Risk Management								
Pay-fixed swaps:	$ (2)							
Contractual maturity		$ 960						$ 960
Weighted average pay rate		4.98 %						4.98 %
Weighted average receive rate		4.53 %						4.53 %
Receive-fixed swaps:	(75)							
Contractual maturity		$ 10,295		$ 3,700	$ 3,575		$ 1,600	$ 1,420
Weighted average pay rate		4.38 %		4.42 %	4.35 %		4.35 %	4.41 %
Weighted average receive rate		4.55 %		4.35 %	4.64 %		4.54 %	4.88 %
Constant maturity mortgage swaps:								
Contractual maturity		$ 100			$ 100			
Weighted average pay rate		5.88 %			5.88 %			
Weighted average receive rate		5.79 %			5.79 %			
Constant maturity mortgage forward rate agreements:								
Contractual maturity		$ 3,000	$ 3,000					
Weighted average price		5.77 %	5.77 %					
Payor swaptions:	76							
Contractual maturity (option)		$ 21,325	$ 21,325					
Weighted average strike rate		5.26 %	5.26 %					
Contractual maturity (swap)					$ 2,500	$ 3,000	$ 1,100	$ 14,725
Weighted average pay rate					5.34 %	4.98 %	5.28 %	5.29 %
Written payor swaptions:	(192)							
Contractual maturity (option)		$ 6,600			$ 3,900		$ 2,700	
Weighted average strike rate		5.22 %			5.03 %		5.49 %	
Contractual maturity (swap)								$ 6,600
Weighted average pay rate								5.22 %
Receiver swaptions:	90							
Contractual maturity (option)		$ 19,050	$ 19,050					
Weighted average strike rate		4.79 %	4.79 %					
Contractual maturity (swap)				$ 2,000	$ 1,500	$ 2,000		$ 13,550
Weighted average receive rate				4.78 %	4.79 %	4.77 %		4.79 %
Written receiver swaptions:	(95)							
Contractual maturity (option)		$ 4,200			$ 1,500		$ 2,700	
Weighted average strike rate		4.50 %			4.50 %		4.49 %	
Contractual maturity (swap)							$ 350	$ 3,850
Weighted average receive rate							4.85 %	4.46 %
Treasury futures purchase contracts:	(4)							
Contractual maturity		$ 915	$ 915					
Weighted average price		109.05	109.05					
Treasury futures options:	10							
Contractual maturity		$ 2,646	$ 2,646					
Weighted average strike price		109.91	109.91					
Forward purchase agreement options:								
Contractual maturity		$ 20	$ 20					
Weighted average strike price		99.27	99.27					
Forward purchase commitments:	108							
Contractual maturity		$ 49,895	$ 49,895					
Weighted average price		100.13	100.13					
Forward sale commitments:	(79)							
Contractual maturity		$ 18,375	$ 18,375					
Weighted average price		99.62	99.62					
Total MSR risk management	$ (163)	$ 137,381						

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	December 31, 2005 Maturity Range Net Fair Value	Total Notional Amount	2006	2007	2008	2009	2010	After 2010
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Other Mortgage Banking Risk Management								
Forward purchase commitments:	$ 55							
Contractual maturity		$ 17,078	$ 17,078					
Weighted average price		99.33	99.33					
Forward sale commitments:	(117)							
Contractual maturity		$ 31,033	$ 31,033					
Weighted average price		99.30	99.30					
Eurodollar futures sale contracts:	4							
Contractual maturity		$ 37,732	$ 31,288	$ 4,143	$ 1,578	$ 511	$ 212	
Weighted average price		95.19	95.18	95.25	95.22	95.11	95.01	
Mortgage put options:	1							
Contractual maturity		$ 3,100	$ 3,100					
Weighted average strike price		98.63	98.63					
Pay-fixed swaps:	61							
Contractual maturity		$ 6,266	$ 915	$ 2,340	$ 1,335	$ 10	$ 462	$ 1,204
Weighted average pay rate		4.38 %	3.22 %	4.62 %	4.47 %	4.00 %	4.55 %	4.62 %
Weighted average receive rate		4.30 %	4.42 %	4.25 %	4.23 %	4.17 %	4.31 %	4.38 %
Receive-fixed swaps:	(19)							
Contractual maturity		$ 3,660	$ 800	$ 800	$ 750		$ 775	$ 535
Weighted average pay rate		4.33 %	4.12 %	4.50 %	4.35 %		4.33 %	4.36 %
Weighted average receive rate		4.22 %	3.34 %	4.13 %	4.23 %		4.53 %	5.19 %
Payor swaptions:	4							
Contractual maturity (option)		$ 2,875	$ 2,875					
Weighted average strike rate		5.34 %	5.34 %					
Contractual maturity (swap)					$ 1,000			$ 1,875
Weighted average pay rate					5.30 %			5.36 %
Receiver swaptions:								
Contractual maturity (option)		$ 100	$ 100					
Weighted average strike rate		4.64 %	4.64 %					
Contractual maturity (swap)								$ 100
Weighted average receive rate								4.64 %
Total other mortgage banking risk management	$ (11)	$ 101,844						
Total interest rate riskmanagement contracts	$ (480)	$ 391,451						

	December 31, 2005 Amortized Cost	Net Unrealized Gain (Loss)	Fair Value
	(in millions)		
MSR Risk Management:			
Available-For-Sale Securities:			
Mortgage-backed securities U.S. Government and agency(1)	$ 891	$ (10)	$ 881
Trading Securities:			
Mortgage-backed securities U.S. Government and agency	n/a	n/a	3,607
Total MSR risk management securities			$ 4,488

(1) Mortgage-backed securities mature after 2010.

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	December 31, 2004 Maturity Range							
	Net Fair Value	Total Notional Amount	2005	2006	2007	2008	2009	After 2009
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Asset/Liability Risk Management								
Pay-fixed swaps:	$ (112)							
Contractual maturity		$ 16,013	$ 11,780	$ 1,433	$ 2,800			
Weighted average pay rate		3.51 %	3.08 %	4.18 %	5.01 %			
Weighted average receive rate		2.34 %	2.39 %	2.13 %	2.24 %			
Receive-fixed swaps:	218							
Contractual maturity		$ 19,930	$ 80	$ 1,000	$ 10,950	$ 850	$ 1,150	$ 5,900
Weighted average pay rate		2.53 %	0.62 %	2.29 %	2.53 %	2.46 %	2.74 %	2.55 %
Weighted average receive rate		4.35 %	5.41 %	6.81 %	3.53 %	3.99 %	4.25 %	5.51 %
Interest rate caps:	21							
Contractual maturity		$ 26,075	$ 3,000	$ 19,875	$ 3,200			
Weighted average strike rate		4.38 %	3.30 %	4.46 %	4.91 %			
Interest rate corridors:	2							
Contractual maturity		$ 2,585	$ 7					$ 2,578
Weighted average strike rate long cap		9.80 %	5.94 %					9.81 %
Weighted average strike rate short cap		10.09 %	7.44 %					10.10 %
Payor swaptions:	1							
Contractual maturity (option)		$ 500		$ 500				
Weighted average strike rate		5.30 %		5.30 %				
Contractual maturity (swap)					$ 500			
Weighted average pay rate					5.30 %			
Receiver swaptions:	6							
Contractual maturity (option)		$ 1,070	$ 750	$ 320				
Weighted average strike rate		3.87 %	3.92 %	3.75 %				
Contractual maturity (swap)								$ 1,070
Weighted average receive rate								3.87 %
Total asset/liability risk management	$ 136	$ 66,173						

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	December 31, 2004 Maturity Range Net Fair Value	Total Notional Amount	2005	2006	2007	2008	2009	After 2009
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
MSR Risk Management								
Pay-fixed swaps:	$ 24							
Contractual maturity		$ 4,500	$ 3,000	$ 1,500				
Weighted average pay rate		2.53 %	2.37 %	2.83 %				
Weighted average receive rate		2.50 %	2.50 %	2.49 %				
Receive-fixed swaps:	181							
Contractual maturity		$ 10,310		$ 600		$ 255	$ 575	$ 8,880
Weighted average pay rate		2.31 %		2.51 %		2.04 %	2.31 %	2.30 %
Weighted average receive rate		4.74 %		3.36 %		3.55 %	3.74 %	4.93 %
Constant maturity mortgage swaps:	1							
Contractual maturity		$ 100				$ 100		
Weighted average pay rate		5.11 %				5.11 %		
Weighted average receive rate		5.22 %				5.22 %		
Payor swaptions:	83							
Contractual maturity (option)		$ 52,200	$ 49,150	$ 3,050				
Weighted average strike rate		5.54 %	5.56 %	5.22 %				
Contractual maturity (swap)					$ 4,950	$ 3,800		$ 43,450
Weighted average pay rate					4.21 %	4.87 %		5.75 %
Written receiver swaptions:	(3)							
Contractual maturity (option)		$ 7,000	$ 7,000					
Weighted average strike rate		3.44 %	3.44 %					
Contractual maturity (swap)					$ 1,000			$ 6,000
Weighted average receive rate					2.77 %			3.56 %
Forward purchase commitments:	128							
Contractual maturity		$ 41,912	$ 41,912					
Weighted average price		99.83	99.83					
Forward sale commitments:	(9)							
Contractual maturity		$ 5,655	$ 5,655					
Weighted average price		99.31	99.31					
Total MSR risk management	$ 405	$ 121,677						

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	December 31, 2004 Maturity Range Net Fair Value	Total Notional Amount	2005	2006	2007	2008	2009	After 2009
	(dollars in millions)							
Interest Rate Risk Management Contracts:								
Other Mortgage Banking Risk Management								
Forward purchase commitments:	$ 28							
Contractual maturity		$ 11,625	$ 11,625					
Weighted average price		101.15	101.15					
Forward sale commitments:	(48)							
Contractual maturity		$ 31,488	$ 31,488					
Weighted average price		101.02	101.02					
Eurodollar futures sale contracts:								
Contractual maturity		$ 18,530	$ 7,446	$ 5,914	$ 4,267	$ 628	$ 275	
Weighted average price		96.30	96.75	96.19	95.83	95.48	95.13	
Interest rate corridors:	1							
Contractual maturity		$ 3,439				$ 3,439		
Weighted average strike rate long cap		3.94 %				3.94 %		
Weighted average strike rate short cap		10.00 %				10.00 %		
Mortgage put options:	4							
Contractual maturity		$ 1,215	$ 1,215					
Weighted average strike price		101.35	101.35					
Pay-fixed swaps:	22							
Contractual maturity		$ 9,371	$ 4,840	$ 3,280	$ 380		$ 233	$ 638
Weighted average pay rate		3.08 %	2.79 %	3.10 %	3.33 %		3.91 %	4.68 %
Weighted average receive rate		2.37 %	2.40 %	2.34 %	2.30 %		2.27 %	2.38 %
Receive-fixed swaps:	10							
Contractual maturity		$ 1,335		$ 300	$ 400			$ 635
Weighted average pay rate		2.20 %		2.05 %	2.13 %			2.32 %
Weighted average receive rate		3.84 %		2.19 %	3.37 %			4.91 %
Payor swaptions:	1							
Contractual maturity (option)		$ 6,040	$ 6,040					
Weighted average strike rate		6.39 %	6.39 %					
Contractual maturity (swap)								$ 6,040
Weighted average pay rate								6.39 %
Total other mortgage banking riskmanagement	$ 18	$ 83,043						
Total interest rate riskmanagement contracts	$ 559	$ 270,893						

	December 31, 2004 Amortized Cost	Net Unrealized Gain (Loss)	Fair Value
	(in millions)		
MSR Risk Management:			
Available-For-Sale Securities:			
Mortgage-backed securities U.S. Government and agency(1)	$ 2,137	$ 19	$ 2,156
Trading Securities:			
Mortgage-backed securities U.S. Government and agency	n/a	n/a	3,512
Total MSR risk management securities			$ 5,668

(1) Mortgage-backed securities mature after 2009.

Derivative Counterparty Credit Risk

Derivative financial instruments expose the Company to credit risk in the event of nonperformance by counterparties to such agreements. This risk consists primarily of the termination value of agreements where the Company is in a favorable position. Credit risk related to derivative financial instruments is

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considered and provided for separately from the allowance for loan and lease losses. The Company manages the credit risk associated with its various derivative agreements through counterparty credit review, counterparty exposure limits and monitoring procedures. The Company obtains collateral from certain counterparties for amounts in excess of exposure limits and monitors all exposure and collateral requirements daily. The fair value of collateral received from a counterparty is continually monitored and the Company may request additional collateral from counterparties or return collateral pledged as deemed appropriate. The Company s agreements generally include master netting agreements whereby the counterparties are entitled to settle their positions net. At December 31, 2005 and 2004, the gross positive fair value of the Company s derivative financial instruments was $792 million and $899 million. The Company s master netting agreements at December 31, 2005 and 2004 reduced the exposure to this gross positive fair value by $561 million and $266 million. The Company s collateral against derivative financial instruments was $82 million and $280 million at December 31, 2005 and 2004. Accordingly, the Company s net exposure to derivative counterparty credit risk at December 31, 2005 and December 31, 2004 was $149 million and $353 million.

Tax Contingency

The Company accounts for income tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies.* The calculation of tax liabilities involves judgment in estimating the impact of uncertainties in the application of complex tax laws. The Company believes that the liabilities that have been recorded are adequate to cover the tax contingencies. Resolution of these uncertainties in a manner inconsistent with the Company s expectations, however, could have a material impact on its results of operations.

From 1981 through 1985, H.F. Ahmanson & Co. (Ahmanson), which was acquired by the Company in 1998, acquired thrift institutions in six states through Federal Savings and Loan Insurance Corporation (FSLIC) assisted transactions. Ahmanson sold its branches and abandoned the branching rights it acquired in those states in years prior to December 31, 1998. The Company (as successor to Ahmanson) believes it is entitled to tax deductions at the time the branches were sold and the branching rights were abandoned and the Company has filed refund claims with the Internal Revenue Service (IRS) asserting its belief. The IRS has disallowed the claims for refund. The Company filed a claim in the U.S. District Court of Western Washington in January 2006 asserting its rights to such refunds. The potential tax benefit related to the losses on branching rights approximated $200 million, plus interest, as of December 31, 2005.

In addition, the Company believes it is entitled to tax deductions for supervisory goodwill obtained in several FSLIC assisted transactions. The potential benefit for the deduction of supervisory goodwill approximated $550 million, plus interest, as of December 31, 2005. The Company has filed claims with the IRS related to the supervisory goodwill in the amount of $173 million.

No benefit has been recognized in the Company s Consolidated Financial Statements for the branching rights and supervisory goodwill contingency items discussed above.

Goodwill Litigation

On August 9, 1989, the Financial Institutions Reform, Recovery and Enforcement Act was enacted. Among other things, the Act raised the minimum capital requirements for savings institutions and required a phase-out of the amount of supervisory goodwill that could be included in satisfying certain regulatory capital requirements. The exclusion of supervisory goodwill from the regulatory capital of many savings institutions led them to take actions to replace the lost capital either by issuing new qualifying debt or equity securities or to reduce assets. A number of these institutions and their investors subsequently sued the United States Government (the U.S. Government) seeking damages based on breach of contract and other theories (collectively Goodwill Lawsuits).

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To date, trials have been concluded and opinions have been issued in a number of Goodwill Lawsuits in the United States Court of Federal Claims (Court of Federal Claims). Generally, in Goodwill Lawsuits in which these opinions on the merits have been issued by the Court of Federal Claims, either the plaintiff(s), the defendant (U.S. Government), or both the plaintiff(s) and the defendant, have opted to appeal the decision to the United State Court of Appeals for the Federal Circuit (Court of Appeals). Typically, following completion of these appeals, one or more parties has petitioned the United States Supreme Court (U.S. Supreme Court) for a writ of certiorari, but all such petitions have been denied. Generally, the appeals have resulted in the cases being remanded to the Court of Federal Claims for further trial proceedings.

Home Savings

WMB and Washington Mutual are plaintiffs in the Home Savings goodwill litigation by succession to the rights and claims of Home Savings of America FSB (Home Savings) and H.F. Ahmanson & Company (the parent company of Home Savings, Ahmanson), respectively, in connection with the merger of Ahmanson with and into Washington Mutual and the merger of Home Savings with and into WMB. Plaintiffs have continued to pursue a favorable outcome in the lawsuit originally filed by Home Savings and Ahmanson in September 1992 against the U.S. Government for damages from the exclusion from regulatory capital of supervisory goodwill resulting from Home Savings acquisitions of savings institutions in Florida, Missouri, Texas, Illinois, and Ohio, and of Century Federal Savings of New York, over the period from 1981 to 1985.

In the Home Savings goodwill litigation, plaintiffs alleged breaches of contract as well as certain other claims. Although all claims other than the breach of contract claims were dismissed by the Court of Federal Claims, in May 2001, the Court of Federal Claims held that the U.S. Government was liable in damages for the breaches of contract. However, the Court of Federal Claims held that the U.S. Government was not liable with respect to plaintiffs acquisition of four state-insured thrifts in Ohio that were merged into Home Savings in 1985. In September 2003, damages for the breaches of contract were awarded to plaintiffs in the amount of approximately $134 million. No portion of this award had been recorded in the Company s financial statements as of December 31, 2005.

On appeal from these decisions of the Court of Federal Claims, the Court of Appeals, in a decision issued by a unanimous three judge panel, affirmed the trial court s award of approximately $134 million in damages and vacated the trial court s determination that no enforceable contract was formed with respect to the four state-insured thrifts in Ohio. After filing a motion for *en banc* review of the panel decision, which was denied, the U.S. Government did not attempt to seek further review of the decision by the U.S. Supreme Court, and the case has been returned to the Court of Federal Claims for further proceedings with respect to the state-insured thrifts in Ohio. Before the Court of Federal Claims, plaintiffs have attempted both to secure the Court of Federal Claims assistance in order to expedite recovery of the $134 million and to obtain a further judgment to remedy the breach of the contract covering the acquisition of the state-insured thrifts.

First, plaintiffs have filed, and the Court of Federal Claims has granted, a motion seeking to have the award in the amount of approximately $134 million designated a partial final judgment. By letter dated January 25, 2006, the Department of Justice certified the partial judgment for payment by the Federal Deposit Insurance Corporation FSLIC Resolution Fund, and payment was received on February 7, 2006.

Second, on February 22, 2006, the court entered a summary judgment for plaintiffs in the amount of $16 million in regard to the contract covering the acquisition of the state-insured thrifts. The defendant may ask for reconsideration and/or appeal of that judgment.

American Savings Bank, F.A.

In December 1992, American Savings Bank, Keystone Holdings, Inc. and certain related parties brought a lawsuit against the U.S. Government, alleging, among other things, that in connection with the acquisition of American Savings Bank they entered into a contract with agencies of the United States and that the U.S. Government breached that contract. As a result of the Keystone acquisition, the Company succeeded to all of the rights of American Savings Bank, Keystone Holdings and such related parties in such litigation and will receive any recovery from the litigation.

In connection with the Keystone acquisition, the Company placed 8 million shares of its common stock in escrow. Under the terms of the original escrow arrangement, upon receipt of net cash proceeds from a judgment in or settlement of the litigation, all or part of the escrow shares were to be released, 64.9% to investors in Keystone Holdings or their assigns, and 35.1% to the Federal Deposit Insurance Corporation (FDIC) as manager of the Federal Savings and Loan Insurance Corporation Resolution Fund or its assigns.

In the third quarter of 2003, the FDIC agreed to sell its contingent interest in the escrow to Escrow Partners, L.P., a partnership owned by investors in Keystone Holdings. In the fourth quarter of 2003, the Company, Keystone Holdings and Escrow Partners agreed to reduce the escrow to six million shares of its common stock, together with the accumulated dividends and interest earned on the cash held in escrow through that date and to extend the expiration date of the escrow to December 20, 2008, subject to certain limited extensions. As a result, in 2003, a total of 12 million shares of common stock were returned to the Company from the escrow together with $73 million in cash. Approximately $68 million of that cash amount represented dividends paid on the returned shares, which included $53 million paid prior to 2003 and $15 million paid during 2003. Also included was approximately $5 million in interest earned on the cash while in escrow.

Bank United Corp.

On October 4, 2004, the U.S. Supreme Court denied a petition for writ of certiorari filed by the Bank United Litigation Trust regarding a September 22, 2003 judgment. WMB s only interest in this litigation was reimbursement of litigation costs. As a result of the court proceedings, WMB has received partial reimbursement for litigation costs.

Dime Bancorp, Inc.

In January 1995, Anchor Savings Bank FSB, filed suit against the U.S. Government for unspecified damages involving supervisory goodwill related to its acquisition of eight troubled savings institutions from 1982-1985. Four of the acquisitions involved financial assistance from the U.S. Government, and four did not. The Dime Savings Bank of New York, FSB acquired Anchor Savings Bank shortly after the case was brought and Dime Savings Bank assumed the rights under the litigation against the U.S. Government. Dime Bancorp distributed a Litigation Tracking WarrantTM (an LTW) for each share of its common stock outstanding on December 22, 2000 to each of its shareholders on that date. In January 2002, Dime Savings Bank and Dime Bancorp merged into WMB and the Company. As a result of these mergers, the Company assumed the litigation against the U.S. Government and the LTWs are now, when exercisable, exercisable for shares of the Company s common stock. The events and conditions that would entitle a holder to exercise an LTW did not change as a result of these mergers and had not yet occurred as of December 31, 2005. For additional information concerning the Dime goodwill litigation and the LTWs, see the Company s Current Report on Form 8-K, dated March 12, 2003, File No. 1-14667.

In a series of decisions issued in 2002, the Court of Federal Claims granted the Company s summary judgment motions as to contract liability with respect to the four acquisitions involving financial assistance, but granted the U.S. Government s motions with respect to the four unassisted acquisitions. On September 29, 2003, the Court denied the U.S. Government s motion for summary judgment with respect

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to the claim for the Company s lost profits, but granted the U.S. Government s motion with respect to the Company s alternative claims for reliance damages and for the value of the lost supervisory goodwill. A six-week trial on the Company s lost profits claim was held in June-July 2005, followed by a post-trial briefing which was completed in November 2005. The case now awaits a decision on damages from the trial judge. There can be no assurance or accurate prediction of the timing or the amount of damages that will be awarded by the trial judge. In addition, each of the trial judge s decisions, including its findings on the U.S. Government s contract liability and any damages awarded, is subject to appeal.

Litigation is inherently uncertain, and significant uncertainty surrounds the legal issues involved in cases involving supervisory goodwill that underlie the value of the LTWs. The Company cannot accurately predict the timing or amount of any damages, whether the U.S. Government will decide to appeal any of the trial judge s decisions or the outcome of any appeals. As a result, the Company cannot predict if or when the conditions will be satisfied that will result in holders becoming entitled to exercise their LTWs or the value for which the LTWs will become exercisable.

Comparison of 2004 to 2003

The following discussion and analysis provides a comparison of the Company s results of operations between 2004 and 2003. Financial tables within the Earnings Performance from Continuing Operations supplement this discussion.

Corporate Results of Operations

Net Interest Income

For 2004, net interest income decreased $513 million, or 7%, compared with 2003. The decrease resulted primarily from contraction of the net interest margin, which declined 29 basis points from the year ended December 31, 2003. Yields on interest-earning assets declined through the first half of 2004, reflecting the sale and runoff of higher yielding loans and debt securities during that period and diminished levels of refinancing activity, which led to a decline in noninterest-bearing custodial and escrow balances throughout the year. The decline in net interest income was partially offset by growth in home loans and home equity loans and lines of credit balances and by lower rates on interest-bearing Platinum checking accounts and wholesale borrowings.

Noninterest Income

The decrease in total revenue from sales and servicing of home mortgage loans of $587 million, or 30%, from 2003 to 2004 was primarily the result of historical low mortgage interest rates during the first part of 2003 which generated extremely high levels of fixed-rate home loan volume, most of which was the result of refinancing activity. When the industry-wide refinancing boom ended later that year, customer preferences began to shift away from fixed-rate loans to adjustable-rate products. Accordingly, the Company s fixed-rate home loan volume declined from $270.50 billion in 2003 to $84.10 billion in 2004. Conversely, short-term adjustable-rate loan volume increased from $32.27 billion in 2003 to $70.16 billion in 2004.

The increase in depositor and other retail banking fees in 2003 and 2004 was mostly 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 interchange and ATM-related income.

The increase in losses on extinguishment of borrowings in 2003 and 2004 was due to several securities sold under agreements to repurchase (repurchase agreements) with embedded pay-fixed swaps that were terminated during the third quarter of 2004, resulting in a net loss on extinguishment of borrowings of $147 million. During the first half of 2004, the Company terminated certain pay-fixed swaps hedging variable rate FHLB advances, resulting in a loss of $90 million. During 2003, the Company restructured certain repurchase agreements containing embedded pay-fixed swaps resulting in a loss of $129 million. Each of these transactions had the immediate effect of reducing the Company s wholesale borrowing costs.

The decrease in other income from 2003 to 2004 was primarily due to a $100 million fee received from Freddie Mac for swapping certain multi-family loans for 100% of the beneficial interest in those loans in the form of mortgage-backed securities in 2003. 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 which resulted in a gain of $77 million. During 2004 the Company also sold certain commercial loans which resulted in gains of $69 million.

Noninterest Expense

The increase in depositor and other retail banking losses from 2003 to 2004 was largely due to higher levels of overdraft charge-offs, losses from returned deposited checks and a general increase in debit card and check fraud.

The decrease in professional fees from 2003 to 2004 was largely due to a reduction in the use of project consultants.

The decrease in loan expense from 2003 to 2004 was primarily due to an overall reduction in home loan origination volume for the year.

The increase in other expense from 2003 to 2004 was primarily due to lower levels of deferrable consumer and mortgage loan costs, an increase in the accrual for estimated losses related to certain outstanding litigation claims and settlements, higher proprietary mutual funds expense, reinsurance expense and outside services expense.

Operating Segment Results of Operations

Retail Banking and Financial Services Group

The increase in net interest income of $1.15 billion during 2004 was mostly due to higher average balances of home loans and home equity loans and lines of credit. Average home loans increased $23.35 billion, or 27% in 2004, resulting from portfolio growth in short-term adjustable-rate mortgages. Average home equity loans and lines of credit increased $14.70 billion, or 70% in 2004. The increase in noninterest income of $258 million during 2004 was primarily driven by depositor and other retail banking fees that resulted from growth in the number of retail checking accounts, an increase in product fee pricing and higher debit card interchange fees. Noninterest-bearing retail checking accounts increased by approximately 600,000 in 2004. Inter-segment revenue declined by $156 million in 2004 due to lower broker fees received from the Home Loans Group for the origination of mortgage loans, which resulted from the overall decline in refinancing activity during 2004. The increase in noninterest expense of $547 million during 2004 was primarily due to higher employee compensation and benefits expense, occupancy and equipment expense and technology expenses, all of which resulted from expansion of the Group s distribution network, which included the opening of 250 new retail banking stores in 2004.

Home Loans Group

The decrease in net interest income of $1.14 billion in 2004 was largely driven by a decline in the average balances of loans held for sale and a decline in noninterest-bearing custodial and escrow deposits. This occurred due to a reduction in fixed-rate loan refinancing activity, compared with 2003 when interest rates were at record low levels. Total loan volume in 2004 was $182.21 billion, compared with $374.00 billion in 2003. This decrease was partially offset by lower funding costs. The decrease in noninterest income of $698 million in 2004 was mostly due to lower revenue from sales and servicing of home mortgage loans resulting from lower gain on sale of mortgage loans. The decline of inter-segment expense of $156 million in 2004 resulted from lower broker fees paid to the Retail Banking and Financial Services

Group for their origination of mortgage loans. Those originations declined in 2004 as a result of the overall decline in refinancing activity, compared with 2003. The decrease in noninterest expense in 2004 was primarily due to lower occupancy and equipment, technology and compensation expenses resulting from the Company s cost containment initiative and includes the consolidation of various locations and functions, the conversion to a single loan servicing platform and headcount reductions, which decreased to 13,838 at December 31, 2004 from 22,287 at December 31, 2003.

Commercial Group

Net interest income was flat in 2004, compared with 2003, as average loan balances increased by approximately $3.19 billion, or 9% resulting from a shift in product mix towards short-term adjustable-rate and hybrid loans, partially offset by a decrease in investment securities interest income due to sales in 2003. The decrease in the provision for loan and lease losses of $58 million in 2004 was driven by stronger credit performance. During the fourth quarter of 2003 the Company achieved a significant improvement in the risk profile of its loan portfolio by entering into sales transactions to dispose of its franchise finance loan portfolio. These sales led to lower actual charge-offs during 2004 and declining expected charge-off rates for the remaining portfolio of commercial and multi-family loans. The decrease in noninterest income of $149 million in 2004 was substantially due to transactions occurring in the second half of 2003 that resulted in a gain of $68 million recognized from the sale of mortgage-backed securities and a fee of $100 million received as consideration for swapping approximately $6 billion of multi-family loans with Freddie Mac. Noninterest expense increased by $83 million in 2004 primarily due to higher employee compensation and benefits expense and occupancy and equipment expense resulting from increased headcount in Long Beach Mortgage Company.

Corporate Support/Treasury and Other

The increase in net interest expense of $602 million during 2004 was primarily driven by declining average balances of investment securities. The average balances of investment securities declined by $11.98 billion, or 40% in 2004, reflecting the sale of higher yielding securities during that period. The impact of changes in funds transfer pricing rates on Treasury s operations in 2004, compared with 2003 also contributed to the increase in net interest expense, as lower transfer pricing rates were charged to the segments for the funding of loans. The lower rates were the result of the shift in the balance sheet towards assets with shorter repricing frequencies during 2004. The increase in net interest expense during 2004 was partially offset by a 12% decrease in the average rate paid on interest-bearing liabilities, reflecting the lower interest rate environment that existed during the first half of 2004. The decrease in noninterest income of $793 million in 2004, compared with 2003, was mostly due to gains realized during 2003 from the sale of available-for-sale securities and losses of $237 million from the early termination of certain wholesale borrowings with embedded pay-fixed interest rate swaps during 2004. Noninterest expense was flat in 2004, compared with 2003, as this segment incurred technology-related and restructuring charges resulting from the Company s cost containment initiative, which began in the fourth quarter of 2003. All such charges incurred from this initiative, which amounted to $274 million in 2004, are charged to this unit. The ensuing decline in headcount in 2004, which resulted from the cost containment initiative, substantially offset the increase. The headcount reductions occurred primarily within the Company s technology support operations.

Financial Statements and Supplementary Data

For financial statements, see Index to Consolidated Financial Statements on page 88.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Other Information

None.

PART III

Items 10, 11, 12, 13 and 14 are incorporated by reference from the Company s definitive proxy statement issued in conjunction with the Company s Annual Meeting of Shareholders to be held April 18, 2006, except Item 12, Equity Compensation Plans Information, which is disclosed below. Certain information regarding the Company s executive officers is set forth in BusinessExecutive Officers.

Equity Compensation Plans Information

The following table sets forth information regarding the Common Stock that may be issued upon the exercise of options, warrants and other rights granted to employees, directors or consultants under all of the Company s existing equity compensation plans, as of December 31, 2005.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights (in dollars)		(c) Number of securities remaining available for issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by security holders	36,862,106		$ 35.86		26,918,887	(2)(3)(4)
Equity compensation plans not approved by security holders	4,869,410	(1)	36.59	(1)	4,142,476	(5)
Total	41,731,516		35.94		31,061,363	

(1) Represents WAMU Shares Stock Option Plan grants approved by the Company s Board of Directors. Does not include stock options that were assumed in connection with the Company s acquisition of certain companies. The assumed options are for the purchase of 8,217,386 shares of Common Stock and have a weighted-average exercise price of $51.98 per share. In the event that any assumed option is not exercised, no further option to purchase shares of Common Stock will be issued in place of such unexercised option.

(2) Includes 2,333,097 shares of Common Stock remaining available for purchase under the Company s Amended and Restated 2002 Employee Stock Purchase Plan and 22,948,093 shares of Common Stock remaining available for issuance under the 2003 Equity Incentive Plan (2003 EIP).

(3) The 2003 EIP provides that each of the Company s nonemployee directors may receive stock grants or awards at the recommendation of the Governance Committee. See Note 20 to the Consolidated Financial Statements Stock-Based Compensation Plans and Shareholder Rights Plans.

(4) Under the Company s 2003 EIP, the Company may grant restricted stock or stock units, including performance shares. See Note 20 to the Consolidated Financial Statements Stock-Based Compensation Plans and Shareholder Rights Plans.

(5) Includes shares cancelled and available for issuance under the WAMU Shares Stock Option Plans.

Non-Shareholder Approved Plans

WAMU Shares Stock Option Plans

From time to time, the Board of Directors approves grants of nonqualified stock options to certain groups of employees. The grants have been made pursuant to a series of plans, collectively known as WAMU Shares. In 1997, the Board of Directors approved a plan under which eligible employees were granted nonqualified options to purchase the Company s common stock. On December 15, 1998, the

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Board adopted a new plan to grant additional nonqualified stock options to eligible employees (1999 WAMU Shares). On February 13, 2001, the Board adopted a third plan and granted nonqualified options to eligible employees (2001 WAMU Shares). On September 17, 2002, the Board amended the 2001 WAMU Shares Plan to provide for an additional grant of nonqualified options to eligible employees effective September 3, 2002. The aggregate number of shares authorized by the Board of Directors for grants under the WAMU Shares Plans was 14,511,900. On October 16, 2002, the Board amended the 1999 WAMU Shares and the 2001 WAMU Shares plans to allow grants to a broader group of employees, including management, so that some of the authorized but unissued options could be granted to eligible employees as part of the annual grant in December 2002. Generally, eligible full-time and part-time employees on the award dates were granted options to purchase shares of Washington Mutual common stock. The exercise price for all grants is the fair market value of Washington Mutual s common stock on designated dates, and all options vest one to three years after the award date and expire five to ten years from the award date.

PART IV

Exhibits, Financial Statement Schedules

(a) (1) Financial Statements

See Index to Consolidated Financial Statements on page 88.

(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or not required, or because the required information is included in the Consolidated Financial Statements or the Notes thereto.

(b) Exhibits:

The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are listed in the Index of Exhibits to this Annual Report on Form 10-K (pages E-1 through E-5).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 9, 2006.

WASHINGTON MUTUAL, INC.

/s/ THOMAS W. CASEY
Thomas W. Casey
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management s Report on Internal Control Over Financial Reporting

The management of Washington Mutual, Inc. and subsidiaries (the Company) is responsible for establishing and maintaining effective internal control over financial reporting, including safeguarding of assets. The Company s internal control structure contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management assessed the effectiveness of the Company s internal control over financial reporting, including safeguarding of assets as of December 31, 2005. This assessment was based on criteria for effective internal control over financial reporting, including safeguarding of assets, described in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2005, the Company maintained effective internal control over financial reporting, including safeguarding of assets.

Management s assessment of the effectiveness of the Company s internal control over financial reporting has been audited by Deloitte & Touche LLP, independent registered public accounting firm, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Their report appears on page 90.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Washington Mutual, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Washington Mutual, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the PCAOB, the consolidated financial statements as of and for the year ended December 31, 2005 of the Company, and our report dated March 8, 2006, expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP
Seattle, Washington
March 8, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Washington Mutual, Inc.

We have audited the accompanying consolidated statements of financial condition of Washington Mutual, Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity and comprehensive income, and of cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the PCAOB, the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 8, 2006, expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Seattle, Washington

March 8, 2006 (August 4, 2006 as to the effects of restatement discussed in Note 2)

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2005 (in millions, except per share amounts)	2004	2003
Interest Income			
Loans held for sale	$ 2,382	$ 1,472	$ 2,501
Loans held in portfolio	11,507	8,825	7,668
Available-for-sale securities	998	764	1,738
Trading assets	469	151	84
Other interest and dividend income	232	138	172
Total interest income	15,588	11,350	12,163
Interest Expense			
Deposits	3,728	2,043	2,165
Borrowings	3,974	2,191	2,369
Total interest expense	7,702	4,234	4,534
Net interest income	7,886	7,116	7,629
Provision for loan and lease losses	316	209	42
Net interest income after provision for loan and lease losses	7,570	6,907	7,587
Noninterest Income			
Revenue from sales and servicing of home mortgage loans	2,030	1,387	1,974
Revenue from sales and servicing of consumer loans	413	4	3
Depositor and other retail banking fees	2,193	1,999	1,818
Credit card fees	139		
Securities fees and commissions	448	426	395
Insurance income	172	226	188
Portfolio loan related income	387	401	439
Trading assets income (loss)	(257)	89	116
Gain (loss) from other available-for-sale securities	(84)	50	676
Gain (loss) on extinguishment of borrowings	1	(237)	(129)
Other income	296	267	370
Total noninterest income	5,738	4,612	5,850
Noninterest Expense			
Compensation and benefits	3,737	3,428	3,304
Occupancy and equipment	1,523	1,659	1,592
Telecommunications and outsourced information services	450	479	554
Depositor and other retail banking losses	226	195	154
Advertising and promotion	327	276	278
Professional fees	182	158	267
Other expense	1,425	1,340	1,259
Total noninterest expense	7,870	7,535	7,408
Income from continuing operations before income taxes	5,438	3,984	6,029
Income taxes	2,006	1,505	2,236
Income from continuing operations, net of taxes	3,432	2,479	3,793

(The Consolidated Statements of Income are continued on the next page.)

See Notes to Consolidated Financial Statements.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Continued)

(Continued from the previous page.)

	Year Ended December 31, 2005	2004	2003
	(in millions, except per share amounts)		
Discontinued Operations			
Income (loss) from discontinued operations before income taxes		(32)	137
Gain on disposition of discontinued operations		676	
Income taxes		245	50
Income from discontinued operations, net of taxes		399	87
Net Income	$ 3,432	$ 2,878	$ 3,880
Basic earnings per common share:			
Income from continuing operations	$ 3.84	$ 2.88	$ 4.20
Income from discontinued operations, net		0.46	0.09
Net Income	3.84	3.34	4.29
Diluted earnings per common share:			
Income from continuing operations	$ 3.73	$ 2.81	$ 4.12
Income from discontinued operations, net		0.45	0.09
Net Income	3.73	3.26	4.21
Dividends declared per common share	1.90	1.74	1.40
Basic weighted average number of common shares outstanding (in thousands)	894,434	862,215	903,666
Diluted weighted average number of common shares outstanding (in thousands)	919,238	884,050	921,757

See Notes to Consolidated Financial Statements.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, (Restated) 2005	(Restated) 2004
	(dollars in millions)	
Assets		
Cash and cash equivalents	$ 6,214	$ 4,455
Federal funds sold and securities purchased under agreements to resell	2,137	82
Trading assets (including securities pledged of $3,281 and $2,458)	10,999	5,588
Available-for-sale securities, total amortized cost of $24,810 and $19,047:		
Mortgage-backed securities (including securities pledged of $3,950 and $5,716)	20,648	14,923
Investment securities (including securities pledged of $2,773 and $3,344)	4,011	4,296
Total available-for-sale securities	24,659	19,219
Loans held for sale	33,582	42,743
Loans held in portfolio	229,632	207,071
Allowance for loan and lease losses	(1,695)	(1,301)
Total loans held in portfolio, net of allowance for loan and lease losses	227,937	205,770
Investment in Federal Home Loan Banks	4,257	4,059
Mortgage servicing rights	8,041	5,906
Goodwill	8,298	6,196
Other assets	17,449	13,563
Total assets	$ 343,573	$ 307,581
Liabilities		
Deposits:		
Noninterest-bearing deposits	$ 34,014	$ 32,780
Interest-bearing deposits	159,153	140,878
Total deposits	193,167	173,658
Federal funds purchased and commercial paper	7,081	4,045
Securities sold under agreements to repurchase	15,532	15,944
Advances from Federal Home Loan Banks	68,771	70,074
Other borrowings	23,777	18,498
Other liabilities	7,966	4,473
Total liabilities	316,294	286,692
Stockholders Equity		
Common stock, no par value: 1,600,000,000 shares authorized, 993,913,800 and 874,261,898 shares issued and outstanding		
Capital surplus common stock	8,176	3,350
Accumulated other comprehensive loss	(235)	(76)
Retained earnings	19,338	17,615
Total stockholders equity	27,279	20,889
Total liabilities and stockholders equity	$ 343,573	$ 307,581

See Notes to Consolidated Financial Statements.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

	Number of Shares (in millions)	Capital Surplus Common Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE, December 31, 2002 (previously reported)	944.0	$ 5,961	$ 175	$ 13,925	$ 20,061
Restatement of retained earnings for tax adjustments affecting 2001 and prior periods (see Note 2)				(337)	(337)
BALANCE, December 31, 2002 (as restated)	944.0	5,961	175	13,588	19,724
Comprehensive income:					
Net income 2003				3,880	3,880
Other comprehensive income (loss), net of tax:					
Net unrealized loss from securities arising during the year, net of reclassification adjustments			(965)		(965)
Net unrealized gain from cash flow hedging instruments			270		270
Minimum pension liability adjustment			(4)		(4)
Total comprehensive income					3,181
Cash dividends declared on common stock				(1,274)	(1,274)
Cash dividends returned(1)				53	53
Common stock repurchased and retired	(65.9)	(2,699)			(2,699)
Common stock returned from escrow	(12.0)				
Common stock issued	14.9	420			420
BALANCE, December 31, 2003 (restated)	881.0	3,682	(524)	16,247	19,405
Comprehensive income:					
Net income 2004				2,878	2,878
Other comprehensive income (loss), net of tax:					
Net unrealized gain from securities arising during the year, net of reclassification adjustments			198		198
Net unrealized gain from cash flow hedging instruments			256		256
Minimum pension liability adjustment			(6)		(6)
Total comprehensive income					3,326
Cash dividends declared on common stock				(1,510)	(1,510)
Common stock repurchased and retired	(16.1)	(712)			(712)
Common stock issued	9.4	380			380
BALANCE, December 31, 2004 (restated)	874.3	3,350	(76)	17,615	20,889
Comprehensive income:					
Net income 2005				3,432	3,432
Other comprehensive income (loss), net of tax:					
Net unrealized loss from securities arising during the year, net of reclassification adjustments			(198)		(198)
Net unrealized gain from cash flow hedging instruments			40		40
Minimum pension liability adjustment			(1)		(1)
Total comprehensive income					3,273
Cash dividends declared on common stock				(1,709)	(1,709)
Common stock repurchased and retired	(23.8)	(921)			(921)
Common stock issued for acquisition	127.0	5,030			5,030
Fair value of Providian stock options		140			140
Common stock issued	16.4	577			577
BALANCE, December 31, 2005 (restated)	993.9	$ 8,176	$ (235)	$ 19,338	$ 27,279

(1) Represents accumulated dividends on shares returned from escrow.

See Notes to Consolidated Financial Statements.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	(Restated)	(Restated)	
	2005	2004	2003
	(in millions)		
Cash Flows from Operating Activities			
Net income	$ 3,432	$ 2,878	$ 3,880
Income from discontinued operations, net of taxes		(399)	(87)
Income from continuing operations	3,432	2,479	3,793
Adjustments to reconcile income from continuing operations to net cash (used) provided by operating activities:			
Provision for loan and lease losses	316	209	42
Gain from mortgage loans	(807)	(649)	(1,250)
Gain from credit card loans	(103)		
Loss (gain) from available-for-sale securities	41	(52)	(996)
(Gain) loss on extinguishment of borrowings	(1)	237	129
Depreciation and amortization	2,656	3,169	3,864
Provision for mortgage servicing rights (reversal) impairment	(944)	466	(712)
Stock dividends from Federal Home Loan Banks	(146)	(40)	(113)
Deferred interest income from option adjustable-rate mortgages	(316)	(19)	(7)
Origination and purchases of loans held for sale, net of principal payments	(165,424)	(148,332)	(315,106)
Proceeds from sales of loans held for sale	166,997	127,429	323,570
Net increase in trading assets	(3,227)	(4,176)	(1,045)
(Increase) decrease in other assets	(4,158)	961	(63)
Increase (decrease) in other liabilities	3,449	(1,397)	(1,038)
Net cash provided (used) by operating activities	1,765	(19,715)	11,068
Cash Flows from Investing Activities			
Purchases of securities	(22,501)	(5,586)	(41,052)
Proceeds from sales and maturities of mortgage-backed securities	9,558	2,149	12,740
Proceeds from sales and maturities of other available-for-sale securities	6,697	22,151	28,425
Principal payments on securities	3,571	3,306	9,422
Purchases of Federal Home Loan Bank stock	(163)	(1,742)	(336)
Redemption of Federal Home Loan Bank stock	111	1,185	719
Proceeds from sale of mortgage servicing rights			638
Origination and purchases of loans held in portfolio	(99,820)	(120,012)	(114,828)
Principal payments on loans held in portfolio	89,437	80,704	83,822
Proceeds from sales of loans held in portfolio	940	844	1,429
Proceeds from sales of foreclosed assets	413	453	479
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(1,718)	(63)	1,996
Net cash used for acquisitions	(536)		
Purchases of premises and equipment, net	(607)	(585)	(1,053)
Proceeds from sale of real estate held for investment			149
Proceeds from sale of discontinued operations, net of cash sold		1,223	
Net cash used by investing activities	(14,618)	(15,973)	(17,450)

(The Consolidated Statements of Cash Flows are continued on the next page.)

See Notes to Consolidated Financial Statements.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Continued from the previous page.)

	Year Ended December 31, 2005 (in millions)	2004	2003
Cash Flows from Financing Activities			
Increase (decrease) in deposits	10,911	20,477	(2,335)
(Decrease) increase in short-term borrowings	(1,156)	(4,530)	17,440
Proceeds from long-term borrowings	18,782	5,664	10,761
Repayments of long-term borrowings	(10,397)	(8,234)	(13,087)
Proceeds from advances from Federal Home Loan Banks	71,701	89,837	91,973
Repayments of advances from Federal Home Loan Banks	(73,000)	(68,177)	(94,885)
Cash dividends paid on common stock	(1,709)	(1,510)	(1,274)
Cash dividends returned			68
Repurchase of common stock	(921)	(712)	(2,699)
Other	401	310	354
Net cash provided by financing activities	14,612	33,125	6,316
Increase (decrease) in cash and cash equivalents	1,759	(2,563)	(66)
Cash and cash equivalents, beginning of year	4,455	7,018	7,084
Cash and cash equivalents, end of year	$ 6,214	$ 4,455	$ 7,018
Noncash Activities			
Loans exchanged for available-for-sale mortgage-backed securities	$ 1,366	$ 4,712	$ 2,854
Real estate acquired through foreclosure	429	408	479
Loans transferred from (to) held for sale to (from) held in portfolio, net	4,962	(5,996)	2,165
Common stock issued for acquisition	5,030		
Cash Paid During the Year For			
Interest on deposits	3,555	1,991	2,193
Interest on borrowings	3,668	2,186	2,427
Income taxes	1,586	2,593	2,829

See Notes to Consolidated Financial Statements.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

Washington Mutual, Inc. (together with its subsidiaries, Washington Mutual or the Company) is a financial services company committed to serving consumers and small businesses. The Company accepts deposits from the general public, originates, purchases, services and sells home loans, makes consumer (predominantly credit card), home equity and commercial real estate loans (primarily loans secured by multi-family properties), and, to a lesser extent, engages in certain commercial banking activities such as providing credit facilities and cash management and deposit services. The Company also originates, purchases from correspondents, sells and services home loans to subprime borrowers. The Company also markets annuities and other insurance products, offers securities brokerage services and acts as the investment advisor to, and the distributor of, mutual funds.

The Consolidated Financial Statements include the accounts of Washington Mutual, Inc. and its majority-owned subsidiaries as well as those entities which are considered to be variable interest entities in which the Company is the primary beneficiary. Investments in unconsolidated entities are accounted for using the equity method of accounting when the Company has the ability to exercise significant influence over the operations of the investee (which generally occurs when the Company holds at least 20% of the investee s voting common stock). Investments not meeting the criteria for equity method accounting are accounted for using the cost method of accounting. Investments in unconsolidated entities are included in other assets, and the Company s share of income or loss is recorded in other noninterest income.

The Company s financial reporting and accounting policies conform to accounting principles generally accepted in the United States of America (GAAP). Certain amounts in prior periods have been reclassified to conform with the current period s presentation. All intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management has made significant estimates in certain areas, including valuing certain financial instruments and other assets and the allowance for loan and lease losses. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, U.S. Treasury bills, overnight investments and commercial paper with an initial maturity of three months or less.

Trading Assets

Securities that are acquired principally for the purpose of resale and certain retained interests arising from securitization activities are classified as trading assets. Such assets are carried at fair value, and realized and unrealized gains and losses are recorded in the trading assets income (loss) line item within noninterest income.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities

Securities not classified as held to maturity or trading are considered to be available-for-sale and are reported at their fair value, with unrealized gains and losses calculated using the specific identification method, and reported, net of applicable taxes, as a component of accumulated other comprehensive income. Realized gains and losses on the sale of these securities are determined using the specific identification method and are currently recorded in noninterest income. Securities are classified as held to maturity only if the Company has the positive intent and ability to hold those securities to maturity. Currently the Company does not classify any securities as held to maturity, although it may elect to do so in the future.

For most of the Company s investments in securities, interest income is recognized using the interest method. Deferred items, including premiums, discounts and other basis adjustments, are amortized into interest income over the estimated lives of the securities. The Company uses contractual payment terms to determine the constant yield needed to apply the interest method.

For certain of the Company s investments, including those classified as trading, interest income is recognized using a prospective interest method in accordance with Emerging Issues Task Force (EITF) No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*. The Company specifically applies such guidance to beneficial interests (including undivided interests which are similar to beneficial interests) in securitized financial assets that (a) can contractually be prepaid or otherwise settled in such a way that the Company may not recover substantially all of its recorded investment (such as interest-only strips) or (b) are not of high credit quality at the acquisition date. EITF No. 99-20 requires that the Company recognize as interest income (throughout the life of a retained interest) the excess of all estimated cash flows attributable to these interests over its principal amount using the effective yield method. The Company updates its estimates of expected cash flows periodically and recognizes changes in calculated effective yield on a prospective basis.

The Company monitors its available-for-sale investment portfolio for impairment. The Company considers many factors in determining whether the impairment is deemed to be other-than-temporary, including but not limited to the length of time the security has had a market value less than the cost basis, the severity of the loss, the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value, recent events specific to the issuer or industry including the issuer s financial condition and current ability to make future payments in a timely manner, external credit ratings and recent downgrades in such ratings. Other-than-temporary declines in fair value are recognized in the income statement as losses from other available-for-sale securities.

Loans Held for Sale

Loans held for sale are accounted for at the lower of cost or fair value and include loans originated or purchased from correspondent lenders that the Company intends to sell in the secondary market. Direct loan origination costs or fees, discounts and premiums, are deferred at origination of the loan. For credit card loans, the amount classified as held for sale is estimated based on expected future sale activity. The Company enters into various interest rate contracts to manage interest rate risk associated with loans held for sale. For those loans that qualify for fair value hedge accounting under Statement of Financial Accounting Standards (Statement) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, changes in the fair value of the loans are recognized in earnings in the period of change together with the offsetting change in fair value related to the hedging derivative.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Loans Held in Portfolio

Loans held in portfolio are recorded at the principal amount outstanding, net of deferred loan costs or fees and any discounts received or premiums paid on purchased loans. Deferred costs or fees, discounts and premiums are amortized over the contractual term of the loan, adjusted for actual prepayments, using the interest method, except credit card loans which are amortized using the straight line method over one year. The Company uses contractual payment terms to determine the constant yield needed to apply the interest method. As part of the Company s management of loans held in portfolio, the Company will occasionally transfer loans from held in portfolio to held for sale. The process for identifying such loans includes evaluating credit quality and determining if the loan yield continues to be in alignment with the Company s risk-adjusted return on equity targets. Upon transfer, the cost basis of those loans is reduced by the amount of the loan loss allowance allocable to the transferred loans, and the loans are accounted for at the lower of cost or fair value, with any subsequent declines in fair value below their cost basis recorded as a reduction in the gain on sale of the loans.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses represents management s estimate of incurred 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, the current credit profile of the Company s borrowers, adverse situations that have occurred that may affect the borrowers ability to repay, the estimated value of underlying collateral, the interest rate climate as it affects adjustable-rate loans and general economic conditions. The allowance provides for incurred losses that are inherent in the loan portfolio. 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.

In determining the allowance for loan and lease losses, the Company allocates a portion of the allowance to its various loan product categories based on an analysis of individual loans and pools of loans. However, the entire allowance (both the allocated component and the portion that remains unallocated) is available to absorb credit losses inherent in the total loan portfolio as of the balance sheet date.

The allocated allowance for homogeneous loans (such as home loans, home equity loans and lines of credit, specialty mortgage finance loans and credit card loans) is determined using statistical forecasting models that estimate default and loss outcomes based on an evaluation of past performance of loans in the Company s portfolio and other factors as well as industry historical loan loss data.

Non-homogeneous loans (such as multi-family and non-residential real estate loans) are individually reviewed and assigned a risk grade. The loans are then categorized by their risk grade into pools with each pool having a loss factor commensurate with the applicable level of estimated risk. Loss factors are then multiplied by the unpaid principal balance of loans in each pool to determine the allocated allowance applicable to that pool.

The Company also evaluates certain loans on an individual basis for impairment (as defined by Statement No. 114, *Accounting by Creditors for Impairment of a Loan*) and records an allowance for impaired loans as appropriate. Such loans are excluded from other loan loss analyses so as to avoid double counting the loss exposure.

The unallocated component of the allowance reflects management s assessment of various risk factors that are not adequately reflected in the models used to determine the allocated component of the allowance. These factors include general economic and business conditions specific to the key lending products and markets of the Company, credit quality and collateral value trends, loan concentrations,

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

specific industry conditions within portfolio segments, recent loss experience in particular segments of the portfolio, duration of the current business cycle and 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.

When available information confirms that specific loans or portions thereof are uncollectible, these amounts are charged off against the allowance for loan and lease losses. The existence of some or all of the following conditions will generally confirm that a loss has been incurred: the loan is significantly delinquent and the borrower has not demonstrated the ability to bring the loan current; the borrower has insufficient assets to repay the debt; or the fair value of the loan collateral is significantly below the current loan balance and there is little or no prospect for improvement.

Impaired Loans

Loans, other than those included in homogeneous portfolios, are considered impaired when it is probable that the Company 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, the Company evaluates various factors, such as occupancy and rental rates in the relevant real estate markets.

Reserve for Contingent Credit Risk Liabilities

In the ordinary course of business, the Company sells loans to third parties but retains credit risk exposure on those loans. When loans are sold with retained credit risk provisions attached to the sale, the Company commits to stand ready to perform, if the loan defaults, by making payments to remedy the default or repurchasing the loan. The Company also sells loans without retained credit risk that it may be required to repurchase for violation of a representation or warranty made in connection with the sale of the loan that has a material adverse effect on the value of the loan, or if the Company agreed to repurchase the loan in the event of a first payment or early payment default. When a loan sold to an investor without retained credit risk fails to perform according to its contractual terms, the investor will typically review the loan file to search for errors that may have been made in the process of originating the loan. If errors are discovered and it is determined that such errors constitute a violation of a representation or warranty made to the investor in connection with the loan s sale, then the Company will be required to either repurchase the loan or indemnify the investor for losses sustained if the violation had a material adverse effect on the value of the loan.

In 2004 and 2005, the Company s Long Beach Mortgage Company subsidiary engaged in whole loan sale transactions of originated subprime loans in which it agreed to repurchase from the investor each early payment default loan at a price equal to the loan s face value plus the amount of any premium paid by the investor. An early payment default occurs when the borrower fails to make the first post-sale payment due on the loan by a contractually specified date. Usually when such an event occurs, the fair value of the loan at the time of its repurchase is lower than the face value.

Reserves are established for the Company s exposure to these contingent credit risk liabilities in the aforementioned circumstances when it becomes probable that a loss has been incurred and the amount can be reasonably estimated. Throughout the life of these contingent credit risk liabilities, the Company may learn of additional information that can affect the assessment of loss probability or the estimation of the amounts involved. Changes in these assessments can lead to significant changes in the recorded reserves.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contingent credit risk liabilities are recorded within other liabilities on the Consolidated Statements of Financial Condition, and losses are recorded on the Consolidated Statements of Income under the noninterest income caption Revenue from sales and servicing of home mortgage loans.

Nonaccrual Loans

Loans for which interest is not being accrued are referred to as loans on nonaccrual status. Mortgage loans are generally placed on nonaccrual status when they are 90 days past due. Home loans secured by real estate, including home equity loans and lines of credit, are written down to the fair value of the underlying collateral (less projected cost to sell) when they are 180 days past due. Additionally, mortgage loans in non-homogeneous portfolios, such as commercial real estate loans, are placed on nonaccrual status prior to becoming 90 days past due when payment in full of principal or interest is not expected. When a loan is placed on nonaccrual status, all interest accrued, but not collected, is reversed.

Credit card loans are charged-off when they are determined to be uncollectible or by the end of the month in which the account becomes 180 days past due. When it is considered probable that certain amounts of interest that are accrued during the delinquency period are not collectible, a reserve for uncollectible interest is established. This reserve is recorded as a separate liability and changes to this reserve are recorded in interest income. For loans which the customer has remitted three timely payments for at least the minimum payment amount, or has remitted one payment that is equivalent to at least three minimum payments, the aging of the loan is returned to current status.

Loans in homogeneous portfolios are returned to accrual status when the borrower brings the loan to less than 30 days past due. Additionally, loans in the non-homogeneous portfolio are returned to accrual status when, in management s opinion, projected cash proceeds are sufficient to repay both principal and interest.

Restructured Loans

In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a restructured (accruing) loan. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified are not considered to be impaired loans in the calendar years subsequent to the restructuring.

Generally, restructured loans in the non-homogeneous portfolios remain on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower will be able to comply with the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower s ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

Foreclosed Assets

Foreclosed assets are accounted for at the lower of fair value (less estimated costs to sell) or cost. The amount the Company ultimately recovers from foreclosed assets may differ substantially from the net carrying value of these assets because of future market factors beyond the Company s control or because of changes in the Company s strategy for sale of the property.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investment in Federal Home Loan Banks

The Company s investment in the stock of the Federal Home Loan Banks (FHLBs) is carried at cost since it is not a readily marketable security. Periodically and as conditions warrant, the Company reviews its investment in FHLB stock for impairment and adjusts the carrying value if the investment is determined to be impaired.

Derivatives and Hedging Activities

Generally, derivatives are financial instruments with little or no initial net investment in comparison to their notional amount and whose value is based upon an underlying asset, index, reference rate or other variable. They may be privately negotiated contractual agreements that can be customized to meet specific needs, including certain commitments to purchase and sell mortgage loans, mortgage-related securities and debt securities, or they may be standardized contracts executed through organized exchanges. All derivatives are reported at their fair value on the Consolidated Statements of Financial Condition.

The Company enters into derivative contracts to manage the various risks associated with certain assets, liabilities, or probable forecasted transactions. On the date the Company enters into a derivative contract, the derivative instrument is designated as: (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (a fair value hedge); (2) a hedge of the variability in expected future cash flows associated with an existing recognized asset or liability or a probable forecasted transaction (a cash flow hedge); or (3) held for other risk management purposes (risk management derivatives).

In a fair value hedge, changes in the fair value of the hedging derivative are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the risk being hedged. To the extent that the hedge is ineffective, the changes in fair value will not offset and the difference is reflected in earnings.

In a cash flow hedge, the effective portion of the change in the fair value of the hedging derivative is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

When applying the principles of fair value or cash flow hedge accounting as prescribed by Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, the Company uses standard statistical methods of correlation to determine if the results of the changes in value of the hedging derivative and the hedged item meet the Statement No. 133, as amended, criteria for a highly effective hedge accounting relationship. For certain types of hedge relationships meeting specific criteria, Statement No. 133 s shortcut method provides for an assumption of zero ineffectiveness. Under the shortcut method, the periodic assessment of effectiveness is not required, and the entire change in the fair value of the hedging derivative is considered to be effective at achieving offsetting changes in fair values or cash flows of the hedged item. The Company s use of this method is limited to interest rate swaps that hedge certain borrowings and available-for-sale investment securities. When applying this method, all of the critical terms of the interest rate swaps and the hedged items are documented at the inception of the hedging relationship.

Risk management derivatives are used as economic hedges in which the Company either has not attempted to achieve, or has attempted but did not achieve, the highly effective hedge accounting standard under Statement No. 133, as amended. The changes in fair value of these instruments are recorded in revenue from sales and servicing of home mortgage loans if the derivatives are home loan mortgage

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

banking related or are recorded in other income for derivatives related to other types of asset/liability interest rate risk management.

The Company formally documents the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy before initiating a hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge. For hedging relationships in which effectiveness is measured, the correlations between the hedging instruments and hedged items are assessed at inception of the hedge and on an ongoing basis, which includes determining whether the hedge relationship is expected to be highly effective in offsetting changes in fair value or cash flows of hedged items.

The Company discontinues hedge accounting when (1) it determines that the derivative is no longer expected to be effective in offsetting changes in the fair value or cash flows of the designated hedged item; (2) the derivative expires or is sold, terminated, or exercised; (3) the derivative is de-designated as a fair value or cash flow hedge; or (4) it is not probable that the forecasted transaction will occur by the end of the originally specified time period.

If the Company determines that the derivative no longer qualifies as a fair value or cash flow hedge and therefore hedge accounting is discontinued, the derivative (if retained) will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item no longer is adjusted for changes in fair value.

When hedge accounting is discontinued because it is not probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in accumulated other comprehensive income will be recognized immediately in earnings. When hedge accounting is discontinued because the hedging instrument is sold, terminated or de-designated as a hedge, the amount reported in accumulated other comprehensive income through the date of sale, termination, or de-designation will continue to be reported in accumulated other comprehensive income until the forecasted transaction affects earnings.

The Company occasionally enters into contracts that contain an embedded derivative instrument. At inception of the contract, the Company determines whether such an embedded derivative instrument is required to be accounted for separately from its host contract. Under Statement No. 133, as amended, an embedded derivative instrument must be separated from its host contract and accounted for separately if it is determined the instrument is not clearly and closely related to the host contract; the host contract is not currently measured at fair value with changes in fair value reported in earnings; and the embedded derivative instrument separately would qualify as a derivative instrument. As of December 31, 2005, 2004 and 2003, the Company s embedded derivatives were considered clearly and closely related to the host contracts and therefore were not required to be separated from their host contracts.

When the Company securitizes loans, it may attach a derivative financial instrument to partly, but not excessively, counteract interest rate risk associated with those securitized loans. It is the Company s general practice to sell its beneficial interests in such securitized loans to parties other than itself, its affiliates, or its agents upon securitization and to forgo its rights, if any, to the cash flows that it is otherwise entitled to receive from the attached derivative.

The Company enters into commitments to originate loans whereby the interest rate on the loan is set prior to funding (rate lock commitments). The Company also enters into commitments to purchase mortgage loans through its correspondent channel (purchase commitments). Both rate lock and purchase commitments on mortgage loans that are intended to be sold are considered to be derivatives. In addition,

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

purchase commitments for mortgage loans that will be held for investment purposes generally qualify as derivatives. Rate lock and purchase commitments that are considered to be derivatives are recorded, at fair value, in other assets or other liabilities on the Consolidated Statements of Financial Condition, with changes in fair value recorded in gain from mortgage loans on the Consolidated Statements of Income. The amount of the expected servicing rights is not included when determining the fair value of interest rate lock commitments that are derivatives. Both rate lock and purchase commitments expose the Company to interest rate risk. The Company manages that risk by entering into various interest rate derivative contracts. The changes in fair value of these contracts are reported in revenue from sales and servicing of home mortgage loans.

Transfers and Servicing of Financial Assets

Washington Mutual securitizes, sells and services interests in residential home loans, credit card loans and commercial real estate loans. When the Company sells or securitizes loans, it generally retains the right to service the loans and may retain senior, subordinated, residual, or other interests, all of which are considered retained interests in the securitized assets. Gain on sale of the assets depends, in part, on the Company s allocation of the previous carrying amount of the assets sold to the retained interests. Previous carrying amounts are allocated in proportion to the relative fair values of the assets sold and the interests retained.

Quoted market prices, if available, are used to obtain fair values of senior, subordinated, residual and other retained interests. Generally, quoted market prices for subordinated and residual interests are not available; therefore, the Company estimates the fair values based upon the present value of the associated expected future cash flows or observed transactions for other retained interests with similar characteristics. In determining the fair value of subordinated and residual interests based on future cash flows, management is required to make assumptions about expected prepayment rates, discount rates, expected credit losses and other factors that impact the value of retained interests. See Notes 5 and 6 to the Consolidated Financial Statements Securitizations and Mortgage Banking Activities.

The fair value of mortgage servicing rights (MSR) is determined by reference to internally developed estimates of fair value primarily based on the following characteristics:

- Product type (i.e., conventional, government, balloon)
- Fixed or adjustable rate of interest
- Interest rate
- Term (i.e., 15 or 30 years)

The Company records MSR when the expected future cash flows from servicing are projected to be more than adequate compensation for such services. Adequate compensation refers to the condition that exists when a mortgage servicer is able to make a level of profit that is considered reasonable by secondary market participants. The projected cash flows that exceed this adequate compensation level are capitalized as MSR. The Company has determined that the contractual servicing fee for credit card loans represents adequate compensation and therefore does not recognize a servicing asset or liability in connection with the securitization of these loans.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In evaluating for impairment, the Company stratifies its MSR based on the predominant characteristics of the underlying financial assets. The effect of changes in market interest rates on estimated rates of loan prepayments is the predominant risk characteristic of the MSR. The Company has determined that three interest rate bands are adequate to create strata of loans that will have similar prepayment characteristics. Loans are also grouped according to other characteristics such as whether they have fixed or adjustable rates, whether they have been securitized through government-sponsored enterprises or in private transactions and whether or not they are loans to subprime borrowers, as discount rates, costs to service, and other important valuation factors differ according to those features.

The following is a summary of the MSR strata used by the Company:

Loan Type	Rate Band
Adjustable	All loans
Government-sponsored enterprises	6.00% and below
Government-sponsored enterprises	6.01% to 7.49%
Government-sponsored enterprises	7.50% and above
Government	6.00% and below
Government	6.01% to 7.49%
Government	7.50% and above
Private	6.00% and below
Private	6.01% to 7.49%
Private	7.50% and above
Master servicing	All loans
Subprime	All loans
Multi-family	All loans

The Company began applying fair value hedge accounting treatment, as prescribed by Statement No. 133, as amended, as of April 1, 2004 to most of its MSR. Applying fair value hedge accounting to the MSR allows for the changes in fair value of the hedging derivatives to be netted against the changes in fair value of the hedged MSR, if the hedge relationship is determined to be highly effective. The portion of the MSR in which the hedging relationship is determined not to be highly effective, as well as the portion in which the Company did not attempt to achieve fair value hedge accounting treatment, is accounted for at the lower of cost or fair value. Under lower of cost or fair value accounting, impairment is recognized through a valuation allowance for each individual stratum. The valuation allowance is adjusted for impairment to reflect the amount, if any, by which the cost basis of the MSR for a given stratum exceeds its fair value. Unlike fair value hedge accounting, any fair value in excess of the cost basis of MSR for a given stratum is not recognized. Ineffectiveness from fair value hedge accounting adjustments applied to the MSR as well as any provision for impairment or reversal of such provision recognized on the MSR that are accounted for at the lower of cost or fair value are reported in the Consolidated Statements of Income under the noninterest income caption Revenue from sales and servicing of home mortgage loans.

The Company records an other-than-temporary impairment of the MSR for any loss in value that is not expected to recover in the foreseeable future. The amount of the other-than-temporary impairment is determined by selecting an appropriate interest rate shock to estimate the amount of MSR fair value that might be expected to recover in the foreseeable future. To the extent that the gross carrying value of the MSR exceeds the estimated recoverable amount, that portion of the gross carrying value of MSR and the related portion of valuation reserve would be written off as other-than-temporary impairment.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Because quoted market prices from active markets are not readily available, a present value cash flow model is used to estimate the value at which the MSR could be sold in the open market as of the valuation date. The most important assumptions used in the MSR valuation model are the anticipated rate of loan prepayments and discount rates. Other assumptions such as the cost to service the underlying loans, foreclosure costs and ancillary income are also used in determining the value of the MSR.

All assumptions are based on standards used by market participants in valuing MSR. The reasonableness of these assumptions is evaluated through quarterly independent broker surveys. Independent appraisals of the fair value of the servicing portfolio are obtained periodically, but not less frequently than quarterly, and are used by management to evaluate the reasonableness of the fair value estimates.

Premises and Equipment

Buildings, leasehold improvements and equipment are carried at amortized cost. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful life of newly constructed buildings is 40 years. The lives of new assets that are added to existing buildings are based on the remaining life of the original building. The estimated useful life for equipment is 3-10 years. Leasehold improvements are amortized over the shorter of their useful lives or lease terms. The Company reviews buildings, leasehold improvements, and equipment for impairment whenever events or changes in circumstances in the business activities related to these assets indicate that such activities may not generate enough income to recover the asset s carrying value. Impairment is measured by the amount of which the carrying value exceeds its fair value.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets represent the excess of the purchase price over the fair value of net assets acquired in business combinations under the purchase method of accounting. Other intangible assets include purchased credit card relationships, core deposits and other finite-life intangible assets; these assets are amortized over their estimated useful lives ranging from 2-10 years. Goodwill is not amortized, but instead is tested for impairment at the reporting unit level annually or more frequently if the presence of certain circumstances indicates that impairment may have occurred. Impairment testing is also performed periodically on amortizing intangible assets. Other intangible assets are classified as other assets on the Consolidated Statements of Financial Condition.

Securities Sold Under Agreements to Repurchase

The Company pledges certain financial instruments it owns to collateralize the sales of securities that are subject to an obligation to repurchase the same or similar securities (repurchase agreements). Under these arrangements, the Company transfers the assets but still retains effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, repurchase agreements are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Consolidated Statements of Financial Condition while the securities underlying the agreements remain in the respective asset accounts.

Stock-Based Compensation

In accordance with the transitional guidance of Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*, the Company elected to prospectively apply the fair value method of accounting for stock-based awards granted subsequent to

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2002. For such awards, fair value is estimated using a binomial model, with compensation expense recognized in earnings over the required service period. Stock-based awards granted prior to January 1, 2003, and not modified after December 31, 2002, continued to be accounted for under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* through December 31, 2005.

Had compensation cost for the Company s stock-based compensation plans been determined using the fair value method consistent with Statement No. 123 for all periods presented, the Company s net income attributable to common stock and net income per common share would have been reduced to the pro forma amounts indicated below:

	Year Ended December 31,		
	2005	**2004**	**2003**
	(dollars in millions, except per share amounts)		
Net income attributable to common stock	$ 3,432	$ 2,878	$ 3,880
Add back: Stock-based employee compensation expense included in reported net income, net of related tax effects	99	68	56
Deduct: Total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	(123)	(113)	(127)
Pro forma net income attributable to common stock	$ 3,408	$ 2,833	$ 3,809
Net income per common share:			
Basic:			
As reported	$ 3.84	$ 3.34	$ 4.29
Pro forma	3.81	3.29	4.21
Diluted:			
As reported	3.73	3.26	4.21
Pro forma	3.71	3.21	4.13

In December 2004, the FASB issued a revised version of the original Statement No. 123, *Accounting for Stock-Based Compensation*. Statement No. 123R, *Share-Based Payment*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee stock ownership plans. The Company will prospectively apply Statement No. 123R to its financial statements as of January 1, 2006. However, as the Company has already adopted Statement No. 148 and substantially all stock-based awards granted prior to its adoption have fully vested as of December 31, 2005, Statement No. 123R will not have a significant effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates which will be in effect when the differences between the financial statement carrying amounts and tax bases of existing assets and liabilities are expected to be reported in the Company s income tax returns. The comprehensive deferred tax provision for the year is equal to the change in the deferred tax asset or liability from the beginning to the

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end of the year. The effect on deferred taxes of a change in tax rates is recognized in the tax provision in the period that the change is enacted.

For tax reporting purposes, the Company reports income and expenses using the accrual method of accounting and files a consolidated tax return on that basis as well. The Company s federal tax filings generally include all subsidiaries.

Earnings Per Share

Earnings per share are presented under two formats: basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year, plus the dilutive effect of common share equivalents, such as stock options.

Recently Adopted Accounting Standards

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 does not permit the carryover of any specific valuation allowances 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 is effective for loans and debt securities acquired after December 31, 2004. The adoption of SOP 03-3 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position Emerging Issues Task Force 85-24-1 (FSP EITF 85-24-1), *Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge*. FSP EITF 85-24-1 considers the appropriate accounting for cash received from a third party for a distributor s right to future cash flows relating to distribution fees for shares previously sold. The FASB staff concluded that revenue recognition is appropriate when cash is received from a third party if the distributor no longer has any continuing involvement or recourse associated with the rights. The Company applied FSP EITF 85-24-1 as of April 1, 2005. The adoption of FSP EITF 85-24-1 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In March 2005, the FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*, an interpretation of FASB Statement No. 143, *Accounting for Asset Retirement Obligations*. FIN 47 generally applies to long-lived assets and requires a liability to be recognized for a conditional asset retirement obligation if the fair value of that liability can be reasonably estimated. A conditional asset retirement obligation is defined as a legal obligation to perform an activity associated with an asset retirement in which the timing and/or method of settlement are conditional on a future event that may or may not occur or be within the control of the company. A liability should be recognized when incurred (based on its fair value at that date), which generally would be upon acquisition or construction of the related asset. Upon recognition, the offset to the liability would be capitalized as part of the cost of the

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asset and depreciated over the estimated useful life of that asset. The Interpretation is effective no later than December 31, 2005, with early application encouraged. The adoption of FIN 47 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In December 2004, the FASB issued Statement No. 153, *Exchange of Nonmonetary Assets*. Statement No. 153 addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. The Statement is effective for nonmonetary asset exchanges occurring after the second quarter of 2005. The adoption of Statement No. 153 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In November 2005, the FASB issued FSP FAS 140-2, *Clarification of the Application of Paragraphs 40(b) and 40(c) of FASB Statement No. 140.* This FSP clarifies that the requirements of paragraphs 40(b) and 40(c) must be met only at the date a qualified special purpose-entity (QSPE) issues beneficial interests or when a passive derivative financial instrument needs to be replaced upon the occurrence of a specified event outside the control of the transferor. This FSP is effective as of November 9, 2005. The guidance regarding unexpected events is applied prospectively to all qualifying QSPEs for unexpected events that occur after the FSP s effective date. The guidance regarding a transferor s purchases of beneficial interests from outside parties is effective as of November 9, 2005, for such purchases and for transferors previous purchases that were consistent with the guidance in this FSP. The adoption of FSP FAS 140-2 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In November 2005, the FASB issued FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.* This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* and APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.* This FSP is effective for reporting periods beginning after December 15, 2005. The adoption of FSP FAS 115-1 and FAS 124-1 did not have a material effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In December 2005, the FASB issued FSP SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk.* This FSP addresses their circumstances in which the terms of loan products give rise to a concentration of credit risk as used in FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments,* and what disclosures apply for entities that originate, hold, guarantee, service or invest in loan products whose terms may give rise to a concentration of credit risk. The FSP is intended to emphasize the requirement to assess the adequacy of disclosures for all lending products and the effect of changes in market or economic conditions on the adequacy of those disclosures. Possible shared characteristics on which significant concentrations may be determined include, but are not limited to, borrowers subject to significant payment increases, loans with terms that permit negative amortization, and loans with high loan-to-value ratios. An entity should consider AICPA Statement of Position 94-6,

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Disclosure of Certain Significant Risks and Uncertainties, for guidance on disclosure requirements as well as other existing effective literature. The guidance is effective as of December 31, 2005; accordingly, the Company applied this guidance to the development of its loan portfolio disclosure in Note 4 to the Consolidated Financial Statements.

Recently Issued Accounting Standards

In December 2004, the FASB issued a revised version of the original Statement No. 123, *Accounting for Stock-Based Compensation*. Statement No. 123R, *Share-Based Payment*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. This Statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. This Statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value-based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee stock ownership plans. Effective January 1, 2003 and in accordance with the transitional guidance of Statement No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company elected to prospectively apply the fair value method of accounting for stock-based awards granted subsequent to December 31, 2002. The Company will prospectively apply Statement No. 123R to its financial statements as of January 1, 2006. However, as the Company has already adopted Statement No. 148 and substantially all stock-based awards granted prior to its adoption have fully vested as of December 31, 2005, Statement No. 123R will not have a significant effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In March 2005, Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 107 (SAB 107) was issued, which expresses views of the staff regarding the interaction between Statement No. 123R, *Share-Based Payment*, and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies. The Company will consider the guidance provided by SAB 107 as part of its adoption of Statement No. 123R.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3.* This Statement replaces APB Opinion No. 20, *Accounting Changes,* and Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements,* and changes the requirements for the accounting and reporting of a change in accounting principle. This Statement requires changes in accounting principles to be retrospectively applied to the prior periods presented in the financial statements, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principles and also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement also carries forward, without substantive change, the provisions for the correction of an error from APB Opinion No. 20. Statement No. 154 is effective for accounting changes and corrections of errors made after December 31, 2005. The Company does not expect the application of this Statement to have a significant effect on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

In February 2006, the FASB issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments.* This Statement amends Statements No. 133, *Accounting for Derivative Instruments and Hedging Activities* and No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* to simplify and make more consistent the accounting for certain financial instruments. This Statement permits fair value remeasurement for any hybrid financial instrument with an embedded

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derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis and establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. This Statement also allows a qualifying special purpose entity to hold a derivative financial instrument that pertains to a beneficial interest. Statement No. 155 is effective for all of the Company s financial instruments acquired or issued after December 31, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The Company is currently evaluating the impact this guidance will have on the Consolidated Statements of Income or the Consolidated Statements of Financial Condition.

Note 2: Restatement of Financial Statements

Subsequent to the original filing of the Company s Annual Report on Form 10-K, the Company completed a comprehensive review and reconciliation of its current and deferred income tax accounts and concluded that a $337 million reduction to retained earnings was necessary, representing cumulative adjustments to net income recorded in prior periods up to and including 2001. No adjustments were made to net income or earnings per share for any of the three years reported in the Consolidated Statements of Income. The adjustments reflect corrections to the tax accounting records related to matters occurring prior to 2002 at the Company and predecessor companies, including H.F. Ahmanson & Co., Great Western Financial Corp. and American Savings Bank, which the Company acquired in the late 1990s. The adjustments arose primarily from inadequate tax records, delays in reconciling tax accounts and errors in recording the impact of certain tax payments and the income tax expense of the Company during those years. Accordingly, these adjustments affected the balance of retained earnings and certain tax accounts at December 31, 2001 and each period thereafter.

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At December 31, 2005, the effects of the tax account restatements resulted in a decrease in other assets of $266 million and an increase in other liabilities of $71 million. At December 31, 2004, such restatements resulted in a $337 million decrease in other assets. The table below shows the impact of the restatement on the Consolidated Statements of Financial Condition:

	As Previously Reported (in millions)	As Restated
December 31, 2005		
Other assets	$ 17,715	$ 17,449
Total assets	343,839	343,573
Other liabilities	7,895	7,966
Total liabilities	316,223	316,294
Retained earnings	19,675	19,338
Total stockholders equity	27,616	27,279
December 31, 2004		
Other assets	13,900	$ 13,563
Total assets	307,918	307,581
Other liabilities	4,473	4,473
Total liabilities	286,692	286,692
Retained earnings	17,952	17,615
Total stockholders equity	21,226	20,889

Note 3: Business Combinations

To broaden the Company s array of retail banking products and services, the Company acquired 100 percent of the outstanding stock of Providian Financial Corporation (Merger) on October 1, 2005 for a total purchase price of approximately $5.8 billion, which included approximately $635 million of cash and approximately 127 million shares of Washington Mutual common stock valued at $39.60 per share. For each share of Providian common stock, Providian stockholders received .4005 shares of Washington Mutual common stock and $2.00 in cash. For purposes of this Merger, the Company s common stock was valued based upon its average price for a 3-day trading period from September 28-30, 2005. This Merger was accounted for under the purchase method of accounting in accordance with FASB Statement No. 141, *Business Combinations*. Accordingly, the purchase price of the acquisition was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the Merger date, with the difference between the purchase price and the fair value of the net assets acquired recorded as goodwill. Results of operations for the business combination are included from the date of acquisition.

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The purchase price and the fair value of the net assets acquired in the Merger were as follows:

	October 1, 2005 (in millions)
Purchase price	$ 5,806
Fair value of net assets acquired:	
Assets:	
Cash	99
Federal funds sold	337
Trading assets	1,608
Available-for-sale securities	2,390
Loans held in portfolio, net of allowance for loan and lease losses	8,164
Other intangible assets	560
Other assets	793
Liabilities:	
Deposits	(8,598)
Borrowings	(924)
Other liabilities	(727)
Fair value of net assets acquired	3,702
Estimated goodwill resulting from acquisition	$ 2,104

Other intangible assets are substantially comprised of purchased credit card relationship intangibles with an estimated useful life of ten years. The amount of goodwill recorded, as well as the estimated fair values assigned to the assets acquired and liabilities assumed, may change as certain estimates are finalized. None of the goodwill is expected to be deductible for tax purposes.

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The unaudited pro forma combined amounts presented below give effect to the Merger with Providian as if it had been consummated at the beginning of each period. The unaudited pro forma information is not necessarily indicative of the results of operations that would have resulted had the Merger been completed at the beginning of the applicable period presented, nor is it necessarily indicative of the results of operations in future periods.

	Year Ended December 31, 2005	2004
	(in millions, except per share amounts)	
Net interest income	$ 8,361	$ 7,618
Provision for loan and lease losses	741	726
Noninterest income	6,996	6,217
Noninterest expense	8,719	8,683
Income from continuing operations before income taxes	5,897	4,426
Income taxes	2,128	1,629
Income from continuing operations, net of taxes	3,769	2,797
Income from discontinued operations, net of taxes		399
Net income	3,769	3,196
Weighted average number of common shares outstanding (in thousands)		
Basic	989,457	989,260
Diluted	1,014,261	1,011,095
Net income per common share		
Basic	$ 3.81	$ 3.23
Diluted	3.72	3.16

Note 4: Securities

The following table presents the amortized cost, unrealized gains, unrealized losses, and fair value of securities as of the dates indicated. As of the years ended 2005, 2004 and 2003, there were no securities classified as held to maturity.

	December 31, 2005 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(in millions)			
Available-for-sale securities				
Mortgage-backed securities:				
Agency	$ 14,138	$ 55	$ (112)	$ 14,081
Private issue	6,633	18	(84)	6,567
Total mortgage-backed securities	20,771	73	(196)	20,648
Investment securities:				
U.S. Government	408		(1)	407
Agency	2,550		(36)	2,514
Other debt securities	988	12	(4)	996
Equity securities	93	2	(1)	94
Total investment securities	4,039	14	(42)	4,011
Total available-for-sale securities	$ 24,810	$ 87	$ (238)	$ 24,659

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	December 31, 2004 Amortized Cost (in millions)	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities				
Mortgage-backed securities:				
U.S. Government	$ 149	$	$ (1)	$ 148
Agency	12,938	133	(24)	13,047
Private issue	1,702	27	(1)	1,728
Total mortgage-backed securities	14,789	160	(26)	14,923
Investment securities:				
U.S. Government	994		(18)	976
Agency	2,796	36	(4)	2,828
Other debt securities	373	18		391
Equity securities	95	7	(1)	101
Total investment securities	4,258	61	(23)	4,296
Total available-for-sale securities	$ 19,047	$ 221	$ (49)	$ 19,219

	December 31, 2003 Amortized Cost (in millions)	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale securities				
Mortgage-backed securities:				
U.S. Government	$ 117	$	$	$ 117
Agency	8,570	140	(26)	8,684
Private issue	1,849	46	(1)	1,894
Total mortgage-backed securities	10,536	186	(27)	10,695
Investment securities:				
U.S. Government	18,950		(294)	18,656
Agency	7,000	5	(46)	6,959
Other debt securities	247	17	(2)	262
Equity securities	125	11	(1)	135
Total investment securities	26,322	33	(343)	26,012
Total available-for-sale securities	$ 36,858	$ 219	$ (370)	$ 36,707

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The unrealized losses and fair value of securities that have been in a continuous unrealized loss position for less than 12 months and 12 months or greater were as follows:

	December 31, 2005 Less than 12 months Unrealized Losses (in millions)	Fair Value	12 months or greater Unrealized Losses	Fair Value	Total Unrealized Losses	Fair Value
Available-for-sale securities						
Mortgage-backed securities:						
Agency	$ (93)	$ 8,479	$ (19)	$ 746	$ (112)	$ 9,225
Private issue	(84)	5,018	(1)	1	(84)	5,019
Total mortgage-backed securities	(177)	13,497	(19)	747	(196)	14,244
Investment securities:						
U.S. Government and agency	(37)	2,907	(1)	10	(37)	2,917
Other debt securities	(3)	320	(1)	37	(4)	357
Equity securities	(1)	4			(1)	4
Total investment securities	(41)	3,231	(1)	47	(42)	3,278
Total available-for-sale securities	$ (218)	$ 16,728	$ (20)	$ 794	$ (238)	$ 17,522

(1) Amount of unrealized loss rounds to zero.

The Company does not consider any of the unrealized losses presented in the table above to represent an other than temporary impairment condition as it expects to hold the affected securities for the period of time necessary to recover these unrealized losses.

The realized gross gains and losses on securities for the periods indicated were as follows:

	Year Ended December 31, 2005 (in millions)	2004	2003
Available-for-sale securities			
Realized gross gains	$ 506	$ 251	$ 1,171
Realized gross losses	(547)	(199)	(175)
Realized net gain (loss)	$ (41)	$ 52	$ 996

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Fair value of debt securities by contractual maturity was as follows:

	December 31, 2005 Total Amount	Yield(1)	Due Within One Year	Yield(1)	After One But Within Five Years	Yield(1)	After Five But Within Ten Years	Yield(1)	After Ten Years	Yield(1)
	(dollars in millions)									
Available-for-sale debt securities										
Mortgage-backed securities(2):										
Agency	$ 14,081	5.05 %	$	%	$ 34	4.88 %	$ 1,294	5.36 %	$ 12,753	5.02 %
Private issue	6,567	4.89			122	5.30	668	3.42	5,777	5.05
Total mortgage-backed securities	20,648	5.00			156	5.21	1,962	4.69	18,530	5.03
Investment securities:										
U.S. Government and agency	2,921	5.05	4	4.89	1,060	5.15	1,857	4.99		
Other debt securities	996	5.05	4	4.60	145	4.22	277	5.14	570	5.21
Total investment securities	3,917	5.05	8	4.76	1,205	5.04	2,134	5.01	570	5.21
Total fair value of debt securities	$ 24,565	5.01	$ 8	4.76	$ 1,361	5.06	$ 4,096	4.85	$ 19,100	5.04

(1) Weighted average yield at end of year is based on the amortized cost of the securities.

(2) Mortgage-backed securities were allocated based on contractual principal maturities assuming no prepayments.

At December 31, 2005, the Company had pledged available-for-sale securities having a fair value of $6.72 billion and an amortized cost of $6.79 billion, which are subject to certain agreements that may allow the secured party to either sell or rehypothecate the securities. In addition, the Company pledged securities with a fair value of $6.37 billion and an amortized cost of $6.39 billion under agreements whereby the secured party does not have the right to sell or repledge the securities. At December 31, 2005 and 2004, the Company had accepted as collateral, with rights to repledge, securities with a fair value of $49 million and $139 million.

At December 31, 2005, there were no securities of any single issuer, other than agency securities, which exceeded 10% of stockholders equity.

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Note 5: Loans and Allowance for Loan and Lease Losses

Loans held in portfolio consisted of the following:

	December 31, 2005 (in millions)	2004
Loans secured by real estate:		
Home:		
Short-term adjustable-rate loans(1):		
Option ARMs(2)	$ 70,191	$ 66,310
Other ARMs	14,666	9,065
Total short-term adjustable-rate loans	84,857	75,375
Medium-term adjustable-rate loans(3)	41,511	45,197
Fixed-rate loans	8,922	8,562
Total home loans(4)	135,290	129,134
Home equity loans and lines of credit	50,851	43,650
Home construction(5)	2,037	2,344
Multi-family	25,601	22,282
Other real estate	5,035	5,664
Total loans secured by real estate	218,814	203,074
Consumer:		
Credit card	8,043	
Other	638	792
Commercial business	2,137	3,205
Total loans held in portfolio(6)	$ 229,632	$ 207,071

(1) Short-term is defined as adjustable-rate loans that reprice within one year or less.

(2) At December 31, 2005, the total amount by which the unpaid principal balance (UPB) of Option ARM loans exceeded their original principal amount was $157 million.

(3) Medium-term is defined as adjustable-rate loans that reprice after one year.

(4) Includes specialty mortgage finance loans, which are comprised of purchased subprime home loans and subprime home loans originated by Long Beach Mortgage Company and held in its investment portfolio. Specialty mortgage finance loans were $21.15 billion and $19.18 billion at December 31, 2005 and 2004.

(5) 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.

(6) Includes net unamortized deferred loan origination costs of $1.53 billion at December 31, 2005 and $1.25 billion at December 31, 2004.

Features of Residential Loans

Certain residential loans have features that may result in increased credit risk when compared to residential loans without those features. Categories of loans within the Company s portfolio that have such features include loans with an option to defer the payment of interest (i.e., Option ARM home loans), home loans where the loan-to-value ratio is greater than 80 percent, home equity loans and lines of credit where the combined loan-to-value ratio is greater than 80 percent, and interest-only payment loans. The loan-to-value ratio measures the ratio of the original loan amount to the appraised value of the collateral at origination. The combined loan-to-value ratio measures the ratio of the original loan amount of the first lien product (typically a first lien mortgage loan) and the original loan amount of the second lien product (typically a second lien home equity loan or line of credit) to the appraised value of the collateral that underlies the loan the Company is originating. In the underwriting of these loans, the Company usually

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considers compensating factors and mitigating circumstances that may serve to reduce the potential for increased credit risk arising from these features.

Loans held in portfolio with the aforementioned features consisted of the following:

	December 31, 2005 (in millions)	2004
Option ARM home loans	$ 70,191	$ 66,310
Home loans without private mortgage insurance or government guarantees where the loan-to-value ratio at origination is greater than 80 percent	9,012	9,825
Home equity loans and lines of credit where the combined loan-to-value ratio at origination is greater than 80 percent	12,312	8,927
Interest-only home loans	10,660	8,907

The geographic distribution of the Company s Option ARM portfolio is set forth in the table below:

	December 31, 2005 (in millions)	2004
California	$ 33,875	$ 34,237
Florida	7,253	6,358
New York/New Jersey	7,043	5,898
Washington/Oregon	2,615	2,580
Illinois	1,972	1,785
Texas	735	722
Other	16,698	14,730
Total home loan Option ARMs held in portfolio	$ 70,191	$ 66,310

The recorded investment in impaired loans at December 31, 2005 and 2004 amounted to $474 million and $656 million. Included in the allowance for loan and lease losses was $10 million related to $27 million of impaired loans at December 31, 2005, and $16 million related to $55 million of impaired loans at December 31, 2004. The average recorded investment in impaired loans in 2005, 2004 and 2003 was $568 million, $820 million and $1,193 million. Interest income recognized on impaired loans in 2005, 2004 and 2003 was $24 million, $35 million and $57 million.

Loans totaling $103.28 billion and $111.10 billion at December 31, 2005 and 2004 were pledged to secure advances from FHLBs.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Year Ended December 31, 2005	2004	2003
	(in millions)		
Balance, beginning of year	$ 1,301	$ 1,250	$ 1,503
Allowance transferred to loans held for sale	(270)	(23)	(3)
Allowance acquired through business combinations	592		
Other			17
Provision for loan and lease losses(1)	316	209	42
	1,939	1,436	1,559
Loans charged off:			
Loans secured by real estate:			
Home	(38)	(39)	(65)
Specialty mortgage finance(2)	(50)	(39)	(39)
Total home loan charge-offs	(88)	(78)	(104)
Home equity loans and lines of credit	(30)	(22)	(14)
Home construction(3)	(1)	(1)	(2)
Multi-family	(1)	(2)	(5)
Other real estate	(8)	(11)	(97)
Total loans secured by real estate	(128)	(114)	(222)
Consumer:			
Credit card	(138)		
Other	(38)	(53)	(69)
Commercial business	(34)	(21)	(79)
Total loans charged off	(338)	(188)	(370)
Recoveries of loans previously charged off:			
Loans secured by real estate:			
Home			10
Specialty mortgage finance(2)	3	3	3
Total home loan recoveries	3	3	13
Home equity loans and lines of credit	9	4	1
Multi-family	3	3	1
Other real estate	13	10	17
Total loans secured by real estate	28	20	32
Consumer:			
Credit card	40		
Other	19	19	15
Commercial business	7	14	14
Total recoveries of loans previously charged off	94	53	61
Net charge-offs	(244)	(135)	(309)
Balance, end of year	$ 1,695	$ 1,301	$ 1,250

(1) Includes a $202 million reversal of provision for loan and lease losses recorded in the fourth quarter of 2003.

(2) Represents purchased subprime home loan portfolios and subprime home loans originated by Long Beach Mortgage Company and held in its investment portfolio.

(3) 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.

The total amount of loans held in portfolio, excluding credit card loans, which were 90 days or more contractually past due and still accruing interest was $107 million and $85 million at December 31, 2005 and 2004. The majority of these loans are either VA- or FHA-insured with little or no risk of loss of

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

principal or interest. Credit card loans held in portfolio that were 90 days or more contractually past due and still accruing interest was $87 million at December 31, 2005.

As a result of regulatory guidelines issued in 2003, delinquent mortgages contained within GNMA 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 credit loss. The Company s held for sale portfolio contained $1.06 billion and $1.60 billion of such loans that were 90 or more days contractually past due and still accruing interest at December 31, 2005 and 2004.

The total amount of nonaccrual loans held in portfolio at December 31, 2005 and 2004 was
$1.69 billion and $1.53 billion. The total amount of nonaccrual loans held for sale at December 31, 2005 and 2004 was $245 million and $76 million.

Note 6: Securitizations

Securitization of Assets

During 2005 and 2004, the Company sold loans and retained servicing responsibilities as well as senior and subordinated interests from securitization transactions. The Company receives servicing fees equal to a percentage of the outstanding principal balance of mortgage loans being serviced and servicing fees for credit card loans being serviced. The Company also receives the right to cash flows remaining after the investors in the securitization trusts have received their contractual payments. The allocated carrying values of mortgage loans securitized and sold during the years ended December 31, 2005 and 2004 were $130.81 billion and $92.23 billion, which included loans sold with recourse of $680 million and $1.37 billion during the same periods. The allocated carrying value of credit card loans securitized and sold during the three months ended December 31, 2005 (since the completion of the merger of Providian Financial Corporation on October 1, 2005) was $1.90 billion.

The Company realized pretax gains of $949 million, $734 million and $2.32 billion on mortgage loan securitizations for 2005, 2004 and 2003 and pretax gains of $103 million on credit card securitizations during the three months ended December 31, 2005.

The table below summarizes certain cash flows received from and paid to securitization trusts, except as footnoted below:

	Year Ended December 31,		
	2005		**2004**
	Mortgages	**Credit Cards**(3)	**Mortgages**
	(in millions)		
Proceeds from new securitization sales	$ 135,271	$ 1,700	$ 93,528
Proceeds from collections reinvested in new receivables		2,624	
Principal and interest received on retained interests	623	289	1,154
Servicing fees received(1)	1,929	78	1,971
Loan repurchases(1)(2)	(4,863)		(4,376)

(1) Amounts include cash received/paid related to all transfers of loans, including securitizations accounted for as sales, securitizations retained and whole loan sales.

(2) During 2005 and 2004, loan repurchases include $1.81 billion and $3.42 billion related to GNMA early buy out repurchases.

(3) Since the merger date of October 1, 2005.

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Explanation of Responses:

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Key economic assumptions used in measuring the initial value of retained interests (excluding MSR) resulting from securitizations completed during the years ended December 31, 2005 and 2004, and accounted for as sales at the date of securitization, were as follows (rates are per annum and are weighted based on the principal amounts securitized):

	Mortgage Loans Fixed-Rate Government-Sponsored Enterprise		Adjustable-Rate Privately Issued		
	Home	Multi-Family	Home	Subprime	Credit Card Loans
Year Ended December 31, 2005					
Payment rate(1)	8.66 %		24.11 %	68.30 %	8.62 %
Expected weighted-average life (in years)	8.6	6.0	4.1	3.8	0.5
Discount rate	5.45 %	5.57 %	9.08 %	47.32 %	6.65-15.00 %
Year Ended December 31, 2004					
Constant prepayment rate(1)	17.43 %				
Expected weighted-average life (in years)	5.6				
Discount rate	4.90 %				

(1) Represents the expected lifetime average payment rate, which is based on the constant annualized prepayment rate for mortgage related loans and represents the average monthly expected principal payment rate for credit card related loans.

At December 31, 2005, key economic assumptions and the sensitivity of the current fair value of retained interests (excluding MSR) to immediate changes in those assumptions were as follows:

	Mortgage Loans Fixed-Rate Government-Sponsored Enterprise		Adjustable-Rate Privately Issued		
	Home	Multi-Family	Home	Subprime	Credit Card Loans
	(dollars in millions)				
Fair value of retained interests	$ 702	$ 654	$ 1,390	$ 52	$ 1,639
Expected weighted-average life (in years)	7.0	5.7	3.5	5.3	0.5
Payment rate(1)	10.85 %		25.89 %	51.75 %	8.56 %
Impact on fair value of 10% adverse change	(1)		(35)		(22)
Impact on fair value of 25% adverse change			(79)	1	(48)
Discount rate	5.71 %	4.99 %	9.23 %	35.27 %	5.63 15.00 %
Impact on fair value of 25% adverse change	(32)	(8)	(42)	(5)	(48)
Impact on fair value of 50% adverse change	(65)	(16)	(84)	(9)	(95)

(1) Represents the expected lifetime average based on the constant prepayment rate for mortgage related loans and represents the average monthly expected principal payment rate for credit card related loans.

These sensitivities are hypothetical and should be used with caution. As the table above demonstrates, the Company s methodology for estimating the fair value of retained interests is highly sensitive to changes in assumptions. For example, the Company s determination of fair value uses anticipated payment speeds.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Actual payment experience may differ and any difference may have a material effect on retained interests fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions; in reality, changes in one factor may be associated with changes in another, which may magnify or counteract the sensitivities. Thus, any measurement of the fair value of retained interests 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.

The tables below present information about delinquencies, net charge-offs and components of reported and securitized financial assets at December 31, 2005 and 2004:

	Total Loans December 31,		Loans on Nonaccrual Status(1)		Net Charge-offs Year Ended December 31,	
	2005	2004	2005	2004	2005	2004
	(in millions)					
Home mortgage loans	$ 245,581	$ 196,785	$ 3,099	$ 2,439	$ 376	$ 306
Other loans secured by real estate	89,823	79,615	225	352	15	19
Credit card loans	19,964	2			357 (2)	
Other loans	2,929	4,139	56	50	46	41
Total loans managed(3)	358,297	280,541	$ 3,380	$ 2,841	$ 794	$ 366
Less:						
Loans sold, including securitizations	72,763	26,216				
Loans securitized and retained	22,320	4,511				
Loans held for sale	33,582	42,743				
Total loans held in portfolio	$ 229,632	$ 207,071				

(1) Refer to Note 1 to the Consolidated Financial Statements Summary of Significant Accounting Policies for further discussion of loans on nonaccrual status.

(2) Since the merger date of October 1, 2005.

(3) Represents both loans on the Consolidated Statements of Financial Condition and loans that have been securitized, but excludes loans for which the Company s only continuing involvement is servicing of the assets.

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Explanation of Responses:

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7: Mortgage Banking Activities

Revenue from sales and servicing of home mortgage loans consisted of the following:

	Year Ended December 31, 2005	2004	2003
	(in millions)		
Revenue from sales and servicing of home mortgage loans:			
Sales activity:			
Gain from home mortgage loans and originated mortgage-backed securities	$ 850	$ 651	$ 1,570
Revaluation gain (loss) from derivatives	99	80	(159)
Gain from home mortgage loans and originated mortgage-backed securities, net of hedging and risk management instruments	949	731	1,411
Servicing activity:			
Home mortgage loan servicing revenue, net(1)	2,123	1,943	2,080
Amortization of MSR	(2,170)	(2,521)	(3,269)
MSR valuation adjustments(2)	965	(235)	712
Revaluation gain from derivatives	163	1,469	1,040
Home mortgage loan servicing revenue, net of hedging and derivative risk management instruments(3)	1,081	656	563
Total revenue from sales and servicing of home mortgage loans	$ 2,030	$ 1,387	$ 1,974

(1) Includes late charges, prepayment fees and loan pool expenses (the shortfall of the scheduled interest required to be remitted to investors compared to what is collected from the borrowers upon payoff).

(2) Net of fair value hedge ineffectiveness as well as any impairment/reversal recognized on MSR that results from the application of the lower of cost or fair value accounting methodology.

(3) Does not include the effects of other non-derivative instruments used by the Company as part of its overall MSR risk management program.

Key economic assumptions used in measuring the initial value of all capitalized MSR created during the years ended December 31, 2005 and 2004, from securitizations recorded as sales, securitizations entirely retained, and loan sales with retained servicing, were as follows:

	Fixed-Rate Mortgage Loans		Adjustable-Rate Mortgage Loans	
	Government and Government-Sponsored Enterprise	Privately Issued	All Types	Subprime Loans
	(rates per annum)			
Year Ended December 31, 2005				
Constant prepayment rate(1)	12.52 %	14.15 %	28.08 %	36.13 %
Discount rate	8.42	9.60	10.07	19.92
Year Ended December 31, 2004				
Constant prepayment rate(1)	15.75 %	22.43 %	25.71 %	28.01 %
Discount rate	8.56	9.64	9.78	19.72

(1) Represents the expected lifetime average.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At December 31, 2005, key economic assumptions and the sensitivity of the current fair value for home loans MSR to immediate changes in those assumptions were as follows:

	December 31, 2005 Mortgage Servicing Rights			
	Fixed-Rate Mortgage Loans		Adjustable-Rate Mortgage Loans	
	Government and Government-Sponsored Enterprise	Privately Issued	All Types	Subprime Loans
	(dollars in millions)			
Fair value of home loan MSR	$ 5,256	$ 874	$ 1,607	$ 201
Expected weighted-average life (in years)	5.7	5.9	2.7	1.9
Constant prepayment rate(1)	12.06 %	12.44 %	30.17 %	40.29 %
Impact on fair value of 25% decrease	$ 715	$ 110	$ 313	$ 46
Impact on fair value of 50% decrease	1,635	252	793	111
Impact on fair value of 25% increase	(569)	(58)	(220)	(39)
Impact on fair value of 50% increase	(1,030)	(161)	(386)	(56)
Discounted cash flow rate	8.31 %	10.32 %	10.23 %	20.26 %
Impact on fair value of 25% decrease	$ 453	$ 84	$ 77	$ 11
Impact on fair value of 50% decrease	998	189	165	25
Impact on fair value of 25% increase	(381)	(69)	(68)	(10)
Impact on fair value of 50% increase	(706)	(126)	(130)	(18)

(1) Represents the expected lifetime average.

These sensitivities are hypothetical and should be used with caution. As the table above demonstrates, the Company s methodology for estimating the fair value of MSR is highly sensitive to changes in assumptions. For example, the Company s determination of fair values uses anticipated prepayment speeds. Actual prepayment experience may differ and any difference may have a material effect on MSR fair value. Changes in fair value resulting from changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the MSR is calculated without changing any other assumption; in reality, changes in one factor may be associated with changes in another (for example, increases in market interest rates may result in lower prepayments, but credit losses may increase), which may magnify or counteract the sensitivities. 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.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the balance of MSR, net of the valuation allowance, were as follows:

	Year Ended December 31, 2005 (in millions)	2004	2003
Balance, beginning of year	$ 5,906	$ 6,354	$ 5,341
Home loans:			
Additions	2,353	1,834	4,203
Amortization	(2,170)	(2,521)	(3,269)
(Impairment) reversal	943	(466)	712
Statement No. 133 MSR accounting valuation adjustments	999	699	
Sales			(638)
Net change in commercial real estate MSR	10	6	5
Balance, end of year(1)	$ 8,041	$ 5,906	$ 6,354

(1) At December 31, 2005, 2004 and 2003, aggregate MSR fair value was $8.10 billion, $5.91 billion and $6.39 billion.

Changes in the valuation allowance for MSR were as follows:

	Year Ended December 31, 2005 (in millions)	2004	2003
Balance, beginning of year	$ 1,981	$ 2,435	$ 4,521
Impairment (reversal)	(943)	466	(712)
Other-than-temporary impairment	(106)	(895)	(1,115)
Sales			(259)
Other	(18)	(25)	
Balance, end of year	$ 914	$ 1,981	$ 2,435

At December 31, 2005, the expected weighted average life of the Company s MSR was 5.0 years. Projected amortization expense for the gross carrying value of MSR at December 31, 2005 is estimated to be as follows (in millions):

2006	$ 1,722
2007	1,323
2008	1,031
2009	823
2010	668
After 2010	3,388
Gross carrying value of MSR	8,955
Less: valuation allowance	(914)
Net carrying value of MSR	$ 8,041

The projected amortization expense of MSR is an estimate and should be used with caution. The amortization expense for future periods was calculated by applying the same quantitative factors, such as projected MSR prepayment estimates and discount rates, as were used to determine amortization expense at the end of 2005. These factors are inherently subject to significant fluctuations, primarily due to the effect that changes in mortgage rates have on loan prepayment experience. Accordingly, any projection of MSR amortization in future periods is limited by the conditions that existed at the time the calculations were performed, and may not be indicative of actual amortization expense that will be recorded in future periods.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in the portfolio of mortgage loans serviced for others were as follows:

	Year Ended December 31, 2005	2004
	(in millions)	
Balance, beginning of year	$ 540,392	$ 582,669
Home loans:		
Additions	165,767	133,127
Loan payments and other	(144,800)	(178,010)
Net change in commercial real estate loans serviced for others	1,849	2,606
Balance, end of year	$ 563,208	$ 540,392

Note 8: Goodwill and Other Intangible Assets

The Company performs an impairment assessment in the third quarter of each year or more frequently if circumstances necessitate. During the third quarter of 2005 and 2004, the Company concluded there was no impairment to the book value of the Company s goodwill.

The carrying amount of goodwill for the years ended December 31, 2005 and 2004, by reporting unit were as follows:

	Retail Banking and Financial Services Group (in millions)	Home Loans Group	Commercial Group	Card Services Group	Total
Balance at December 31, 2005	$ 3,795	$ 1,528	$ 871	$ 2,104	$ 8,298
Balance at December 31, 2004	3,795	1,528	873		6,196

As a result of the acquisition of Providian Financial Corporation during the fourth quarter of 2005, the Company recorded $2.10 billion of goodwill and $560 million of other intangible assets, substantially all of which are comprised of purchase credit card relationship intangibles.

At December 31, 2005 the Company s purchased credit card relationship intangible balance was $496 million, net of accumulated amortization of $24 million. The purchased credit card relationship intangible asset is being amortized over ten years using an accelerated amortization method. Annual amortization expense for the net carrying amount of the purchased credit card relationship intangibles is estimated to be $92 million in 2006, $83 million in 2007, $73 million in 2008, $64 million in 2009 and $54 million in 2010.

At December 31, 2005 and 2004, the Company s core deposit intangible balances were $142 million and $195 million, net of accumulated amortization of $490 million and $438 million. Amortization expense for the net carrying amount of the core deposit intangibles at December 31, 2005 is estimated to be approximately $50 million over each of the next three years.

The Company has no identifiable intangible assets with indefinite useful lives.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9: Other Assets

Other assets consisted of the following:

	December 31, 2005 (in millions)	2004
Premises and equipment	$ 3,262	$ 3,140
Investment in bank-owned life insurance	3,056	2,678
Accrued interest receivable	1,914	1,428
Foreclosed assets	276	261
Identifiable intangible assets	677	195
Derivatives	821	893
Accounts receivable	4,593	3,580
Other	2,850	1,388
Total other assets	$ 17,449	$ 13,563

Depreciation expense for 2005, 2004 and 2003 was $521 million, $564 million and $492 million.

The Company leases various financial center offices, office facilities and equipment under capital and noncancelable operating leases which expire at various dates through 2036. Some leases contain escalation provisions for adjustments in the consumer price index and provide for renewal options for five- to ten-year periods. Rental expense, including amounts paid under month-to-month cancelable leases, amounted to $508 million in 2005 and 2004 and $458 million in 2003.

Future minimum net rental commitments, including maintenance and other associated costs, for all noncancelable leases were as follows:

	Operating Lease		Capital Lease	
	Land and Buildings (in millions)	Furniture and Equipment	Land And Buildings	Furniture and Equipment
Year ending December 31,				
2006	$ 384	$ 72	$ 6	$ 10
2007	333	44	6	10
2008	289	18	6	9
2009	245	5	6	5
2010	204		6	
Thereafter	537		27	
Total	$ 1,992	$ 139	$ 57	$ 34

Certain operating leases contain escalation clauses, which correspond with increased real estate taxes and other operating expenses, and renewal options calling for increased rents as the leases are renewed.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10: Deposits

Deposits consisted of the following:

	December 31, 2005 (in millions)	2004
Checking deposits:		
Noninterest bearing	$ 33,919	$ 31,363
Interest bearing	42,356	51,265
Total checking deposits	76,275	82,628
Savings deposits	29,318	28,035
Money market deposits	13,586	16,515
Time deposits:		
Due in 2006	63,433	35,634
Due in 2007	5,944	5,031
Due in 2008	1,965	3,007
Due in 2009	1,315	983
Due in 2010	595	1,116
Thereafter	736	709
Total time deposits	73,988	46,480
Total deposits	$ 193,167	$ 173,658

Accrued but unpaid interest on deposits totaled $252 million and $79 million at December 31, 2005 and 2004.

Time deposit accounts in amounts of $100,000 or more totaled $17.00 billion and $9.18 billion at December 31, 2005 and 2004. At December 31, 2005, $4.70 billion of these deposits have a remaining maturity of three months or less, $5.47 billion mature in more than three through six months, $3.39 billion mature in more than six months through one year, and $3.44 billion mature thereafter.

Note 11: Securities Sold Under Agreements to Repurchase

Scheduled maturities of securities sold under agreements to repurchase (repurchase agreements) were as follows:

	December 31, 2005 (in millions)	2004
Due in 30 days or less	$ 9,562	$ 8,702
After 30 through 90 days	1,200	
After 90 through 180 days	2,500	2,140
After 180 days through one year	400	2,710
Thereafter	1,870	2,392
Total repurchase agreements	$ 15,532	$ 15,944

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial data pertaining to repurchase agreements were as follows:

	Year Ended December 31, 2005	2004	2003
	(dollars in millions)		
Weighted average interest rate, end of year	4.20 %	2.36 %	1.23 %
Weighted average interest rate during the year	3.40	2.26	2.44
Average balance of repurchase agreements	$ 15,365	$ 16,660	$ 22,318
Maximum amount outstanding at any month end	18,366	24,432	30,052

The total interest expense on repurchase agreements was $523 million, $377 million and $545 million for the years ended December 31, 2005, 2004 and 2003.

At December 31, 2005 there were no interest rate derivative contracts embedded in repurchase agreements.

Note 12: Advances from Federal Home Loan Banks

As members of the FHLBs, the Company s two federal savings associations, Washington Mutual Bank, a member of the San Francisco FHLB, and Washington Mutual Bank fsb (WMBfsb), a member of the Seattle FHLB, maintain credit lines that are percentages of their total regulatory assets, subject to collateralization requirements. Advances on these lines are collateralized in the aggregate by certain mortgages or deeds of trust, by securities of the U.S. Government and its agencies, and by all owned stock of the FHLBs. The maximum amount of credit that the FHLBs will extend for purposes other than meeting withdrawals varies from time to time in accordance with their policies. The interest rates charged by the FHLBs for advances vary depending on maturity and the cost of funds of the particular FHLB.

On January 1, 2005, the Company s state savings bank, the former Washington Mutual Bank, merged into Washington Mutual Bank, FA (WMBFA), and ceased to exist; subsequently, WMBFA changed its name to Washington Mutual Bank (WMB). As a result of this reorganization, all Seattle FHLB advances held by the former Washington Mutual Bank were assumed by WMBfsb.

Although the Company acquired advances from the FHLBs of Dallas and New York during its acquisitions of Bank United in 2001 and Dime Bancorp, Inc. in 2002, the Company does not have continuing borrowing privileges at these FHLBs.

Scheduled maturities of advances from FHLBs were as follows:

	December 31, 2005		2004	
	Amount	Ranges of Interest Rates	Amount	Ranges of Interest Rates
	(dollars in millions)			
Due within one year	$ 32,621	2.75 5.32 %	$ 37,083	1.15 7.45 %
After one through two years	18,982	2.99 6.60	27,471	1.97 5.32
After two through three years	16,246	3.11 6.93	3,835	1.96 6.60
After three through four years	591	1.78 8.27	801	2.01 6.93
After four through five years	50	2.80 8.05	599	1.78 8.27
Thereafter	281	3.99 8.57	285	2.80 8.57
Total advances from FHLBs	$ 68,771		$ 70,074	

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial data pertaining to advances from FHLBs were as follows:

	Year Ended December 31, 2005 (dollars in millions)		2004		2003	
Weighted average interest rate, end of year	4.28	%	2.21	%	1.28	%
Weighted average interest rate during the year	3.46		2.16		2.62	
Average balance of advances from FHLBs	$ 68,713		$ 58,622		$ 49,441	
Maximum amount outstanding at any month end	71,534		70,074		61,323	

The total interest expense on advances from FHLBs was $2.38 billion, $1.27 billion and $1.30 billion for the years ended December 31, 2005, 2004 and 2003.

Note 13: Other Borrowings

Other borrowings consisted of the following:

	December 31, 2005 Amount (dollars in millions)	Interest Rate(s)	2004 Amount	Interest Rate(s)
Washington Mutual, Inc. (Parent)				
Senior notes(1)(2):				
Fixed rate:				
Due in 2005	$	%	$ 400	2.40 7.25 %
Due in 2006	1,011	7.50	1,052	7.50
Due in 2007	999	5.63	998	5.63
Due in 2008	731	4.38	747	4.38
Due in 2009	963	4.00	988	4.00
Due in 2010	577	4.20	594	4.20
Due in 2012	395	5.00		
Due in 2017	723	5.25		
Floating rate:				
Due in 2005			400	Various
Due in 2008	250	Various		
Due in 2010	249	Various	249	Various
Due in 2012	947	Various		
Subordinated notes(1)(2):				
Fixed rate:				
Due in 2007	219	8.88	224	8.88
Due in 2010	551	8.25	582	8.25
Due in 2014	701	4.63	716	4.63
Due in 2026	150	8.36	149	8.36
Due in 2027	922	8.21 9.33	938	8.21 9.33
Due in 2041	733	5.38	734	5.38
Total Washington Mutual, Inc. (Parent)	$ 10,121		$ 8,771	

(1) Includes capitalized issuance costs and Statement No. 133, as amended, hedge adjustments.

(2) Maturities listed are based on contractual terms and do not include redemption or call dates.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(This table is continued from previous page.)

	December 31, 2005		2004	
	Amount (dollars in millions)	Interest Rate(s)	Amount	Interest Rate(s)
Washington Mutual Bank and its Subsidiaries				
Senior notes(1)(2):				
Fixed rate:				
Due in 2008	247	4.50		
Floating rate:				
Due in 2006	824	Various	824	Various
Due in 2007	1,499	Various		
Due in 2008	1,000	Various		
Subordinated notes(1)(2):				
Fixed rate:				
Due in 2006	100	6.63	100	6.63
Due in 2009	147	8.00	152	8.00
Due in 2011	1,053	6.88	1,100	6.88
Due in 2013	727	5.50	748	5.50
Due in 2014	1,003	5.65	1,029	5.65
Due in 2015	964	5.13	983	5.13
Floating rate:				
Due in 2015	498	Various	498	Various
Other	2,372	Various	302	Various
Total Washington Mutual Bank and subsidiaries	$ 10,434		$ 5,736	
Other Consolidated Subsidiaries				
Senior notes(1)(2):				
Fixed rate:				
Due in 2008	246	4.00		
Due in 2021	29			
Subordinated notes(1)(2):				
Fixed rate:				
Due in 2027	121	9.53		
Secured lines of credit:				
Floating rate:				
Due in 2005			3,991	Various
Due in 2006	2,826	Various		
Total other consolidated subsidiaries	$ 3,222		$ 3,991	
Total other borrowings	$ 23,777		$ 18,498	

(1) Includes capitalized issuance costs and Statement No. 133, as amended, hedge adjustments.

(2) Maturities listed are based on contractual terms and do not include redemption or call dates.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14: Income Taxes

Income taxes (benefits) from continuing operations consisted of the following:

	Year Ended December 31, 2005 (in millions)	2004	2003
Current:			
Federal	$ (499)	$ 1,475	$ 1,417
Foreign	75		
State and local	(139)	254	256
Payments in lieu	35	32	32
Total current	(528)	1,761	1,705
Deferred:			
Federal	2,158	(113)	504
State and local	411	(111)	55
Payments in lieu	(35)	(32)	(28)
Total deferred	2,534	(256)	531
Total income taxes	$ 2,006	$ 1,505	$ 2,236

The Company s retained earnings at December 31, 2005 and 2004 include base year bad debt reserves which amounted to approximately $2.22 billion, for which no federal income tax liability has been recognized. The amount of unrecognized deferred tax liability at December 31, 2005 and 2004 is approximately $777 million. This represents the balance of bad debt reserves created for tax purposes as of December 31, 1987. These amounts are subject to recapture in the event that the Company s banking subsidiaries (1) make distributions in excess of current and accumulated earnings and profits, as calculated for federal income tax purposes, (2) redeem their stock, or (3) liquidate.

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. The Internal Revenue Service (the IRS) is currently examining the Company s federal income tax returns for the years 2001 through 2003 and federal income tax returns for certain acquired subsidiaries for periods prior to acquisition. In 2005, the IRS completed the examination of the Company s federal income tax returns for the years 1998 through 2000 and certain issues have been referred to the IRS Appeals Division for review. Resolution of these issues is not expected to have a significant impact on the Company s financial position or results of operations.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The significant components of the Company s net deferred tax asset (liability) were as follows:

	December 31, 2005 (in millions)	2004
Deferred tax assets:		
Provision for loan and lease losses and foreclosed assets	$ 717	$ 489
Mortgage servicing rights, net of valuation reserves		226
Loan fees and costs		479
Net operating loss carryforwards	6	133
Accruals and compensation differences	175	232
Unrealized loss from securities and cash flow hedging instruments	128	33
Other	47	490
Total deferred tax assets	1,073	2,082
Payments in lieu	(4)	(39)
Valuation allowance		(65)
Deferred tax asset, net of payments in lieu and valuation allowance	1,069	1,978
Deferred tax liabilities:		
Stock dividends from FHLBs	(711)	(623)
Mortgage servicing rights, net of valuation reserves	(1,050)	
Loan fees and costs	(596)	
Basis difference on premises and equipment	(409)	(684)
Other	(256)	(139)
Total deferred tax liabilities	(3,022)	(1,446)
Net deferred tax asset (liability)	$ (1,953)	$ 532

The income taxes (benefits) from continuing operations and the summary of deferred tax assets and liabilities above reflect a reclassification of certain deferred tax asset amounts to the current tax receivable account during 2005. This reclassification is a result of amendments to certain prior year tax returns filed during the year ended December 31, 2005.

On October 1, 2005, the Company acquired Providian Financial Corporation, which resulted in a net increase in the Company s deferred tax liability of $44 million.

The Company establishes a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The valuation allowance of $65 million at December 31, 2004 relates to the realizability of deferred tax assets from certain acquisitions by the Company.

As a result of the Keystone acquisition in December 1996, the Company and certain of its affiliates are parties to an agreement with a predecessor of the Federal Deposit Insurance Corporation (FDIC), which generally provides that 75% of the federal tax savings and approximately 19.5% of the California tax savings attributable to the Company s utilization of certain tax loss carryovers of New West Federal Savings and Loan Association, are to be paid by the Company to the Federal Savings and Loan Insurance Corporation Resolution Fund (Resolution Fund). These amounts are considered payments in lieu. The FDIC has a variety of review and audit rights, including the right to review and audit computations of payments in lieu of taxes.

At December 31, 2005, the company had federal income tax net operating loss carryforwards of $16 million due to expire in 2008 under current law.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The table below reconciles the statutory federal income tax expense and rate to the effective income tax expense and rate:

	Year Ended December 31,					
	2005		2004		2003	
	Amount	Rate	Amount	Rate	Amount	Rate
	(dollars in millions)					
Statutory federal income tax expense and rate	$ 1,903	35.00 %	$ 1,394	35.00 %	$ 2,110	35.00 %
Tax effect of:						
State income tax, net of federal tax benefit	177	3.25	93	2.33	202	3.35
Other	(74)	(1.36)	18	0.45	(76)	(1.26)
Effective income tax expense and rate	$ 2,006	36.89	$ 1,505	37.78	$ 2,236	37.09

Note 15: Commitments, Guarantees and Contingencies

Commitments

Commitments to extend credit are agreements to lend to customers in accordance with predetermined amounts and other contractual provisions. These commitments may be for specific periods or may contain clauses permitting termination or reduction of the commitment by the Company and may require the payment of a fee by the customer. The total amounts of unused commitments do not necessarily represent future credit exposure or cash requirements, in that commitments often expire without being drawn upon. At December 31, 2005 and 2004, unfunded commitments to extend credit totaled $121.80 billion and $70.56 billion. The Company reserved $24 million and $38 million as of December 31, 2005 and 2004 to cover its loss exposure to unfunded commitments.

Guarantees

In the ordinary course of business, the Company sells loans to third parties but retains credit risk exposure on those loans. When loans are sold with retained credit risk provisions attached to the sale, the Company commits to stand ready to perform, if the loan defaults, by making payments to remedy the default or repurchasing the loan. The Company also sells loans without retained credit risk that it may be required to repurchase for violation of a representation or warranty made in connection with the sale of the loan that has a material adverse effect on the value of the loan, or if the Company agreed to repurchase the loan in the event of a first payment or early payment default. When a loan sold to an investor without retained credit risk fails to perform according to its contractual terms, the investor will typically review the loan file to search for errors that may have been made in the process of originating the loan. If errors are discovered and it is determined that such errors constitute a violation of a representation or warranty made to the investor in connection with the loan s sale, then the Company will be required to either repurchase the loan or indemnify the investor for losses sustained if the violation had a material adverse effect on the value of the loan. As of December 31, 2005 and December 31, 2004, the amount of loans sold without retained credit risk totaled $555.51 billion and $533.51 billion, which substantially represents the unpaid principal balance of the Company s loans serviced for others portfolio. The Company has accrued $130 million as of December 31, 2005 and $148 million as of December 31, 2004 to cover the estimated loss exposure related to loan origination process errors that are inherent within this portfolio.

In 2004 and 2005, the Company s Long Beach Mortgage Company subsidiary engaged in whole loan sale transactions of originated subprime loans in which it agreed to repurchase from the investor each early payment default loan at a price equal to the loan s face value plus the amount of any premium paid by the investor. An early payment default occurs when the borrower fails to make the first post-sale

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

payment due on the loan by a contractually specified date. Usually when such an event occurs, the fair value of the loan at the time of its repurchase is lower than the face value. In the fourth quarter of 2005, the Company experienced increased incidents of repurchases of early payment default loans sold by Long Beach Mortgage Company. The Company has accrued $40 million as of December 31, 2005 to cover estimated loss exposure related to such loan sales.

In order to meet the needs of its customers, the Company issues direct-pay, standby and other letters of credit. Letters of credit are conditional commitments issued by the Company generally to guarantee the performance of a customer to a third party in borrowing arrangements, such as commercial paper issuances, bond financing, construction and similar transactions. Collateral may be required to support letters of credit in accordance with management s evaluation of the creditworthiness of each customer. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2005 and 2004, outstanding letters of credit issued by Washington Mutual totaled $461 million and $602 million, which included $10 million and $11 million in participations sold to other institutions.

At December 31, 2005, the Company is the guarantor of six separate issues of trust preferred securities including an issue for which the Company became guarantor on October 1, 2005 in connection with its acquisition of Providian Financial Corporation. The Company has issued subordinated debentures to wholly-owned special purpose trusts. Each trust has issued preferred securities. The sole assets of each trust are the subordinated debentures issued by the Company. The Company guarantees the accumulated and unpaid distributions of each trust, to the extent the Company provided funding to the trust per the Company s obligations under subordinated debentures, but the trust then failed to fulfill its distribution requirements to the security holders. The maximum potential amount of future payments the Company could be required to make under this guarantee is the expected principal and interest each trust is obligated to remit under the issuance of trust preferred securities, which totaled $2.34 billion as of December 31, 2005 and $2.23 billion as of December 31, 2004. No liability has been recorded as the Company does not expect it will be required to perform under this guarantee.

The Company is a party to and from time to time enters into agreements that contain general indemnification provisions, primarily in connection with agreements to sell and service loans or other assets. These provisions typically require the Company to make payments to the purchasers or other third parties to indemnify them against losses they may incur due to actions taken by the Company prior to entering into the agreement or due to a breach of representations, warranties, and covenants made in connection with the agreement or possible changes in or interpretations of tax law.

Contingencies

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. In addition, the Company is a defendant in a class action securities fraud lawsuit currently pending against the Company and certain of its senior executive officers in the U.S. District Court, Western Division of Washington.

In view of the inherent difficulty of predicting the outcome of pending legal actions and proceedings, the Company cannot state what the eventual outcome of the foregoing pending lawsuits will be. Based on

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

current knowledge, management does not believe that liabilities, if any, arising from any single ordinary course proceeding will have a material adverse effect on the consolidated financial condition, operations, results of operations or liquidity of the Company. However, the possibility of a material adverse impact on the Company s operating results for a particular quarterly period exists in the event that an unfavorable outcome were to occur in the class action securities fraud litigation or in the event that unfavorable outcomes were to occur in multiple ordinary course proceedings within the same quarterly reporting period, depending, among other factors, on the level of the Company s income for such period or periods.

The Company is a party to goodwill litigation that may result in a gain. The ultimate outcome is uncertain and there can be no assurance that the Company will benefit from the future results of this litigation and no benefit has been recorded as of December 31, 2005. On February 7, 2006, the Company received approximately $134 million from the Federal Deposit Insurance Corporation FSLIC Resolution Fund as payment of a partial judgment entered by the Court of Federal Claims in the Company s Home Savings goodwill litigation.

Note 16: Trust Preferred Securities

The Company had previously established special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated deferrable interest debentures issued by Washington Mutual, Inc. Prior to FIN 46, these trusts were consolidated subsidiaries of the Company. As a result of the adoption of FIN 46, the Company deconsolidated all such special purpose trusts, as the Company is not considered to be the primary beneficiary under this accounting standard. Accordingly, on the Company s Consolidated Statements of Financial Condition, the trust preferred securities that were issued by the trusts have been supplanted by the junior subordinated deferrable interest debentures issued to the trusts by Washington Mutual, Inc. Financial data pertaining to the previously consolidated special purpose trusts at December 31, 2005 and 2004 were as follows:

Name of Trust	Aggregate Liquidation Amount of Trust Preferred Securities	Aggregate Liquidation Amount of Common Securities	Aggregate Principal Amount of Notes	Stated Maturity of Notes	Per Annum Interest Rate of Notes	Extension Period	Redemption Option
	(dollars in millions)						
Great Western Financial Trust II	$ 300	$ 9	$ 309	2027	8.21 %	Ten consecutive semi-annual periods	On or after February 1, 2007
Washington Mutual Capital I	400	12	412	2027	8.38	Ten consecutive semi-annual periods	On or after June 1, 2007
Ahmanson Capital Trust I	150	5	155	2026	8.36	Ten consecutive semi-annual periods	On or after December 1, 2026
Washington Mutual Capital Trust 2001	1,150	35	1,185	2041	5.38	20 consecutive quarters	On or after May 3, 2006
Dime Capital Trust I	200	6	206	2027	9.33	Ten consecutive semi-annual periods	On or after May 7, 2007
Providian Capital I	104	5	109	2027	9.53	Ten consecutive semi-annual periods	On or after February 1, 2007
Total trust preferred securities	$ 2,304	$ 72	$ 2,376		7.00		

In the second quarter of 2001, Washington Mutual Capital Trust 2001 issued 23 million units, totaling $1.15 billion, of Trust Preferred Income Equity Redeemable SecuritiesSM, through the issuance of $1.19 billion of 5.38% subordinated debentures, due in 2041. Each unit consists of a preferred security having a stated liquidation amount of $50 and a current yield of 5.38%, and a warrant to purchase at any

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Explanation of Responses:

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

time prior to the close of business on May 3, 2041, 1.2081 shares of common stock of Washington Mutual. At any time after issuance of the units, the preferred security and warrant components of each unit may be separated by the holder and transferred separately. Thereafter, a separated preferred security and warrant may be combined to form a unit.

The initial warrant exercise price was $32.33 and the warrant exercise price on the expiration date of the warrants will equal $50. As of December 31, 2005, the warrant exercise price was $32.63.

Note 17: Earnings Per Share

Information used to calculate earnings per share was as follows:

	Year Ended December 31,		
	2005	2004	2003
	(in thousands)		
Weighted average shares:			
Basic weighted average number of common shares outstanding	894,434	862,215	903,666
Dilutive effect of potential common shares from:			
Awards granted under equity incentive programs	12,994	12,414	9,411
Trust Preferred Income Equity Redeemable SecuritiesSM	9,526	9,421	8,680
Convertible debt(1)	1,955		
Accelerated Share Repurchase Program	329		
Diluted weighted average number of common shares outstanding	919,238	884,050	921,757

(1) Acquired on October 1, 2005 through the merger of Providian Financial Corporation.

For the years ended December 31, 2005, 2004 and 2003, options to purchase an additional 12,113,582, 1,530,631 and 9,831,974 shares of common stock were outstanding, but were not included in the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

Additionally, as part of the 1996 business combination with Keystone Holdings, Inc. (the parent of American Savings Bank, F.A.), 6 million shares of common stock, with an assigned value of $18.4944 per share, are being held in escrow for the benefit of certain of the former investors in Keystone Holdings and their transferees. During 2003, the number of escrow shares was reduced from 18 million to 6 million as a result of the return and cancellation of 12 million shares to the Company. The escrow will expire on December 20, 2008, subject to certain limited extensions. The conditions under which these shares can be released from escrow are related to the outcome of certain litigation and not based on future earnings or market prices. At December 31, 2005, the conditions for releasing the shares from escrow had not occurred, and therefore, none of the shares in the escrow were included in the above computations.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 18: Comprehensive Income

The following table presents the components of other comprehensive income and the related tax effect allocated to each component:

	Before Tax Amount	Tax Effect	Net of Tax
	(in millions)		
2003			
Unrealized loss from securities:			
Net unrealized loss from securities available-for-sale arising during the year(1)	$ (567)	$ (218)	$ (349)
Reclassification of net gain from securities available-for-sale included in net income	(995)	(383)	(612)
Amortization of market adjustment for mortgage-backed securities transferred in 1997 from available-for-sale to held-to-maturity	(6)	(2)	(4)
Net unrealized loss from securities, net of reclassification adjustments	(1,568)	(603)	(965)
Net unrealized gain from cash flow hedging instruments	439	169	270
Minimum pension liability adjustment	(7)	(3)	(4)
Other comprehensive loss	$ (1,136)	$ (437)	$ (699)
2004			
Unrealized gain from securities:			
Net unrealized gain from securities available-for-sale arising during the year	$ 386	$ 149	$ 237
Reclassification of net gain from securities available-for-sale included in net income	(57)	(22)	(35)
Amortization of market adjustment for mortgage-backed securities transferred in 1997 from available-for-sale to held-to-maturity	(7)	(3)	(4)
Net unrealized gain from securities, net of reclassification adjustments	322	124	198
Net unrealized gain from cash flow hedging instruments	415	159	256
Minimum pension liability adjustment	(10)	(4)	(6)
Other comprehensive income	$ 727	$ 279	$ 448
2005			
Unrealized loss from securities:			
Net unrealized loss from securities available-for-sale arising during the year	$ (357)	$ (137)	$ (220)
Reclassification of net loss from securities available-for-sale included in net income	42	16	26
Amortization of market adjustment for mortgage-backed securities transferred in 1997 from available-for-sale to held-to-maturity	(6)	(2)	(4)
Net unrealized loss from securities, net of reclassification adjustments	(321)	(123)	(198)
Net unrealized gain from cash flow hedging instruments	65	25	40
Minimum pension liability adjustment	(1)		(1)
Other comprehensive loss	$ (257)	$ (98)	$ (159)

(1) Includes net unrealized loss from securities available-for-sale arising during the year from discontinued operations, net of tax, of $1 million for the year ended December 31, 2003.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents accumulated other comprehensive income (loss) balances:

	Net Unrealized Gain (Loss) from Securities(1)	Net Unrealized Gain (Loss) from Cash Flow Hedging Instruments	Amortization Adjustment for Mortgage-backed Securities Transferred in 1997	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
	(in millions)				
Balance, December 31, 2003	$ (95)	$ (430)	$ 11	$ (10)	$ (524)
Net change	202	256	(4)	(6)	448
Balance, December 31, 2004	107	(174)	7	(16)	(76)
Net change	(194)	40	(4)	(1)	(159)
Balance, December 31, 2005	$ (87)	$ (134)	$ 3	$ (17)	$ (235)

(1) Includes net unrealized gain from securities from discontinued operations of $1 million at December 31, 2003.

Note 19: Regulatory Capital Requirements and Dividend Restrictions

Washington Mutual, Inc. is not currently subject to any regulatory capital requirements, but each of its subsidiary depository banking institutions is subject to Office of Thrift Supervision (OTS) capital requirements. The former Washington Mutual Bank, as a state savings bank, was subject to FDIC capital requirements as of and prior to December 31, 2004. On January 1, 2005 the former Washington Mutual Bank merged into Washington Mutual Bank, FA (WMBFA), and ceased to exist; subsequently, WMBFA changed its name to Washington Mutual Bank (WMB). The capital adequacy requirements are quantitative measures established by regulation that require WMB and WMBfsb to maintain minimum amounts and ratios of capital. The FDIC required the former Washington Mutual Bank to maintain minimum ratios of Tier 1 and total capital to risk-weighted assets as well as Tier 1 capital to average assets. The OTS requires WMB and WMBfsb to maintain minimum ratios of Tier 1 and total capital to risk-weighted assets, as well as Tier 1 capital to adjusted total assets and tangible capital to adjusted total assets.

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 core capital to adjusted total assets of at least 4.00%, a Tier 1 risk-based capital ratio of at least 4.00% and a total risk-based ratio of at least 8.00%. In addition, the Company s federal savings associations are required to have a tangible capital ratio of at least 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.

Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions, which become more extensive as an institution becomes more severely undercapitalized. Failure by any of the Company s depository institutions to comply with applicable capital requirements would, if unremedied, result in restrictions on its activities and lead to regulatory enforcement actions against such institutions including, but not limited to, the issuance of a capital

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

directive to ensure the maintenance of required capital levels. The Federal Deposit Insurance Corporation Improvement Act of 1991 requires the federal banking regulators to take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, FDIC or OTS approval of any regulatory application filed for their review may be dependent on compliance with capital requirements.

The regulatory capital ratios calculated for WMB, the former Washington Mutual Bank and WMBfsb, along with the capital amounts and ratios for the minimum regulatory requirement and the minimum amounts and ratios required to be categorized as well-capitalized under the regulatory framework for prompt corrective action were as follows:

	December 31, 2005					
	Actual Amount	**Ratio**	**Minimum Regulatory Requirement Amount**	**Ratio**	**Minimum to be Categorized as Well-Capitalized Under Prompt Corrective Action Provisions Amount**	**Ratio**
	(dollars in millions)					
WMB						
Total risk-based capital to total risk-weighted assets	$ 26,219	11.50 %	$ 18,240	8.00 %	$ 22,800	10.00 %
Adjusted tier 1 capital to total risk-weighted assets	19,350	8.49	9,120	4.00	13,680	6.00
Tier 1 capital to adjusted total assets (leverage)	20,787	6.47	12,850	4.00 (1)	16,062	5.00
Tangible capital to tangible assets (tangible quity)	20,331	6.34	4,812	1.50	n/a	n/a
WMBfsb						
Total risk-based capital to total risk-weighted assets	29,902	383.91	623	8.00	779	10.00
Adjusted tier 1 capital to total risk-weighted assets	29,900	383.89	312	4.00	467	6.00
Tier 1 capital to adjusted total assets (leverage)	29,936	85.21	1,405	4.00 (1)	1,757	5.00
Tangible capital to tangible assets (tangible quity)	29,936	85.21	527	1.50	n/a	n/a

(1) The minimum leverage ratio guideline is 3% for financial institutions that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rate, strong banking organizations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2004					
	Actual Amount	Ratio	Minimum Regulatory Requirement Amount	Ratio	Minimum to be Categorized as Well-Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
	(dollars in millions)					
WMB						
Total risk-based capital to total risk-weighted assets	$ 20,387	11.53 %	$ 14,149	8.00 %	$ 17,687	10.00 %
Adjusted tier 1 capital to total risk-weighted assets	14,081	7.96	7,075	4.00	10,612	6.00
Tier 1 capital to adjusted total assets (leverage)	14,219	5.35	10,623	4.00 (1)	13,279	5.00
Tangible capital to tangible assets (tangible equity)	14,219	5.35	3,984	1.50	n/a	n/a
Former Washington Mutual Bank						
Total risk-based capital to total risk-weighted assets	2,233	12.35	1,447	8.00	1,809	10.00
Adjusted tier 1 capital to total risk-weighted assets	1,974	10.92	723	4.00	1,085	6.00
Tier 1 capital to adjusted total assets (leverage)	1,988	7.44	1,069	4.00 (1)	1,336	5.00
Tangible capital to tangible assets (tangible equity)	1,988	7.44	401	1.50	n/a	n/a
WMBfsb						
Total risk-based capital to total risk-weighted assets	27,029	393.56	549	8.00	687	10.00
Adjusted tier 1 capital to total risk-weighted assets	27,027	393.52	275	4.00	412	6.00
Tier 1 capital to adjusted total assets (leverage)	27,055	93.67	1,155	4.00 (1)	1,444	5.00
Tangible capital to tangible assets (tangible equity)	27,055	93.67	433	1.50	n/a	n/a

(1) The minimum leverage ratio guideline is 3% for financial institutions that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rate, strong banking organizations.

WMB and WMBfsb met all capital adequacy requirements as of December 31, 2005 to which they were subject. Additionally, as of the most recent notifications from the OTS, the OTS individually categorized WMB and WMBfsb as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, a bank must maintain minimum total risk-based, adjusted Tier 1 risk-based and Tier 1 or leverage ratios as set forth in the table above. There are no conditions or events since those notifications that management believes have changed the well-capitalized status of WMB and WMBfsb.

Washington Mutual, Inc. s principal sources of funds are cash dividends received from its banking and other subsidiaries, investment income and borrowings. Washington Mutual, Inc. s ability to pay dividends is

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also predicated on the ability of its subsidiaries to declare and pay dividends to Washington Mutual, Inc. Federal law limits the ability of a depository institution, such as WMB or WMBfsb, to pay dividends or make other capital distributions.

OTS regulations limit the ability of savings associations to pay dividends and make other capital distributions. WMB and WMBfsb file notice with the OTS at least 30 days before the proposed payment of a dividend or payment of a proposed capital distribution because they are subsidiaries of a savings and loan holding company. In addition, a savings association must obtain prior approval from the OTS if it fails to meet certain regulatory conditions, if, after giving effect to the proposed distribution, the association s capital distributions in a calendar year would exceed its year-to-date net income plus retained net income for the preceding two years or the association would not be at least adequately capitalized or if the distribution would violate a statute, regulation, regulatory agreement or a regulatory condition to which the association is subject.

The Company s retained earnings at December 31, 2005 included a pre-1988 thrift bad debt reserve for tax purposes of $2.22 billion for which no federal income taxes have been provided. In the future, if the thrift bad debt reserve is used for any purpose other than to absorb bad debt losses, or if any of the banking subsidiaries no longer qualifies as a bank, the Company will incur a federal income tax liability, at the then prevailing corporate income tax rate, to the extent of such subsidiaries pre-1988 thrift bad debt reserve. As a result, the Company s ability to pay dividends in excess of current earnings may be limited.

Note 20: Stock-Based Compensation Plans and Shareholder Rights Plan

Washington Mutual maintains an equity incentive plan and an employee stock purchase plan. The following information is disclosed on a continuing and discontinued operations basis.

2003 Equity Incentive Plan

In February 2003, the Board of Directors adopted the 2003 Equity Incentive Plan (2003 EIP). On April 15, 2003, the shareholders approved the adoption of the 2003 EIP, which replaced the 1994 Stock Option Plan (1994 Plan) and the Company s Equity Incentive Plan. Under the 2003 EIP, all of the Company s employees, officers, directors and certain consultants, agents, advisors and independent contractors are eligible to receive awards. Awards which may be granted under the 2003 EIP include stock options, stock appreciation rights, restricted stock and stock units, performance shares and performance units and other stock or cash-based awards. The 2003 EIP is generally similar to the 1994 Plan and the Equity Incentive Plan, and does not affect the terms of any option granted under the 1994 Plan or stock or shares awarded under the Equity Incentive Plan. The maximum number of shares of Washington Mutual common stock available for grant under the 2003 EIP is 44,919,426, which includes authorized shares not issued or subject to outstanding awards under the Company s 1994 Plan or Equity Incentive Plan.

Under the 2003 EIP, the exercise price of the option must at least equal the fair market value of Washington Mutual s common stock on the date of the grant. The options generally vest on a phased-in schedule over one to three years, depending on the terms of the grant, and expire 10 years from the grant date.

The 2003 EIP permits awards of restricted stock and stock units, and performance shares and performance units with or without performance-based vesting restrictions. The maximum aggregate number of such shares that may be issued under the 2003 EIP (other than options and stock appreciation rights) is 13,000,000, and the maximum number of shares that may be issued under the 2003 EIP pursuant to awards (other than options and stock appreciation rights) that have no restrictions or have restrictions based solely on service for less than three years is 4,350,000.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under the 2003 EIP, 4,229,831, 2,088,806 and 2,912,134 restricted shares were granted in 2005, 2004 and 2003 with a weighted-average grant-date per share value of $40.54, $42.83 and $40.88, respectively. As of December 31, 2005, 2004 and 2003, there were 6,364,721, 3,831,627 and 2,886,818 restricted shares outstanding. Upon the grant of restricted stock awards, shares are issued to a trustee who releases them to recipients when the restrictions lapse. At the date of grant, unearned compensation is recorded as an offset to stockholders equity and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to these restricted shares was $163 million at December 31, 2005, $112 million at December 31, 2004 and $104 million at December 31, 2003. Restricted stock and stock units accrue or pay dividends. All canceled or forfeited shares become available for future grants.

Certain executives participate in the Company s Performance Shares Program. Under this program, executives are notified of target awards and the performance criteria that determine actual awards at the end of the three-year measurement period. The actual awards may be between 0% and 250% of the target award, depending on the Company s performance. After the three-year performance cycle has been completed, actual awards may be made in cash or in the Company s common stock. Common stock awards will be made from the 2003 EIP.

The total compensation expense recognized for the 2003 EIP was $149 million in 2005, $97 million in 2004 and $18 million in 2003.

1994 Stock Option Plan

On April 19, 1994, the Company s shareholders approved the adoption of the 1994 Stock Option Plan, which was subsequently amended and restated as of February 15, 2000. Under the 1994 Plan, options to purchase common stock of Washington Mutual were granted to officers, directors, consultants and advisors of the Company. The 1994 Plan was generally similar to a plan adopted in 1983 that was terminated according to its terms in 1993; however the 1994 Plan did not affect the terms of any options granted under the 1983 plan. All options granted under the 1983 plan have been exercised. Under the 1994 Plan, the exercise price of the option was equal to the fair market value of Washington Mutual s common stock on the date of the grant. The options generally vest on a phased-in schedule over one to three years, depending upon the terms of the grant, and expire five to ten years from the grant date. The 1994 Plan originally provided for the granting of options to purchase a maximum of 27,000,000 shares of common stock. During 2000, the Board of Directors amended, and the Company s shareholders approved, an increase in the maximum number of shares of common stock available for grant to 45,000,000. The 1994 Plan was replaced on April 15, 2003 with the 2003 EIP. The total compensation expense recognized for the 1994 Plan resulting from the adoption of Statement No. 148 to prospectively apply the fair value method of accounting was $371,000 in 2005, $1 million in 2004 and $11 million in 2003.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WAMU Shares Stock Option Plans

From time to time, the Board of Directors approves grants of nonqualified stock options to certain groups of employees. The grants have been made pursuant to a series of plans, collectively known as WAMU Shares. In 1997, the Board of Directors approved a plan under which eligible employees were granted nonqualified options to purchase the Company s common stock. On December 15, 1998, the Board adopted a new plan to grant additional nonqualified stock options to eligible employees (1999 WAMU Shares). On February 13, 2001, the Board adopted a third plan and granted nonqualified options to eligible employees (2001 WAMU Shares). On September 17, 2002, the Board amended the 2001 WAMU Shares Plan to provide for an additional grant of nonqualified options to eligible employees effective September 3, 2002. The aggregate number of shares authorized by the Board of Directors for grants under the WAMU Shares Plans was 14,511,900. On October 16, 2002, the Board amended the 1999 WAMU Shares and the 2001 WAMU Shares plans to allow grants to a broader group of employees, including management, so that some of the authorized but unissued options could be granted to eligible employees as part of the annual grant in December 2002. Generally, eligible full-time and part-time employees on the award dates were granted options to purchase shares of Washington Mutual common stock. The exercise price for all grants is the fair market value of Washington Mutual s common stock on designated dates, and all options vest one to three years after the award date and expire five to ten years from the award date.

The following table presents the status, and changes, of all plans at December 31, 2005, 2004 and 2003 during the years then ended:

	1983 Stock Option Plan		**1994 Stock Option Plan**		**WAMU Shares Stock Option Plan**	
	Number	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
Outstanding at December 31, 2002	124,875	$ 9.89	40,078,528	$ 30.06	13,059,058	$ 35.54
Granted			105,093	35.08	22,088	36.53
Exercised	(124,875)	9.89	(6,489,335)	25.12	(1,410,483)	29.82
Forfeited			(1,281,776)	33.47	(1,494,478)	36.49
Outstanding at December 31, 2003			32,412,510	30.94	10,176,185	36.20
Granted						
Exercised			(5,411,077)	29.30	(1,238,526)	34.33
Forfeited			(1,580,577)	34.50	(1,968,143)	36.38
Outstanding at December 31, 2004			25,420,856	31.06	6,969,516	36.48
Granted						
Exercised			(5,270,912)	29.38	(1,533,436)	36.03
Forfeited			(559,377)	34.92	(566,670)	36.72
Outstanding at December 31, 2005			19,590,567	31.40	4,869,410	36.59
Outstanding options exercisable as of:						
December 31, 2003			22,259,329	29.29	3,684,178	34.43
December 31, 2004			22,644,707	30.43	5,769,967	36.47
December 31, 2005			19,585,363	31.40	4,869,410	36.59

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Acquired Plans		2003 Equity Incentive Plan	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding at December 31, 2002	4,582,419	$ 17.65		
Granted			9,919,629	$ 39.54
Exercised	(1,813,815)	17.55	(2,375)	39.50
Forfeited	(124,276)	21.79	(39,192)	39.78
Outstanding at December 31, 2003	2,644,328	17.52	9,878,062	39.54
Granted			2,800,198	41.93
Exercised	(549,750)	16.62	(45,288)	39.49
Forfeited	(13,956)	21.64	(1,501,903)	40.31
Outstanding at December 31, 2004	2,080,622	17.73	11,131,069	40.04
Granted	10,402,350	45.19	8,536,707	41.97
Exercised	(4,137,121)	17.28	(588,974)	39.58
Forfeited	(128,465)	64.88	(1,807,263)	40.96
Outstanding at December 31, 2005	8,217,386	51.98	17,271,539	40.91
Outstanding options exercisable as of:				
December 31, 2003	2,642,456	17.51		
December 31, 2004	2,080,622	17.73	3,109,932	39.57
December 31, 2005	8,217,386	51.98	5,647,638	39.84

The fair value of the options granted under the Company s stock options plans was estimated on the date of the grant using a binomial model with the following weighted average assumptions:

	Year Ended December 31,		
	2005	2004	2003
Per share fair value of options granted:			
1994 Stock Option Plan			$ 10.28
WAMU Shares Stock Option Plan			9.53
2003 Equity Incentive Plan	$ 8.29	$ 8.99	9.72
Dividend yield	4.15 4.32 %	2.41 2.80 %	2.53 3.50 %
Expected volatility	20.85 30.74	27.11 30.41	30.41 35.02
Risk free interest rate	3.55 4.50	2.33 4.16	2.45 3.60
Expected life	2.5 7 years	4 7 years	4 7.5 years

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial data pertaining to outstanding stock options were as follows:

		December 31, 2005				
Ranges of Exercise Prices		**Number of Option Shares**	**Weighted Average Remaining Years**	**Weighted Average Exercise Price of Option Shares**	**Number of Exercisable Option Shares**	**Weighted Average Exercise Price of Exercisable Option Shares**
1994 Stock Option Plan						
$ 12.33	$ 21.42	1,930,782	2.99	$ 16.79	1,930,782	$ 16.79
21.92	29.94	1,809,336	2.57	25.05	1,809,336	25.05
30.74	33.96	8,651,496	5.25	31.93	8,651,496	31.93
34.00	40.52	7,198,953	6.27	36.29	7,193,749	36.29
WAMU Shares Stock Option Plan						
$ 34.00		665,775	0.12	34.00	665,775	34.00
36.53		2,645,998	6.75	36.53	2,645,998	36.53
37.81		1,557,637	1.67	37.81	1,557,637	37.81
Acquired Plans						
$ 7.79	$ 14.80	649,926	2.94	10.88	649,926	10.88
15.13	23.72	2,098,765	5.39	17.33	2,098,765	17.33
23.80	32.89	1,354,078	4.52	26.42	1,354,078	26.42
36.73	43.63	1,484,944	5.39	40.51	1,484,944	40.51
52.89	99.32	1,115,469	4.35	90.75	1,115,469	90.75
103.00	141.96	1,514,204	4.47	123.17	1,514,204	123.17
2003 Equity Incentive Plan						
$ 37.05	$ 40.67	8,641,502	7.85	39.52	5,165,897	39.54
40.72	43.11	8,465,747	8.91	42.26	461,854	42.96
43.58	46.35	164,290	9.37	44.37	19,887	45.17
Total		49,948,902		38.58	38,319,797	37.72

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (ESPP) was amended effective January 1, 2004, and the Plan Administrator exercised its discretion under the Plan to change certain terms. The ESPP no longer permits lump sum contributions, excludes employees who work for less than 5 months per year, has twelve monthly offering periods, and provides for purchase of stock at a 5% discount from the price at the end of the offering period. The Company pays for the program s administrative expenses. The plan is open to all employees who are at least 18 years old and work at least 20 hours per week. Participation is through payroll deductions with a maximum annual contribution of 10% of each employee s eligible cash compensation. Under the ESPP, dividends may be automatically reinvested at the discretion of the participant. The Company sold 484,703 shares, 537,210 shares and 1,144,025 shares to employees in 2005, 2004 and 2003. The total compensation expense recognized for the ESPP resulting from the adoption of Statement No. 148 to prospectively apply the fair value method of accounting was zero in 2005 and 2004 and $11 million in 2003.

Equity Incentive Plan

The Equity Incentive Plan (previously named the Restricted Stock Plan) permitted grants of restricted stock, and awards denominated in units of stock (performance units), with or without performance-based vesting restrictions, for the benefit of all employees, officers, directors, consultants and

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

advisors of the Company. The Equity Incentive Plan was replaced on April 15, 2003 by the 2003 EIP; therefore, the 2003 balances represent restricted stock and awards granted under the Equity Incentive Plan during the period January 1, 2003 to April 14, 2003. The 2003 EIP does not affect the terms of any shares granted under the Equity Incentive Plan. In 2003, 59,953 restricted shares were granted with a weighted-average grant-date per share fair value of $34.51. As of December 31, 2005, 2004 and 2003, there were 24,021, 263,456 and 720,347 restricted shares outstanding. Restricted stock and units of stock accrue dividends. Upon the grant of restricted stock awards, shares are issued to a trustee who releases them to recipients when the restrictions lapse. At the date of grant, unearned compensation is recorded as an offset to stockholders equity and is amortized as compensation expense over the restricted period. The balance of unearned compensation related to these restricted shares was $587,000 at December 31, 2005, $3 million at December 31, 2004 and $14 million at December 31, 2003.

The total compensation expense recognized for the Equity Incentive Plan was $(18) million in 2005, $11 million in 2004 and $52 million in 2003. During 2005, a portion of previously accrued expense for the 2001 and 2002 grants was reversed as actual payments were less than the expected expense.

Providian Financial Corporation Plans

In connection with the acquisition of Providian Financial Corporation, the Company assumed the Providian Financial Corporation 2000 Stock Incentive Plan and 1999 Non-Officer Equity Incentive Plan (collectively Providian Plans). Under the 2000 Stock Incentive Plan, incentive options and nonqualified options to purchase common stock, stock appreciation rights and stock grants may be made to employees, directors and consultants. Under the 1999 Non-Officer Equity Incentive Plan, nonqualified options to purchase common stock, stock appreciation rights, stock bonuses and restricted stock grants may be granted to employees and consultants.

Options under the Providian Plans generally expire ten years from the date of the grant and vest over varying periods that were determined at the grant date.

With the Company s acquisition of Providian, it assumed approximately 10.4 million options to purchase Providian common stock, which were converted into options to purchase Washington Mutual common stock. As of December 31, 2005, approximately 3.7 million of the options assumed were exercised leaving approximately 6.7 million options remaining to be exercised.

Shareholder Rights Plan

In October 2000, the 1994 Shareholder Rights Plan expired in accordance with its terms. On December 19, 2000, the Company s Board of Directors adopted a new Shareholder Rights Plan and declared a dividend of one right for each outstanding share of common stock to shareholders of record on January 4, 2001. The rights have certain anti-takeover effects. They are intended to discourage coercive or unfair takeover tactics and to encourage any potential acquirer to negotiate a price fair to all shareholders. The rights may cause substantial dilution to an acquiring party that attempts to acquire the Company on terms not approved by the Board of Directors, but they will not interfere with any friendly merger or other business combination. The plan was not adopted in response to any specific effort to acquire control of the Company.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 21: Employee Benefits Programs and Other Expense

Pension Plan

Washington Mutual maintains a noncontributory cash balance defined benefit pension plan (the Pension Plan) for eligible employees. Benefits earned for each year of service are based primarily on the level of compensation in that year, plus a stipulated rate of return on the cash balance. It is the Company s policy to contribute funds to the Pension Plan on a current basis to the extent the amounts are sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws, plus such additional amounts the Company determines to be appropriate.

Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans

The Company, as successor to previously acquired companies, has assumed responsibility for a number of nonqualified, noncontributory, unfunded postretirement benefit plans, including retirement restoration plans for certain employees, supplemental retirement plans for certain officers and multiple outside directors retirement plans. Benefits under the retirement restoration plans are generally determined by the Company. Benefits under the supplemental retirement plans and outside directors retirement plans are generally based on years of service.

The Company, as successor to previously acquired companies, maintains unfunded defined benefit postretirement plans that make medical and life insurance coverage available to eligible retired employees and their beneficiaries and covered dependents. The expected cost of providing these benefits to retirees, their beneficiaries and covered dependents was accrued during the years each employee provided services. A 1% change in assumed health care cost trend rates would not have a material impact on the service and interest cost or postretirement benefit obligation.

Washington Mutual uses December 31 as the measurement date for a majority of its plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Obligations and funded status for the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans were as follows:

	Year Ended December 31, 2005			2004		
	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
	(in millions)					
Change in benefit obligation						
Benefit obligation, beginning of year(1)	$ 1,423	$ 138	$ 65	$ 1,283	$ 129	$ 68
Interest cost	86	8	4	84	8	4
Service cost	79	2	1	80	2	1
Plan participants contributions			5			5
Medicare Part D subsidy						(1)
Amendments				110	9	
Actuarial loss (gain)	21	1	(2)	(38)	1	(3)
Curtailment gain				(22)		
Benefits paid	(97)	(11)	(9)	(74)	(11)	(9)
Benefit obligation, end of year(1)	1,512	138	64	1,423	138	65
Change in plan assets						
Fair value of plan assets, beginning of year	1,459			1,307		
Actual return on plan assets	110			117		
Employer contributions	149	11	4	109	11	4
Plan participants contributions			5			5
Benefits paid	(97)	(11)	(9)	(74)	(11)	(9)
Fair value of plan assets, end of year	1,621			1,459		
Funded status	109	(138)	(64)	36	(138)	(65)
Unrecognized net actuarial loss (gain)	303	26	(17)	288	26	(15)
Unrecognized prior service cost (credit)	75	8		85	8	(6)
Remaining unamortized, unrecognized net obligation						6
Net amount recognized	$ 487	$ (104)	$ (81)	$ 409	$ (104)	$ (80)

(1) The Pension Plan and Nonqualified Defined Benefit Plans benefit obligation represents the projected benefit obligation. The accumulated benefit obligation for the Pension Plan and Nonqualified Defined Benefit Plans was $1.30 billion and $133 million at December 31, 2005 and $1.20 billion and $132 million at December 31, 2004. The Other Postretirement Benefit Plans benefit obligation represents the accumulated benefit obligation.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amounts recognized in the Consolidated Statements of Financial Condition consist of:

	Year Ended December 31, 2005			2004		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Prepaid benefit cost	$ 487	$	$	$ 409	$	$
Accrued benefit cost		(104)	(81)		(104)	(80)
Additional minimum liability		(30)			(28)	
Intangible asset		1			2	
Other comprehensive income		29			26	
Net amount recognized	$ 487	$ (104)	$ (81)	$ 409	$ (104)	$ (80)

The accumulated benefit obligation for all defined benefit plans was $1.50 billion and $1.40 billion at December 31, 2005 and 2004.

Additional information due to the benefit obligation in excess of or (less than) plan assets:

	Year Ended December 31, 2005			2004		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Projected benefit obligation	$ (109)	$ 138	$ 64	$ (36)	$ 138	$ 65
Accumulated benefit obligation	(322)	133	64	(259)	132	65

Components of net periodic benefit cost for the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans were as follows:

	Year Ended December 31, 2005			2004		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Interest cost	$ 86	$ 8	$ 4	$ 84	$ 8	$ 4
Service cost	79	1	1	80	2	1
Expected return on plan assets	(118)			(100)		
Amortization of prior service cost (credit)	9	1	(1)	8	1	(1)
Amortization of net loss			1			1
Recognized net actuarial loss (gain)	15	1	(1)	26	1	
Net periodic benefit cost	$ 71	$ 11	$ 4	$ 98	$ 12	$ 5

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2003		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Interest cost	$ 73	$ 8	$ 4
Service cost	56		1
Expected return on plan assets	(83)		
Amortization of prior service credit	(5)		(1)
Amortization of net (gain) loss	(1)		1
Recognized net actuarial loss (gain)	28	1	(1)
Net periodic benefit cost	$ 68	$ 9	$ 4

Additional information for the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans was as follows:

	Year Ended December 31, 2005			2004		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Increase in minimum liability included in other comprehensive income	$	$ 2	n/a	$	$ 1	n/a

	Year Ended December 31, 2003		
	Pension Plan (in millions)	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Increase in minimum liability included in other comprehensive income	$	$ 10	n/a

Weighted-average assumptions used to determine benefit obligations for the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans were as follows:

	Year Ended December 31, 2005			2004		
	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Discount rate	5.70 %	5.70 %	5.70 %	5.90 %	5.90 %	5.90 %
Rate of compensation increase	5.50	n/a	n/a	5.50	n/a	n/a

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weighted-average assumptions used to determine net periodic benefit cost for the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans were as follows:

	Year Ended December 31, 2005			2004		
	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Discount rate	5.90 %	5.90 %	5.90 %	6.00 %	6.00 %	6.00 %
Rate of compensation increase	5.50	n/a	n/a	5.50	n/a	n/a
Expected long-term return on plan assets	8.00	n/a	n/a	8.00	n/a	n/a

	Year Ended December 31, 2003		
	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
Discount rate	6.50 %	6.50 %	6.50 %
Rate of compensation increase	5.50	n/a	n/a
Expected long-term return on plan assets	8.00	n/a	n/a

The expected long-term rate of return assumption was developed using a policy framework that includes an annual review of several factors including an analysis of historical asset returns, gauging market consensus, historical returns of the Pension Plan s portfolio, reviewing longer term historical asset returns and incorporating the results of asset return models.

It is policy that the asset return assumptions chosen for the upcoming year are maintained so long as the actual long-term asset return experience is not significantly different from the past assumed asset rate of return and that there is no significant change in the targeted asset allocation or in the selection of investment managers.

The Pension Plan s weighted-average asset allocation at December 31, 2005 and 2004 by asset category was as follows:

	Pension Plan Assets at December 31,(1) 2005	2004
Asset Category		
Fixed income securities	33 %	33 %
Cash and equivalents	3	14
Domestic equities:		
Large cap	36	34
Small/mid cap	7	7
International equities	16	12
Alternative investments	5	
Total	100 %	100 %

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(1) The Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans had no plan assets at December 31, 2005 and 2004.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The total portfolio will be managed on a balanced basis, with the primary asset categories to include: domestic large capitalization equities, domestic small/mid capitalization equities, fixed income securities (primarily U.S.), and international equity investments.

It is the Company s intention to allow the investment managers full discretion within the scope of the Company s Investment Policy Statement to allocate the Pension Plan assets within each of the asset classes. The Company s Investment Policy Statement is established by the Company s Plan Investment Committee.

The portfolio strategy will seek total return, defined as all income, gains and losses, whether realized or unrealized, over a long-term basis and defined as five years or more. At a minimum, the total return objective for all managers in the aggregate will be to exceed the Plan s interest assumption.

Given the investment objectives of the Pension Plan and the Plan Investment Committee s risk tolerance, the Committee has set the following target asset allocation percentages:

	Target	Minimum	Maximum
Fixed income securities and cash equivalents	35 %	28 %	42 %
Domestic equities	43	39	47
International equities	12	11	13
Alternative investments	10		15

It is anticipated that the overall allocation will stay within the target ranges noted above.

The Pension Plan assets include Washington Mutual, Inc. s common stock and fixed income securities of $9 million, or 0.53% of total plan assets, and $9 million, or 0.61% of total plan assets at December 31, 2005 and 2004.

Washington Mutual expects to contribute $85 million, $11 million and $6 million to the Pension Plan, Nonqualified Defined Benefit Plans and Other Postretirement Benefit Plans in 2006.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan	Nonqualified Defined Benefit Plans	Other Postretirement Benefit Plans
	(in millions)		
2006	$ 86	$ 11	$ 6
2007	91	11	6
2008	98	12	6
2009	102	15	5
2010	107	11	5
2011 2015	619	64	23

Account Balance Plans

WaMu Savings Plan. The Company sponsors a defined contribution plan for all eligible employees that allows participants to make contributions by salary deduction equal to 75% or less of their salary pursuant to Section 401(k) of the Internal Revenue Code. Employee contributions vest immediately. Prior to January 1, 2004, the Company s matching contributions and any profit sharing contributions made to employees vested based on years of service. Company contributions made on or after January 1, 2004 vest immediately.

Explanation of Responses:

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the acquisition of Providian, the Company assumed Providian Financial Corporation 401(k) Plan, which was available to substantially all Card Services employees. Providian s 401(k) Plan offers safe-harbor matching contributions and discretionary retirement contributions to eligible plan participants. Providian s 401(k) Plan will be merged into WaMu Savings Plan on April 1, 2006.

Company contributions to savings plans were $77 million, $64 million and $114 million in 2005, 2004 and 2003.

Other Account Balance Plans. The Company sponsors supplemental employee and executive retirement plans for the benefit of certain officers. The plans are designed to supplement the benefits that are accrued under the Pension Plans.

Other Expense

Postage expense exceeded 1% of total interest income and noninterest income and is not otherwise shown separately in the Consolidated Financial Statements or the Notes to Consolidated Financial Statements. For the year ended December 31, 2005, 2004 and 2003, postage expense was $293 million, $232 million and $220 million.

Note 22: Derivative Financial Instruments

The Company uses a variety of derivative financial instruments to manage interest rate risk and reduce the effects that changing interest rates may have on net income. These instruments include interest rate swaps, caps and floors, option contracts, financial futures and forward settlement agreements. From time to time, interest rate derivative instruments may be embedded within certain adjustable- and fixed-rate borrowings. Swaps are agreements between two parties to exchange cash flows of different types based on notional amounts. Caps and floors are agreements in which payments are made when a reference rate rises above (for caps) or falls below (for floors) the strike rate. Option contracts give the option buyer the right, but not the obligation, to buy or sell a financial asset at the exercise price within or at the end of a specified time period. Financial futures and forward settlements allow the contract holder to buy or sell a quantity of a financial instrument at a predetermined price and date. Settlements of derivative financial instruments affecting net income are recorded as operating activities within the Consolidated Statements of Cash Flows.

Fair value hedges

The risk of holding assets or liabilities that have a fixed element (price, rate or index) creates exposure to changes in fair value due to changes in interest rates. As part of its asset/liability management activities, the Company holds certain investment securities and fixed-rate borrowings. The Company uses pay-fixed and receive-fixed swaps to synthetically convert these instruments to floating rate and reduce the risk of interest rate changes impacting fair value. The fair values of these derivatives are reported in other assets and other liabilities. Changes in the fair value of the hedging derivative and offsetting changes in fair value attributable to the hedged risk of the hedged item are reported in interest income or interest expense. For the year ended December 31, 2005, the net gain recognized in earnings due to hedge ineffectiveness of the fair value hedges of investment securities and borrowings was $1 million. For the years ended December 31, 2004 and 2003, the amounts were *de minimis*.

The Company enters into a combination of derivatives to manage changes in fair value of its MSR. The Company began applying fair value hedge accounting treatment, as prescribed by Statement No. 133, as amended, as of April 1, 2004 to most of its MSR. These derivatives may include interest rate futures, forwards, options, swaps, swaptions, caps, floors, forward commitments and options on forward

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commitments. The fair value of these derivatives, which qualify for fair value hedge accounting treatment, is reported in other assets and other liabilities. The changes in the fair value of these derivatives are reported in net mortgage servicing rights valuation adjustments. For the years ended December 31, 2005 and 2004, the net gains recognized in earnings due to hedge ineffectiveness of the fair value hedges of MSR were $22 million and $231 million.

The Company also mitigates the interest rate risks associated with fixed-rate mortgage-backed securities with interest rate swap agreements where the Company pays a fixed rate of interest (pay-fixed swaps) and swaptions where the Company will enter into pay-fixed swaps if the swaptions are exercised. These pay-fixed swaps and swaptions are accounted for as fair value hedges of mortgage-backed securities. The fair value of these interest rate swaps and swaptions is reported in other assets and other liabilities. Changes in the fair value of the hedging derivative and offsetting changes in fair value attributable to the hedged risk of the hedged item are reported in other noninterest income. For the years ended December 31, 2005 and 2004, the amount the Company recognized in earnings due to hedge ineffectiveness of fair value hedges of mortgage-backed securities was *de minimis*, as compared with a net loss of $3 million in 2003.

Home loans held for sale expose the Company to interest rate risk. The Company manages the interest rate risk associated with home loans held for sale predominantly by entering into forward sales agreements and, to a lesser extent, interest rate swaps, swaptions and interest rate futures contracts. Certain of these forward sales agreements are accounted for as fair value hedges of loans held for sale. The fair value of these forward sales agreements is reported in other assets and other liabilities. Changes in the fair value of the hedging derivative and offsetting changes in fair value attributable to the hedged risk of the hedged item are reported in gain from mortgage loans. Changes in the value of derivative instruments for which the Company did not achieve or did not attempt to achieve hedge accounting treatment are reported in revaluation gain/loss from derivatives. For the years ended December 31, 2005, 2004 and 2003, the Company recognized net losses of $11 million, $65 million and $125 million in earnings due to hedge ineffectiveness of fair value hedges of home loans held for sale.

The Company also originates fixed-rate multi-family and commercial real estate loans for sale in the secondary market to investors. To mitigate the interest rate risks associated with this loan portfolio, the Company enters into interest rate swap agreements where the Company pays a fixed rate of interest. These pay-fixed swaps are accounted for as fair value hedges of loans held for sale. The fair value of these interest rate swaps is reported in other assets and other liabilities. Changes in the fair value of the hedging derivative and offsetting changes in fair value attributable to the hedged risk of the hedged item are reported in other noninterest income. For the years ended December 31, 2005 and 2004, the net gains recognized in earnings due to hedge ineffectiveness of fair value hedges of multi-family and commercial real estate loans held for sale were $12 million and $11 million. For the year ended December 31, 2003, the amount was *de minimis*.

All components of each derivative instrument s gain or loss are included in the assessment of hedge effectiveness.

Cash flow hedges

The risk of holding assets and liabilities that have a variable element (price, cost or interest rate) creates exposure to the variability or uncertainty of future cash flows due to changes in interest rates. As part of its asset/liability management activities, the Company holds certain adjustable-rate loans and borrowings. The Company uses pay-fixed swaps to synthetically convert these instruments to fixed rate and

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reduce the variability or uncertainty of future cash flows due to changes in interest rates. The fair values of these derivatives are reported in other assets and other liabilities and the effective portion of the derivative s gain or loss is recorded in other comprehensive income. For hedges against adjustable-rate loans and borrowings, amounts reported in accumulated other comprehensive income are subsequently reclassified to interest income or expense during the same period in which the hedged item affects earnings.

The Company will also enter into cash flow hedges to hedge the forecasted sale of a portfolio of fixed-rate multi-family and non-residential loans using interest rate swaps. The fair values of these derivatives are also reported in other assets and other liabilities. For the hedges against the forecasted sale of loans, amounts recorded in accumulated other comprehensive income are subsequently reclassified into other noninterest income during the same period in which the hedged item affects earnings.

For the years ended December 31, 2005, 2004 and 2003, the Company recognized net losses of $6 million, zero and $5 million in earnings due to hedge ineffectiveness of cash flow hedges.

As of December 31, 2005, accumulated other comprehensive income included $102 million of deferred after-tax net losses related to derivative instruments designated as cash flow hedges of adjustable-rate liabilities and the forecasted sale of a portfolio of fixed-rate multi-family and non-residential loans that are expected to be reclassified into earnings during the next twelve months, as compared to $82 million and $299 million of deferred after-tax net losses related to derivative instruments designated as cash flow hedges at December 31, 2004 and 2003.

All components of each derivative instrument s gain or loss are included in the assessment of hedge effectiveness.

Risk management derivatives

In addition to investment securities that are held for MSR risk management purposes, the Company enters into a combination of derivatives to manage changes in fair value of its MSR. These derivatives include interest rate swaps, swaptions, floors and forward purchase commitments. The Company began applying fair value hedge accounting treatment, as prescribed by Statement No. 133, as amended, as of April 1, 2004 to most of its MSR and the related derivatives. The fair value of certain derivatives, for which the Company either did not achieve or did not attempt to achieve fair value hedge accounting treatment, is reported in other assets and other liabilities. The changes in the fair value of these derivatives are reported in revaluation gain/loss from derivatives.

Occasionally, the Company utilizes derivative instruments for asset/liability interest rate risk management which do not qualify for hedge accounting treatment. These risk management derivatives include interest rate swaps, swaptions, caps and corridors. The fair value of these derivatives is reported in other assets and other liabilities. The changes in the fair value of these derivatives are reported in other noninterest income.

The Company occasionally purchases or originates financial instruments that contain an embedded derivative instrument. At inception of the financial instrument, the Company determines whether an embedded derivative is required to be accounted for separately as a derivative. As of December 31, 2005 and 2004, the Company s embedded derivatives are considered clearly and closely related to the host contract and are not required to be separated from their host contracts.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Counterparty Credit Risk

Derivative financial instruments expose the Company to credit risk in the event of nonperformance by counterparties to such agreements. This risk consists primarily of the termination value of agreements where the Company is in a favorable position. Credit risk related to derivative financial instruments is considered and provided for separately from the allowance for loan and lease losses. The Company manages the credit risk associated with its various derivative agreements through counterparty credit review, counterparty exposure limits and monitoring procedures. The Company obtains collateral from certain counterparties for amounts in excess of exposure limits and monitors all exposure and collateral requirements daily. The fair value of collateral received from a counterparty is continually monitored and the Company may request additional collateral from counterparties or return collateral pledged as deemed appropriate. The Company s agreements generally include master netting agreements whereby the counterparties are entitled to settle their positions net. At December 31, 2005 and 2004, the gross positive fair value of the Company s derivative financial instruments used for risk management purposes was $792 million and $899 million. The Company s master netting agreements at December 31, 2005 and 2004 reduced this gross positive fair value by $561 million and $266 million. The Company s collateral against derivative financial instruments was $82 million and $280 million at December 31, 2005 and 2004. Accordingly, the Company s net exposure to derivative counterparty credit risk at December 31, 2005 and 2004 was $149 million and $353 million.

Note 23: Fair Value of Financial Instruments

The following estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company s entire holdings of a particular financial instrument. Because an active secondary market does not exist for a portion of the Company s financial instruments, fair value estimates were based on management s judgment concerning future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. In addition, considerable judgment was required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company did not attempt to estimate the value of certain assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial instruments include premises and equipment, net tax assets/liabilities, real estate held for investment, foreclosed assets and other intangible assets. In addition, the value of the servicing rights for loans sold in which the MSR has not been capitalized was excluded from the valuation. Finally, the tax ramifications related to the realization of the unrealized gains and losses could have a significant effect on fair value estimates and have not been considered in any of the valuations.

Assets and liabilities whose carrying amounts approximate fair value include cash and cash equivalents, federal funds sold and securities purchased under resale agreements, trading assets, available-for-sale securities, investment in FHLBs, checking accounts, savings accounts and money market deposit accounts, federal funds purchased and commercial paper and derivative financial instruments.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument as of December 31, 2005 and 2004:

Federal funds sold and securities purchased under agreements to resell The carrying amount represented fair value. Federal funds sold and securities purchased under resale agreements are investments of high liquidity and have characteristics similar to cash.

Trading assets Fair values were based on quoted market prices or internal valuation models that utilize market data inputs and other assumptions.

Available-for-sale securities Fair values were based on quoted market prices. If a quoted market price was not available, fair value was estimated using market prices for similar securities, as well as internal analysis, using an option-adjusted cash flow valuation methodology.

Investment in FHLBs The carrying amount represented fair value. FHLB stock does not have a readily determinable fair value and is required to be sold back at its par value.

Loans held for sale Fair values were derived from quoted market prices, internal estimates and pricing of similar instruments.

Loans held in portfolio Fair values were derived from quoted market prices, internal estimates and the pricing of similar instruments.

MSR The fair value of MSR was estimated using projected cash flows, adjusted for the effects of anticipated prepayments, using a market discount rate. The fair value estimates exclude the value of the servicing rights for loans sold in which the MSR has not been capitalized.

Deposits The fair value of checking accounts, savings accounts and money market deposit accounts was the amount payable on demand at the reporting date. For time deposit accounts, the fair value was determined using projected cash flows, adjusted for the effects of anticipated retention. The discount rate was derived from the rate currently offered on alternate funding sources with similar maturities.

Other financial liabilities These liabilities include federal funds purchased, commercial paper, repurchase agreements, advances from FHLBs and other borrowings. Fair values were derived from the market prices for similar instruments, internal estimates and quoted market prices. The discount rate for the respective financial liabilities was derived from the rate currently offered on similar borrowings.

Derivative financial instruments The carrying value of these financial instruments represents their fair value and approximates the amount that the Company would pay or receive to settle the position. The Company determined fair value by using valuation models incorporating current market information or by obtaining market or dealer quotes for instruments with similar characteristics.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The estimated fair value of the Company s financial instruments was as follows:

	December 31, 2005 Carrying Amount (in millions)	Fair Value	2004 Carrying Amount	Fair Value
Financial Assets:				
Loans held for sale	$ 33,582	$ 33,699	$ 42,743	$ 43,019
Loans held in portfolio, net of allowance for loan and lease losses	227,937	227,223	205,770	206,716
MSR	8,041	8,098	5,906	5,906
Financial Liabilities:				
Time deposits	73,988	73,825	46,480	46,784
Securities sold under agreements to repurchase	15,532	15,526	15,944	15,963
Advances from FHLBs	68,771	68,704	70,074	70,027
Other borrowings	23,777	23,589	18,498	18,862

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 24: Condensed Consolidating Financial Statements

The following are the condensed consolidating financial statements of the parent companies of Washington Mutual, Inc. and New American Capital, Inc.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended December 31, 2005				
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries	Eliminations	Washington Mutual, Inc. Consolidated
Interest Income					
Notes receivable from subsidiaries	$ 27	$ 140	$ 61	$ (228)	$
Other interest income	5	6	15,729	(152)	15,588
Total interest income	32	146	15,790	(380)	15,588
Interest Expense					
Borrowings	482	26	3,858	(392)	3,974
Other interest expense			3,730	(2)	3,728
Total interest expense	482	26	7,588	(394)	7,702
Net interest income (expense)	(450)	120	8,202	14	7,886
Provision for loan and lease losses			316		316
Net interest income (expense) after provision for loan and lease losses	(450)	120	7,886	14	7,570
Noninterest Income	32	4	5,755	(53)	5,738
Noninterest Expense	125	10	7,781	(46)	7,870
Net income (loss) before income taxes, dividends from subsidiaries and equity in undistributed income of subsidiaries	(543)	114	5,860	7	5,438
Income tax expense (benefit)	(180)	28	2,158		2,006
Dividends from subsidiaries	1,005	2,857		(3,862)	
Equity in undistributed income of subsidiaries	2,790	718		(3,508)	
Net Income	$ 3,432	$ 3,661	$ 3,702	$ (7,363)	$ 3,432

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2004				
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries	Eliminations	Washington Mutual, Inc. Consolidated
Interest Income					
Notes receivable from subsidiaries	$ 13	$ 55	$ 35	$ (103)	$
Other interest income	5	3	11,502	(160)	11,350
Total interest income	18	58	11,537	(263)	11,350
Interest Expense					
Borrowings	305	26	2,127	(267)	2,191
Other interest expense			2,044	(1)	2,043
Total interest expense	305	26	4,171	(268)	4,234
Net interest income (expense)	(287)	32	7,366	5	7,116
Provision for loan and lease losses			209		209
Net interest income (expense) after provision for loan and lease losses	(287)	32	7,157	5	6,907
Noninterest Income	7	1	4,652	(48)	4,612
Noninterest Expense	119	4	7,460	(48)	7,535
Net income (loss) before income taxes, dividends from subsidiaries and equity in undistributed income of subsidiaries	(399)	29	4,349	5	3,984
Income tax expense (benefit)	(58)	18	1,545		1,505
Dividends from subsidiaries	75	2,093		(2,168)	
Equity in undistributed income of subsidiaries	3,144	988		(4,132)	
Income from continuing operations, net of taxes	2,878	3,092	2,804	(6,295)	2,479
Discontinued operations, net of taxes			399		399
Net Income	$ 2,878	$ 3,092	$ 3,203	$ (6,295)	$ 2,878

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2003				
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries	Eliminations	Washington Mutual, Inc. Consolidated
Interest Income					
Notes receivable from subsidiaries	$ 13	$ 5	$ 34	$ (52)	$
Other interest income	5		12,320	(162)	12,163
Total interest income	18	5	12,354	(214)	12,163
Interest Expense					
Borrowings	262	26	2,301	(220)	2,369
Other interest expense			2,166	(1)	2,165
Total interest expense	262	26	4,467	(221)	4,534
Net interest income (expense)	(244)	(21)	7,887	7	7,629
Provision for loan and lease losses			42		42
Net interest income (expense) after provision for loan and lease losses	(244)	(21)	7,845	7	7,587
Noninterest Income	13	1	5,855	(19)	5,850
Noninterest Expense	124	3	7,306	(25)	7,408
Net income (loss) before income taxes, dividends from subsidiaries and equity in undistributed loss of subsidiaries	(355)	(23)	6,394	13	6,029
Income tax expense (benefit)	(184)	(7)	2,427		2,236
Dividends from subsidiaries	4,833	3,883		(8,716)	
Equity in undistributed loss of subsidiaries	(782)	(22)		804	
Income from continuing operations, net of taxes	3,880	3,845	3,967	(7,899)	3,793
Discontinued operations, net of taxes			87		87
Net Income	$ 3,880	$ 3,845	$ 4,054	$ (7,899)	$ 3,880

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF FINANCIAL CONDITION

	December 31, 2005				
	Washington Mutual, Inc. (Parent Only)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries	Eliminations	Washington Mutual, Inc. Consolidated
	(in millions)				
Assets					
Cash and cash equivalents	$ 781	$ 108	$ 6,693	$ (1,368)	$ 6,214
Available-for-sale securities	55		24,604		24,659
Loans, net of allowance for loan and lease losses	1	8	261,510		261,519
Notes receivable from subsidiaries	1,354	3,550	1,790	(6,694)	
Investment in subsidiaries	34,707	29,956		(64,663)	
Other assets	1,396	605	51,737	(2,557)	51,181
Total assets	$ 38,294	$ 34,227	$ 346,334	$ (75,282)	$ 343,573
Liabilities					
Notes payable to subsidiaries	$ 266	$ 549	$ 8,244	$ (9,059)	$
Borrowings	10,194	705	104,262		115,161
Other liabilities	555	34	202,141	(1,597)	201,133
Total liabilities	11,015	1,288	314,647	(10,656)	316,294
Stockholders Equity	27,279	32,939	31,687	(64,626)	27,279
Total liabilities and stockholders equity	$ 38,294	$ 34,227	$ 346,334	$ (75,282)	$ 343,573

	December 31, 2004				
	Washington Mutual, Inc. (Parent Only)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries	Eliminations	Washington Mutual, Inc. Consolidated
	(in millions)				
Assets					
Cash and cash equivalents	$ 1,517	$ 71	$ 4,882	$ (2,015)	$ 4,455
Available-for-sale securities	60		19,155	4	19,219
Loans, net of allowance for loan and lease losses	1	10	248,502		248,513
Notes receivable from subsidiaries	1,580	2,400	1,817	(5,797)	
Investment in subsidiaries	26,177	23,222		(49,399)	
Other assets	784	426	37,250	(3,066)	35,394
Total assets	$ 30,119	$ 26,129	$ 311,606	$ (60,273)	$ 307,581
Liabilities					
Notes payable to subsidiaries	$ 258	$ 1,183	$ 6,623	$ (8,064)	$
Borrowings	8,516	309	99,736		108,561
Other liabilities	456	14	180,461	(2,800)	178,131
Total liabilities	9,230	1,506	286,820	(10,864)	286,692
Stockholders Equity	20,889	24,623	24,786	(49,409)	20,889
Total liabilities and stockholders equity	$ 30,119	$ 26,129	$ 311,606	$ (60,273)	$ 307,581

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005			
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries(1)	Washington Mutual, Inc. Consolidated
Cash Flows from Operating Activities				
Net income	$ 3,432	$ 3,661	$ (3,661)	$ 3,432
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Equity in undistributed (income) loss of subsidiaries	(2,790)	(718)	3,508	
(Increase) decrease in other assets	(592)	8	(6,801)	(7,385)
Increase (decrease) in other liabilities	93	112	3,244	3,449
Other	(1)	(187)	2,457	2,269
Net cash provided (used) by operating activities	142	2,876	(1,253)	1,765
Cash Flows from Investing Activities				
Purchase of securities			(22,501)	(22,501)
Proceeds from sales and maturities of securities	2		19,824	19,826
Origination of loans, net of principal payments		2	(10,385)	(10,383)
Decrease (increase) in notes receivable from subsidiaries	226	(1,150)	924	
Investment in subsidiaries	(745)	(615)	1,360	
Other			(1,560)	(1,560)
Net cash provided (used) by investing activities	(517)	(1,763)	(12,338)	(14,618)
Cash Flows from Financing Activities				
Proceeds from borrowings, net	1,878	(238)	4,290	5,930
Cash dividends paid on preferred and common stock	(1,709)	(925)	925	(1,709)
Repurchase of common stock	(921)			(921)
Other	391	87	10,834	11,312
Net cash provided (used) by financing activities	(361)	(1,076)	16,049	14,612
Increase (decrease) in cash and cash equivalents	(736)	37	2,458	1,759
Cash and cash equivalents, beginning of year	1,517	71	2,867	4,455
Cash and cash equivalents, end of year	$ 781	$ 108	$ 5,325	$ 6,214

(1) Includes intercompany eliminations.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2004			
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries(1)	Washington Mutual, Inc. Consolidated
Cash Flows from Operating Activities				
Net income	$ 2,878	$ 3,092	$ (3,092)	$ 2,878
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Equity in undistributed (income) loss of subsidiaries	(3,144)	(988)	4,132	
(Increase) decrease in other assets	389	(309)	(3,295)	(3,215)
Increase (decrease) in other liabilities	(463)	(282)	(652)	(1,397)
Other	1		(17,982)	(17,981)
Net cash provided (used) by operating activities	(339)	1,513	(20,889)	(19,715)
Cash Flows from Investing Activities				
Purchase of securities			(5,586)	(5,586)
Proceeds from sales and maturities of securities	1		27,605	27,606
Origination of loans, net of principal payments	1	3	(39,312)	(39,308)
Decrease (increase) in notes receivable from subsidiaries	943	(2,200)	1,257	
Investment in subsidiaries	286	(438)	152	
Other			1,315	1,315
Net cash provided (used) by investing activities	1,231	(2,635)	(14,569)	(15,973)
Cash Flows from Financing Activities				
Proceeds from borrowings, net	1,721	1,143	11,696	14,560
Cash dividends paid on preferred and common stock	(1,510)	(75)	75	(1,510)
Repurchase of common stock	(712)			(712)
Other	310	79	20,398	20,787
Net cash provided (used) by financing activities	(191)	1,147	32,169	33,125
Increase (decrease) in cash and cash equivalents	701	25	(3,289)	(2,563)
Cash and cash equivalents, beginning of year	816	46	6,156	7,018
Cash and cash equivalents, end of year	$ 1,517	$ 71	$ 2,867	$ 4,455

(1) Includes intercompany eliminations.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2003			
	Washington Mutual, Inc. (Parent Only) (in millions)	New American Capital, Inc. (Parent Only)	All Other Washington Mutual, Inc. Consolidating Subsidiaries(1)	Washington Mutual, Inc. Consolidated
Cash Flows from Operating Activities				
Net income	$ 3,880	$ 3,845	$ (3,845)	$ 3,880
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Equity in undistributed (income) loss of subsidiaries	782	22	(804)	
(Increase) decrease in other assets	(143)	400	(1,365)	(1,108)
Increase (decrease) in other liabilities	564	423	(2,025)	(1,038)
Other	(3)		9,337	9,334
Net cash provided (used) by operating activities	5,080	4,690	1,298	11,068
Cash Flows from Investing Activities				
Purchase of securities	(3)		(41,049)	(41,052)
Proceeds from sales and maturities of securities	1		50,586	50,587
Origination of loans, net of principal payments		2	(31,008)	(31,006)
Decrease (increase) in notes receivable from subsidiaries	(2,240)	(200)	2,440	
Investment in subsidiaries	(520)	269	251	
Other			4,021	4,021
Net cash provided (used) by investing activities	(2,762)	71	(14,759)	(17,450)
Cash Flows from Financing Activities				
Proceeds from borrowings, net	1,573	(3)	10,632	12,202
Cash dividends paid on preferred and common stock	(1,206)	(4,817)	4,817	(1,206)
Repurchase of common stock	(2,699)			(2,699)
Other	420	58	(2,459)	(1,981)
Net cash provided (used) by financing activities	(1,912)	(4,762)	12,990	6,316
Increase (decrease) in cash and cash equivalents	406	(1)	(471)	(66)
Cash and cash equivalents, beginning of year	410	47	6,627	7,084
Cash and cash equivalents, end of year	$ 816	$ 46	$ 6,156	$ 7,018

(1) Includes intercompany eliminations.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 25: Discontinued Operations

During the first quarter of 2004 the Company sold its consumer finance subsidiary, Washington Mutual Finance Corporation. Accordingly, this former subsidiary has been accounted for as a discontinued operation and its results of operations and cash flows have been removed from the Company s results of continuing operations for years ended December 31, 2004 and 2003 on the Consolidated Statements of Income, Cash Flows and Notes to the Consolidated Financial Statements, unless otherwise noted. The results from discontinued operations in 2004 amounted to $399 million net of tax, which includes a pretax gain of $676 million ($420 million, net of tax) that was recorded upon the sale of Washington Mutual Finance Corporation.

Results of operations for Washington Mutual Finance Corporation, excluding the gain recognized upon its sale, were as follows:

	Year Ended December 31,	
	2004	2003
	(in millions)	
Net interest income	$	$ 433
Provision for loan and lease losses		153
Noninterest income		24
Noninterest expense	32	167
Income tax expense (benefit)	(11)	50
Net income (loss)	$ (21)	$ 87

Note 26: Operating Segments

The Company has four operating segments for the purpose of management reporting: the Retail Banking and Financial Services Group, the Home Loans Group (previously called the Mortgage Banking Group), the Card Services Group and the Commercial Group. The results of these operating segments are based on the Company s management accounting process. Unlike financial accounting, there is no comprehensive, authoritative guidance for management accounting. The management accounting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company s operating segments are defined by the products and services they offer.

The principal activities of the Retail Banking and Financial Services Group include: (1) offering a comprehensive line of deposit and other retail banking products and services to consumers and small businesses; (2) originating, managing and servicing home equity loans and lines of credit; (3) providing investment advisory and brokerage services, sales of annuities, mutual fund management and other financial services; and (4) holding the Company s portfolio of home loans held for investment, excluding loans originated by Long Beach Mortgage Company (which are held by the Commercial Group).

Deposit products offered by the segment in all its stores include the Company s signature free checking and interest-bearing Platinum checking accounts, as well as other personal checking, savings, money market deposit and time deposit accounts.

Financial consultants provide investment advisory and securities brokerage services to the public while licensed bank employees offer fixed annuities. The Company s mutual fund management business offers investment advisory and mutual fund distribution services.

This segment s home loan portfolio consists of home loans purchased from both the Home Loans Group and secondary market participants. The segment also purchases and re-underwrites loans to

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

subprime borrowers which are held in the home loan portfolio. Loans held in portfolio generate interest income and loan-related noninterest income, such as late fees and prepayment fees.

The principal activities of the Home Loans Group include: (1) originating and servicing home loans; (2) buying and selling home loans in the secondary market; and (3) selling insurance-related products and participating in reinsurance activities with other insurance companies.

Home loans are either originated in the retail and wholesale channels or are purchased from other lenders through the correspondent channel. The profitability of each channel varies over time and the Company s emphasis on each channel varies accordingly. The segment offers a wide variety of home loans, including: fixed-rate home loans; adjustable-rate home loans or ARMs (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 to 5 years, and then converts to an ARM that reprices monthly or annually, depending on the product); Option ARM loans (for more details on Option ARMs, refer to Management s Discussion and Analysis Credit Risk Management); and government insured or guaranteed home loans.

From an enterprise-wide perspective, loans are either retained or sold. Loans which are sold generate gain or loss on sale as well as interest income from the time they are funded until the time they are sold, while loans held in portfolio generate interest income and ancillary noninterest income. Fixed-rate home loans, which subject the Company to more interest rate risk than other types of home loans, are generally sold as part of the Company s overall asset/liability risk management process. The decision to retain or sell other home loan products requires balancing the combination of additional interest income and the interest rate and credit risks inherent with holding loans in portfolio, with the size of the gain or loss that would be realized if the loans were sold. Such decisions are elements of the Company s capital management process.

For management reporting purposes, home loans originated by this segment are either transferred through inter-segment sales to the Retail Banking and Financial Services Group or are sold to secondary market participants, including the housing government-sponsored enterprises such as the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the regional branches of the Federal Home Loan Banks. The premium received on inter-segment sales to the Retail Banking and Financial Services Group is based on prices available in the secondary market, adjusted for hedging costs.

The Home Loans Group typically retains the right to service all home loans, whether held for sale, sold to secondary market participants or held in portfolio by the Retail Banking and Financial Services Group. Mortgage servicing involves the administration and collection of home loan payments. In servicing home loans, the Company collects and remits loan payments, responds to borrower inquiries, applies the collected principal and interest to the individual loans, collects, holds and disburses escrow funds for payment of property taxes and insurance premiums, counsels delinquent customers, supervises foreclosures and property dispositions and generally administers the loans. In return for performing these functions, the Company receives servicing fees and other remuneration.

In addition to selling loans to secondary market participants, the Home Loans Group generates both interest income and noninterest income by acquiring home loans from a variety of sources, pooling and securitizing those loans, selling the resulting mortgage-backed securities to secondary market participants and providing ongoing servicing and bond administration for all securities issued.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Home Loans Group makes insurance products available to its customers that complement the mortgage 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. This segment also manages the Company s captive reinsurance activities.

The principal activities of the Card Services Group include: (1) originating and servicing of credit card loans; and (2) providing other cardholder services. The Card Services Group manages the Company s credit card operations, which target customers by leveraging the Company s retail banking distribution network and through direct mail solicitations, which serve as the Group s primary new customer acquisition channel, augmented by direct mail solicitation, online and telemarketing activities and other marketing programs. In addition to credit cards, this segment markets a variety of cardholder service products to its customer base. These products, which may be originated within the Company or jointly marketed with others, include debt suspension, auto- and health-related services, credit-related services, and selected insurance products.

The principal activities of the Commercial Group include: (1) providing financing to developers and investors for the acquisition or construction of multi-family dwellings and, to a lesser extent, other commercial properties; (2) 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; (3) providing financing and other banking services to mortgage bankers for the origination of residential mortgage loans; and (4) originating and servicing home loans made to subprime borrowers through the Company s subsidiary, Long Beach Mortgage Company.

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 all originated loans, whether they are retained or sold, and providing ancillary banking services to enhance customer retention. Combining these three activities into one integrated business model has allowed the Commercial Group to become a leading originator and holder of multi-family loans. The Group s multi-family lending program has a market share of more than 20% in certain key cities along the west coast, is rapidly gaining market share in certain key cities on the east coast and is targeting similar success in other selected target markets.

As part of the Company s specialty mortgage finance operations, the Group also originates home loans to subprime borrowers through the broker network maintained by Long Beach Mortgage Company, a wholly-owned subsidiary of the Company. Such loans may be held in the Company s specialty mortgage finance home loan portfolio or sold to secondary market participants. The Company generally retains the servicing relationship on loans which it has sold.

The Corporate Support/Treasury and Other category includes enterprise-wide management of the Company s interest rate risk, liquidity, capital, borrowings, and a majority of the Company s investment securities. As part of the Company s asset and liability management process, the Treasury function provides oversight and direction across the enterprise over matters that impact the profile of the Company s balance sheet, such as product composition of loans that the Company holds in the portfolio, the appropriate mix of wholesale and capital markets borrowings at any given point in time, and the allocation of capital resources to the business segments. This category also includes the costs of the Company s technology services, facilities, legal, human resources, and accounting and finance functions to the extent not allocated to the business segments and the community lending and investment operations. Community lending and investment programs help fund the development of affordable housing units in

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

traditionally underserved communities. Also reported in this category is the net impact of funds transfer pricing for loan and deposit balances, lower of cost or fair value adjustments and the write-off of inter-segment premiums associated with transfers of loans from the Retail Banking and Financial Services Group to the Home Loans Group when home loans previously designated as held for investment are moved to held for sale and all charges incurred from the Company s cost containment initiative, which was a key initiative during 2004.

The Company uses various management accounting methodologies, which are enhanced from time to time, to assign certain balance sheet and income statement items to the responsible operating segment. In order to more closely align the segments operating results with other internal profitability measures, the Company has discontinued the practice of allocating a goodwill cost of capital charge to the operating segments. Prior periods have been conformed to reflect this change in methodology. Methodologies that are applied to the measurement of segment profitability include: (1) a funds transfer pricing system, which allocates interest income funding credits and funding charges between the operating segments and the Treasury Division. A segment will receive a funding credit from the Treasury Division for its liabilities and its share of risk-adjusted economic capital. Conversely, a segment is assigned a charge by the Treasury Division to fund its assets. The system takes into account the interest rate risk profile of the Company s assets and liabilities and concentrates their sensitivities within the Treasury Division, where it is centrally managed. Certain basis and other residual risk remains in the operating segments; (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 is recalibrated periodically to the latest available loan loss experience data. This process differs from the losses inherent in the loan portfolio methodology that is used to measure the allowance for loan and lease losses for consolidated reporting purposes. This methodology is used to provide segment management with provision information for strategic decision making; (3) the allocation of certain operating expenses that are not directly charged to the segments (i.e., corporate overhead), which generally are based on each segment s consumption patterns; (4) the allocation of goodwill and other intangible assets to the operating segments based on benefits received from each acquisition; and (5) inter-segment activities which include the transfer of originated mortgage loans that are to be held in portfolio from the Home Loans Group to the Retail Banking and Financial Services Group and a broker fee arrangement between Home Loans and Retail Banking and Financial Services. When originated mortgage loans are transferred, the Home Loans Group records a gain on the sale of the loans based on an assumed profit factor. This profit factor is included as a premium to the value of the transferred loans, which is amortized as an adjustment to the net interest income recorded by the Retail Banking and Financial Services Group while the loan is held for investment. If a loan that was designated as held for investment is subsequently transferred to held for sale, the inter-segment premium is written off through Corporate Support/Treasury and Other. Inter-segment broker fees are recorded by the Retail Banking and Financial Services Group when home loans are initiated through retail banking stores, while the Home Loans Group records a broker fee when the origination of home equity loans and lines of credit are initiated through home loan stores. The results of all inter-segment activities are eliminated as reconciling adjustments that are necessary to conform the presentation of management accounting policies to the accounting principles used in the Company s consolidated financial statements.

During the fourth quarter of 2005 the Company began integrating the Card Services Group into its management accounting process. During this period only the funds transfer pricing methodology was applied to this segment.

WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial highlights by operating segment were as follows:

	Year Ended December 31, 2005 Retail Banking and Financial Services Group (dollars in millions)	Home Loans Group	Card Services(1)	Commercial Group	Corporate Support/ Treasury and Other	Reconciling Adjustments(2)	Total
Condensed income statement:							
Net interest income (expense)	$ 5,478	$ 1,181	$ 637	$ 1,371	$ (831)	$ 50 (3)	$ 7,886
Provision for loan and lease losses	165		454	7	1	(311)(4)	316
Noninterest income (expense)	3,049	2,192	352	478	(118)	(215)(5)	5,738
Inter-segment revenue (expense)	42	(42)					
Noninterest expense	4,444	2,140	268	637	381		7,870
Income (loss) before income taxes	3,960	1,191	267	1,205	(1,331)	146	5,438
Income taxes (benefit)	1,495	449	101	455	(536)	42 (6)	2,006
Net income (loss)	$ 2,465	$ 742	$ 166	$ 750	$ (795)	$ 104	$ 3,432
Performance and other data:							
Efficiency ratio(7)	51.85 %	64.23 %	27.08 %	34.46 %	n/a	n/a	57.76 %
Average loans	$ 180,556	$ 30,898	$ 4,908	$ 47,147	$ 1,088	$ (4,316)(8)	$ 260,281
Average assets	193,342	52,915	5,595	51,594	26,982	(4,088)(8)(9)	326,340
Average deposits	136,894	14,036	n/a	7,872	27,221	n/a	186,023
Loan volume	46,951	172,928	n/a	41,000	278	n/a	261,157
Employees at end of period	30,437	13,256	3,124	4,182	9,799	n/a	60,798

(1) On October 1, 2005, the Company completed its acquisition of Providian Financial Corporation. As such, the financial results for 2005 only include the operating results for the final three months of that year. Operating results for the Card Services Group are presented on a managed basis as the Company treats securitized and sold credit card receivables as if they were still on the balance sheet in evaluating the overall performance of this operating segment.

(2) The managed basis presentation of Card Services excludes the impact of securitizations, including their effect on income, the provision for credit losses and average loans and assets. Securitization adjustments to arrive at the reported GAAP results for the fourth quarter of 2005 were: a decrease of $409 million in net interest income; an increase of $150 million in noninterest income; a decrease of $259 million in the provision for credit losses; a decrease of $11.01 billion in average loans; and a decrease of $9.27 billion in average assets, all of which are eliminated within Reconciling Adjustments.

(3) Represents the difference between home loan premium amortization recorded by the Retail Banking and Financial Services Group and the amount recognized in the Company s Consolidated Statements of Income. For management reporting purposes, loans that are held in portfolio by the Retail Banking and Financial Services Group are treated as if they are purchased from the Home Loans Group. Since the cost basis of these loans includes an assumed profit factor paid to the Home Loans Group, the amortization of loan premiums recorded by the Retail Banking and Financial Services Group includes this assumed profit factor and must therefore be eliminated as a reconciling adjustment.

(4) Represents the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

(5) Represents the difference between gain from mortgage loans primarily recorded by the Home Loans Group and the gain from mortgage loans recognized in the Company s Consolidated Statements of Income. As the Home Loans Group holds no loans in portfolio, all loans originated or purchased by this segment are considered to be salable for management reporting purposes.

(6) Represents the tax effect of reconciling adjustments.

(7) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

(8) Includes the inter-segment offset for inter-segment loan premiums that the Retail Banking and Financial Services Group recognized from the transfer of portfolio loans from the Home Loans Group.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Includes the impact to the allowance for loan and lease losses of $211 million that results from the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

	Year Ended December 31, 2004 Retail Banking and Financial Services Group (dollars in millions)	Home Loans Group	Commercial Group	Corporate Support/ Treasury and Other	Reconciling Adjustments	Total
Condensed income statement:						
Net interest income (expense)	$ 4,999	$ 1,240	$ 1,314	$ (869)	$ 432 (1)	$ 7,116
Provision for loan and lease losses	164		41	4	(2)	209
Noninterest income (expense)	2,758	2,228	379	(145)	(608)(3)	4,612
Inter-segment revenue (expense)	23	(23)				
Noninterest expense	4,123	2,411	594	407		7,535
Income (loss) from continuingoperations before income taxes	3,493	1,034	1,058	(1,425)	(176)	3,984
Income taxes (benefit)	1,305	386	395	(569)	(12)(4)	1,505
Income (loss) from continuingoperations	2,188	648	663	(856)	(164)	2,479
Income from discontinuedoperations, net of taxes				399		399
Net income (loss)	$ 2,188	$ 648	$ 663	$ (457)	$ (164)	$ 2,878
Performance and other data:						
Efficiency ratio(5)	53.00 %	69.99 %	35.06 %	n/a	n/a	64.25 %
Average loans	$ 163,328	$ 23,591	$ 37,916	$ 889	$ (1,570)(6)	$ 224,154
Average assets	175,713	41,934	42,474	25,753	(1,796)(6)(7)	284,078
Average deposits	130,337	16,299	7,108	11,664	n/a	165,408
Loan volume	55,282	182,212	28,978	261	n/a	266,733
Employees at end of period	27,341	13,838	3,385	8,015	n/a	52,579

(1) Represents the difference between home loan premium amortization recorded by the Retail Banking and Financial Services Group and the amount recognized in the Company s Consolidated Statements of Income. For management reporting purposes, loans that are held in portfolio by the Retail Banking and Financial Services Group are treated as if they are purchased from the Home Loans Group. Since the cost basis of these loans includes an assumed profit factor paid to the Home Loans Group, the amortization of loan premiums recorded by the Retail Banking and Financial Services Group includes this assumed profit factor and must therefore be eliminated as a reconciling adjustment.

(2) Represents the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

(3) Represents the difference between gain from mortgage loans primarily recorded by the Home Loans Group and the gain from mortgage loans recognized in the Company s Consolidated Statements of Income. As the Home Loans Group holds no loans in portfolio, all loans originated or purchased by this segment are considered to be salable for management reporting purposes.

(4) Represents the tax effect of reconciling adjustments.

(5) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

(6) Includes the inter-segment offset for inter-segment loan premiums that the Retail Banking and Financial Services Group recognized from the transfer of portfolio loans from the Home Loans Group.

(7) Includes the impact to the allowance for loan and lease losses of $226 million that results from the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2003					
	Retail Banking and Financial Services Group (dollars in millions)	Home Loans Group	Commercial Group	Corporate Support/ Treasury and Other	Reconciling Adjustments	Total
Condensed income statement:						
Net interest income (expense)	$ 3,851	$ 2,382	$ 1,307	$ (267)	$ 356 (1)	$ 7,629
Provision for loan and lease losses	175	14	99	8	(254)(2)	42
Noninterest income	2,500	2,926	528	648	(752)(3)	5,850
Inter-segment revenue (expense)	179	(179)				
Noninterest expense	3,576	2,915	511	406		7,408
Income (loss) from continuing operations before income taxes	2,779	2,200	1,225	(33)	(142)	6,029
Income taxes (benefit)	1,065	839	468	(36)	(100)(4)	2,236
Income from continuing operations	1,714	1,361	757	3	(42)	3,793
Income from discontinuedoperations, net of taxes			87			87
Net income	$ 1,714	$ 1,361	$ 844	$ 3	$ (42)	$ 3,880
Performance and other data:						
Efficiency ratio(5)	54.76 %	56.83 %	27.82 %	n/a	n/a	54.96 %
Average loans	$ 120,705	$ 42,990	$ 34,731	$ 759	$ (1,260)(6)	$ 197,925
Average assets	132,411	70,305	42,853	39,371	(1,821)(6)(7)	283,119
Average deposits	125,440	27,112	5,384	5,649	n/a	163,585
Loan volume	29,717	374,004	28,356	168	n/a	432,245
Employees at end of period	26,564	22,287	5,824 (8)	9,045	n/a	63,720

(1) Represents the difference between home loan premium amortization recorded by the Retail Banking and Financial Services Group and the amount recognized in the Company s Consolidated Statements of Income. For management reporting purposes, loans that are held in portfolio by the Retail Banking and Financial Services Group are treated as if they are purchased from the Home Loans Group. Since the cost basis of these loans includes an assumed profit factor paid to the Home Loans Group, the amortization of loan premiums recorded by the Retail Banking and Financial Services Group includes this assumed profit factor and must therefore be eliminated as a reconciling adjustment.

(2) Represents the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

(3) Represents the difference between gain from mortgage loans primarily recorded by the Home Loans Group and the gain from mortgage loans recognized in the Company s Consolidated Statements of Income. As the Home Loans Group holds no loans in portfolio, all loans originated or purchased by this segment are considered to be salable for management reporting purposes.

(4) Represents the tax effect of reconciling adjustments.

(5) The efficiency ratio is defined as noninterest expense divided by total revenue (net interest income and noninterest income).

(6) Includes the inter-segment offset for inter-segment loan premiums that the Retail Banking and Financial Services Group recognized from the transfer of portfolio loans from the Home Loans Group.

(7) Includes the impact to the allowance for loan and lease losses of $561 million that results from the difference between the long-term, normalized net charge-off ratio used to assess expected loan and lease losses for the operating segments and the losses inherent in the loan portfolio methodology used by the Company.

(8) Includes 2,346 employees reported as part of discontinued operations.

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
SUPPLEMENTARY DATA

Quarterly Results of Operations (Unaudited)

Results of operations on a quarterly basis were as follows:

	Year Ended December 31, 2005			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(dollars in millions, except per share amounts)			
Interest income	$ 4,581	$ 3,940	$ 3,706	$ 3,360
Interest expense	2,427	2,024	1,780	1,470
Net interest income	2,154	1,916	1,926	1,890
Provision for loan and lease losses	217	52	31	16
Noninterest income	1,689	1,374	1,267	1,408
Noninterest expense	2,278	1,925	1,828	1,839
Income before income taxes	1,348	1,313	1,334	1,443
Income taxes	483	492	490	541
Net income	$ 865	$ 821	$ 844	$ 902
Earnings per common share:				
Basic	$ 0.88	$ 0.95	$ 0.98	$ 1.04
Diluted	0.85	0.92	0.95	1.01
Common stock price per share:				
High	44.54	43.60	42.73	42.55
Low	36.92	39.22	37.78	38.96
Dividends declared per common share	0.49	0.48	0.47	0.46

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WASHINGTON MUTUAL, INC. AND SUBSIDIARIES
SUPPLEMENTARY DATA

	Year Ended December 31, 2004			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
	(dollars in millions, except per share amounts)			
Interest income	$ 3,066	$ 2,811	$ 2,752	$ 2,721
Interest expense	1,216	1,071	958	989
Net interest income	1,850	1,740	1,794	1,732
Provision for loan and lease losses	37	56	60	56
Noninterest income	1,217	1,264	894	1,237
Noninterest expense	1,938	1,869	1,848	1,880
Income from continuing operations before income taxes	1,092	1,079	780	1,033
Income taxes	424	405	291	385
Income from continuing operations, net of taxes	668	674	489	648
Income from discontinued operations, net of taxes				399
Net income	$ 668	$ 674	$ 489	$ 1,047
Basic earnings per common share:				
Income from continuing operations	$ 0.77	$ 0.78	$ 0.57	$ 0.75
Income from discontinued operations, net				0.46
Net income	0.77	0.78	0.57	1.21
Diluted earnings per common share:				
Income from continuing operations	0.76	0.76	0.55	0.73
Income from discontinued operations, net				0.45
Net income	0.76	0.76	0.55	1.18
Common stock price per share:				
High	42.32	40.19	44.25	45.28
Low	37.85	37.63	38.47	39.61
Dividends declared per common share	0.45	0.44	0.43	0.42

WASHINGTON MUTUAL, INC.

INDEX OF EXHIBITS

DESCRIPTION

EXHIBIT NUMBER	**DESCRIPTION**
3.1	Restated Articles of Incorporation of the Company, as amended (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, File No. 0-25188).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Washington Mutual, Inc. creating a class of preferred stock, Series RP (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000, File No. 0-25188).
3.3	Restated Bylaws of the Company, as amended (Filed herewith).
4.1	Rights Agreement dated December 20, 2000 between Washington Mutual, Inc. and Mellon Investor Services, LLC (Incorporated by reference to the Company s Current Report on Form 8-K filed January 8, 2001, File No. 0-25188).
4.2	The registrant will furnish upon request copies of all instruments defining the rights of holders of long-term debt instruments of registrant and its consolidated subsidiaries.
4.3	Warrant Agreement dated as of April 30, 2001 (Incorporated by reference to the Company s Registration Statement on Form S-3, File No. 333-63976).
4.4	2003 Amended and Restated Warrant Agreement dated March 11, 2003 by and between Washington Mutual, Inc. and Mellon Investor Services LLC (Incorporated by reference to the Company s Current Report on Form 8-K dated March 12, 2003, File No. 1-14667).
10.1	Five-Year Credit Agreement dated as of August 4, 2005 among Washington Mutual, Inc., as borrower, the lenders party thereto, Bank of America, N.A., Barclays Bank PLC and Citibank, N.A., as the syndication agents, J.P. Morgan Securities, Inc. as sole lead arranger and sole bookrunner and JPMorgan Chase Bank, N.A., as administrative agent (the Credit Agreement) (Filed herewith).
10.2	Agreement and Plan of Merger, dated as of June 5, 2005 by and between Washington Mutual, Inc. and Providian Financial Corporation (Incorporated by reference to the Company s Current Report on Form 8-K filed June 9, 2005, File No. 1-14667).

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Management Contracts and Compensatory Plans and Arrangements (Exhibits 10.3-10.39)

10.3	Washington Mutual, Inc. 2003 Equity Incentive Plan (the EIP) (Incorporated by reference to the 2003 10-K/A), as amended by (i) an Amendment No. 1 to the EIP (Incorporated by reference to the 2003 10-K/A), including (ii) a Form of the EIP Stock Option Agreement (1-Year Cliff Vesting) (Incorporated by reference to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the 3Q 2004 10-Q), (iii) a Form of the EIP Stock Option Agreement (3-Year Graded Vesting) (Incorporated by reference to the 3Q 2004 10-Q), (iv) a Form of the EIP Notice of Stock Option Grant (Incorporated by reference to the 3Q 2004 10-Q), (v) a Form of the EIP Restricted Stock Award Agreement (3-Year Cliff Vesting) (Incorporated by reference to the 3Q 2004 10-Q), (vi) a Form of the EIP Restricted Stock Award Agreement (3-Year Graduated Vesting) (Incorporated by reference to the 3Q 2004 10-Q), (vii) a Form of the EIP Performance Share Award Agreement (Incorporated by reference to the 3Q 2004 10-Q), (viii) Form of the EIP Restricted Stock Award Agreement (Incorporated by reference to the Company s Current Report on Form 8-K dated January 18, 2005, File No. 1-14667), (ix) Form of EIP Stock Option Agreement (3-Year Graded Vesting) (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ending December 31, 2004 (the 2004 10-K), File No. 1-14667), and (x) Form of EIP Stock Option Agreement (1-Year Cliff Vesting Nonqualified Options) (Incorporated by reference to the 2004 10-K).
10.4	Washington Mutual 1994 Stock Option Plan as amended and restated as of February 15, 2000 (the 1994 Stock Option Plan) (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2000 (the 2000 10-K), File No. 1-14667), as amended by (i) a First Amendment to the 1994 Stock Option Plan (Incorporated by reference to the 2000 10-K), and (ii) a Second Amendment to the 1994 Stock Option Plan (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2001 (the 2001 10-K), File No. 1-14667).
10.5	Washington Mutual Equity Incentive Plan (formerly known as Washington Mutual Restricted Stock Plan) as amended and restated as of January 16, 2001 (Incorporated by reference to the 2001 10-K).
10.6	Amended and Restated 2002 Employee Stock Purchase Plan (the ESPP) (Incorporated by reference to the 2003 10-K/A), as amended by (i) an Amendment No. 1 to the ESPP (Incorporated by reference to the 2003 10-K/A), and (ii) an Amendment No. 2 to the ESPP (Incorporated by reference to the 2003 10-K/A).
10.7	WaMu Savings Plan as amended and restated effective January 1, 2006 (Filed herewith).
10.8	Washington Mutual Employee Service Award Plan (Incorporated by reference to the Company s Current Report on Form 8-K dated November 29, 1994, File No. 0-25188).
10.9	Washington Mutual, Inc. Supplemental Employees Retirement Plan, amended and restated effective July 20, 2004 (the SERP) (Filed herewith), as amended by (i) an Amendment No. 1 to the SERP) (Filed herewith).
10.10	Washington Mutual, Inc. Supplemental Executive Retirement Accumulation Plan, amended and restated effective January 1, 2004 (the SERAP) (Filed herewith), as amended by (i) an Amendment No. 1 to the SERAP) (Filed herewith).
10.11	Washington Mutual, Inc. Deferred Compensation Plan (the DCP), amended and restated effective July 20, 2004 (Incorporated by reference to the 2004 10-K), as amended by (i) an Amendment No. 1 to the DCP (Filed herewith), (ii) an Amendment No. 2 to the DCP (Filed herewith).

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10.12	Washington Mutual, Inc. Executive Target Retirement Income Plan effective January 1, 2004 (Incorporated by reference to the 2004 10-K).
10.13	HR Committee establishment of 2006 Leadership Bonus Plan Criteria (Incorporated by reference to the Company s Current Report on Form 8-K filed January 23, 2006, File No. 1-14667).
10.14	Washington Mutual, Inc. 2006 Director Compensation Arrangements (Incorporated by reference to the Company s Current Report on Form 8-K filed December 20, 2005, File No. 1-14667).
10.15	The 1988 Stock Option and Incentive Plan (as amended effective July 26, 1994) (Incorporated by reference to the Quarterly Report of Great Western Financial Corporation (Great Western), on Form 10-Q for the quarter ended September 30, 1994, File No. 001-04075), as amended by (i) Amendment No. 1996-1 to the Great Western 1988 Stock Option and Incentive Plan effective December 10, 1996 (Incorporated by reference to Great Western Annual Report on Form 10-K for the year ended December 31, 1996 (the Great Western s 1996 10-K) File No. 001-04075) including (ii) a Form of Director Stock Option Agreement (Incorporated by reference to Great Western s Registration Statement on Form S-8 Registration No. 33-21469 pertaining to Great Western s 1988 Stock Option and Incentive Plan), and (iii) a Form of Director Stock Option Agreement effective January 3, 1994 (Incorporated by reference to Great Western s Annual Report on Form 10-K for the year ended December 31, 1993, File No. 001-04075).
10.16	Great Western Financial Corporation Directors Deferred Compensation Plan (1992 Restatement) (Incorporated by reference to Great Western s Annual Report on Form 10-K for the year ended December 31, 1991, File No. 001-04075), as amended by (i) an Amendment to Great Western Financial Corporation Directors Senior Officers and basic Deferred Compensation Plans (1992 Restatement) (Incorporated by reference to Great Western s Annual Report on Form 10-K for the year ended December 31, 1994, File No. 001-04075), (ii) an Amendment No. 2 to Directors Deferred Compensation Plan (1992 Restatement) (Incorporated by reference to Great Western s Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, File No. 001-04075), and (iii) an Amendment No. 1996-2 to Directors Deferred Compensation Plan, dated December 10, 1996 (Incorporated by reference to Great Western s 1996 10-K).
10.17	Restated Retirement Plan for Directors (Incorporated by reference to Great Western s Quarterly Report on Form 10-Q for the quarter ended June 30, 1993 (the Great Western s 2Q 1993 10-Q), File No. 001-04075).
10.18	Employee Home Loan Program (Incorporated by reference to Great Western s 2Q 1993 10-Q), as amended by (i) Amendment No. 1996-1 to Employee Home Loan Program effective December 10, 1996 (Incorporated by reference to Great Western s 1996 10-K).
10.19	Omnibus Amendment 1997-1 amending the definition of change in control in the Great Western Financial Corporation 1988 Stock Option and Incentive Plan, as amended December 10, 1996, the Great Western Financial Corporation Directors Deferred Compensation Plan (1992 Restatement), as amended December 10, 1996, and the Employee Home Loan Program (revised and restated as of April 27, 1993), as amended December 10, 1996 (Incorporated by reference to Great Western s 1996 10-K).
10.20	H.F. Ahmanson & Company 1993 Stock Incentive Plan as amended (Incorporated by reference to H.F. Ahmanson & Company (Ahmanson) Annual Report on Form 10-K for the year ended December 31, 1996 (the Ahmanson s 1996 10-K), File No. 1-08930).

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10.21	H.F. Ahmanson & Company 1996 Nonemployee Directors Stock Incentive Plan (Incorporated by reference to Ahmanson s Annual Report on Form 10-K for the year ended December 31, 1995 (the Ahmanson s 1995 10-K), File No. 1-08930).
10.22	Executive Life Insurance Plan of H.F. Ahmanson & Company (Incorporated by reference to Ahmanson s Annual Report on Form 10-K for the year ended December 31, 1989 (the Ahmanson s 1989 10-K), File No. 1-08930), as amended by (i) First Amendment to Executive Life Insurance Plan of H.F. Ahmanson & Company (Incorporated by reference to Ahmanson s 1995 10-K), and (ii) Second Amendment to Executive Life Insurance Plan of H.F. Ahmanson & Company (Incorporated by reference to Ahmanson s 1996 10-K).
10.23	Senior Executive Life Insurance Plan of H.F. Ahmanson & Company, as amended and restated (Incorporated by reference to Ahmanson s 1995 10-K).
10.24	H.F. Ahmanson & Company Supplemental Long Term Disability Plan (Incorporated by reference to Ahmanson s 1989 10-K).
10.25	Amended Form of Indemnity Agreement between H.F. Ahmanson & Company and directors and executive officers (Incorporated by reference to Ahmanson s 1989 10-K).
10.26	Deferred Compensation Plan for Board Members of The Dime Savings Bank of New York, FSB (the DSB Director Deferred Compensation Plan) as amended and restated effective as of July 24, 1997 (Incorporated by reference to the Dime Bancorp, Inc. Annual Report on Form 10-K for the year ended December 31, 1997 (the Dime s 1997 10-K) as amended by an Amendment to the DSB Director Deferred Compensation Plan effective May 18, 2000 (Incorporated by reference to the 14d-9 Amendment No. 11).
10.27	Retainer Continuation Plan for Independent Directors of The Dime Savings Bank of New York, FSB (the Retainer Continuation Plan) (Incorporated by reference to The Dime Savings Bank of New York, FSB Annual Report on Form 10-K for the fiscal year ended December 31, 1993, filed on September 16, 1994 as Exhibit A to Dime Bancorp, Inc. (the Dime) Report on Form 8-K dated that date, File No. 001-13094), as amended by (i) an Amendment effective as of January 13, 1995, to the Retainer Continuation Plan (Incorporated by reference to Dime s Annual Report on Form 10-K for the fiscal year ended December 31, 1995, File No. 001-13094), (ii) an Amendment effective as of December 31, 1996, to the Retainer Continuation Plan (Incorporated by reference to Dime s Annual Report on Form 10-K for the year ended December 31, 1996 (the Dime s 1996 10-K), (iii) an Amendment effective March 1, 1997, to the Retainer Continuation Plan (Incorporated by reference to Dime s 1996 10-K), (iv) an Amendment effective July 24, 1997, to the Retainer Continuation Plan (Incorporated by reference to Dime s 1997 10-K), and (v) an Amendment to the Retainer Continuation Plan effective May 18, 2000 (Incorporated by reference to the 14d-9 Amendment No. 11).
10.28	Dime Voluntary Deferred Compensation Plan for Directors (the Bancorp Director Deferred Compensation Plan), as amended and restated effective as of July 24, 1997 (Incorporated by reference to Dime s 1997 10-K), as amended by (i) an Amendment effective March 26, 1998, to the Bancorp Director Deferred Compensation Plan (Incorporated by reference to Dime s Annual Report on Form 10-K for the year ended December 31, 1998 (the Dime s 1998 10-K), (ii) an Amendment effective October 1, 1999, to the Bancorp Director Deferred Compensation Plan (Incorporated by reference to Dime s 1999 10-K), and (iii) an Amendment to the Bancorp Director Deferred Compensation Plan effective May 18, 2000 (Incorporated by reference to the 14d-9 Amendment No. 11).

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10.29	February 2001 WAMU Shares Plan (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 2002, File No. 1-14667), as amended by (i) Amendment No. 1 to February 2001 WAMU Shares Plan (Incorporated by reference to the 2003 10-K/A), (ii) Amendment No. 3 to February 2001 WAMU Shares Plan (Incorporated by reference to the 2003 10-K/A), and (iii) Amendments to the January 1999 WAMU Shares Plan and the February 2001 WAMU Shares Plan (collectively, the Plans) (Incorporated by reference to the 2003 10-K/A).
10.30	Employment Agreement of Kerry K. Killinger (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 1997, (the 1997 10-K), File No. 0-25188).
10.31	Employment Agreement of Stephen J. Rotella (Incorporated by reference to the Company s Current Report on Form 8-K filed December 27, 2004, File No. 1-14667).
10.32	Restricted Stock Award Agreement, by and between the Company and Stephen J. Rotella, dated January 10, 2005 (Incorporated by reference to the Company s Current Report on Form 8-K filed January 14, 2005, File No. 1-14667).
10.33	Employment Offer Letter of David C. Schneider (Incorporated by reference to the Company s Current Report on Form 8-K filed July 6, 2005, File No. 1-14667).
10.34	Employment Offer Letter of John Woods (Incorporated by reference to the Company s Current Report on Form 8-K filed October 27, 2005, File No. 1-14667).
10.35	Employment Offer Letter of Ronald J. Cathcart (Incorporated by reference to the Company s Current Report on Form 8-K filed November 2, 2005, File No. 1-14667).
10.36	Form of Employment Agreement for Executive Officers (Incorporated by reference to the 1997 10-K).
10.37	Form of Employment Agreement for Senior Vice Presidents (Incorporated by reference to the Company s Annual Report on Form 10-K for the year ended December 31, 1998, File No. 0-25188).
12.1	Computation of Ratios of Earnings to Fixed Charges (Filed herewith).
12.2	Computation of Ratios of Earnings to Fixed Charges and Preferred Dividends (Filed herewith).
21	List of Subsidiaries of the Registrant (Filed herewith).
23	Consent of Deloitte & Touche LLP (Filed herewith).
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Furnished herewith).