Washington Mutual, Inc.
Prepared Remarks for Fourth Quarter and Year-End 2004 Earnings Conference Call
January 20, 2005

Remarks of Kerry Killinger
Chairman and CEO

Thanks, Alan.

Good morning everyone. I'm glad you could join us.

This morning I'll review our performance for the fourth quarter and the full year of 2004 and update you on how we are progressing on the strategies we outlined at our Investor Day in November.

Yesterday, we reported fourth quarter net income of $668 million or $0.76 per diluted share. That was consistent with $0.76 per diluted share in the third quarter.

For the year, net income totaled $2.88 billion or $3.26 per diluted share compared to $3.88 billion or $4.21 per diluted share in 2003.

Overall I continue to be very pleased with the excellent performance of our Retail Bank which has proven to be scaleable and highly profitable.

In 2004 our Retail Bank produced a 32 percent increase in net income, added approximately 1.3 million net new transaction accounts (bringing our total to 14.1 million), and increased our number of retail stores by 250 to a total of 1,939. And as we mentioned before, we plan to continue that expansion in 2005.

The Mortgage Bank continued to make progress in transforming the business during the quarter. Process efficiency measures improved and staffing declined. We maintained our position as a top three mortgage lender through mortgage banking loan volume of $42 billion in the fourth quarter and $181 billion for the year. And we improved the risk management of our mortgage servicing asset during the quarter.

We also strengthened and focused our Commercial Group's operations in 2004 and continued to expand our leadership in the multi-family lending market.

Reflecting our positive outlook about the future, I'm pleased to mention that our Board of Directors has increased the cash dividend to 46 cents per share. This represents the 38th consecutive quarter that the cash dividend has been increased.

Those were the highlights. Now I'll talk about the specifics.

The Retail Bank's success is attributable to its competitive and scalable business model, its positioning in some of the highest growth markets in the nation, and its ability to attract new households with profitable products.

Fourth quarter net income for the Retail Banking segment of $565 million was up 12 percent from $506 million in the prior quarter. For the full year of 2004 net income of $2.0 billion increased 32 percent from $1.5 billion in the previous year. For 2004 the Retail Bank contributed approximately two thirds of our company's net income.

Noninterest income, primarily driven by depositor and other retail banking fees, grew 10 percent year-over-year, reflecting a net increase of 670,000 retail checking accounts during the year.

Of particular note is the growth of small business checking accounts, which increased by 122,000 during 2004, up nearly 50 percent from a year ago.

Small business accounts, which are a natural extension of our retail banking operations, stood at a total of 398,000 at year-end with $4.8 billion in deposits. We believe this will continue to be a growth opportunity for us.

Another bright spot for our Retail Bank was home equity loans and lines of credit, which totaled $44 billion at year end, up 58 percent from a year ago. Volume of these loans in the fourth quarter continued to be strong at $9.3 billion.

The home equity portfolio is also very high quality with a combined average loan to value ratio of 69 percent and an average FICO score of 734. There is significant opportunity to continue growing this portfolio in 2005. In addition to market demand we see significant, untapped customer potential. For example, about 86 percent of our retail banking households that have a home loan with any lender do not have a home equity loan with us.

The majority of the 250 new Retail Banking stores added last year were concentrated in our newer markets like New York, Chicago, and Tampa. This year we expect to add approximately 250 more stores in these and our other existing markets, where the return on investment is higher than entering entirely new markets.

As noted during our Investor Day in November, we expect our de novo stores as a group to be accretive to earnings for the first time this year and the earnings accretion to accelerate in 2006.

The retail banking sector has become more competitive as other banks have increased their focus on retail customers. Nevertheless, we have a time-tested and profitable business model that we believe positions us very well to take full advantage of significant growth opportunities in our existing markets.

Back in July when we discussed the change in performance and the challenges at our Mortgage Banking unit, I indicated that the reported earnings for this group would be negative to slightly positive during the second half of 2004.

I'm very pleased to report that the Mortgage Bank's fourth quarter and full year earnings were stronger than we anticipated in July. Net income for the fourth quarter was $138 million pushing the second half's earnings to $408 million. The full year's earnings equaled $570 million.

The better than expected earnings performance reflects the improvements in our operations, our attractive product offerings and more effective MSR risk management.

Mortgage bank loan production of $42 billion in the fourth quarter was approximately equal to third quarter volumes. The Mortgage Bank has made good progress improving the efficiency of its operations while achieving solid loan production.

At November's Investor Day, we spoke about several productivity metrics we are using to measure the performance of our mortgage banking operations. I'm pleased to say we're seeing improvements in each of these metrics and Tom Casey will share some of the specifics in just a moment.

As for our Commercial Group, last year we exited several business activities so we could focus on the business lines where we anticipate greater prospects for growth in 2005. The Group had net income for the fourth quarter of $129 million and earnings of $633 million for the full year of 2004.

We're proud that this group leads the market in multi-family lending. Loan volume for the year was a record of $8.2 billion. That amount slightly exceeded 2003's volume, which benefited from a larger volume of refinancings during a lower interest rate environment.

Multi-family loan outstandings at year end totaled $22.3 billion up 10 percent from $20.3 billion a year ago. And the credit quality of these loans continues to be outstanding with nonperforming assets of only 5 basis points.

During 2004 our team has worked diligently to lower expenses and I'm proud to say that we achieved our target. We kept non-interest expenses for the year to $7.5 billion, which included $274 million of technology related and other restructuring charges, while continuing to grow our Retail Banking and Multi-family businesses.

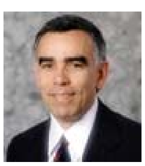
Going into 2005 we have a number of broad-based efficiency initiatives utilizing our Operational Excellence program across the company. These projects are designed to enhance customer service as well as improve our efficiency. As a result we believe we should be able to maintain 2005 noninterest expense flat with 2004.

Before turning to Tom, I want to add a few comments about our management team.

The past five years has seen tremendous growth and development of our company and we have achieved most of the financial goals we set out at the beginning of that period. Over this period we have expanded and strengthened our management team to match the complexity of a far larger company.

I have said that we will add talent when appropriate. On that note, I'm pleased to introduce Steve Rotella who has joined us in the leadership position of President and Chief Operating Officer. Steve came to us from JP Morgan Chase where he was the Chief Executive Officer for Chase Home Finance. Steve's experience and demonstrated track record as an outstanding executive will help us deliver on our goals during the next five years.

Although Steve won't be joining us for the questions portion of today's call, I would like him to introduce himself. Steve…



Remarks of Steve Rotella
President & Chief Operating Officer

Thank you, Kerry. Good morning ladies and gentlemen. I'm pleased to be here at Washington Mutual. I'm at the end of my second week, so I'm not going to contribute a whole lot to this call, but I look forward to doing so in the future.

As you probably know, I joined Washington Mutual after almost 20 years at J.P. Morgan Chase. So I thought I would make a couple of comments about that. I'm thrilled to be here because I viewed this company from the outside, competed against them and know that they're an innovative growth-oriented company with one of the best retail franchises in the business and a very customer centric culture that believes in communities and in people.

In the future, I look forward to talking to you about results and my contribution but I did want to tell you that I'm fully committed to the five-year strategy that Kerry and Tom are going to talk about today. And I am here to help execute on that strategy, particularly the growth strategy of our retail store franchise, the continued focus on growth in assets and also efficiency productivity and our risk management activities.

I also, given my background, plan to add some value to the focus on the mortgage business and, particularly, the integration of that business with our retail stores and our home equity business as we move forward.

As we grow the distribution franchise I would echo Kerry's comments that we have opportunities in small business, home equity, particularly combining that with our mortgage business and our stores and on a standalone basis, and continuing the risk management productivity activities that have great momentum in our mortgage business.

My job is to help us prioritize our resources, make sure that we have the best people, the best governance processes, improve our technology and move us forward to execute crisply on the plan and that's what I'm going to do with the great team that is here at Washington Mutual. And ultimately, hold ourselves accountable for making sure we hit all the metrics and move forward on our five-year plan, which I feel very bullish about.

I would tell you my mantra is focus, execution and speed of decision-making and I look forward to talking with you all in the future as we get together at other investor conferences and gatherings and get to know you better. Thank you.

Kerry Killinger
Chairman and CEO (continued)
Thank you Steve and welcome aboard. It certainly feels great having Steve as part of our leadership team.

Also, as was recently announced Deanna Oppenheimer will be leaving the company March 1st after 20 years of service. I'd like to thank Deanna for her outstanding leadership, most of which was focused on the development and growth of our highly successful retail bank. Deanna leaves behind a seasoned and very strong management team whose near flawless execution of our Retail Bank strategy has produced some exceptional results. They will continue to drive our continued expansion of that operation. I wish Deanna the very best in the next chapter of her life.

I'll now turn things over to Tom for a more in-depth look at the quarter's results.

Remarks of Tom Casey
Executive Vice President and CFO

Thank you.

As you heard from Kerry, we made great strides building out our national franchise while addressing the challenges we faced in 2004. We will continue on this path in 2005 and I look forward to reporting our results to you as the year progresses.

At our investor day in November, we talked about the four key areas that provide the foundation in meeting our financial targets. And they are: our retail banking business, asset generation, risk management, and efficiency.

Kerry addressed the strength and performance of our retail franchise in his comments. I'll speak to our ability to generate assets, to improve risk management, and to drive efficiencies and control costs. I'll also address the six key earnings drivers that we laid out at investor day and how we are envisioning those in 2005.

Let's start with asset generation.

As I discussed in November, we have the ability to generate assets throughout the interest rate cycle and this quarter was no exception. At the end of the fourth quarter, total assets were up $19 billion, or 7 percent, from the prior quarter. The quarter's strong loan production contributed to an increase in loans held for sale of $14 billion. And for the full year, total assets grew by $33 billion, or 12 percent, to end the year at $308 billion.

In 2004, we were pleased to see strong growth in our home equity and multi-family lending.

The home equity portfolio grew 8 percent during the fourth quarter and rose 58 percent year over year to total $44 billion at the end of the year. Home equity loans and lines of credit now comprise 21 percent of total loans held in portfolio, compared with 16 percent at the end of 2003.

Multi-family lending reached a record volume in 2004 at $8.2 billion, slightly above the level in 2003. Our strong performance reflected both our geographic expansion and broad loan product offerings.

I'll now shift to how we fund our asset growth.

During the quarter, total deposits were up $5 billion and, for the full year, deposits were up $20 billion, or 13 percent. Wholesale deposits accounted for most of the growth, up $4 billion for the quarter and $16 billion for the year as we continue to see favorable pricing on these deposits. Retail banking deposits grew slightly during the quarter and were up $4 billion, or 3 percent, for the year.

We continued to see strong customer growth in transaction accounts throughout the year. And, as to be expected, the majority of the deposit growth this past year came from our de novo stores.

Deposit pricing continues to be an important driver of our net interest margin management. Rates on deposits were up only 13 basis points during the quarter despite the 50 basis point rise in the Fed Funds rate. In response to rising market interest rates, we did reprice certain Platinum Checking balances late in December so we will start to see that impact in the first quarter.

One other note on our deposits. We continue to see a shift in the make up of our deposit base as customers move to time deposits. We expect this trend to continue as short-term interest rates increase throughout the year.

Our net interest margin came in at 2.79 percent for the quarter and was relatively stable compared with the net interest margin of 2.77 percent in the third quarter.

During the quarter, asset yields improved with the upward repricing of our adjustable-rate loans held in portfolio and the increase in loans held for sale.

The net interest margin also benefited from our disciplined deposit pricing strategy and the termination of certain high cost borrowings during the third quarter.

Our net interest income in the fourth quarter was $1.9 billion, its highest level in five quarters. This reflected average earning asset growth of over $14 billion from the prior quarter and a stable net interest margin.

Moving onto the next key element, that being our improving risk management. Our credit quality has remained very good with our ratio of nonperforming assets to total assets at 58 basis points, well below our 1% target.

The continuing strong credit performance reflected a generally favorable economic environment for real estate lending and our limited loan portfolio growth. Thus, the provision for the fourth quarter of $37 million was roughly even with the $38 million in charge-offs.

We have also improved the risk management surrounding our mortgage servicing right asset. Our measurement of MSR performance, including amortization and the effect of hedges, was a cost of $277 million in the fourth quarter, up from a cost of $123 million in the previous quarter.

But, remember, the MSR performance for the third quarter was very favorably affected by a widening of the spread between mortgage rates and the rates on interest rate swaps used to hedge the MSR risk. In contrast, fourth quarter results reflected the narrowing of the quarter-end mortgage/swap basis spread to 54 basis points from the 68 basis points at September 30th.

We also told you that the fourth quarter's results would reflect steps taken in the third quarter to change our mix of hedging instruments to lower the company's exposure to changing spreads or basis risk.

Bottom line, the fourth quarter MSR performance was much more stable than in previous quarters due to the steps we took that successfully reduced a sizable portion of our volatility. Had we not changed the mix of our hedging profile, the narrowing of the basis spread would have had a much more pronounced negative impact. While we feel good about where we are, we still expect to see volatility in this asset.

Before I move on I want to spend a moment on a related mortgage banking topic, which is gain on sale.

For the fourth quarter, gain on sale, net of risk management activities, was $180 million down slightly from $187 million in the third quarter.

While we continued to see pricing competition due to excess capacity in the mortgage market, our gain on sale remained strong in the fourth quarter as we continued to see favorable sales margins for our Option ARM products.

For the fourth quarter, home loan mortgage banking income was $352 million, down from the third quarter in which we earned $504 million. Most of the quarterly variance came from the overperformance of the MSR in the third quarter.

The final key area is efficiency and how we are leveraging our scale to be a low cost producer.

For the fourth quarter, noninterest expense of $1.9 billion was slightly higher than the third quarter, but significantly below last year's fourth quarter of $2.1 billion. These expenses included technology-related and restructuring charges of $110 million in Q4, compared with $71 million in Q3 and $180 million in last year's fourth quarter.

As Kerry mentioned, our expense level for the year came in on target at $7.5 billion. This included $274 million in technology-related and restructuring charges and the cost of adding 250 retail stores.

All of our business segments worked successfully during the year to reduce expenses and improve efficiencies. The most notable contribution was from our mortgage bank where noninterest expense of $2.6 billion in 2004 has come down $469 million, or 15 percent, from the previous year. As expected, a significant portion of the improvement came from reduced staffing levels and marked improvement in the mortgage bank's operations. While we are pleased with our efforts to date, a significant opportunity still remains to further improve efficiencies within these operations.

At our November Investor Day, we laid out many of the operational metrics we use to manage the mortgage business. I want to give you an update on a couple of the metrics we discussed.

Overall, despite a much more challenging market, our mortgage group is making significant productivity improvements. The productivity in our fulfillment area, measured as loans originated per FTE, increased 28 percent from the prior quarter. During the same period, our efficiency, measured as the cost to originate a loan, improved by 15 percent. It's a similar story in our servicing area.

During the quarter, the number of loans serviced per FTE was up 13 percent from the third quarter, and up 42 percent from the same period last year. Also, the group continues to realize reductions in its cost to service, with this quarter's cost coming down 6 percent from last quarter.

But, keep in mind that while our efforts to date have resulted in fairly significant productivity improvements, our future results will be dependent not only on our ability to identify and reduce inefficiencies, but also on the level of loan volume we are able to generate.

In summary, our fourth quarter results show that we have further strengthened our retail banking franchise, generated a significant volume of assets, improved our risk management, and are effectively managing our cost structure.

In short, we are well positioned for 2005.

I am going to conclude by giving you an update on the six earnings drivers for 2005.

First, we remain comfortable that we can achieve average asset growth in the 10 to 12 percent range. While we will sell a significant portion of our ARM production into the secondary market, we still expect ARM retention to be a driver of asset growth. We also expect growth to come from planned increases in home equity, multi-family, and nonprime lending.

Second, our net interest margin continues to be affected by the rise in short-term interest rates and the flattening of the yield curve. Since we met in November, short-term interest rates have risen and the yield curve has flattened further. Despite these changes, we still believe that our net interest margin for the year will be in the 260 to 270 basis point range.

Third, we are estimating a loan loss provision in the $250 to $350 million range. This represents an increase from 2004 due to anticipated loan growth, a higher-yielding product mix, and the potential for higher charge offs. This past year was a year of unusually good credit performance that we don't think will necessarily be replicated in 2005.

Fourth, at the time of our investor day, we said our home loan mortgage banking income would be higher in 2005 than in 2004. Because our home loan mortgage banking income was stronger than anticipated during the fourth quarter, we now expect this line item in 2005 to be roughly in line with 2004's overall level. However, home loan mortgage banking income includes two components, MSR performance and gain on sale that are highly susceptible to changes in interest rates. So, we could see some amount of quarterly volatility as interest rates move throughout the year.

Fifth, as we build out our retail banking franchise, acquire new households, and further penetrate our existing customer base, we expect our depositor fees to continue to grow at around 10 percent.

And, sixth, as both Kerry and I have stated, we are targeting noninterest expense in 2005 to be flat with 2004 at $7.5 billion.

Right now, this is how we see 2005 shaping up.

Of course, if our operating environment were to materially change, for example, a rapid and pronounced rise in short-term interest rates leading to a further flattening of the yield curve. This could impact the outlook for our earnings drivers.

And with that, I'll turn the discussion back to Kerry for his closing remarks.

Kerry Killinger
Chairman and CEO (continued)
Thanks, Tom.

I'm very excited about the opportunities to strengthen and grow our company as we look forward.

Our strategy for 2005 and beyond has not changed. We are committed to serving the broad middle market for consumer and small business with well-designed and attractively priced products. We are also committed to delivering superior service to those customers and long-term shareholder returns.

At November's Investor Day, I announced our financial targets for the next five years that will help us accomplish that. They are: a return on average common equity in the high teens, double-digit EPS growth over the cycle, an efficiency ratio of less than 50 percent over the next five years, trending towards 45 percent at the end of the five year period, maintain nonperforming assets to total assets of less than 1 percent, and maintain a tangible common equity to tangible asset ratio of greater than 5 percent.

Now, as Tom commented we expect the 2005 operating environment to have its challenges but we are confident about our ability to make progress towards our financial targets. Competition will continue in our retail banking markets but we are confident in our strategy and expect to significantly grow the number of households we reach.

So, in closing, we begin our new five year plan with good strong momentum. And our management team is committed to executing our strategic plan and delivering superior long-term returns to our shareholders.

I'll now open up the call for questions.