WASHINGTON MUTUAL, INC
Form DEF 14A
March 14, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

WASHINGTON MUTUAL, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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1301 Second Avenue
Seattle, Washington 98101

March 14, 2008

Dear Shareholder:

You are cordially invited to attend the Washington Mutual, Inc. Annual Meeting of Shareholders that will be held on Tuesday, April 15, 2008, at 1:00 p.m., local time, at Benaroya Hall, 200 University Street, Seattle, Washington 98101. We will webcast the meeting on our website at *www.wamu.com/ir*. I look forward to greeting as many of our shareholders as possible at the Annual Meeting.

As set forth in the attached Proxy Statement, we will hold the meeting to consider the following matters:

Ø the election of 13 directors;

Ø the ratification of the appointment of Washington Mutual s independent auditor for 2008;

Ø the approval of an amendment to the Washington Mutual Amended and Restated 2002 Employee Stock Purchase Plan for the purpose of increasing the number of shares that may be issued under the plan by 4,000,000 to 8,863,590;

Ø two shareholder proposals that are expected to be presented at the meeting; and

Ø to transact such other business as may properly come before the meeting and any postponement(s) or adjournment(s).

Please read the attached Proxy Statement carefully for information about the matters you are being asked to consider and vote upon. Your vote is important. Whether or not you attend the meeting in person, I urge you to promptly vote your proxy as soon as possible via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. If you decide to attend the meeting and vote in person, you will, of course, have that opportunity.

Thank you for your continued support of Washington Mutual, and again, I look forward to seeing you at the Annual Meeting.

Sincerely,

Kerry Killinger
Chairman and Chief Executive Officer

WASHINGTON MUTUAL, INC.

1301 Second Avenue
Seattle, Washington 98101

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held April 15, 2008

Meeting Date:	Tuesday, April 15, 2008
Meeting Time:	1:00 p.m. (local time)
Record Date:	February 29, 2008
Location:	Benaroya Hall 200 University Street Seattle, Washington 98101

Agenda:

1. To elect 13 directors, each for a one-year term;

2. To ratify the appointment of Deloitte & Touche LLP as our independent auditor for 2008;

3. To approve an amendment to our Amended and Restated 2002 Employee Stock Purchase Plan for the purpose of increasing the number of shares that may be issued under the plan by 4,000,000 to 8,863,590;

4. To consider a shareholder proposal regarding an independent board chairman if it is properly presented by the shareholder proponent at the meeting;

5. To consider a shareholder proposal regarding our director election process if it is properly presented by the shareholder proponent at the meeting; and

6. To transact such other business as may properly come before the meeting or any adjournments or postponements.

The Board of Directors urges shareholders to vote FOR Items 1 through 3, and AGAINST Items 4 and 5.

All of these items are more fully described in the Proxy Statement that follows. Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting and any adjournments or postponements thereof. **Under new Securities and Exchange Commission rules, we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a proxy card, and by notifying you of the availability of our proxy materials on the Internet. This proxy statement and our 2007 Annual Report to Shareholders are available at our web site at *http://www.wamu.com/ir*.**

By order of the Board of Directors,

William L. Lynch
Secretary

Seattle, Washington
March 14, 2008

IMPORTANT

Whether or not you expect to attend the Annual Meeting in person, we urge you to vote your proxy at your earliest convenience via the Internet, by telephone or by mail using the enclosed postage-paid reply envelope. This will ensure the presence of a quorum at the Annual Meeting and will save us the expense of additional solicitation. Sending in your proxy will not prevent you from voting your shares in person at the Annual Meeting if you desire to do so. Your proxy is revocable at your option in the manner described in the Proxy Statement.

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WASHINGTON MUTUAL, INC.

1301 Second Avenue
Seattle, Washington 98101

PROXY STATEMENT
For the 2008 Annual Meeting of Shareholders
To Be Held On Tuesday, April 15, 2008

Our board of directors (the Board of Directors or the Board) is soliciting proxies to be voted at our Annual Meeting of Shareholders on April 15, 2008, at 1:00 p.m., and at any adjournments or postponements thereof, for the purposes set forth in the attached Notice of Annual Meeting of Shareholders. The Notice, this Proxy Statement and the form of proxy enclosed are first being sent to shareholders on or about March 14, 2008. As used in this Proxy Statement, the terms Company, we, us and our refer to Washington Mutual, Inc.

Questions and Answers about these Proxy Materials and the Annual Meeting:

Question: ***Why am I receiving these materials?***

Answer: Our Board of Directors is providing these proxy materials to you in connection with Washington Mutual s Annual Meeting of Shareholders, to be held on April 15, 2008. As a shareholder of record, you are invited to attend our Annual Meeting, and are entitled to and requested to vote on the items of business described in this Proxy Statement.

Question: ***What information is contained in this Proxy Statement?***

Answer: This information relates to the proposals to be voted on at our Annual Meeting, the voting process, compensation of our directors and most highly paid executives, and certain other required information.

Question: ***Who is soliciting my vote pursuant to this Proxy Statement?***

Answer: Our Board of Directors is soliciting your vote at our 2008 Annual Meeting.

Question: ***Who is entitled to vote?***

Answer: Only shareholders of record at the close of business on February 29, 2008 will be entitled to vote at our Annual Meeting.

Question: ***How many shares are eligible to be voted?***

Answer: As of the record date of February 29, 2008, we had 882,432,542 shares of common stock outstanding (including 6,000,000 shares of common stock held in escrow). Each outstanding share of our common stock will entitle its holder to one vote on each of the 13 directors to be elected and one vote on each other matter to be voted on at our Annual Meeting.

Question: ***What am I voting on?***

Answer: You are voting on the following matters:

- Ø The election of 13 directors. Our nominees are Stephen I. Chazen, Stephen E. Frank, Kerry K. Killinger, Thomas C. Leppert, Charles M. Lillis, Phillip D. Matthews, Regina T. Montoya, Michael K. Murphy, Margaret Osmer McQuade, Mary E. Pugh, William G. Reed, Jr., Orin C. Smith and James H. Stever.

- Ø Ratification of the appointment of Deloitte & Touche LLP as our independent auditor for 2008.

- Ø Approval of an Amendment to our Amended and Restated 2002 Employee Stock Purchase Plan to increase the number of shares subject to the plan by 4,000,000 to 8,863,590.

- Ø To consider two shareholder proposals if they are properly presented at the meeting by the respective shareholder proponents.

Question: ***How does our Board recommend that I vote?***

Answer: Our Board recommends that you vote FOR each director nominee, FOR the ratification of the appointment of Deloitte & Touche as independent auditor, FOR approval of the amendment to the Amended and Restated 2002 Employee Stock Purchase Plan and AGAINST each shareholder proposal.

Question: ***How many votes are required to hold the Annual Meeting and what are the voting procedures?***

Answer: Quorum Requirement: Washington law provides that any shareholder action at a meeting requires that a quorum exist with respect to that action. A quorum for the actions to be taken at our Annual Meeting will consist of a majority of all of our outstanding shares of common stock that are entitled to vote at the Annual Meeting. Therefore, at the Annual Meeting, the presence, in person or by proxy, of the holders of at least 441,216,271 shares of our common stock will be required to establish a quorum. Shareholders of record who are present at the Annual Meeting in person or by proxy and who abstain are considered shareholders who are present and entitled to vote, and will count towards the establishment of a quorum. This will include brokers holding customers shares of record who cause abstentions to be recorded at the Annual Meeting.

Required Votes: Each outstanding share of our common stock is entitled to one vote on each proposal at the Annual Meeting.

- *Election of Directors:* If there is a quorum at our Annual Meeting, the 13 nominees who receive the greatest number of votes cast for directors will be elected. There is no cumulative voting for our directors. Please note that our bylaws contain majority voting procedures that apply for all uncontested director elections, including the 2008 Annual Meeting (see page 4 of this Proxy Statement).

- *Ratification of Independent Auditor, Approval of Employee Stock Purchase Plan Amendment and Approval of the Shareholder Proposals:* If there is a quorum, each of these actions will be approved if the number of votes cast in favor of the proposed action exceeds the number of votes cast against it.

If there is a quorum at the meeting, abstentions and broker non-votes will have no impact on the election of directors or the approval of the other proposed actions at the meeting.

Question: ***How may I cast my vote?***

Answer: If you are the shareholder of record: You may vote by one of the following four methods (as instructed on the enclosed proxy card):

- in person at the Annual Meeting,
- via the Internet,
- by telephone, or
- by mail.

Whichever method you use, the proxies identified on the proxy card will vote the shares of which you are the shareholder of record in accordance with your instructions. If you submit a proxy card without giving specific voting instructions, the proxies will vote the shares as recommended by our Board of Directors.

If you own your shares in street name, that is, through a brokerage account or in another nominee form: You must provide instructions to the broker or nominee as to how your shares should be voted. Your broker or nominee will usually provide you with the appropriate instruction forms at the time you receive this Proxy Statement and our Annual Report. If you own your shares in this manner, you cannot vote in person at the Annual Meeting unless you receive a proxy to do so from the broker or the nominee, and you bring the proxy to our Annual Meeting.

If you are a participant in the WaMu Savings Plan, our 401(k) Plan: You have the right to direct Fidelity Management Trust Company, as trustee of the plan, regarding how to vote the shares of Company common stock attributable to your individual account under the plan. The enclosed proxy card can be used as a direction form to provide voting directions to Fidelity. Fidelity will vote shares of common stock attributable to participant accounts as directed by such participants. Fidelity will not vote shares of common stock attributable to participant accounts for which it does not receive participant direction by April 10, 2008.

Question: ***How may I cast my vote over the Internet or by telephone?***

Answer: Voting over the Internet: If you are a shareholder of record, you may use the Internet to transmit your vote up until 11:59 P.M. Eastern Time April 14, 2008. Visit *www.proxyvote.com* and have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

Voting by Telephone: If you are a shareholder of record, you may call 1-800-690-6903 and use any touch-tone telephone to transmit your vote up until 11:59 P.M. Eastern Time April 14, 2008. Have your proxy card in hand when you call and then follow the instructions.

If you hold your shares in street name, that is through a broker, bank or other nominee, that institution will instruct you as to how your shares may be voted by proxy, including whether telephone or Internet voting options are available.

Question: ***How may I revoke or change my vote?***

Answer: If you are the record owner of your shares, you may revoke your proxy at any time before it is voted at the Annual Meeting by:

- Ø submitting a new proxy card,

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- Ø delivering written notice to our Secretary prior to April 15, 2008, stating that you are revoking your proxy, or
- Ø attending the Annual Meeting and voting your shares in person.

Please note that attendance at the Annual Meeting will not, in itself, constitute revocation of your proxy.

Question: ***Who is paying for the costs of this proxy solicitation?***

Answer: Our Company will bear the cost of preparing, printing and mailing the materials in connection with this solicitation of proxies. In addition to mailing these materials, officers and regular employees of our Company may, without being additionally compensated, solicit proxies personally and by mail, telephone, facsimile or electronic communication. Our Company will reimburse banks and brokers for their reasonable out-of-pocket expenses related to forwarding proxy materials to beneficial owners of stock or otherwise in connection with this solicitation. We have retained MacKenzie Partners, Inc. and Georgeson Inc. to assist in the solicitation at a cost of approximately $25,000 and $12,500, respectively, plus in each case payment of reasonable out-of-pocket expenses.

Question: ***Who will count the votes?***

Answer: Broadridge Financial Solutions, Inc., our inspector of elections for the Annual Meeting, will receive and tabulate the ballots and voting instruction forms.

Question: ***What happens if the Annual Meeting is postponed or adjourned?***

Answer: Your proxy will still be effective and may be voted at the rescheduled meeting. You will still be able to change or revoke your proxy until it is voted.

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INFORMATION ABOUT THE MEETING

Our Annual Meeting will be held at 1:00 p.m. (local time) on Tuesday, April 15, 2008, at Benaroya Hall, 200 University Street, Seattle, Washington 98101. We will provide listening devices at the Annual Meeting for shareholders with impaired hearing.

We plan to webcast the Annual Meeting on our website at *www.wamu.com/ir* during the Annual Meeting and it will be archived on our website for 30 days after the meeting.

ITEM 1. ELECTION OF DIRECTORS

Board Nominees

Our Board of Directors has nominated each of the following persons for election as a director. Each nominee is currently a director and has indicated that he or she is willing and able to continue to serve as a director. We have provided biographical and other information on each of the nominees beginning at page 5 of this Proxy Statement.

Stephen I. Chazen	**Charles M. Lillis**	**Mary E. Pugh**
Stephen E. Frank	**Phillip D. Matthews**	**William G. Reed, Jr.**
Kerry K. Killinger	**Regina T. Montoya**	**Orin C. Smith**
Thomas C. Leppert	**Michael K. Murphy**	**James H. Stever**
	Margaret Osmer McQuade	

If any nominee becomes unable or unwilling to serve, which is not anticipated, the accompanying proxy may be voted for the election of such other person as shall be designated by the Governance Committee of the Board. Proxies granted may not be voted for a greater number of nominees than the 13 named above. Unless instructions to the contrary are specified in a proxy properly voted and returned through available channels, the proxies will be voted **FOR** each of the nominees listed above. Our bylaws currently provide for 14 directors. However, one current director, Anne V. Farrell, is not standing for re-election because she has reached the Board s mandatory retirement age. We expect to amend our bylaws to decrease the size of the Board to 13 promptly following the Annual Meeting.

Majority Voting for Directors

In February 2007, we amended our bylaws to add majority voting procedures for director elections. The procedures apply to all uncontested director elections, which are elections in which the number of nominees does not exceed the number of directors to be elected. In an uncontested election, any nominee who does not receive the vote of a majority of the shares cast shall promptly offer his or her resignation to the Board following the meeting at which the election occurred. A vote of the majority of shares cast means that the number of shares voted for a director exceeds the number of votes affirmatively voted as withheld from that director. The Governance Committee of our Board of Directors will promptly consider the resignation offer and make a recommendation to the Board. The Board will then act on the Governance Committee s recommendation within 90 days following the shareholder meeting at which the election occurred. Thereafter, the Board will promptly disclose publicly its decision whether to accept the director s resignation offer. The director who tenders his or her resignation pursuant to this provision will not participate in the Governance Committee s recommendation or the Board s decision on whether to accept his or her resignation offer. Our Corporate Governance Guidelines contain additional procedures that the Board adopted to implement our majority voting bylaw provisions.

Declassified Board

During 2006, we amended our articles of incorporation and bylaws to declassify our Board of Directors. As a result, each of our directors is eligible to serve for a one-year term.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR EACH OF THE NOMINEES.

Current Directors

Below is information regarding each of our current directors who have been nominated for re-election at the Annual Meeting. Anne V. Farrell, who has served as a director since 1994, is not standing for re-election because she has reached the mandatory retirement age of 72 under our Corporate Governance Guidelines. Except as otherwise indicated, each director has been engaged in the principal occupation described below for at least five years.

Stephen I. Chazen

Director since 2008

Mr. Chazen, age 61, has served as President and Chief Financial Officer of Occidental Petroleum Corporation, an international oil and gas exploration and production company, since December 2007. Mr. Chazen has served as Occidental Petroleum s Chief Financial Officer since 1999, also holding the titles of Senior Executive Vice President from 2004 to 2007 and Executive Vice President, Corporate Development from 1999 to 2004.

Stephen E. Frank

Director since 1997

Mr. Frank, age 66, is a director of Aegis Insurance Services, Inc., Puget Energy, Inc. and Northrop Grumman Corporation. On January 1, 2002, Mr. Frank retired as Chairman, President and Chief Executive Officer of Southern California Edison, the largest subsidiary of Edison International, a power company, where he had served since June 1995. From 1990 until 1995, Mr. Frank served as the President, Chief Operating Officer and a director of Florida Power & Light Company. Prior to that, he served as an Executive Vice President and Chief Financial Officer of TRW, Inc. and the Vice President, Controller and Treasurer of GTE Corporation.

Kerry K. Killinger

Director since 1988

Mr. Killinger, age 58, is our Chairman and Chief Executive Officer, and was our President until 2005. Mr. Killinger became our President and a director in 1988, our Chief Executive Officer in 1990 and our Chairman of the Board of Directors in 1991. Mr. Killinger also serves as a director of Safeco Corporation and Green Diamond Resource Company.

Thomas C. Leppert

Director since 2005

Mr. Leppert, age 53, is the Mayor of Dallas, Texas. Mr. Leppert retired as the Chairman and Chief Executive Officer of The Turner Corporation on December 31, 2006. He held those positions since September 1999. Turner is one of the nation s largest general construction companies with its headquarters in Dallas, Texas. Before joining Turner, Mr. Leppert served as the Trustee of the Estate of James Campbell from 1998-1999. From 1996 through 1997, Mr. Leppert served as the Vice Chairman of the Bank of Hawaii and Pacific Century Financial Corp. Mr. Leppert began his career with McKinsey & Company and was later elected a Principal, where he specialized in the financial services industry. In 1984, he was appointed by President Reagan as a White House fellow and was assigned to the Department of the Treasury and the White House staff, where he worked primarily on banking, finance and international trade issues.

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Charles M. Lillis

Director since 2005

Mr. Lillis, age 66, is a co-founder and principal of LoneTree Partners, a private equity investing group with headquarters in Denver, Colorado. He is also a Managing Partner of Castle Pines Capital, a provider of channel finance solutions, with its headquarters in Denver Colorado. Mr. Lillis served as the Chairman of the Board and Chief Executive Officer of MediaOne Group, Inc. from its inception in 1995 through the acquisition of MediaOne by AT&T Corp., which was completed in 2000. Mr. Lillis is a director of SUPERVALU Inc., Williams Companies, Medco Health Solutions, and SomaLogic Inc.

Phillip D. Matthews

Director since 1998

Mr. Matthews, age 69, is currently the Chairman of Zodiac Marine Holdings, a worldwide supplier in marine and pool products. Mr. Matthews served as Chairman of WaterPik Technologies, Inc., a leading developer, manufacturer and marketer of innovative pool products and personal health care products until it merged with Zodiac Marine Holdings in 2007. From 1996 through 2005 he was the Chairman of Worldwide Restaurant Concepts, Inc., a company that operates, franchises or joint ventures restaurants worldwide. From 1981 to 1991, he was owner and Chief Executive Officer of Bell Helmets, Inc. and prior to that he was Executive Vice President and Chief Financial Officer of Dart Industries and its successor, Dart and Kraft, Inc. He is a director of Zodiac Marine Holdings, Wolverine World Wide, Inc., Orco Construction Supply, Inc. and Trojan Battery Company.

Regina T. Montoya

Director since 2006

Ms. Montoya, age 54, has been the Chief Executive Officer of New America Alliance since September 2005, where her responsibilities include developing strategic and tactical plans to fulfill the Alliance s mission of promoting the advancement of the Latino community with a focus on economic empowerment. From 1996 until 2005, Ms. Montoya was the Founder and President of WORKRules, a Texas-based workforce training and media and community relations company, and from August 2002 until February 2005, Ms. Montoya was the Southwest Regional Director for AARP. A Harvard-trained attorney, Ms. Montoya has served in the White House as an Assistant to the President and Director of the Office of Intergovernmental Affairs.

Michael K. Murphy

Director since 1985

Mr. Murphy, age 71, is the retired Chairman and Chief Executive Officer of CPM Development Corporation, a construction materials manufacturer and the parent company of Central Pre-Mix

Concrete Company and Inland Asphalt Company. If he is re-elected, we expect Mr. Murphy not to stand for re-election at the 2009 Annual Meeting of Shareholders in accordance with our director retirement policy described at page 11.

Margaret Osmer McQuade

Director since 2002

Ms. Osmer McQuade, age 69, has been President of Qualitas International, an international consulting firm, since 1993. She also serves as a director of River Capital International LLC.

Mary E. Pugh

Director since 1999

Ms. Pugh, age 48, is founder, President and Chief Executive Officer of Pugh Capital Management, Inc. a fixed income money management company. Ms. Pugh is a trustee of The Seattle Foundation.

William G. Reed, Jr.

Director since 1970

Mr. Reed, age 69, was Chairman of Simpson Timber Company and Simpson Investment Company from 1971 to 1996. He serves as a director for PACCAR Inc. and Safeco Corporation. He was Chairman of the Board of Safeco Corporation from January 2001 through December 2002 and lead independent director from 2002 through 2004.

Orin C. Smith

Director since 2005

Mr. Smith, age 65, was President and Chief Executive Officer of Starbucks Corporation, a coffee retailer, from June 2000 until March 31, 2005. From June 1994 to May 2000, Mr. Smith served as Starbucks President and Chief Operating Officer, and from March 1990 to June 1994, he was Starbucks Vice President and Chief Financial Officer and later its Executive Vice President and Chief Financial Officer. Mr. Smith also serves on the board of directors of NIKE, Inc. and The Walt Disney Company.

James H. Stever

Director since 1991

Mr. Stever, age 64, retired as Executive Vice President, Public Policy, of US WEST, Inc., a telecommunications company, on December 31, 1996, a position he held since January 1996. He was Executive Vice President, Public Policy and Human Resources, of US WEST, Inc. from November 1994 to January 1996, and Executive Vice President, Public Policy, of US WEST, Inc. and US WEST Communication, Inc. from 1993 until 1994. He was President, Public Policy, of US WEST Communications, Inc. from 1990 until 1993 and President, Business Division, from 1988 until 1990.

Corporate Governance

We value strong corporate governance principles and adhere to the highest ethical standards. These principles and standards, along with our core values of fairness, caring, human, dynamic and driven, help us achieve our corporate mission. To foster strong corporate governance and business ethics, our Board of Directors continues to take many steps to strengthen and enhance our corporate governance practices and principles. To that end, we have adopted Corporate Governance Guidelines to achieve the following goals:

- to promote the effective functioning of the Board;
- to ensure that we conduct our business in accordance with the highest legal and ethical standards; and
- to enhance shareholder value.

The following is a summary of some of our most significant governance principles as embodied in our Corporate Governance Guidelines, and our current practices with respect to many other aspects of strong corporate governance. The full text of our Corporate Governance Guidelines is available on our website at *www.wamu.com/ir.* Our shareholders may also obtain a written copy of the guidelines at no cost by writing to us at 1301 Second Avenue, Seattle, Washington, 98101, Attention: Investor Relations Department, or by calling (206) 500-1005.

The Governance Committee of our Board of Directors administers our Corporate Governance Guidelines, reviews performance under the guidelines and the content of the guidelines annually and, when appropriate, recommends updates and revisions to our Board of Directors.

Board of Directors Independence

We currently have 14 directors including Anne V. Farrell, who is not standing for re-election because she is retiring from the Board. Our Corporate Governance Guidelines require that the Board consist predominantly of non-employee directors. This means directors who are not currently, and have not been, employed by us during the most recent three years. Currently, our Chief Executive Officer is our only director who is also a member of management.

Our Corporate Governance Guidelines also require that a substantial majority of the Board consist of independent directors. A director is independent for this purpose when our Board affirmatively determines that he or she has no material relationship with us, other than as a director. Our Board makes this determination in accordance with our Corporate Governance Guidelines, which are consistent with the applicable rules of the New York Stock Exchange (the NYSE) and federal securities laws.

Our Governance Committee is responsible for reviewing with the Board annually the appropriate criteria and standards for determining director independence consistent with all applicable legal requirements, including the NYSE rules and applicable Securities and Exchange Commission (SEC) rules and regulations. In accordance with applicable NYSE rules, we have established categories of immaterial relationships that are deemed not to have any bearing on a director s independence. Accordingly, our Corporate Governance Guidelines provide that a Company director will not be considered to lack independence solely as a result of any of the following relationships:

- if currently or at any time during the preceding three years the director was an employee or executive officer of, or a member of his or her immediate family was an employee or an executive officer of another company that makes payments to or receives payments from us for property or services in an amount which is less than $1 million *and* less than two percent (2%) of the annual consolidated gross revenues of the other company, determined for the most recent completed fiscal year;

if currently or at any time during the preceding three years the director or a member of his or her immediate family was a director of another company that makes payments to or receives payments from us for property or services in an amount which is less than the greater of $1 million *and* two percent (2%) of the annual consolidated gross revenues of the other company, determined for the most recent completed fiscal year;

if the director or a member of his or her immediate family is an executive officer of another company which is indebted to us, or to which we are indebted, and the total amount of indebtedness either of them owes to the other is less than one percent (1%) of the total consolidated assets of the other company;

if the director or a member of his or her immediate family serves as an officer, director or trustee of a tax exempt organization, and our discretionary contributions to the organization during the most recent calendar year are no greater than the greater of $250,000 or one percent (1%) of that organization s total annual consolidated gross revenues (determined for the most recent completed fiscal year). Our automatic matching of employee charitable contributions will not be included in the amount of our contributions for this purpose;

if the director or a member of his or her immediate family serves as a non-employee director of another company (and has not been determined by such other company to be non-independent), on whose board one or more other Washington Mutual directors sit as non-employee directors;

if the director or a member of his or her immediate family maintains one or more deposit accounts with us, provided that there is no obligation or requirement to maintain the existence of such accounts and such accounts exist on terms and conditions that are no more favorable than those offered to the general public; or

if the director maintains a credit card with us or a subsidiary pursuant to our Employee Card program for employees and directors, or if a member of his or her immediate family maintains a credit card account with us or a subsidiary where there is no obligation or requirement to maintain the existence of such account and such account exists on terms and conditions that are generally no more favorable than those widely offered to our employees in the program.

In February 2008, our Board determined that Stephen I. Chazen, Anne V. Farrell, Stephen E. Frank, Thomas C. Leppert, Charles M. Lillis, Phillip D. Matthews, Regina T. Montoya, Michael K. Murphy, Margaret Osmer McQuade, William G. Reed, Jr., Orin C. Smith and James H. Stever are independent directors in accordance with our Corporate Governance Guidelines because they have no relationships with us that are outside of the categorical standards listed above. In addition, the Board found that Kerry K. Killinger and Mary E. Pugh are not independent because of the following:

Mr. Killinger is one of our executive officers.

Ms. Pugh is the founder and President of Pugh Capital Management, a company with which we transacted business in 2006 and prior years. Our Board has determined that this relationship was a material relationship, and that Ms. Pugh will not be independent until three years after our relationship with Pugh Capital Management ended.

For the Company directors determined to be independent in 2008, the Board considered the following relationships:

Each of Messrs. Reed, Smith and Lillis is a member of the board of directors of one or more companies with which our Company transacted business in the ordinary course in 2007. In each instance, the amount of 2007 payments to or by us was significantly below our categorically immaterial amount, as contained in our Corporate Governance Guidelines. In addition, Mr. Leppert is the Mayor of the City of Dallas. We paid immaterial amounts to the City of Dallas in 2007 in the ordinary course of business.

Messrs. Stever and Reed, and Mss. Montoya and Farrell, each has one or more deposit accounts with our Company; Mss. Farrell and Osmer McQuade, and Messrs. Frank, Leppert, Lillis, Murphy, Reed and Stever each has a credit card account with our Company pursuant to our Company card program for employees and directors; and Mrs. Farrell s home mortgage is serviced by our Company.

Our donations (or our foundation s donations) to charitable entities of which a Company director is a trustee or an officer, in amounts that were categorically immaterial under our Corporate Governance Guidelines. For 2007, these included donations to entities affiliated with Mss. Farrell, Montoya and

Osmer McQuade and Messrs. Frank, Leppert and Smith.

Our Board also determined in February 2008 that all of the members of our Audit Committee are independent in accordance with our Corporate Governance Guidelines and applicable SEC rules and regulations.

Responsibilities of the Board of Directors

Each director has basic duties of care and loyalty under Washington law. Our Corporate Governance Guidelines also enumerate certain obligations for our directors. Among other things, these obligations require directors to effectively monitor management s capabilities, compensation, leadership and performance, without undermining management s ability to successfully operate the business. In addition, our Board and its committees have the authority to retain and establish the fees of outside legal, accounting or other advisors, as necessary, to carry out their responsibilities.

Our directors are expected to avoid any action, position or interest that conflicts with an interest of the Company, or gives the appearance of a conflict. As a result, our directors must disclose all business relationships with us and with any other person doing business with us to the entire Board and recuse themselves from discussions and decisions affecting those relationships. We periodically solicit information from directors in order to monitor potential conflicts of interest and to confirm director independence.

Communication With Directors

Individuals may submit communications to any individual director, including our Lead Independent Director, our Board as a group, or a specified Board committee or group of directors, including our non-employee directors, by sending the communications in writing to the following address: Washington Mutual, Inc., 1301 Second Avenue, Seattle, Washington 98101. All correspondence should indicate to whom it is addressed. A member of our Office of the Corporate Secretary will sort the Board correspondence to classify it based on the following categories into which it falls: shareholder correspondence, commercial correspondence, regulator correspondence or customer correspondence. Each classification of correspondence will be handled in accordance with a policy unanimously approved by the Board.

Director Education and Evaluation

All directors are expected to be knowledgeable about our Company and industry and to understand their duties and responsibilities as directors. They may gain this knowledge by attending Board meetings; periodic director training sessions; educational seminars; and regular meetings with management; and by reading appropriate industry, corporate governance and directorship literature. We periodically conduct in-house director education programs on relevant topics. In addition, our directors are encouraged to attend education sessions provided by third-party groups, and we reimburse them for their reasonable costs of attendance. In 2007, we conducted in-house director education sessions on two occasions.

All of our new directors are required to attend orientation sessions conducted by our management and educational programs intended to satisfy the special qualification requirements for membership on committees of our Board.

Our Board, acting through the Governance Committee, annually evaluates the effectiveness of the Board collectively, and the performance of each standing Board committee. Our Governance Committee determines the appropriate means for this evaluation, which may include surveying the Board and committee membership.

Director Nomination Process

Our Governance Committee is responsible for reviewing with the Board annually the appropriate skills and characteristics required of our Board members, and for selecting, evaluating and recommending nominees for election by our shareholders. The Governance Committee may use one or more third party search firms to assist in this purpose. During 2007 and 2008, an executive search firm assisted the committee in identifying our newest director, Mr. Chazen.

The following are the General Criteria for Nomination to the Board, as adopted by our Board. These General Criteria set forth the traits, abilities and experience that, at a minimum, our Board looks for in determining candidates for election to the Board:

- Directors should possess personal and professional ethics, integrity and values, and be committed to representing the long-term interests of our shareholders and other constituencies.

- Directors should have reputations, both personal and professional, consistent with the image and reputation of Washington Mutual.

Each director should have relevant experience and expertise and be able to add value and offer advice and guidance to our Chief Executive Officer based on that experience and expertise.

Other important factors to be considered in seeking directors include current knowledge and contacts in our industry and other industries relevant to our business, ability to work with others as an effective group and ability to commit adequate time as a director.

A substantial majority of directors on our Board should be independent, not only as that term may be legally defined, but also without the appearance of any conflict in serving as a director. In addition, directors should be independent of any particular constituency and be able to represent the interests of our shareholders and other constituencies.

Each director should have the ability to exercise sound business judgment.

Directors should be selected so that our Board of Directors is a diverse body reflecting gender, ethnic background, professional experience, current responsibilities and community involvement.

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The Chair of the Governance Committee may authorize our Chairman of the Board or any other representative of our Board, speaking on behalf of the Board, to extend invitations to new director candidates to join the Board. The Board is responsible for making interim appointments of directors to fill Board vacancies, including those created by the resignation or retirement of directors in accordance with our bylaws.

Our shareholders may propose director candidates for consideration by the Governance Committee by submitting the individual s name and qualifications to our Secretary at 1301 Second Avenue, Seattle, Washington 98101. Our Governance Committee will consider all director candidates properly submitted by our shareholders in accordance with our Corporate Governance Guidelines, and these candidates will be evaluated under the same General Criteria as director candidates proposed by other means. Shareholders who wish to nominate candidates for election to our Board at our Annual Meeting of Shareholders must follow the procedures outlined in Shareholder Proposals for the 2009 Annual Meeting set forth at page 75 of this Proxy Statement.

Director Retirement and Resignation Policies

When our directors reach age 72, they may not stand for re-election at the next occurring annual meeting of shareholders. Accordingly, Mrs. Farrell is not standing for re-election and will retire from the Board because she has reached age 72. If he is re-elected at the Annual Meeting, Mr. Murphy will reach age 72 before the 2009 Annual Meeting of Shareholders. Accordingly, he will not stand for re-election at the 2009 Annual Meeting.

We also require that directors tender their resignation when their present position or job responsibility changes significantly. Our Board then decides, in light of the circumstances and the recommendation of the Governance Committee, whether to accept the resignation.

Board Meetings and Executive Sessions

Our Board of Directors currently holds eight regular full Board meetings each year. All of our directors are encouraged to attend each meeting in person. Our management provides all directors with an agenda and appropriate written materials sufficiently in advance of the meetings to permit meaningful review. Any director may submit topics or request changes to the preliminary agenda as he or she deems appropriate in order to ensure that the interests and needs of non-management directors are appropriately addressed. To ensure active and effective participation, all of our directors are expected to arrive at each Board and committee meeting having reviewed and analyzed the materials for the meeting.

All of our non-employee directors generally meet in executive session at every regularly scheduled Board meeting, both with and without our Chief Executive Officer present. All directors who are determined to be independent meet in executive session at least once per year.

Lead Independent Director

Our independent directors annually select one of their own to be the Lead Independent Director. In February 2008, Mr. Frank was selected as the Lead Independent Director. The Lead Independent Director: (i) identifies topics and develops the agenda for regularly scheduled meetings of independent directors, (ii) chairs executive sessions for non-employee or independent directors, (iii) has the authority to call special meetings of the non-employee or independent directors, (iv) has authority to recommend to the Chairman the retention of outside advisors and consultants who report directly to the Board and (v) joins the Chair of the Human Resources Committee in communicating to the CEO the results of the Human Resources Committee s evaluation of the CEO s performance. Our Lead Independent Director also assists the Chairman in setting Board meeting agendas and schedules, presides at any meeting of the Board at which the Chairman is not present and serves as a liaison between the independent directors and the Chairman.

Director Attendance at Company Annual Meetings

All of our directors are encouraged to attend every Company annual meeting of shareholders. To help ensure that our directors are available at the time of the annual meeting, we typically schedule Board and Board committee meetings on the day of and the day before the annual meeting. Eleven directors, all except Mr. Leppert and Ms. Osmer McQuade, were able to attend our 2007 Annual Meeting of Shareholders.

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Director Contact with Management

All of our directors are invited to contact our Chief Executive Officer at any time to discuss any aspect of our business. In addition, there generally are frequent opportunities for directors to meet with other members of our management team.

Director Stock Ownership Guidelines

We expect each of our non-employee directors to maintain stock ownership in our Company in an amount that is meaningful and which should have a value of at least three times the annual director cash retainer. New directors may achieve this requirement over a three-year period. For purposes of these guidelines, WaMu stock ownership includes shares of our common stock held outright, phantom stock held in our Deferred Compensation Plan, and unvested shares of restricted stock. As of December 2007, all non-employee directors have either exceeded their ownership requirements or are within the three-year period for satisfying them.

Code of Ethics for Senior Financial Officers and Code of Conduct

We have implemented a Code of Ethics applicable to our Chief Executive Officer, President, Chief Financial Officer, Principal Accounting Officer and our other senior financial officers, and a Company Code of Conduct applicable to all of our officers, employees and directors. Our Code of Ethics provides fundamental ethical principles to which these senior financial officers are expected to adhere. Our Code of Conduct operates as a tool to help our officers, employees and directors understand and adhere to the high ethical standards required for employment by, or association with, Washington Mutual. Both our Code of Ethics and our Code of Conduct are available on our Investor Relations website at *www.wamu.com/ir*. Our shareholders may also obtain written copies at no cost by writing to us at 1301 Second Avenue, Seattle, Washington 98101, Attention: Investor Relations Department, or by calling (206) 500-5200. Any future changes or amendments to our Code of Ethics or Code of Conduct and any waiver that applies to one of our senior financial officers or a member of our Board of Directors will be posted to our Investor Relations website.

Board Meetings and Attendance

During 2007, our Board of Directors met 11 times, including three special meetings and eight regular meetings. All of our directors attended at least 75% of the aggregate of the total number of meetings of our Board and the total number of all meetings held by committees on which he or she served.

Committees of the Board of Directors

A description of the general functions of each permanent Board committee and the current composition of each is below.

Committees	***2007 Meetings and General Committee Functions***
AUDIT Stephen E. Frank (Chair) Stephen I. Chazen Thomas C. Leppert Michael K. Murphy William G. Reed, Jr.	Meetings in 2007: 9 - Assists with the oversight of the integrity of our financial reporting process and financial statements and systems of internal controls; - Assists with the oversight of our compliance with legal and regulatory requirements;

Orin C. Smith	- Selects and retains the independent auditor, and reviews its qualifications, independence and performance; and - Selects the general auditor, and assists with the oversight of the performance of our internal audit function. - Approves and monitors the administration of policies addressing management of operational risk.

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Committees	*2007 Meetings and General Committee Functions*
HUMAN RESOURCES James H. Stever (Chair) Stephen E. Frank Charles M. Lillis Phillip D. Matthews Margaret Osmer McQuade	Meetings in 2007: 6 - Develops and administers our executive and senior officer compensation programs and oversees our talent management process for senior management, including succession planning; - Establishes and administers annual and long-term incentive compensation plans for executives and senior management; - Oversees the administration of our officer and employee benefit plans and any associated plan trust funds; and - Annually evaluates our Chief Executive Officer s performance and sets our Chief Executive Officer s compensation level based on such evaluation.
GOVERNANCE William G. Reed, Jr. (Chair) Anne V. Farrell Thomas C. Leppert Phillip D. Matthews Margaret Osmer McQuade Orin C. Smith James H. Stever	Meetings in 2007: 5 - Develops and recommends to our Board of Directors governance guidelines and principles for our Company and takes a leadership role in shaping our corporate governance; - Identifies individuals qualified to become directors consistent with criteria confirmed by the Board, and recommends to our Board candidates for directorship; - Reviews and makes recommendations to our Board concerning the strategic planning process developed by management; - Assists in the operation of our majority voting director election procedures; and - Reviews shareholder proposals and approves responses to be included in our proxy statement.
FINANCE Mary E. Pugh (Chair) Stephen I. Chazen Anne V. Farrell Stephen E. Frank Charles M. Lillis Regina T. Montoya Margaret Osmer McQuade Michael K. Murphy William G. Reed, Jr.	Meetings in 2007: 5 - Approves and monitors the administration of policies addressing our capital allocation and our management of market and credit risk; - Monitors the development and implementation of strategies that guide our financial management activities; and - Reviews and makes recommendations with respect to the payment of dividends, the issuance and repurchase of equity, and the issuance and retirement of debt.
CORPORATE DEVELOPMENT Kerry K. Killinger (Chair) Stephen E. Frank Charles M. Lillis	Meetings in 2007: 1 - Reviews, on a case-by-case basis, with our management, all corporate transactions not in the ordinary course of business.

Phillip D. Matthews
James H. Stever

Committees	*2007 Meetings and General Committee Functions*
CORPORATE RELATIONS Thomas C. Leppert (Chair) Anne V. Farrell Regina T. Montoya Michael K. Murphy Mary E. Pugh James H. Stever	Meetings in 2007: 3 - Monitors our charitable giving and community service activities, including implementation of our ten-year $375 billion Community Commitment initiated in 2001; and - Monitors our public policy and political activities, including political contributions. - Approves and monitors the administration of policies addressing management of reputational risk.

Committee Independence and Additional Information

Our Audit Committee, Governance Committee and Human Resources Committee are currently composed entirely of independent directors, as defined by our Corporate Governance Guidelines and applicable NYSE and SEC rules and regulations. Each of our committees has a written charter, which may be obtained on our website at *www.wamu.com/ir*. Company shareholders may also obtain written copies of the charters at no cost by writing to us at 1301 Second Avenue, Seattle, Washington 98101, Attention: Investor Relations Department, or by calling (206) 500-1005.

The chair of each committee is responsible for establishing committee agendas. The agenda, meeting materials and the minutes of each committee meeting are furnished in advance to those directors serving on the committee, and each committee chair reports on his or her committee s activities to the full Board.

Audit Committee Financial Expertise

Our Board determined in February 2008 that Messrs. Frank, Chazen and Smith qualify as audit committee financial experts, as defined by the rules and regulations of the SEC. The Board further determined that each member of our Audit Committee is financially literate and has accounting or related financial management expertise, as such qualifications are defined pursuant to the rules of the NYSE.

Human Resources Committee Processes and Procedures

Overview

Our Human Resources Committee is comprised of five non-employee directors, each of whom has been determined by our Board to be independent under NYSE rules. Members are nominated by the Governance Committee and approved by the Board. The current members of the Committee are:

James H. Stever, Chair
Stephen E. Frank
Charles M. Lillis
Phillip D. Matthews
Margaret Osmer McQuade

How the Human Resources Committee Operates

The Human Resources Committee operates under a written charter that specifies that the Committee is responsible for the general oversight of our compensation policies and practices, including those that relate to the executive officers listed in the Summary Compensation Table at page 38 of this Proxy Statement. In this Proxy Statement we refer to those executives as our named executives. The Committee reviews its charter annually and may recommend changes it considers appropriate to the full Board. The Committee also conducts an annual self-evaluation to assess its performance for the year. The Committee has regularly scheduled meetings in January, February, July, October and December, and has special meetings whenever necessary to fulfill its responsibilities. In 2007, the Committee met six times. It also may act by unanimous written consent. With respect to some matters, it may delegate limited authority to one or more Company officers, although it does not delegate to officers the authority to determine the form or amount of an executive officer s compensation. The members meet in executive session at each meeting to discuss a variety of matters. The Committee also meets with various members of management, outside counsel and outside consultants to gain additional insight and perspective with respect to such matters as management succession, the CEO evaluation, legal matters, pension plan performance and compensation and benefits issues generally.

The Human Resources Committee s Responsibilities

The Human Resources Committee assists the Board in fulfilling the following responsibilities:

- Establishing, developing and administering our executive officer compensation programs and long-term incentive plans;
- Overseeing and administering our benefit plans;
- Annually evaluating our CEO s performance and setting his compensation amounts accordingly with input from the full Board;
- Reviewing and coordinating the approval of the CEO s goals; and
- Reviewing the CEO s succession planning.

Specifically, the Human Resources Committee is responsible for annually reviewing and approving the base salary, the target annual bonus and any long-term incentive awards for the CEO and the other named executives. In this regard, the Committee approves the performance measures to be used in executive, management and broad-based employee incentive plans and the levels of performance for which we will pay incentive compensation.

With respect to the compensation of our CEO, the Human Resources Committee annually approves financial and leadership goals and objectives relevant to the CEO s compensation and evaluates the CEO s performance in light of those goals. The Committee determines amounts and forms of the CEO s compensation, reports this information to the full Board, and considers whether adjustments to the CEO s compensation are appropriate based on input from the full Board.

The Human Resources Committee is also responsible for approving the base salary, annual target bonus and any long-term incentive awards for all officers subject to Section 16 of the Securities Exchange Act of 1934, which includes our senior executives with a corporate title of Executive Vice President, and certain of our executives with a corporate title of Senior Vice President. In doing so, the Committee considers the CEO s recommendations with respect to each of these executives and sets the compensation for each executive based on its evaluation of the executive s performance and its consideration of benchmarking data and internal pay equity. In addition, the Human Resources Committee meets annually to review our Company performance and individual executive performance for purposes of determining the annual incentive bonus paid to named executives and other officers by certifying the results under our Leadership Bonus Plan.

The Human Resources Committee is also responsible for establishing base salary, target annual bonus and long-term incentive awards for newly-hired executives and other senior officers who will be subject to Section 16 of the Securities Exchange Act of 1934 in their roles with our Company. To facilitate negotiations with talented executive candidates, the Committee has approved a standard offer letter and guidelines for base salary, target annual bonus and long-term incentive awards for newly-hired executives who will be members of our Executive Committee, and has delegated authority to the Committee s Chair to approve employment offer letters that fall within the guidelines. Offers that do not fall within the guidelines must be approved by the full Committee.

The Human Resources Committee is authorized to directly engage its own outside consultants, and for 2007 the Human Resources Committee directly retained Towers Perrin to: (i) assist in gathering benchmarking data and monitoring compensation trends in our industry and among large public companies generally, (ii) advise the Committee regarding compensation best practices and trends, and (iii) assist in the design and development of our executive compensation program. The Committee meets in executive session annually to review the performance of the outside compensation consultant, assess the firm s objectivity on executive compensation matters in light of other services our management engages the firm to perform, and generally assess the quality of the services Towers Perrin provides. Based on this assessment, the Committee decides whether to retain the outside compensation consultant for the upcoming year, or to conduct a search for a new compensation consultant.

While Towers Perrin has been engaged by, and directly reports to the Committee, the Committee has authorized Towers Perrin to work with management on behalf of the Committee, as necessary. There are a number of reasons for this interaction with Company management. Before regularly scheduled Human Resources Committee meetings, Towers Perrin meets with management to review relevant materials that will be presented to and discussed by the Committee and, when relevant, any proposals on which management will ask the Committee to act. At other times, Towers Perrin may contact

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management to obtain or confirm information that is necessary for the consultant to effectively advise the Committee on a variety of ad-hoc requests and inquiries made by the Committee. The parameters for this interaction were established when the Committee originally retained Towers Perrin as its advisor. In addition to services performed at the direction of the Committee, Towers Perrin also performs services at the direction of our management under separate engagements. In 2007 this work included actuarial services related to the WaMu Pension Plan and consulting services related to our health and welfare plans.

In February 2008 the Committee adopted a policy requiring the Committee s pre-approval of Company engagements of the Committee s outside compensation consulting firm to perform services other than at the direction of the Committee. In pre-approving such other services, the Committee will consider, among other factors, whether the proposed services would affect the compensation consultant s ability to give impartial recommendations or advice to the Committee with regards to the Committee s work.

Our CEO provides recommendations to the Human Resources Committee regarding named executives compensation (including base salary, target bonus and long-term incentive awards) and is responsible for conducting the performance evaluations for them. Our Chief Human Resources Officer, and members of his department, also support the Human Resources Committee and provide recommendations regarding the amount and form of compensation paid to executive officers.

The Human Resources Committee also administers our Amended and Restated 2003 Equity Incentive Plan, and has delegated the authority to the Chief Human Resources Officer to grant a limited number of stock options, restricted stock and performance shares under that plan to senior officers who are not executive officers.

PRINCIPAL HOLDERS OF COMMON STOCK

This table shows information regarding beneficial ownership of our common stock by the only entities known by us to have owned more than 5% of the outstanding shares of our common stock on December 31, 2007.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	Percent of Class[1]
Capital Research Global Investors 333 South Hope Street Los Angeles, CA 90071	76,109,610(2)	8.8%
Capital World Investors 333 South Hope Street Los Angeles, CA 90071	69,730,000(3)	8.0
Brandes Investment Partners, L.P. 11988 El Camino Real, Suite 500 San Diego, CA 92130	50,200,678(4)	5.8
Capital Group International, Inc. 11100 Santa Monica Boulevard Los Angeles, CA 90025	46,735,110(5)	5.4
Barrow, Hanley, Mewhinney & Strauss, Inc. 2200 Ross Avenue, 31st Floor Dallas, TX 75201-2761	45,047,319(6)	5.2
Hotchkis and Wiley Capital Management, LLC 725 S. Figueroa Street, 39th Floor Los Angeles, CA 90017	43,488,092(7)	5.0

(1) Based on 868,653,012 shares outstanding (including 6,000,000 shares of Company common stock held in escrow) as of December 31, 2007.

(2) Based solely on a review of the Schedule 13G filed by Capital Research Global Investors with the SEC on February 11, 2008. As reported on the Schedule 13G, Capital Research Global Investors is an investment advisor registered under the Investment Advisors Act of 1940 and has sole voting power with respect to 29,184,330 shares and sole dispositive power with respect to 76,109,610 shares, and has disclaimed beneficial ownership of the shares pursuant to Rule 13d-4 of the Securities Exchange Act of 1934.

(3) Based solely on a review of the Schedule 13G filed by Capital World Investors with the SEC on February 11, 2008. As reported on the Schedule 13G, Capital World Investors is an investment advisor registered under the Investment Advisors Act of 1940 and has sole voting power with respect to 50,000 shares and sole dispositive power with respect to 69,730,000 shares, and has disclaimed beneficial ownership of the shares pursuant to Rule 13d-4 of the Securities Exchange Act of 1934.

(4)

Based solely on a review of the Schedule 13G filed by Brandes Investment Partners, L.P., Brandes Investment Partners, Inc., Brandes Worldwide Holdings, L.P., Charles H. Brandes, Glenn R. Carlson and Jeffrey A. Busby (collectively, the Brandes Group) with the SEC on February 14, 2008. As reported on the Schedule 13G, Brandes Investment Partners, L.P. is an investment advisor and the other members of the Brandes Group are control persons of Brandes Investment Partners, L.P. As further reported on the Schedule 13G, the Brandes Group has shared voting power with respect to 42,425,920 shares and shared dispositive power with respect to 50,200,678 shares. The members of the Brandes Group other than Brandes Investment Partners, L.P. have disclaimed beneficial ownership of these shares pursuant to Rule 13d-4 of the Securities Exchange Act of 1934, except in the case of Brandes Investment Partners, Inc., Charles H. Brandes, Glenn R. Carlson and Jeffrey A. Busby for an amount that is substantially less than one percent of the number of shares reported on the Schedule 13G.

(5) Based solely on a review of the Schedule 13G/A filed by Capital Group International, Inc. with the SEC on February 12, 2008. As reported on the Schedule 13G/A, Capital Group International is the parent holding company of a group of investment management companies that provide investment advisory and management services for their respective clients, which include registered investment companies and institutional accounts. As further reported on the Schedule 13G/A, Capital Group International has sole voting power with respect to 25,745,460 shares and sole dispositive power with respect to 46,735,110 shares, and has disclaimed beneficial ownership of the shares pursuant to Rule 13d-4 of the Securities Exchange Act of 1934.

(6) Based solely on a review of the Schedule 13G filed by Barrow, Hanley, Mewhinney & Strauss, Inc. with the SEC on February 13, 2008. As reported on the Schedule 13G, Barrow, Hanley, Mewhinney & Strauss is an investment advisor registered under the Investment Advisors Act of 1940 and has sole voting power with respect to 5,738,173 shares, shared voting power with respect to 39,309,146 shares and sole dispositive power with respect to 45,047,319 shares.

(7) Based solely on a review of the Schedule 13G filed by Hotchkis and Wiley Capital Management, LLC with the SEC on February 14, 2008. As reported on the Schedule 13G, Hotchkis and Wiley Capital Management is an investment advisor registered under the Investment Advisors Act of 1940 and has sole voting power with respect to 28,102,446 shares and sole dispositive power with respect to 43,488,092 shares.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

This table and the accompanying footnotes provide a summary of the beneficial ownership of our common stock as of February 29, 2008, by (i) our directors, (ii) our Chief Executive Officer, (iii) our Chief Financial Officer, (iv) our other named executives and (v) all of our current directors and executive officers as a group. The following summary is based on information furnished by the respective directors and officers.

Each listed person individually owns less than 1% of the outstanding shares and voting power of our common stock, and our directors and executive officers as a group hold approximately 1.4%. Except as indicated in the footnotes to the table below, each person has sole voting and investment power with respect to the shares he or she beneficially owns.

Name	Common Stock[(1)] A	Options Exercisable[(2)] B	Total Beneficial Ownership[(3)] C	Phantom Stock[(4)] D	Total Stock-Based Ownership[(5)] E
Thomas W. Casey	208,334(6)	730,666	939,000	30,610	969,610
Ronald J. Cathcart	79,972(7)	71,932	151,904		151,904
Fay L. Chapman	124,567(8)	419,874	544,441	12,605	557,046
Stephen I. Chazen					
James B. Corcoran	64,911(9)	43,243	108,154		108,154
Anne V. Farrell	24,210(10)	52,363	76,573	3,114	79,687
Stephen E. Frank	39,457(11)	45,545	85,002	3,114	88,116
Kerry K. Killinger	1,279,926(12)	5,702,081	6,982,007	513,044	7,495,051
Thomas C. Leppert	6,475(13)	7,045	13,520	7,913	21,433
Charles M. Lillis	11,475(14)	7,045	18,520	3,950	22,470
Phillip D. Matthews	33,797(15)	45,545	79,342	4,806	84,148
Regina T. Montoya	4,782(16)	3,712	8,494	305	8,799
Michael K. Murphy	41,163(17)	45,545	86,708	10,100	96,808
Margaret Osmer McQuade	30,641(18)	24,730	55,371	3,114	58,485
Mary E. Pugh	12,374(19)	41,045	53,419	3,114	56,533
William G. Reed, Jr.	191,785(20)	12,045	203,830	24,668	228,498
Stephen J. Rotella	487,283(21)	462,899	950,182	58,001	1,008,183
Orin C. Smith	22,853(22)	7,045	29,898	472	30,370

James H. Stever	47,993(23)	45,545	93,538	3,114	96,652
All directors and current executive officers as a group (26 persons)(24)	3,227,843	8,774,099	12,001,942	759,539	12,741,482

(1) All fractional shares in this table have been rounded to the closest whole share.

(2) In accordance with applicable SEC rules, only options that are exercisable within 60 days after February 29, 2008 are included in this column.

(3) The amounts in this column are derived by adding shares and options listed in columns A and B of the table.

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(4) This column includes shares of phantom stock attributable to the account of the executive or director based on such individual s deferral of compensation into our Deferred Compensation Plan. These shares are not shares of Company common stock and confer no voting rights.

(5) The amounts contained in this column are derived by adding the amounts in columns C and D of the table.

(6) Includes 199,752 shares of restricted stock.

(7) Includes 69,708 shares of restricted stock.

(8) Includes 1,021 shares held by spouse and 84,790 shares of restricted stock.

(9) Includes 59,128 shares of restricted stock.

(10) Includes 1,000 shares held by spouse and 6,572 shares of restricted stock.

(11) Includes 6,571 shares of restricted stock.

(12) Includes 155,943 shares held by grantor retained annuity trust, 851,094 shares held by living trust and 241,678 shares of restricted stock.

(13) Includes 4,782 shares of restricted stock.

(14) Includes 4,782 shares of restricted stock.

(15) Includes 10,000 shares held in family trust and 6,169 shares of restricted stock.

(16) Includes 4,782 shares of restricted stock.

(17) Includes 1,500 shares held by spouse and 6,572 shares of restricted stock.

(18) Includes 4,782 shares of restricted stock.

(19) Includes 5,895 shares of restricted stock.

(20) Includes 6,572 shares of restricted stock.

(21) Includes 382,998 shares of restricted stock.

(22) Includes 4,782 shares of restricted stock.

(23) Includes 1,800 shares held by a family foundation and 6,572 shares of restricted stock.

(24) Includes 1,520,765 shares of restricted stock and 136 shares held in the WaMu Savings (401(k)) Plan.

Compensation of Non-Employee Directors

Our Board of Directors, acting upon a recommendation from the Governance Committee, annually determines the non-employee directors compensation for serving on the Board and its committees. In establishing non-employee director compensation, the Board and the Governance Committee are guided by the following goals:

- Compensation should consist of a combination of cash and equity awards that are designed to pay the directors fairly for work required for a company of our size and scope;
- Compensation should align the directors interests with the long-term interests of shareholders; and
- Compensation should assist with attracting and retaining qualified directors.

In making its recommendation, the Governance Committee considers information received from Towers Perrin, the compensation consulting firm, regarding competitive information on outside director compensation for *Fortune 500* companies generally and for the peer banks we use to benchmark executive compensation, as discussed at page 24. Towers Perrin also provides recommendations for our non-employee director compensation program. The chair of the Governance Committee engages Towers Perrin to perform the analysis provided to the Committee. The Governance Committee and Board most recently completed this process in December 2007, and determined that our director compensation for 2008 should change slightly from 2007, as noted below. We do not pay director compensation to directors who are also our employees. The elements of compensation paid to non-employee directors for their service on our Board are described below.

Cash Compensation

Non-employee directors receive the following cash payments for their service on our Board of Directors and Board committees:

- an annual cash retainer of $60,000;

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$750 for attendance at each purely telephonic Board meeting or committee meeting;

$1,500 for attendance in person or by telephone at each other Board meeting or committee meeting;

an annual retainer of $10,000 to the chair of each of the Finance, Human Resources and Governance Committees;

an annual retainer of $7,500 to the chair of the Corporate Relations Committee;

an annual retainer of $20,000 to the chair of the Audit Committee (increased from $15,000 in 2007); and

an annual retainer of $25,000 for the Lead Independent Director (increased from $5,000 in 2007).

Each Corporate Development Committee member other than Mr. Killinger receives an annual cash retainer of $6,000 in lieu of any fees for committee meeting attendance.

Directors who resign or retire from our Board receive a prorated portion of the applicable cash retainers based upon their service on the Board and Board committees during the year. During 2007, we did not provide perquisites to any director in an amount that is reportable under applicable SEC rules and regulations. We directly pay or reimburse all non-employee directors for parking, travel and accommodation expenses in connection with attendance at Board and committee meetings. When a director retires from our Board, it is our practice to make a $10,000 cash donation in the retiring director s name to a charitable entity selected by the director.

Stock Compensation

Each non-employee director is eligible for an annual grant of options to purchase Company common stock and shares of restricted stock issued from our Amended and Restated 2003 Equity Incentive Plan, as recommended by our Governance Committee. The options and restricted stock we award to our directors vest on the first anniversary of the date of grant, subject to earlier vesting on termination of service in certain circumstances. Shares of restricted stock for directors accrue regularly-declared Company dividends in the form of additional shares of restricted stock.

Deferred Compensation

Our directors are also eligible to participate in our Deferred Compensation Plan, which is described in greater detail at page 50 of this Proxy Statement. The Deferred Compensation Plan allows eligible directors to defer their vested restricted stock and their fees and retainers payable for their service on the Board and Board committees.

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Director Compensation in 2007

The table below shows compensation we paid our non-employee directors for 2007. Mr. Chazen is not included because he joined our Board in 2008.

Name	Fees Earned or Paid in Cash ($)[1]	Stock Awards ($)[2]	Option Awards ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4]	All Other Compensation ($)[5]	Total ($)
Anne V. Farrell	97,500	73,879	31,281			202,680
Stephen E. Frank	127,250	70,233	29,736	206	46,600	274,025
Thomas C. Leppert	82,750	25,190	29,736			137,676
Charles M. Lillis	90,000	25,190	29,736			144,926
Phillip D. Matthews	101,250	25,190	29,736			156,176
Regina T. Montoya	77,500	21,353	28,150			127,003
Michael K. Murphy	97,500	70,233	29,736			197,469
Margaret Osmer McQuade	94,500	70,233	29,736			194,469
Mary E. Pugh	96,250	70,233	29,736			196,219
William G. Reed Jr.	109,750	70,233	29,736			209,719
Orin C. Smith	90,750	70,233	29,736			190,719
James H. Stever	109,750	70,233	29,736			209,719

(1) The amounts in this column represent the annual cash retainers and cash meeting fees paid to our non-employee directors for service during 2007.

(2) This column reflects the dollar amount recognized for financial statement reporting purposes for 2007 in accordance with FAS 123R for awards of unvested restricted stock. The fair value of Company restricted stock is based on the market value of our common stock on the applicable measurement date for accounting purposes. For additional information, see Note 21 to the Washington Mutual, Inc. and Subsidiaries Consolidated Financial Statements contained in the Company s Form 10-K for the year-ended December 31, 2007. As of December 31, 2007, each non-employee director held the following number of shares of unvested restricted stock (including dividend shares) issued as stock awards: Mrs. Farrell: 3,452, Mr. Frank: 3,451, Mr. Leppert: 1,678, Mr. Lillis: 1,678, Mr. Matthews: 3,053, Ms. Montoya: 1,678, Mr. Murphy: 3,452, Ms. Osmer McQuade: 1,678, Ms. Pugh: 2,781, Mr. Reed: 3,452, Mr. Smith: 1,678, and Mr. Stever: 3,452. The grant date fair value computed in accordance with FAS 123R for each restricted stock award granted in 2007 and reported in this column was $70,043.

(3) This column reflects the dollar amount recognized for financial statement reporting purposes for 2007 in accordance with FAS 123R for stock option awards. For information regarding significant factors, assumptions and methodologies used in determining the fair value of our stock options, see Note 21 to the Washington Mutual, Inc. and Subsidiaries Consolidated Financial Statements contained in the Company s Form 10-K for the

year-ended December 31, 2007, as supplemented by the table at page 42 of this Proxy Statement. The grant date fair value computed in accordance with FAS 123R for each stock option award granted in 2007 and reported in this column was $29,696. As of December 31,

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2007, each non-employee director held the following number of shares of vested and unvested Company stock options granted as option awards:

Name	Vested Stock Options	Unvested Stock Options
Anne V. Farrell	46,333	3,712
Stephen E. Frank	46,333	3,712
Thomas C. Leppert	3,333	3,712
Charles M. Lillis	3,333	3,712
Phillip D. Matthews	48,708	3,712
Regina T. Montoya	0	3,712
Michael K. Murphy	41,833	3,712
Margaret Osmer McQuade	21,018	3,712
Mary E. Pugh	37,333	3,712
William G. Reed Jr.	8,333	3,712
Orin C. Smith	3,333	3,712
James H. Stever	41,833	3,712

(4) The amount shown for Mr. Frank represents above-market interest on his vested balance in an unfunded deferred compensation plan for certain former directors of Great Western Financial Corporation, for which we assumed responsibility as successor to Great Western. No additional compensation may be deferred under this plan. Interest accrues on fund balances outstanding within the plan at enhanced rates. In accordance with applicable SEC regulations, the reported above-market interest consists of earnings to the extent the interest rate exceeded 120% of the applicable federal long-term rate (the Benchmark Rate). Mr. Frank s enhanced rate for 2007 was 6.31%, which exceeded the Benchmark Rate of 6.27%.

(5) For Mr. Frank, this column includes certain retirement benefits to which he is entitled under an unfunded directors retirement plan for which our Company assumed responsibility as successor to Great Western Financial Corporation. Upon termination of service on Great Western s board of directors, each eligible director became entitled under the plan to an annual retirement benefit equal to the sum of the annual retainer previously paid to members of the Great Western board plus 12 times the monthly meeting fee, both as in effect at the time of the director s termination. Benefits are payable for a period equal to the number of years that the eligible director served as a Great Western director and will be provided to the surviving spouse or other designated beneficiary following an eligible director s death. Pursuant to the plan, Mr. Frank is entitled to receive quarterly payments of $11,650. Mr. Frank is entitled to receive these payments until October 2008.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

The Human Resources Committee of the Board of Directors, referred to as the Committee in this discussion, oversees and regularly reviews compensation programs for our executive officers, including the named executive officers listed in the Summary Compensation Table at page 38. The Committee sets annual compensation elements for the CEO, and approves annual compensation elements for other executive officers. Where we use the term named executives in this Compensation Discussion and Analysis we are referring to the named executive officers. Compensation for our named executives includes annual cash compensation (base salary and annual incentives), long-term incentives in the form of equity compensation, and qualified and non-qualified retirement programs. Company-paid perquisites were eliminated for named executives beginning in 2007. In addition, each executive has either a change-in-control agreement or an employment agreement that provides for payment in the event of termination under certain circumstances following a change-in-control of the Company, and severance benefits are provided for termination under certain other circumstances.

In setting compensation, the Committee considers its compensation objectives, competitive practices of our peers (outlined below), internal pay equity and the roles and responsibilities of each executive. The Committee sets compensation also to align with our current and long-term business strategy and goals. There is no formal weighting of any of these factors; the Committee uses its discretion in setting pay targets and amounts. The Committee reviews and discusses annual pay elements (base salary, bonus targets and equity awards) each year. It evaluates other programs as needed based on changes in compensation objectives, alignment with overall Company direction and business strategy, competitive trends and changes in tax law. Based upon a review of these factors, we have designed our executive compensation programs and have paid total compensation amounts to properly motivate named executives to execute our strategy, achieve our business goals and create shareholder value.

We paid significantly lower compensation to named executives in 2007 than in 2006, reflecting our objective and philosophy of paying for performance. Our emphasis on at-risk performance-based compensation resulted in significantly lower 2007 annual incentive bonus payouts and restricted stock vesting, no payout for the 2005-2007 performance share cycle, and zero in-the-money value of prior stock option grants at December 31, 2007 since our closing stock price on that date was below the exercise price of every outstanding stock option held by named executives. These effects are the direct result of disappointing Company financial results due primarily to the extreme turmoil in the mortgage and credit markets.

For 2008 we have structured our long-term equity incentive and annual incentive bonus programs for named executives to align with our objective to improve Company performance in 2008 and beyond. We continue to provide at least 50% of total direct compensation to executives (over 70% for the CEO) in the form of long-term equity incentive compensation which is directly linked to stock price and total shareholder return. Our 2008 long-term equity incentive compensation awards provide strong incentives to named executives to restore shareholder value through increased stock price by tying stock option vesting to the price of our common stock achieving certain thresholds. Our 2008 annual incentive bonus plan is designed to align executive bonus compensation with the achievement of four objective performance measures that are core to the success of our business: (i) net operating profit, (ii) noninterest expense, (iii) depositor and other retail banking fees, and (iv) customer loyalty. In addition to these objective measures, when determining appropriate bonus payouts after the end of 2008 the Committee will evaluate the Company s performance in credit risk management and overall corporate profitability in light of actual events and market conditions during the year.

Objectives of Our Compensation Programs

We design our executive compensation programs to achieve the following objectives:

Our compensation programs should enable us to attract and retain the key executive talent we need on a long-term basis to manage our business.

The substantial majority of each executive s annual compensation should be performance-based such that executives realize value only if we achieve our business goals and objectives and create shareholder value.

Performance targets for incentive compensation should align with our annual and long-term business strategy.

Total compensation amounts should balance the need to be competitive with our industry peers while also being consistent with the key business objective of controlling costs.

Total compensation amounts among named executives should be consistent with our philosophy of internal pay equity by appropriately reflecting the role, scope and complexity of each executive s position relative to other executives.

Elements of Executive Compensation

As shown in the table below, our 2007 executive compensation program incorporated a number of diverse elements designed to achieve our compensation objectives in a variety of ways.

Short-term Elements	**How Objectives Are Met**
Base Salary	Provides an annually fixed level of pay that reflects the role, scope and complexity of each executive s position relative to other executives.
Cash Bonus	Performance-based compensation payable only upon our achievement of annual performance measures that are aligned with the business strategy and shareholders interests.

Long-term Elements	**How Objectives Are Met**
Stock Options	Performance-based compensation that delivers value to executives based on long-term stock price appreciation.
Restricted Stock	Performance-based compensation that enhances shareholder value because vesting is tied to achievement of current year corporate performance measures, and because value varies based on long-term total shareholder return.
Performance Shares	Performance-based compensation that delivers shares of our stock only if we perform well relative to peers over a multi-year period, and therefore aligns named executives interests with our business strategy and long-term shareholder return.
Retirement Programs	Serve as a retention tool for executives and help us attract mid-career top executive talent from other companies.
Severance and Change-in-Control Arrangements	Promote focus and commitment by executives during a potential change-in-control; help retain executives in light of significant business combinations in the financial services industry.

We believe our executive compensation program aligns named executives with short- and long-term current business objectives, effectively motivates named executives to create long-term shareholder value, pays competitively with our peers and provides strong incentives for named executives to join and remain at Washington Mutual.

How We Set Compensation Levels

Peer Group Analysis

Each year, with the assistance of its consultant, the Committee reviews the composition of the peer group it uses to benchmark compensation, and the compensation levels, programs and practices of those peers, as part of the Committee s process of setting executive compensation. The Committee used the peer group listed below, comprising our primary competitors in our major business lines and for executive talent, in connection with 2007 executive compensation decisions:

Bank of America

Bank of New York

Capital One Financial Corp.

Citigroup

Countrywide Financial

Fifth Third Bancorp

JPMorgan Chase & Co.

KeyCorp

National City Corp.

PNC Financial Services Group

Suntrust Bank

U.S. Bancorp

Wachovia

Wells Fargo & Company

The Committee annually evaluates the companies in the peer group and adjusts the list as appropriate. For 2007, the Committee added Capital One Financial Corp. to the peer group. The Committee determined Capital One to have become a primary competitor for two principal reasons: our recent expansion into the credit card business, a core business for Capital One, and Capital One s expansion into banking. The following table shows the comparator data reviewed by the Committee when it approved 2007 annual executive compensation elements in January 2007.

Element	**WaMu**	**Peer Median**	**Peer Average**
Market Capitalization (in billions)	$ 42.70	$ 30.66	$ 84.25
2005 Assets (in billions)	343.75	177.39	441.07
2005 Revenues (in billions)	21.33	14.33	32.86

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The Committee reviews both current year and three-year average peer compensation data when it makes compensation decisions. The use of three-year averages minimizes the potential impact on the Committee s decision-making process of large upswings or downswings in one-year data as a result of extraordinary compensation amounts that may be paid in a given year by a peer or group of peers.

Compensation Benchmarking and Other Factors in Setting Compensation

A primary compensation objective is to attract, develop and retain high-quality executive officers selected from a national, and in some cases, international, talent pool. To help achieve this objective, as a guideline, we target executive cash compensation (salary and annual bonus) at the median (50th percentile), and separately target long-term equity incentive compensation at the 75th percentile, compared to our peers. We target cash compensation at the 50th percentile to be comparable to peer companies. We consider compensation comparable if it is within 10% of the target amount. We believe the 75th percentile, more than just comparable to our peers, is appropriate for our long-term equity incentives because of the great emphasis we place on at-risk compensation that is directly tied to increasing shareholder value.

The Committee does not rigidly set executive compensation in accordance with these target guidelines. Actual compensation can and does vary from target levels depending on Company and individual performance. The Committee believes the proper exercise of its role of overseeing executive compensation requires it to evaluate executive performance and compensation levels by taking into account all relevant factors, of which peer data is only one. The Committee also considers Company performance and individual qualitative factors such as the executive s performance, business unit performance, previous experience, incumbent time in his or her job and internal pay equity. There is no formal weighting of these internal factors or the market data used by the Committee in making its decisions, and typically specific factors are not called out as the basis for a particular decision.

The following table shows the actual 2007 target total cash and long-term equity incentive (LTI) amounts the Committee approved for each named executive, and where those amounts fall relative to peer targets (above or below the 50th or 75th percentile, as applicable). The 2007 LTI award values differ from the sums of the amounts shown for each named executive in the Grant Date Fair Value of Stock and Option Awards column of the Grants of Plan-Based Awards Table at page 41 because the amounts shown at page 41 are the associated accounting expense under FAS 123R. The Committee does not use accounting expense as a starting point for determining LTI awards.

Named Executive	2007 Target Cash (Actual)	2007 Target Cash (Benchmark)	2007 LTI (Actual)	2007 LTI (Benchmark)
Kerry K. Killinger	$ 4,650,000	Below 50th	$ 11,500,000	At 75th
Thomas W. Casey	1,874,880	At 50th	4,000,000	Above 75th
Stephen J. Rotella	3,724,880	Above 50th	6,000,000	At 75th
James B. Corcoran	1,474,140	At 50th	1,500,000	At 75th
Ronald J. Cathcart	1,651,680	At 50th	1,750,000	Above 75th
Fay L. Chapman	1,060,320	Above 50th	1,350,000	At 75th

Variances from our benchmarking guidelines for some named executives, as shown in the table above, were due to the following reasons:

We set Mr. Killinger s target cash compensation below the 50th percentile guideline because we believe it is less important for CEO cash compensation to be comparable to peers given the substantial portion of CEO total direct compensation delivered in the form of long-term equity incentive compensation.

We set Mr. Casey s long-term incentive compensation value above the 75th percentile primarily due to internal pay equity considerations, in order to place his compensation above other function heads given the importance of the CFO role to our Company.

We set Mr. Rotella s target cash compensation above the 50th percentile because that level of compensation was necessary to recruit Mr. Rotella when he joined us as a mid-career senior executive from one of our competitors, a major diversified financial institution.

We set Mr. Cathcart s long-term incentive compensation value above the 75th percentile primarily due to internal pay equity considerations based on the broad scope of his role relative to other functional unit leaders.

We set Ms. Chapman s target cash compensation above the 50th percentile as a reflection of her long tenure and due to internal pay equity considerations given her position as a Senior Executive Vice President.

Use of Tally Sheets

The Committee receives and reviews rewards profiles that summarize each executive s total compensation at each regularly scheduled Committee meeting. These profiles are commonly referred to as tally sheets. The Committee did not use tally sheets as a primary basis to determine 2007 executive compensation amounts. However, tally sheets are an important reference tool for the Committee because they demonstrate how our executive compensation program is working in practice by summarizing, for each executive, the overall total compensation awarded in the past and the anticipated future value of our various compensation programs. The anticipated future value shown on the tally sheets includes the projected value of compensation payable upon separation of employment under various circumstances, including death or disability, retirement and voluntary or involuntary separation. In this regard, the tally sheets assist the Committee in identifying factors that may be taken into account in setting elements of compensation, such as internal pay equity, retention risk (demonstrated in part by the current retentive value of past equity awards) and the value of past awards both on a long- and short-term basis.

Internal Pay Equity Analysis

Internal pay equity, meaning whether an executive s compensation appropriately reflects the role, scope and complexity of the executive s position relative to other executives, is an objective of our executive compensation program. While the structure of Mr. Killinger s compensation was similar to that of other named executives in 2007, his total compensation amount is significantly more than the other named executives as a reflection that he is most accountable for the overall performance of the Company. Although the percentage of total direct compensation that is at risk varies depending on each named executive s level of influence over specific business unit and overall corporate results, we do not view these differences as material. We consider compensation to be at risk when its payment is not fixed or guaranteed, but rather depends upon factors such as satisfaction of performance measures or stock price appreciation. The following table shows the percentages of 2007 named executive total direct compensation that were at risk and how total direct compensation was allocated among its three component parts of base salary, target bonus and long-term equity incentive (LTI) award value.

	2007 Named Executive Officer Total Direct Compensation (TDC)*			
Named Executive	**Total% At Risk**	**% of TDC that is LTI**	**% of TDC that is Target Bonus**	**% of TDC that is Fixed (Base Salary)**
Kerry K. Killinger	94%	71%	23%	6%
Thomas W. Casey	89	68	20	11
Stephen J. Rotella	91	62	29	9
James B. Corcoran	79	50	29	21
Ronald J. Cathcart	83	51	31	17
Fay L. Chapman	69	56	13	31

* Due to rounding, certain totals differ slightly from the sum of the component parts shown in the table.

Discussion and Analysis of Compensation Elements

Base Salary

The Committee reviews base salaries each year to ensure they remain competitive and appropriately reflect individual performance and the complexity of each executive s role and responsibilities. Mr. Killinger did not receive a base salary increase for 2007 and has not received an increase since 1999 in order to maintain the tax deductibility of his salary. Other named executives received regular annual base salary increases for 2007 of up to 4.8% of 2006 amounts. No named executive received a base salary increase for 2008.

Annual Incentive Bonus

The target cash incentive bonus is one of three elements of total direct compensation approved by the Committee each year, and it represents less than half of total direct compensation for each named executive. As shown in the table above, our long-term equity incentive compensation program represents at least 50% of each named executive s total direct compensation (over 70% for our CEO) and is directly linked to stock price and total shareholder return. The incentive bonus program is designed to align compensation with achievement of annual corporate performance measures that

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reinforce our near-term business strategies and shareholders interests. We set an annual target cash incentive bonus for each named executive with payment based on annual Company performance measures established by the Committee pursuant to the Company s Leadership Bonus Plan. Mr. Killinger s target bonus increased to 365% of his base salary for 2007 from 350% in 2006. We increased his target bonus in connection with the elimination of Company-paid perquisites, discussed more fully below. Target bonuses for other named executives changed in amounts ranging from a 9% decrease to a 4% increase, as a percentage of base salary.

Performance Measures

Cash bonus amounts actually paid to our named executives depend upon our corporate results compared to a pre-established formula of performance measures that we believe are drivers for creating shareholder value and achieving our annual strategic goals. Each year the Committee selects performance measures that are typically tied to core measures of corporate operating performance and are challenging but realistic given the expected operating environment at the time they are established. Because our general guideline is to target executive cash compensation (salary and target cash bonus) at the median compared to our peers, the Leadership Bonus Plan performance measures, including the measures for 2007 performance, are generally set to align with our business plan for the year so that bonuses will pay out at 100% of target when the business plan is met. Based on our performance in 2003 and 2004, we paid bonuses to our then-current named executives at 98.1% and 64.2% of target levels, respectively. In 2005 and 2006, our performance against the applicable measures exceeded expectations and resulted in bonus payouts at 118.5% and 116.4% of the respective target amounts. As explained below, our 2007 financial results in the context of unprecedented challenges in the mortgage and credit markets resulted in a total weighted payout percentage of 32.6% under the 2007 Leadership Bonus Plan.

We determined the amount of bonuses paid in January 2008 (for 2007 performance) based on our performance against the following four measures established by the Committee in January 2007. The mix of measures was different in 2007 as compared to 2006. For 2007, we added a noninterest income measure, as a complement to the noninterest expense measure, to balance our focus on both generating income and reducing expense. Also for 2007, we measured customer loyalty rather than customer satisfaction as a reflection of the link between customer loyalty and financial results.

Earnings-per-share. The first 2007 performance measure was earnings-per-share, or EPS , weighted at 40%, with target EPS depending on the interest rate environment within which our business operated in 2007. The target that applied for the year was determined according to a matrix approved by the Committee in January 2007. The matrix consisted of numerous alternative EPS targets that applied depending on the interest rate conditions that existed over the course of the year, as indicated by the applicable short-term interest rates and the spread between short-term and long-term rates. After the end of 2007, we referred to the EPS matrix to determine which EPS target applied given the year s interest rate environment. We do not disclose the EPS target matrix because it is confidential and competitively sensitive information.

Noninterest Expense. The second performance measure was noninterest expense, weighted at 25%, which was aligned with our strategic goal of reducing expenses and increasing efficiency to remain competitive. Target noninterest expense for 2007 was $8.45 billion. Our 2007 noninterest expense as measured under the plan was $8.68 billion. The following table shows the percentage payouts for this measure at different levels of noninterest expense.

Noninterest Expense	**Payout**	**Noninterest Expense**

(in billions)	Percentage	(in billions)	Payout Percentage
$ 7.85	150%	$8.85	70%
$ 7.95	140%	$8.95	60%
$ 8.05	130%	$9.05	50%
$ 8.15	120%	$9.15	40%
$ 8.30	110%	$9.25	30%
$ 8.45	100%	$9.35	20%
$ 8.60	90%	$9.45	10%
$ 8.75	80%	>$9.55	0%

Noninterest Income. The third performance measure was noninterest income, weighted at 25%, which was aligned with our strategic goal of increasing income as well as reducing expenses. Target noninterest income

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for 2007 was $7.05 billion. Our 2007 noninterest income was $6.04 billion. The following table shows the percentage payouts for this measure at different levels of noninterest income.

Noninterest Income (in billions)	Payout Percentage	Noninterest Income (in billions)	Payout Percentage
$ 7.65	150%	$6.65	70%
$ 7.55	140%	$6.55	60%
$ 7.45	130%	$6.45	50%
$ 7.35	120%	$6.35	40%
$ 7.20	110%	$6.25	30%
$ 7.05	100%	$6.15	20%
$ 6.90	90%	$6.05	10%
$ 6.75	80%	<$5.95	0%

Customer Loyalty. The fourth performance measure was customer loyalty, weighted at 10%, which was determined according to a proprietary measurement system. High levels of customer service, which drive customer loyalty, remain an important aspect of our consumer-oriented business philosophy. We do not publicly disclose overall targets or specific criteria comprising the customer loyalty measure because it is confidential and competitively sensitive information. Our performance in 2007 improved our overall customer loyalty as compared to 2006, but not enough to achieve a 100% payout for this measure.

If our performance for any measure falls between stated percentiles, we interpolate to determine the applicable payout percentage. As shown in the following table, our performance against each of the four 2007 performance measures resulted in a total weighted payout percentage of 32.6% of target bonus amounts.

Performance Measure	Percentage of Target Payout Based on 2007 Company Performance	Weighting	Weighted Payout Percentage
Earnings-per-share	0%	40%	0%
Noninterest Income	9.2	25	2.3
Noninterest Expense	84.0	25	21.0
Customer Loyalty	92.8	10	9.3
Total Weighted Payout Percentage			**32.6%**

Our performance results used to calculate EPS and noninterest expense under the 2007 Leadership Bonus Plan excluded the effects of specific restructuring and non-cash goodwill impairment charges we reported in a Current Report on Form 8-K filed with the SEC on December 10, 2007. These charges were excluded because they were not part of our business plan when we established the 2007 Leadership Bonus Plan and they masked management s achievements in controlling noninterest expense in our operations. If we had not excluded the charges from the calculation, our performance on noninterest expense would have been below threshold, resulting in a weighted payout percentage of 0% for that performance measure and a total weighted payout percentage at 11.6% of target amounts. Excluding the charges from the calculation of EPS performance had no effect on bonus payouts, as EPS performance was below threshold whether or not the charges were excluded.

2007 Bonus for Chief Executive Officer

Our CEO, Kerry Killinger, did not accept a bonus for 2007. Our 2007 performance would have resulted in a payout to Mr. Killinger of $1,189,900 (32.6% of his 2007 target bonus of $3,650,000). The other named executives received bonus payouts equal to 32.6% of their target bonuses, other than Ms. Chapman, who received a bonus payout at 100% of target under the terms of her severance agreement which is discussed below. The amount of Mr. Killinger s forgone 2007 bonus will be taken into account in the calculation of his benefits under our Executive Target Retirement Income Plan as though he had received the bonus. Also, as more fully discussed below, Mr. Killinger not accepting a bonus had no effect on the percentage of his 2007 restricted stock awards that is eligible to vest, which is based on our total weighted performance under the 2007 Leadership Bonus Plan performance measures.

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2008 Bonus Plan Design

The Committee varies the performance measures and the weights assigned to each performance measure from year to year based on current year business objectives. For 2008 bonuses the Committee selected the following performance measures and relative weights which apply to executives and almost 3,000 of our senior managers: net operating profit: 30%, noninterest expense: 25%, depositor and other retail banking fees: 25%, and customer loyalty: 20%. Net operating profit will be calculated before income taxes and excluding the effects of loan loss provisions other than related to our credit card business and expenses related to foreclosed real estate assets. Noninterest expense will be calculated excluding expenses related to business resizing or restructuring and expenses related to foreclosed real estate assets. For each of these performance measures, the Committee established a range of achievement levels from zero to 150% of target. Like the 2007 plan, the 2008 Leadership Bonus Plan bonus payout targets range up to 365% of 2008 base salary, depending on position. In evaluating financial performance, the Committee may adjust results to eliminate the effects of charges for restructurings, discontinued operations, extraordinary items and items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment or a business or related to a change in accounting principle.

The foregoing measures of operating performance are critical to the future growth and profitability of the Company. The Committee also will evaluate executive performance with respect to credit risk management in light of the dislocation in the housing and credit markets and the related impact on our financial results. Accordingly, after the end of 2008, the Committee will exercise its discretion under the 2008 bonus plan to determine the final cash bonus payouts for executive officers by:

1) reviewing and considering performance results for the four pre-established Company performance measures noted above;

2) reviewing other appropriate factors and measures of Company financial performance; in particular, the Committee will subjectively evaluate Company performance in credit risk management and other strategic actions that impact overall corporate profitability; and

3) evaluating each executive s individual performance during 2008 to determine whether it is appropriate to adjust the executive s final bonus payout from the amount that would be payable based solely on the Committee s assessment of Company performance under steps (1) and (2) above.

The Committee intends for this structure to maintain the Company s longstanding practice of tying annual incentive compensation to achievement of critical corporate operating performance goals. The first step above provides the basis for the Committee to reward executive performance against the four objective performance measures and begins the analysis of determining the appropriate bonus payouts. As a second step the Committee will judge how well our executive management team addressed the challenges in the housing, mortgage and credit markets and the impact of those challenges on our financial results. The Committee considered the unprecedented volatility in the markets, the possibility of further interest rate actions or legislation which would significantly impact our business and financial results, and the need for management to maintain a broad and flexible perspective in responding to the business environment. Therefore, the Committee determined that establishing specific, quantified performance measures for credit risk management and overall profitability in advance presented the risk of setting incentives that, when viewed in retrospect after the end of the year, might be inappropriate or misdirected. Accordingly, the Committee determined that it would be best to evaluate this aspect of performance after the end of the year in light of actual events and market conditions during the year. As a third step the Committee will consider each executive s individual performance in determining the appropriate bonus payout. The Committee remains committed to paying for performance and it will exercise its discretion in alignment with that principle when determining 2008 executive bonuses.

Long-Term Equity Incentive Compensation

We design our long-term equity incentive programs to retain named executives and motivate them to create long-term shareholder value. We believe in paying competitively, and to do so, we do not reduce current year equity awards based on value realized from prior awards. By changing the mix of equity vehicles, we can emphasize one or more compensation objectives each year based on business objectives, market conditions and compensation trends. For 2007, we granted three forms of long-term equity incentive compensation, each promoting our objectives in different ways:

Stock Options. Stock options enhance retention by vesting over time, and promote the creation of shareholder value by tying the named executives ultimate realized value to stock price appreciation.