Financial Highlights for 2003

- *Earnings per share increased 34% to $2.46 compared to $1.84 for 2002*
- *Estimated taxable income per share increased 19% to $2.46*
- *Cash dividends declared in 2003 increased 16% to $2.05 per share*
- *Total assets increased 62% to $10.7 billion at year-end*
- *Book value per share increased 35% to $9.02 at year-end*
- *Return on average assets and equity was 1.55% and 38.26%, respectively, as compared to 1.70% and 28.70%, respectively, for 2002*
- *Total market capitalization was approximately $1.0 billion at year-end compared to $521.2 million at prior year-end*
- *Dividend yield as of December 31, 2003 was 12.08%, based on an annualized fourth quarter dividend of $0.55 per share and a closing stock price of $18.21*
- *Total return to stockholders was 76% based on common stock price appreciation of $6.71 per share and common stock dividends declared of $2.05 per share*
- *Impac Funding Corporation acquired and originated $9.5 billion of primarily non-conforming Alt-A mortgages, a 61% increase over $5.9 billion for 2002*
- *The Long-Term Investment Operations retained $5.8 billion of Alt-A mortgages and originated $290.5 million of small-balance, multi-family mortgages compared to $3.9 billion and $25.8 million, respectively, for 2002*
- *Allowance for loan losses increased to $38.6 million, or 39 basis points of loans provided for, at year-end compared to $26.6 million, or 45 basis points of loans provided for, as of prior year-end*
- *Average finance receivables to non-affiliates increased 77% to $604.1 million compared to $341.5 million for 2002*

TO OUR STOCKHOLDERS

For the past few years, we have used our annual report to describe how we were building a better Company to be stronger, more flexible, with more predictable income. We are pleased to tell you we believe it is working.

Significant Milestones in 2003.

We exceeded $1 billion in market capitalization. We expanded our mortgage acquisitions and origination channels and increased revenues through internal growth of our balance sheet. And, we showed that our company responds well to changing interest rate environments and mortgage origination cycles.

Our operating results for 2003 exceeded our initial expectations. Early in the year, strong mortgage demand contributed to record loan production, which drove our balance sheet and earnings growth. In July, a jump in the 10-year Treasury yield triggered an industry-wide contraction of mortgage refinance activity. Yet, we increased our loan volume not only year-over-year, but also in the second half of 2003 as compared to the first. We credit our resiliency to a reduced reliance on mortgage refinances; a continued focus on Alt-A mortgages; an increase in bulk acquisitions; and our highly competitive adjustable-rate mortgage loan programs.

A Confident Outlook for 2004.

We expect to see flat to perhaps gradually increasing short-term interest rates, which should continue the shift from fixed-rate mortgages to adjustable-rate mortgages that began in the latter half of 2003. We are pleased with this trend as it should result in accelerated growth of our balance sheet, which is fundamental to achieving more consistent long-term earnings. Furthermore, we expect net interest margins on our long-term mortgage portfolio to improve as we continue to benefit from a steep yield curve and as our more expensive hedges expire.

The eventual upward movement of interest rates will also result in less refinancing of our long-term mortgage portfolio. The slow down of early prepayments not only extends the life and profitability of our long-term mortgage portfolio, but also makes us less dependent on the Mortgage Operations to sustain growth.

Regardless, loan production remains a key to growing our long-term mortgage portfolio. While rising interest rates generally results in a decline in mortgage activity, several economic forecasts expect continued brisk mortgage activity fueled by strong home sales and residential construction through 2004. We expect our total production levels to remain healthy as we have always focused on the purchase and adjustable-rate mortgage markets. Further, we believe that the Company's growth and profitability will continue to benefit from expansion of our loan acquisition and origination channels including: growth of our multi-family division, which extends the life of our CMO portfolio; increased bulk Alt-A transactions which enable the

From left to right: William Ashmore, Joseph Tomkinson and Richard Johnson

Company to acquire and invest in similar or better credit profile mortgages; and increased B&C mortgage originations, which are sold for cash gains.

Looking forward, it is important to understand the overall strategy of the Company, which includes three profitable, well-established business units that together are synergistic. Over the last few years during this robust mortgage origination market, the Company has forgone current income and instead built its balance sheet to over $10 billion in assets. Earnings from the balance sheet at end of the year 2003 accounted for 87 percent of our total net earnings. The Company employs several key strategies to preserve that income and our stockholders dividends. First of all, we use permanent CMO borrowings which eliminates the risk of margin calls and largely matches our assets to our liabilities. We invest primarily in Impac high credit Alt-A mortgage loans that have prepayment penalties, which as we have seen largely mitigate the affect of runoff during falling interest rates cycles. And lastly, we hedge the long-term mortgage portfolio against rising interest rates to create more consistent earnings.

In fact, our confidence in our model is so strong that we increased our guidance for the first quarter, as well as increased our first quarter dividend 18 percent to $0.65 per share as compared to $0.55 per share for the fourth quarter 2003. Our goal remains to provide consistent, reliable earnings and dividends to our stockholders, so we only increase our dividend to an amount that we believe is sustainable in the future.

Sincere Appreciation for Your Support.

We have dedicated this annual report to explaining the Company's business – the complexities of our business units and operating strategies and why they work in ever-changing markets. Impac's true strengths and flexibility, however, come from our employees, customers and stockholders. On behalf of the Company and Board of Directors, we thank you for your continued support, and we look forward to exceeding your expectations in 2004.

Respectfully yours,

Joseph R. Tomkinson
Chairman and Chief Executive Officer

William S. Ashmore
President and Chief Operating Officer

Richard J. Johnson
Executive Vice President, Chief Financial Officer